Investment Opportunities

FOREIGN DIRECT INVESTMENT

November 2020

Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

1. Executive Summary

- **In 2019, global FDI flows increased slightly over the previous year,** but remain below the 2015 peak of **US$1.5 trillion.** This increase was largely due to higher flows to Europe.

- **Flows to Latin America and the Caribbean fell by 8** percent in 2019, **to US$ 161 billion**. Brazil, Mexico and Colombia were the largest recipients of FDI in the region.

- **The COVID-19 pandemic will affect FDI flows significantly.** UNCTAD predicts that global FDI flows will fall by 40% by 2020 and show a further decline by 2021.**The effects of the pandemic** on FDI are likely to affect investment permanently. There are immediate and short-term effects, caused by the containment and economic downturn. The effects will also be seen in the long term, as investors are likely to seek greater resilience in their future investments.

- **In Uruguay, COVID-19 infections have remained at low levels** and the country has stood out worldwide for its **good results in managing the health crisis**.

- **Uruguay is a country open to foreign investment** and all governments have generated an appropriate investment climate, ensuring a friendly environment for doing business, an attractive and stable legal regime and a regulatory and institutional framework that suits the needs of investors.

- **Uruguay** has experienced the longest period of economic growth in its history and **has shown resilience not only to the region's instability** (Brazil and Argentina**), but also to an adverse situation such as the health crisis**. Macroeconomic soundness, prudent policies, export diversification, reduced banking sector vulnerabilities and ample reserves allowed it to preserve stability in a more turbulent global and regional environment

- The economic growth of the last decade has led to **investment opportunities in various sectors**. The opportunities in agribusiness, forestry, wood, cannabis, global services, renewable energies, among other sectors, as well as specific investment projects, stand out.

- **The changes in international investment trends generated by the health crisis constitute an opportunity for Uruguay**, to the extent that institutional quality and resilience are valued in the search for investment destinations.

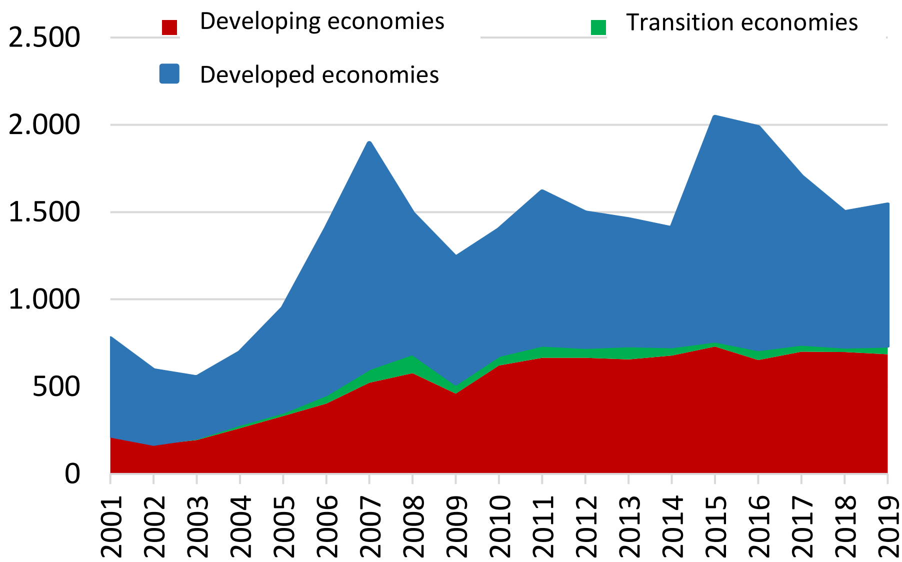
- **Uruguay will continue to be an attractive destination for FDI** as long as the structural factors that underpinned this situation remain in place: clear business rules, macroeconomic stability, financial and trade openness, an attractive set of investment incentives, adequate infrastructure, qualified human capital, and agreements to avoid double taxation with countries in the region to promote trade in services and grow as a hub.

2. Global Foreign Direct Investment (FDI) flows

After two years of decline, in 2019 global Foreign Direct Investment (FDI) flows showed a modest increase according to UNCTAD data. They stood at US$ 1.5 trillion in 2019, 3% above the 2018 value. Thus, FDI flows remain below the peak of 2015 and at levels similar to those of 2012.

The increase in FDI is largely due to higher flows to developed economies, which totaled US$ 800 billion, up 5% from 2018. This increase is mainly explained by higher flows to Europe. Inward FDI flows to developing economies were around US$ 685 billion, 2% less than in 2018. Developing economies had a 44% share in 2019, 2% above the average for the last ten years, and it is worth-noting that during that time these flows have been less volatile compared to developed economies.

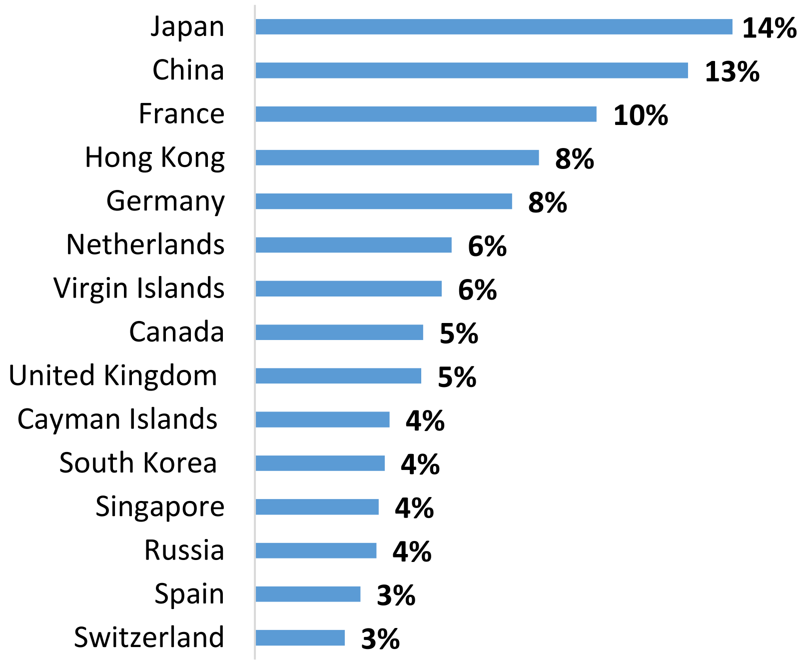
Graphic No 2.1- FDI received by level of development
(Billions of U$S)



Source: Prepared by Uruguay XXI based on UNCTAD.

In terms of the origin of the flows, Japan was the main issuer of FDI with 17% of the total. The United States was second with 10%. Meanwhile, the Netherlands and China had the same share, 9% of the total, in third and fourth place (see Graph 2.3).

Graph No. 2.2 Main Issuers of FDI - 2019 (Total % of global flows issued)

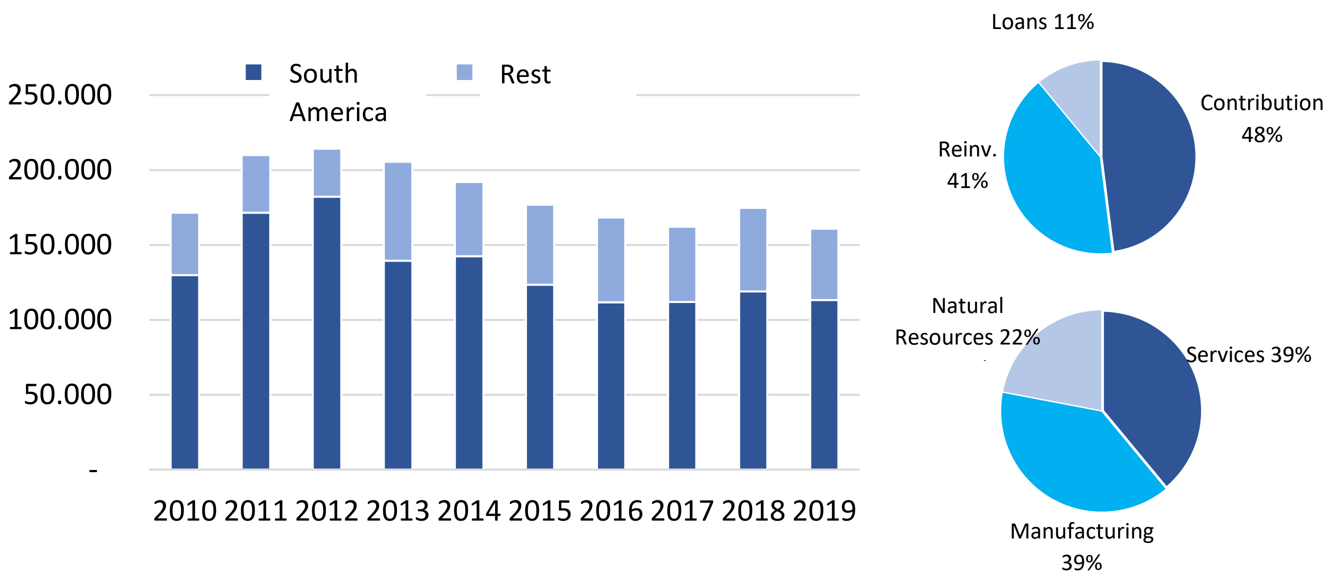


Source: Prepared by Uruguay XXI based on UNCTAD

Foreign Direct Investment in Latin America and the Caribbean

In 2019, FDI in Latin America and the Caribbean stood at almost US$ 161 billion, showing a drop of 8% compared to 2018. In South America, FDI fell 5% in 2019 to just over U$S 113,000 million.

Graph No. 2.3 FDI inflows to LAC and opening by components and sector (Millions of US$ and % in 2019).



Source: Prepared by Uruguay XXI on the basis of ECLAC

The five countries with the largest inflows were Brazil (43% of the total), Mexico (18%), Colombia (9%), Chile (7%) and Peru (6%). Most countries showed lower entries in 2019 than in 2018. At the component level of FDI, the fall was mostly due to lower loans between related companies, while capital inflows and reinvestments did increase. The capital inflows represent to a greater extent the interest of the companies in settling in the host region, while the reinvestments would reflect the confidence that the companies have installed. In 2019, profit reinvestments represented 41% of the region's FDI inflows, a maximum of historical. Services and manufacturing are the sectors that most attract FDI.

FDI inflows to Brazil showed a drop of 11.5% compared to 2018, standing at approximately US$ 69 billion (a figure similar to the average annual income of the last five-year period). At the component level, the reduction was due exclusively to lower loans between companies, while capital contributions and reinvestments showed increases. This shows the impact that the capital movements of transnational corporations have on national accounts, even in large economies such as Brazil. At the level of FDI origin, the Netherlands and United they are the most relevant. Manufacturing accounted for more than 50% of FDI received in 2019, the services follow in importance with 25% and then natural resources with 24% (with importance of hydrocarbons).

Mexico is the second largest recipient of FDI in the region, although inflows showed a 22% year-on-year decline, totaling US$29 billion in 2019. Inter-company lending was the biggest contributor to the drop, in an environment of tension in the midst of the negotiations of the Treaty between Mexico, United States and Canada (T-MEC). The manufacturing sector is the main driver of FDI and the European Union over took the United States as a major source.

Colombia was the third largest recipient of FDI in the region, with approximately US$ 14 billion, 24% above the 2018 record. The largest increase at the component level was in capital inflows. Financial and business services were the main drivers of FDI and its main origin was the United States.

Inflows into Chile increased 63% to almost US$12 billion in 2019, supported by investment in mining and renewable energy. Capital inflows grew significantly last year. China was a significant source during this period and was the protagonist of two of the largest acquisitions in the country.

In Peru, flows increased by 37% to almost US$9 billion in 2019, driven by capital contributions and inter-company loans. Flows to Argentina fell by more than 40% in 2019, dropping to less than US$7 billion, in the context of a deepening economic crisis.

For more information: Foreign Direct Investment in LatinAmerica and the Caribbean 2020

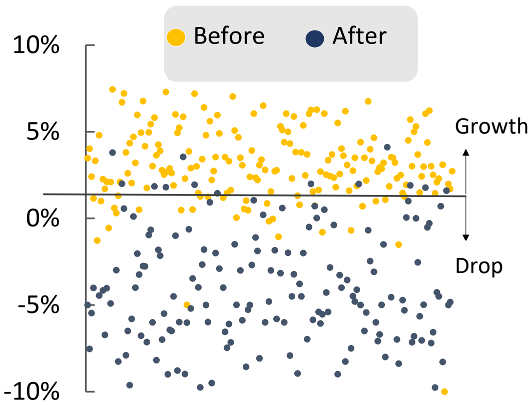
3. Effects of COVID-19 on FDI

General effects of the crisis

The global crisis caused by Covid-19 is having a negative and widespread impact on all economies and will generate contractions in the level of production, private investment and international trade. The magnitude of the economic impact caused by the pandemic lies in the fact that it is a combined supply and demand shock that simultaneously affects multiple sectors and countries, at multiple levels. It should be clarified that the uncertainty of the current context is very high, taking into account that both the duration of the pandemic and its possible resolution are unknown, making it difficult to quantify the effects in all its dimensions.

The negative effects are already being recorded in official figures and in the second quarter of 2020 the GDP of the United States would have contracted by just over 9% compared to the first (in seasonally adjusted terms). Shocking falls were also observed in the European economies during this period, with the Euro-zone showing a contraction in the order of 12%.

Graph No. 3.1 – Expected Economic Growth Before and After the Pandemic (2020 – per country)



Source: Prepared by Uruguay XXI based on WEO FMI. Oct2020

Chart No. 3.1: GDP variation rate for relevant economies. Projections for 2020

	World	US	Euro	China	LAC
Oct-20	-4,4%	-4,3%	-8,3%	1,9%	-8,1%
Jun-20	-4,9%	-8,0%	-10,2%	1,0%	-9,4%
Review	**0,8%**	**3,7%**	**1,9%**	**0,9%**	**1,3%**

Source: Prepared by Uruguay XXI based on WEO FMI. Oct2020

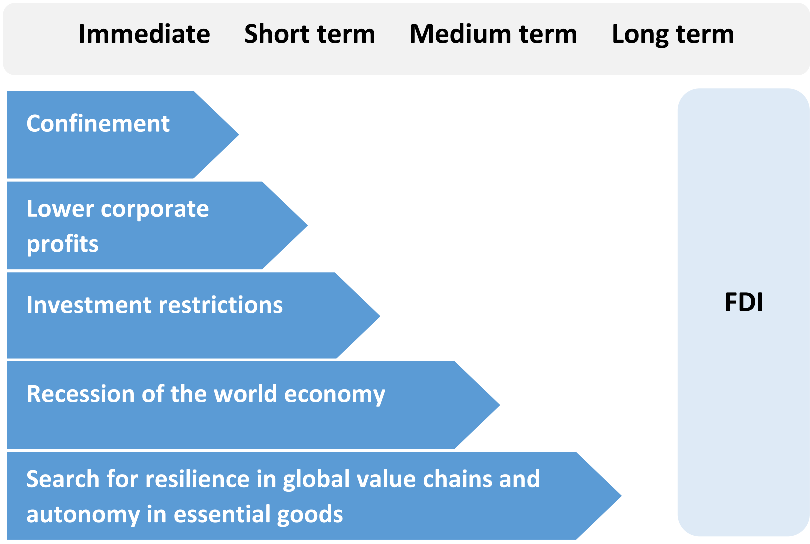
In this context, the latest IMF projections foresee a 4.4% reduction in the GDP of the world economy in 2020, with an estimated decline in economic activity in developed economies of 6% and 3% for emerging markets and developing economies (including China, which has already begun to recover in the second quarter of 2020). IMF projections for October 2020 were somewhat more optimistic than those for June, as containment conditions began to be released in several places. However, in recent weeks contagion has again accelerated, causing these measures to be tightened again in many countries. The impact on economic activity is strongly correlated with the intensity of the containment[1].

In this adverse and unprecedented context, countries have opted for a wide range of policies to contain the crisis, using fiscal and monetary policy tools and trade restrictions. With respect to the latter point, two opposing trends have been observed: some countries have opted for openness measures while others have shown a more protectionist line (for example, to prevent "fire sales" of companies and other capital outflows). Some agencies have centralized information on the packages they have imposed in each country[2].

Effects on global FDI

This pandemic comes at a time of fragile global investment. Given the particularity of this crisis, the effects on investment are being felt through a number of mechanisms and are likely to affect investment on an ongoing basis. The immediate, short-, medium-, and long-term effects of the pandemic on global investment are detailed below.

Figure3.1 Impacts of the pandemic on FDI: mechanisms of transmission.



Source: Elaborated by Uruguay XXI based on WIR 2020

Immediately, investment flows from projects that were already underway are delayed and blocked as a result of the containment. Then, in the short term, the effects of social distancing will translate into lower profit margins for many companies, deteriorating a crucial component of FDI: reinvestment. At the same time, countries are beginning to implement policies to overcome the crisis, which in many cases imply

[1]WEO – October 2020
[2]Examples: Tackling Coronavirus – OCDE; Coronavirus Goverment Response Tracker – - University of Oxford, includes the Stringency Index, which reflects the severity of measures taken by individual governments to address the pandemic.

new restrictions on investment and trade. Meanwhile, the medium-term consequences are linked to the magnitude of the global economic crisis. In a context of low demand, lower production and high levels of uncertainty, companies are more likely to face financial and liquidity problems, which affect their investment plans.

The dynamics of investment flows will also show changes in the long term, once the health crisis has been overcome. These changes lie mainly in a greater search for resilience in the value chains by investors. Hand in hand with this process, there will be a predominance of trends in the relocation of production processes and the regionalization of value chains.

Within this framework, the World Investment Report (WIR) forecasts a sharp drop in FDI flows for 2020 and 2021. FDI would only begin to recover after 2022, although this would occur in a baseline scenario without additional problems. In particular, the WIR forecasts a 40% fall in FDI in 2020 and a further fall by 2021 of between 5% and 10%. It should be noted that the reaction of global flows to the health crisis in 2020 would be even greater in the wake of the international financial crisis in 2008 (in 2009 FDI had shown an annual contraction of 17%).

Graph 3.2 - Global FDI inflows (Millions of US$)

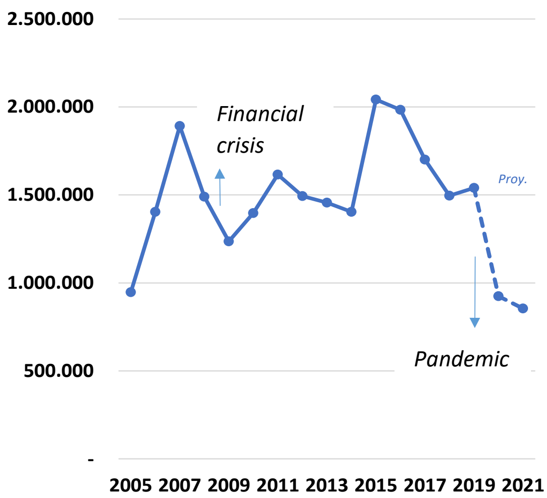


Chart No. 3.2: FDI inflows – Main regions

	Billions		Var %
	2019	2020Proj. (Range)	
Developed economies	800	480 - 600	-40% to -25%
Europe	429	240 - 300	-45% to -30%
North America	297	190 - 240	-35% to -20%
Emerging economies	685	380 -480	-45% to -30%
Latin America and the Caribbean	164	70 - 100	-55% to -40%

Source: Elaborated by Uruguay XXI based on WIR2020

As shown in Chart 3.2, the expected decline in FDI is greater for emerging economies than for developed economies, which differs from what happened in the financial crisis of 2008. There are several reasons that make developing countries more vulnerable to adverse scenarios. Developing countries tend to have less diversified economies, more dependent on raw materials and also more dependent on insertion in global value chains. Another difficulty lies in the capacity to implement policies to soften the effects of the crisis, given that fiscal space is usually narrower and access to financing more complex. In the long term, the return to a less globalized economy could end up penalizing emerging economies more[3].

The effects of the pandemic on FDI would be very different depending on the economic sector. Globally, gains in the service sector will be particularly affected by social distancing measures and border closures, especially for tourism-related services. However, information and communications services could even increase profits. Social distancing has significantly increased the use of this type of services, causing many

[3]Source: Covid-19 and global capital flows.

companies to take the lead in incorporating new technologies and working methods (mainly tele-working). Likewise, it is possible that investment in health (a sector of special relevance in the midst of a health crisis) will also increase in the future. Meanwhile, negative effects are expected in the mining and extractive industries, which are also affected by the fall in oil prices. Within the manufacturing industries, industries that are very intensive in global value chains (e.g. the automotive sector) will be most affected.

Effects on FDI from Latin America and the Caribbean

In Latin America the situation is complex and the prospects for FDI are negative. The pandemic aggravated political and social problems and structural weaknesses, driving the region's economies into recession and exacerbating problems in attracting foreign investment. FDI inflows face severe declines so far in 2020.

Chart No. 3.3 - FDI inflows to Latin American countries - year-on-year declines (%)

Brazil	-45% (October)
Mexico	-6% (third trimester)
Colombia	-50% (third trimester)
Chile	-33% (third trimester)
Central America	-47% (second trimester)
Peru	-72% (third trimester)
Argentina	-35% (second trimester)
The Caribbean	-27% (second trimester)

Source: ECLAC

Considering that the impact of the pandemic began in the second quarter and has deepened throughout the year, it is expected that major declines will be seen by year-end. UNCTAD's WIR projections predict a drop in FDI in Latin America of between 40% and 55%, while ECLAC projected figures (based on the latest information) indicate a very similar reduction, between 45% and 55%.

At the sector level, investment in the extractive sector is not expected to recover this year and flows to tourism, a key service sector in several countries in the region (especially in the Caribbean), are also declining. In the manufacturing sector, two important industries, the automotive and textile industries, will suffer both supply and demand shocks.Beyond the industry-specific effects, closures, falling demand, and limited access to trade (for both input imports and exports) are pushing companies into significant losses.

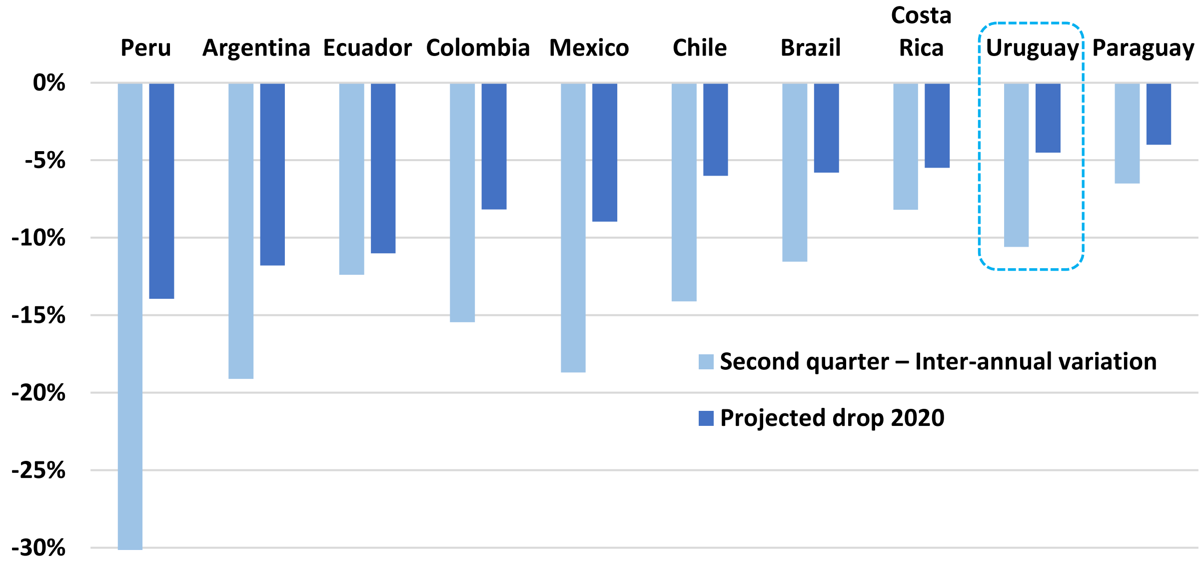
In contrast, Central America and the Caribbean may see new international investment to expand medical equipment production. In addition, one sector that has remained dynamic in the region is the renewable energy sector.

In the medium term, the impact of COVID-19 on FDI flows to the region will depend on the severity of the economic contraction and the speed of recovery. The region's economies will be significantly affected by the slowdown in global demand and in particular from its trading partners, especially China and the United States. China is a major importer of raw materials for Uruguay, Argentina, Brazil, Ecuador and Venezuela. Meanwhile, a Democrat's victory in the U.S. elections would mean a reduction in trade tensions between China and the United States.

4. Situation and perspectives in Uruguay

The pandemic had a strong negative effect on economic activity and employment in Uruguay. In the second quarter of 2020, Uruguay's GDP fell 9% from the previous quarter and 11% in the year-on-year comparison. According to the Central Bank's Economic Expectations Survey, the Uruguayan economy will contract by 4.3% in 2020, while the IMF projects a drop of 4.5%. However, some structural strengths of Uruguay and a good management of the health situation allowed the situation to deteriorate less than other countries in the region.

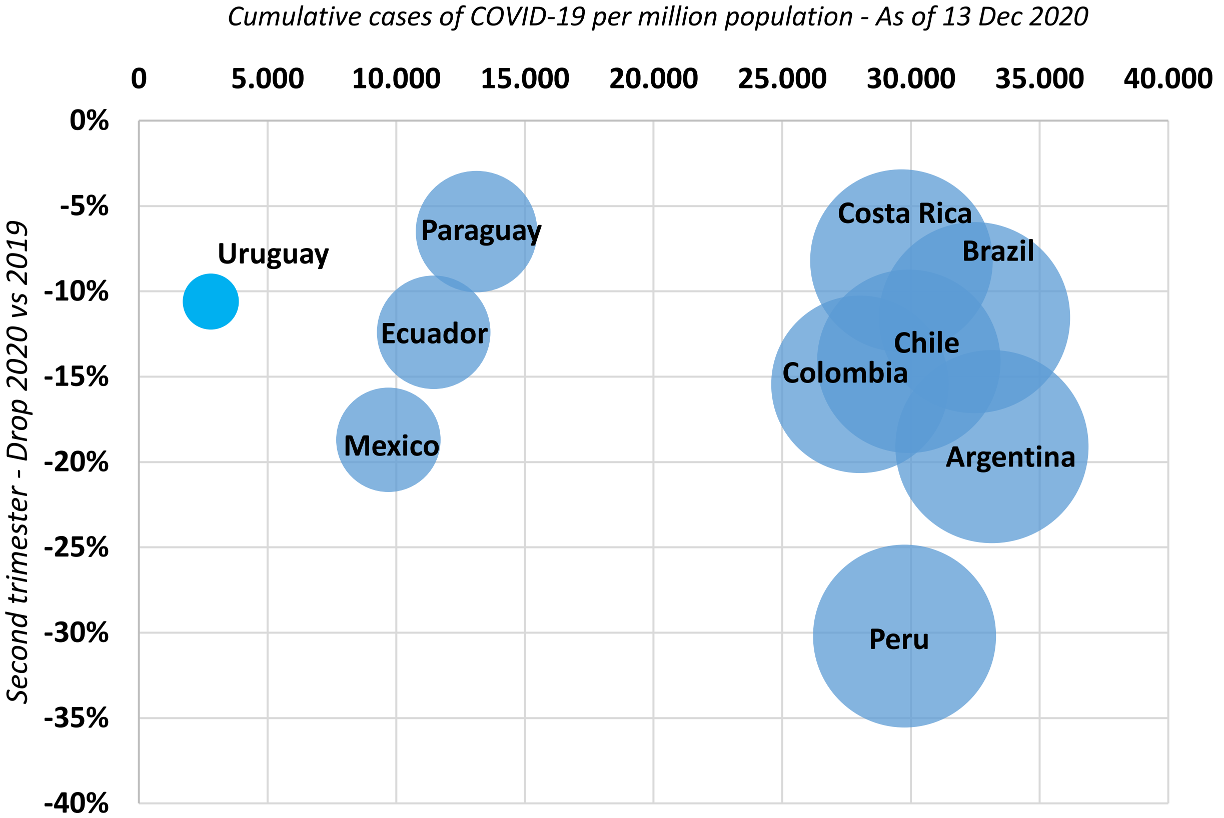
Graph No. 4.1 Latin America's GDP: second quarter decline and projections for 2020. Selected countries (Var % year-on-year).



Source: Prepared by Uruguay XXI based on WEO October 2020 and official organizations in each country.

In comparison with Latin American countries, Uruguay is part of the group with the least drop in GDP in the second quarter of the year. It is also the country with the lowest number of infections per million of inhabitants.

Graph No. 4.2 Latin American GDP and COVID-19 – Selected countries



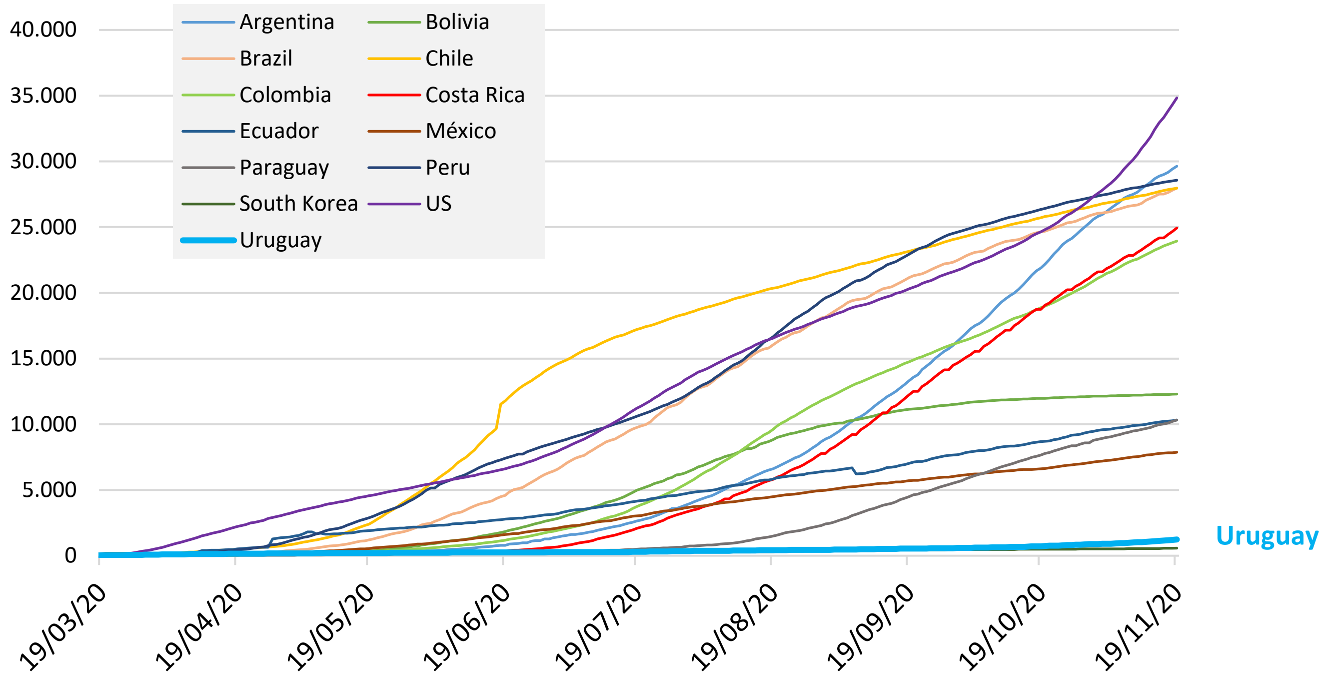
Source: Uruguay XXI based on Our World in Data and official sources of each country

Pandemic management in Uruguay

Uruguay has managed to control the pandemic and maintain a stable situation: with a reduced number of COVID-19 infections (also deaths from this cause) and without collapses in the functioning of the health system. The lower number of infections can be explained by various reasons. Among them, the low population density of the country and the speed with which the first measures of border closure and social distancing were taken, which, although voluntary, were complied with by the vast majority of the population.

As shown in the following graph, Uruguay is one of the Latin American countries with the lowest number of positive cases in the region and the country that carried out the most tests on its population. Important work has also been done to monitor cases in outbreak areas and an application was developed with innovative technology to alert and track Covid-19 (Coronavirus UY).

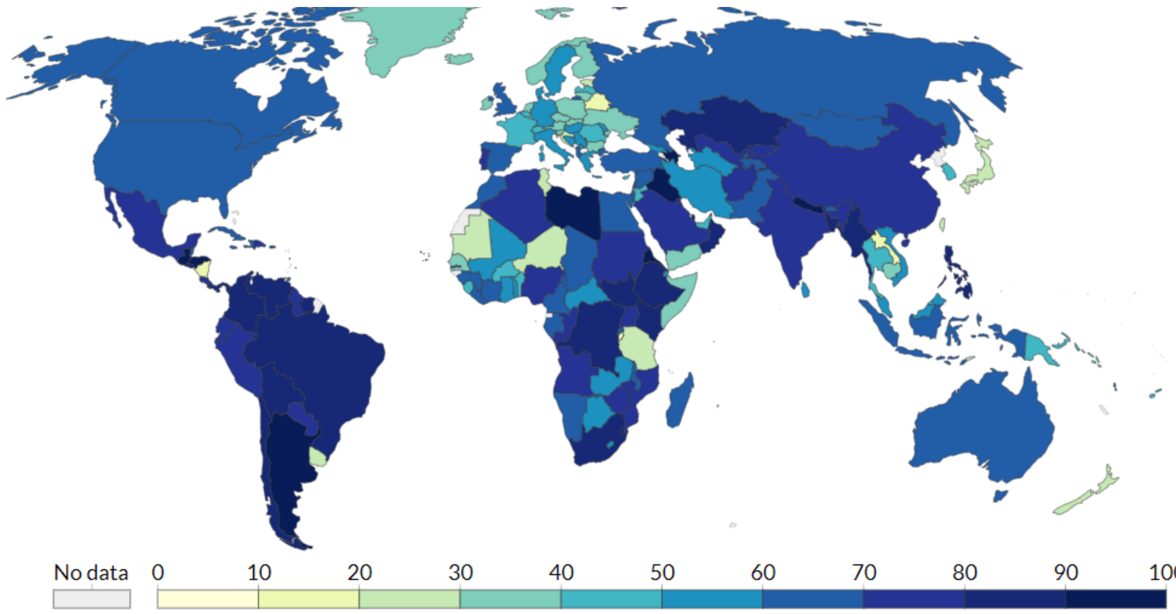
Graph No. 4.3 Cumulative positive cases of Covid-19 in Latin American countries (total cases per million population)



Source: Elaborated by Uruguay XXI OurlWorld in Data.

In fact, Uruguay is one of the countries in the world that has been able to lift the restrictions imposed by the government earlier: school closures, workplace closures and movement restrictions (see map).

Graph 4.4 - Rigorousness index of the Government's response to 17/07/2020* (100=very restrictive)



*Many countries have begun to relax measures in recent months.
Source: OurlWorld in Data based on an Oxford COVID-19 Goverment Response Tracker and others.

To overcome and contain the crisis, Uruguay has implemented a set of policies that include social distancing and border closures, the health system, special unemployment insurance, support measures for lower-income households and liquidity facilitation, among others. With respect to fiscal measures, the creation of the Coronavirus Fund for US$ 400 million to finance these policies is noteworthy[4].

Uruguay's response to the pandemic has also been recognized by various international actors. On the one hand, the population's compliance with the government's recommendations for dealing with the crisis has reflected the confidence that Uruguayan institutions have. The strong democratic tradition has played a very important role, remembering that, although the Coronavirus arrived in the country only 15 days after a new government took office, the entire political spectrum lined up behind the government's measures. Meanwhile, the fulfillment of the voluntary social distancing by the inhabitants is possible thanks to the fact that Uruguay is a socially stable country, with a social security network that works as a support, as well as a good functioning of the connectivity. When the pandemic broke out, Uruguay had been "massively connected" for years, with extensive fiber-optic coverage for the home and widespread use of laptops by students. This allowed a rapid incorporation of tele-working and virtual classes by companies and study centers.

In addition, Uruguay has one of the best health systems in the region. The head of the World Health Organization (WHO) praised Uruguay's health system. He explained that our country has one of the most robust and resilient health systems in Latin America, with investments that are based on "political consensus" on the importance of investing in public health[5].Some specialized medical publications have also highlighted the Uruguayan case, such as the prestigious "British Medical Journal”[6].

For their part, various international credit agencies have highlighted the country's strategy. The IMF, the IDB and the World Bank all highlighted Uruguay's strategy as an example in the region[7]. The repercussion at international level has been reflected in multiple international media such as The Economist, The Guardian and BBC [8]. Meanwhile, a ranking prepared by Business Insider names Uruguay as one of the best places to live after the pandemic ends[9].

Perspectives for Uruguay

In a context of lower investment flows at the global and regional level, FDI in Uruguay will remain at minimum levels this year (it should be remembered that reinvestment has a relevant share in inward FDI flows to Uruguay). In fact, in the January-April 2020 accumulation, investment projects from foreign companies promoted by COMAP showed a significant decline in year-on-year comparisons.

The recovery in investment levels will depend significantly on the management of the crisis by the different countries. The starting situation of each country will be equally relevant, as the health crisis has exposed existing vulnerabilities at the economic, political and social levels. In this sense, Uruguay has

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[4]See measurements in: Presentación del Ministerio de Economía y Finanzas
[5]Source: El País – Sistema de salud y pandemia.
[6]Uruguay is winning against covid-19. This is how
[7]WFM - El secreto del Uruguay contra el COVID-19; El País -Uruguay manejó “tremendamente bien al coronavirus, dijo el presidente del BID; Subrayado -Banco Mundial destacó el manejo de Uruguay del COVID-19 en la región
[8]Uruguay XXI en base a The Economist - The economist analiza el manejo de Uruguay del COVID 19. ; The Guardian:Uruguay and Paraguay buck Latin America coronavirus trend ; BBC - Cómo Uruguay logró contener el avance del coronavirus sin cuarentena obligatoria
[9]Business Insider

demonstrated its strength. With regard to the fiscal impact of the measures to address the Covid-19, a fiscal deterioration will be observed, which the Ministry of Economy and Finance estimates at 1.6% of GDP in 2020.

The main sovereign debt rating agencies and international credit markets are confident about the country's situation. All the rating agencies that issued their opinion have affirmed the country's rating (the last Fitch in Oct-2020). Uruguay is the only country with an investment grade in MERCOSUR, awarded by all agencies.

Chart No. 4.1- Credit Scale by Agency - Uruguay's long-term sovereign issuance

Agency	Foreign Currency/Long Term	Local Currency/Long Term	Perspective	Last Rating Update
Fitch Ratings	BBB-	BBB-	Negative	October 2020
S&P	BBB	A-2	Stable	April 2020
R&I	BBB	-	Positive	February2020
DBRS	BBB (low)	BBB (low)	Stable	January 2020
Moody's	Baa2	Baa2	Stable	August 2019

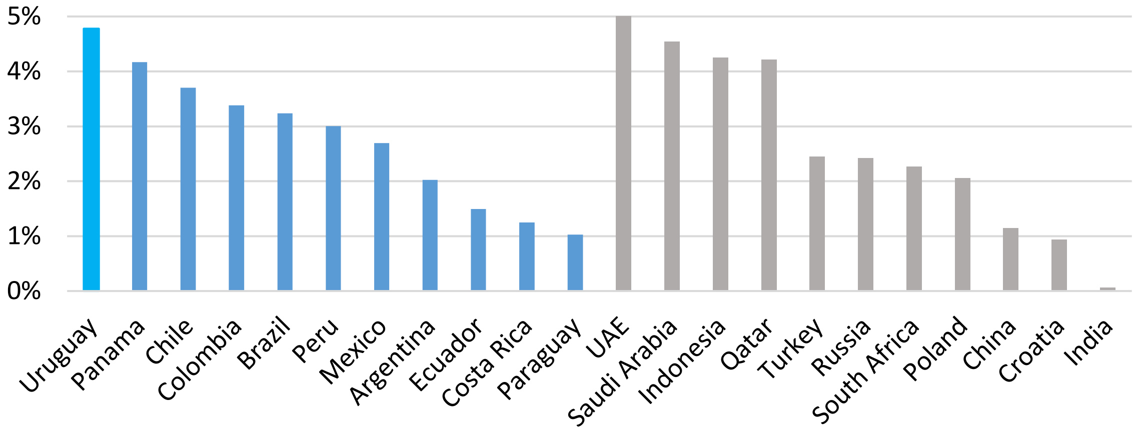
Source: Elaborated by Uruguay XXI based on MEF

In this context, it is worth-mentioning that Uruguay complies with Environmental, Social and Governance (ESG) requirements. Uruguay has an outstanding international performance in these types of indicators, which are becoming increasingly relevant for international investors. In fact, JP Morgan developed a country risk indicator for emerging countries, which adjusts the EMBI (country risk) indicator for the country's performance in ESG factors. In this indicator, Uruguay is positioned as **the second least risky of all the emerging countries** (74 countries).In addition, a study[10]by Verisk Maplecroft and Blue Bay Asset Management shows that Uruguay is among the best countries in the world when it comes to performance on these types of factors. In its latest assessment of Uruguay, Fitch Ratings highlights the country's position in ESG factors[11].

[10] ESG risk factors are material for sovereign debt investing.

[11] Fitch – Comunicado

Graph No. 4.5 - Country Risk - EMBI adjusted for ESG factors*



*Weights in relation to reference (as of 30/09/2020).
Source: MEF based on JP Morgan.

5. Foreign Direct Investment in Uruguay

Between 2008 and 2019, inward FDI flows to Uruguay averaged around 3% of GDP. It is worth mentioning that the most important flows were observed until 2015 and in the most recent years there has been a slower pace of investment inflows into the country.

A favorable framework for investment and good economic performance explain the significant flows of FDI received in the last decade. Uruguay is a country open to FDI. This is reflected in the FDI Regulation Restriction Index, according to which the degree of discrimination against foreign investors in Uruguay's regulations is lower than in most of the 70 countries included in the Index (Figure 5.1).

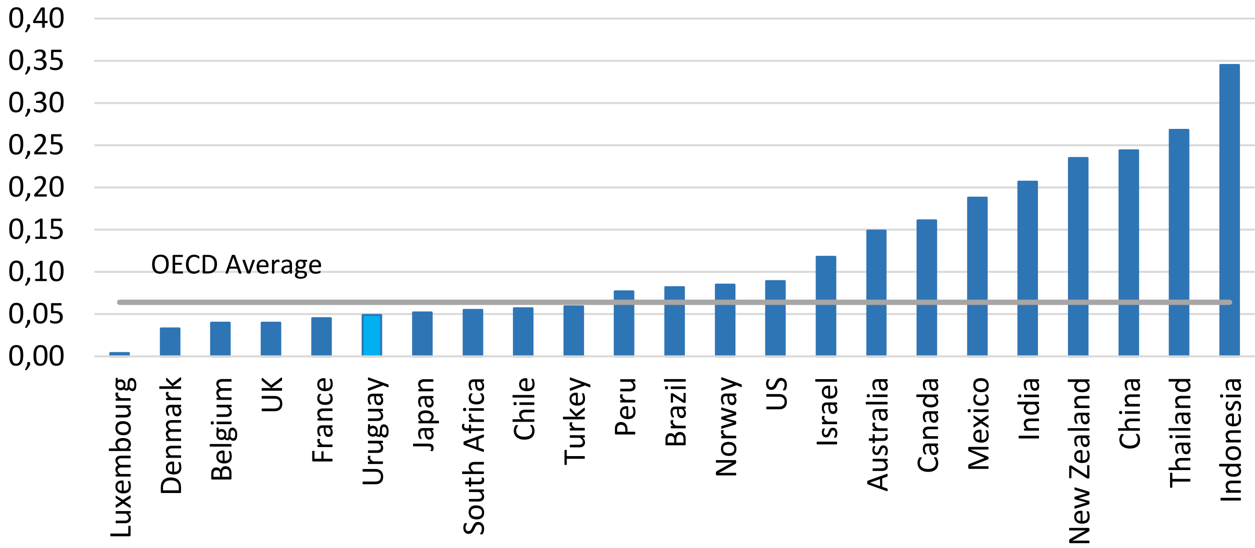
In July 2020, the OECD Investment Committee conducted a review of Uruguay's investment policies, following which it decided to support the incorporation of Uruguay as a full partner in the organization. The review is part of the country's accession process to the committee that began in March 2018.

FDI in Uruguay has generated several effects and, among them, has given a strong boost to the export sector. Many foreign companies are investing in outward-oriented sectors and have helped diversify the country's export basket[12].

For its part, the export of non-traditional services has gained importance in the last decade, also thanks to the FDI engine. A large part of these activities are carried out by subsidiaries of multinational companies that provide services to the parent company or other subsidiaries. The opening of a subsidiary in another country clearly configures a flow of FDI [13].

[12]For more information see: Boom de IED en Uruguay y su impacto en las exportaciones de bienes.
[13]For more information see: Global Services Report

Graph No. 5.1 - FDI Regulation Restriction Index*
Selected countries - 2019

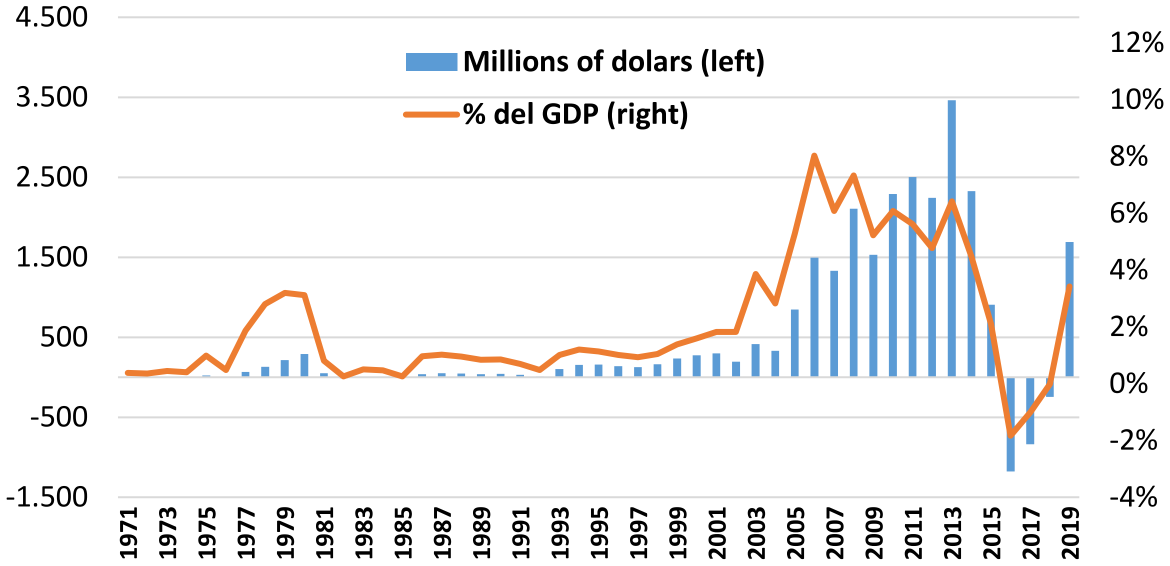


*0 is less restrictive and 1 is more restrictive.
Source: OECD.

Foreign Direct Investment in Uruguay

It is important to start this section by remembering that in 2017 the BCU adopted the new methodology of the 6th Balance of Payments Manual. These changes imply a major shift in FDI figures. Following international recommendations, the BCU publishes annual FDI data according to the directional principle by country of origin and sector of destination. From the detailed version of the Balance of Payments i t is also possible to derive Direct Investment (DI) according to the directional principle. This is the variable analyzed to study the evolution of foreign direct investment in the Uruguayan economy. Based on the new methodology, the data are net flows so they can take negative values.

Graph. 5.2 –Inflows of Foreign Direct Investment in Uruguay (Millions of US$ and % of GDP)[14]



Net FDI received by Uruguay in 2019 was US$ 1.69 billion. Table 5.1 shows the evolution of FDI by modality. FDI flows are divided into 3 modalities: capital contributions, reinvestment of profits and intra-company loans. Capital inflows (the most genuine part of FDI) have been positive throughout the period, although they were at lower levels in the last three years and in 2019 totaled US$521 million. Profit reinvestment was negative by US$ 717 million in 2019, very low compared to recent years. Intra-company loans, which had been negative in previous years, totaled US$ 1,886 million in 2019 (these flows went mainly to the financial sector).

Meanwhile, in the first half of 2020 FDI stood at US$ 1.198 billion. Loans between related companies were the modality that had the greatest participation in total FDI, with US$ 834 million. Disaggregating by quarter, it can be seen that in the second quarter of the year capital contributions and loans grew in relation to the first. However, reinvestments showed a decline during this period.

Chart No. 5.1-Foreign Direct Investment by modality - Uruguay (Millions U$S)

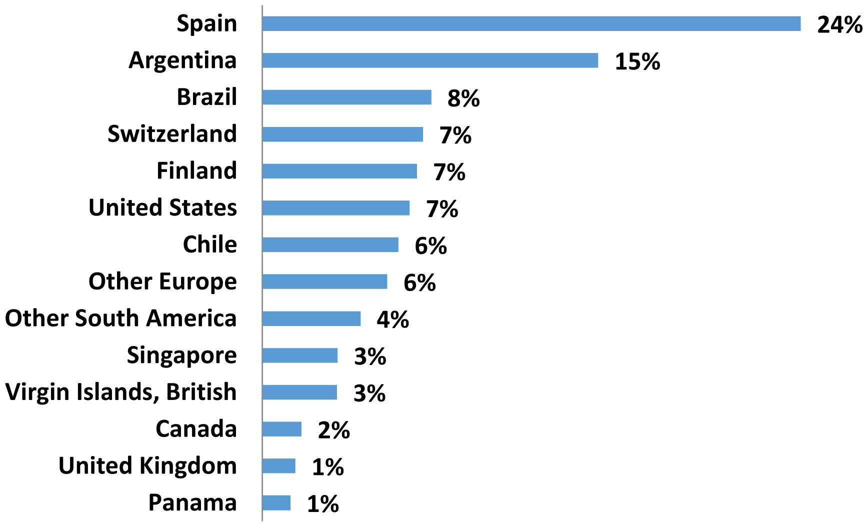
	2012	2013	2014	2015	2016	2017	2018	2019	Q1 2020	Q2 2020	1 sem. 2020
Contributions	1,160	1,730	1,706	1,326	1,472	570	163	521	125	404	529
Reinvestment	2,408	546	561	-1,376	-638	1,171	947	-717	-3	-162	-164
Loans	-1,325	1,188	61	953	-2,011	-2,579	-1,356	1,886	396	438	834
FDI (Directional)	**2,242**	**3,463**	**2,328**	**903**	**-1,177**	**-837**	**-246**	**1,690**	**518**	**680**	**1,198**

[14]For the period 1970-2011, information was taken from UNCTAD, while for the period 2012-2018, information was taken from the Central Bank of Uruguay (BCU), which adopted the methodology of the 6th Balance of Payments Manual. Only contributions to capital are taken into account.

FDI by sector and country of origin

In 2019, the foreign direct investment position was around US$ 30 billion, a slight increase over 2018 and representing around 50% of the GDP. Spain was the leading source of FDI, followed by Argentina and Brazil.

Graph No.5.3–Foreign Direct Investment Position by Origin (Part. %, 2019)[15]



Source: Uruguay XXI on the basis of BCU.

As shown in the following table, the sector that attracted most investment flows in recent years was the financial and insurance sector (35% between 2012-2018), followed by manufacturing (with 27%) and commerce (18%).

Chart5.2 – Foreign Direct Investment by sector [16]

	2012-2019	
	Millions of US$	Part %
Financial and Insurance	4.165	35%
Manufacturing Industries	3.183	27%
Commerce	2.124	18%
Real estate activities	791	7%
Transport and storage	397	3%
Electricity	342	3%
Professional, scientific and technical activities	341	3%
Agro	309	3%
Information and Communications	240	2%

[15]Only capital shares are considered. Panama is an international financial center where many Panamanian companies appear as investors, although in reality the final investors are from other countries but these are unknown.
[16]Contributions and Reinvestment are considered, they are not considered Loans between related companies. The data for 2012-2018 corresponds to the sum of the flows of all the years.

Administrative and support services	127	1%
Unclassified	110	1%
Accommodation	8	0%
Construction	-196	-2%
TOTAL	**11.943**	**100%**

Prepared by Uruguay XXI on the basis of BCU.

Recent FDI trends in Uruguay

To characterize the most recent trends in FDI in Uruguay, this section presents information from three complementary sources. First, the investment projects presented to COMAP are surveyed, secondly the acquisitions of companies located in Uruguay by foreign companies are detailed (based on EMIS Dealwatch), and finally the most recent Greenfield investments are detailed. While this compilation does not attempt to include all FDI received by Uruguay, it is a good approximation of recent trends and upcoming projects[17].

Projects promoted by COMAP

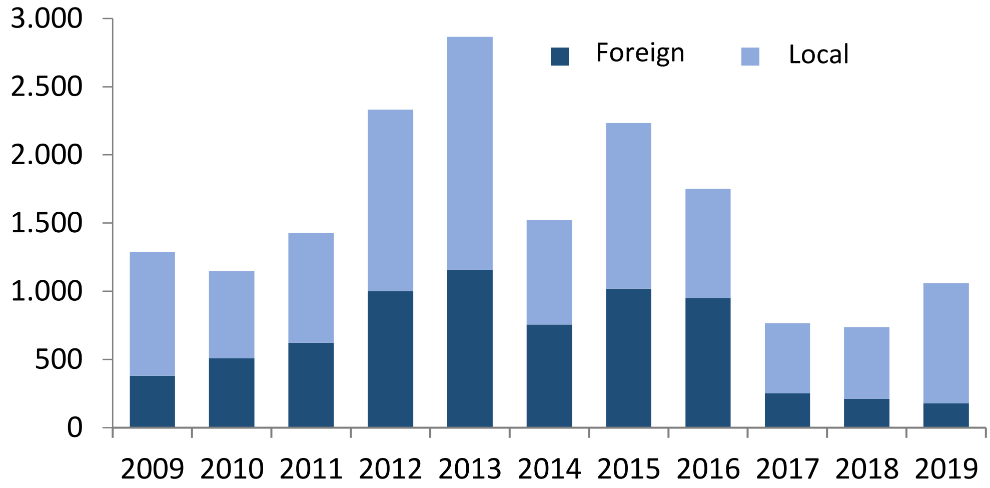
Uruguay's investment promotion regime provides a set of tax benefits for those investment projects presented to the Commission for the Application of the Investment Law (COMAP), which if they meet certain requirements are promoted by the Executive Branch (see Annex).

Although the Investment Promotion Law does not distinguish whether the investor is national or foreign, based on the projects recommended by COMAP and the registration of foreign companies in Uruguay XXI, it is possible to analyze the use of this incentive by foreign companies.

Since its entry into force in 2006, the regime has been widely used by foreign companies established in Uruguay. In the period 2009-2019, 43% of the amount of investments recommended by COMAP is explained by projects of foreign companies. In 2019 projects promoted by COMAP totaled a little over US$1.5 billion, showing a significant increase over 2018. Forty-three percent of the amount corresponded to projects by foreign companies and it should be noted that this figure includes UPM's investment project in the Port of Montevideo for US$484 million.

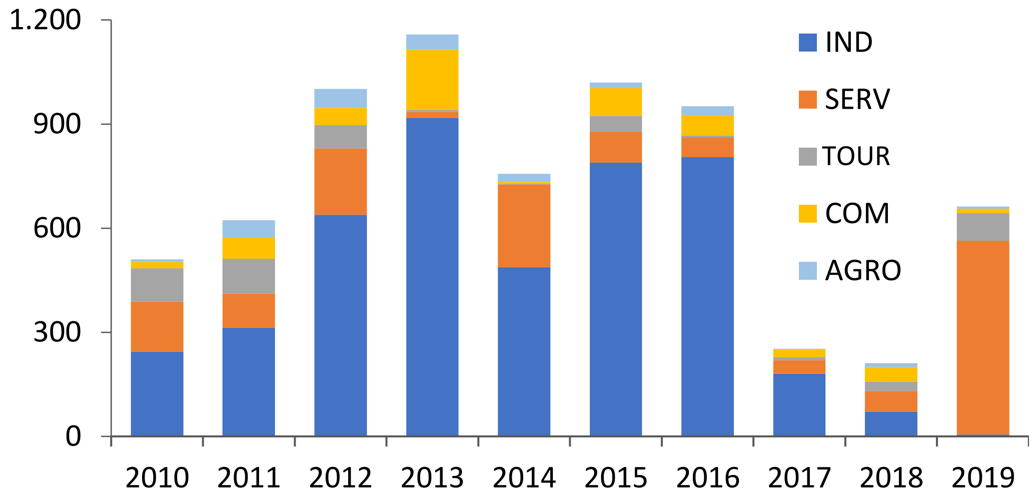
[17]Some of the information presented is in the planning stage of the project, so the investment has not been effectively made.

Graph No. 5.4 – Projects recommended by COMAP – By origin of capital (Millions of US$. Part%)



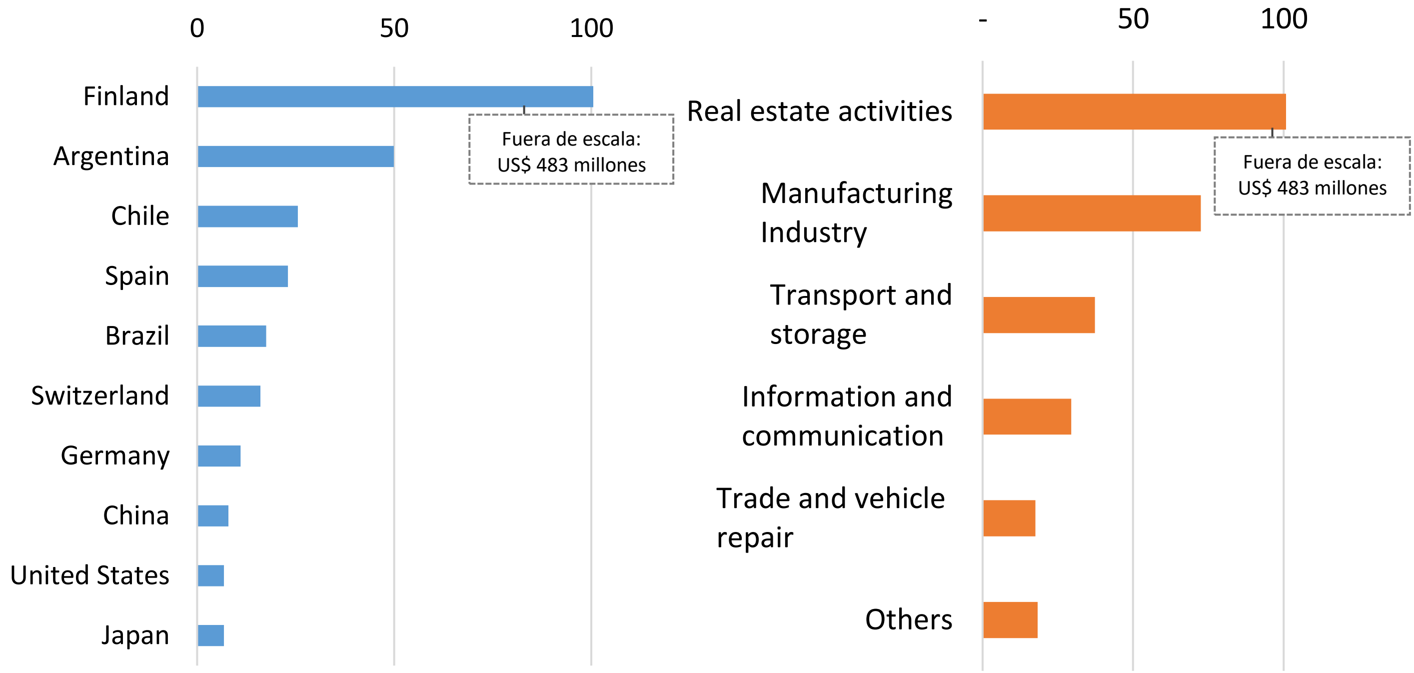
Source: Uruguay XXI based on COMAP

Graph No. 5.5 – Projects promoted according to industry - Foreign Capital (Millions of US$. Part%)



Source: Uruguay XXI based on COMAP

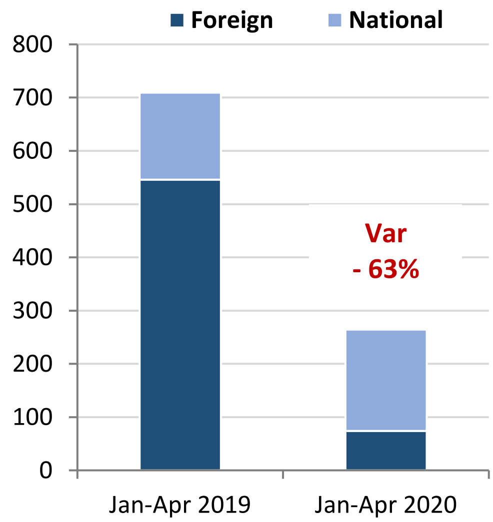
Graphs 5.6- Projects promoted by origin and by sector - Foreign capital (Millions of US$- 2019)



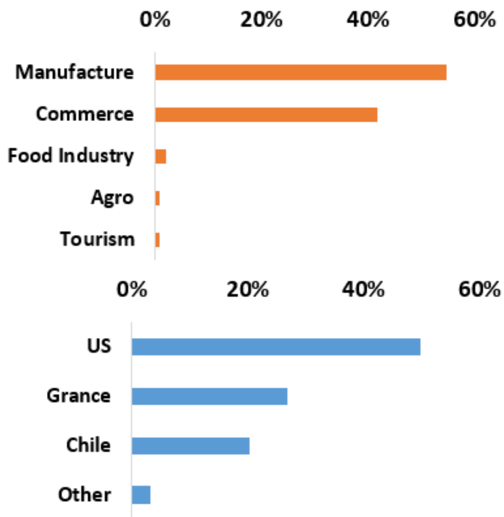
Source: Prepared by Uruguay XXI based on COMAP

Meanwhile, the first four months of 2020 saw a sharp drop in the amount of projects recommended by COMAP (63% in the year-on-year comparison). However, if only the number of projects is considered, they fell by 9% in that comparison. It should be noted that in January-April this year projects submitted by foreign companies represented 23% of the total, when in the same period in 2019 that percentage was 77%. The first four months of the year contemplate two months of the pandemic, but even in previous months the pandemic could have begun to affect projects of foreign companies in Uruguay.

Graph 5.7 - Business projects by origin of capital (January - April, Millons of US$)



Graph 5.8 – Promoted Projects – Foreign capitals. (January - April 2020, Part.%)



Source: Prepared by Uruguay XXI based on COMAP

Mergers and Acquisitions – Operations with companies established in Uruguay

Mergers and acquisitions (M&A) are a very common form through which foreign investments are made. When a local company is bought by a foreigner, the domestic assets become the property of a non-resident agent, and this constitutes a flow of FDI. This section also presents purchases and sales between foreigners, which although they imply a change in the origin of the capital do not necessarily constitute a new FDI inflow.

Date	Target company	Transaction type	Buyer	Buyer country	Seller	Sector
Oct-20	Petrobras Uruguay Distribucion SA (PUDSA)	Acquisition	Disa Corporacion Petrolifera SA	Spain	Petroleo Brasileiro SA - Petrobras	Fuel Distribution
Sep-20	Tonosol SA	Acquisition	White Elephant Properties LLC			Hotels
Sep-20	dLocal	Minorityshare holding	General Atlantic; Addition	United States		Software
Aug-20	DBMG Asociados SA	Acquisition	AthlonePartners LLC	United States		Financial Sector
Jul-20	MonkeyLearn Inc	Minorityshare holding	Uncork Capital; Bling Capital	United States		Software
Jun-20	Russman SA; Vinnyc SA	Acquisition	Suramericana SA; Grupo de Inversiones Suramericana SA	Colombia	Privateinv estor	Insurance
Jun-20	InfoCorp	Acquisition	Constellation Software Inc	Canada		Software
Mar-20	YVY LifeSciences	Minorityshare holding	Facundo Garreton - private investor; Buyer(s) unknown	Argentina		Cannabis
Jan-20	Astidey SA (50 MW wind farm)	Acquisition	Cubico SustainableInvestments	United Kingdom		Energy
Dec-19	Gurucargo	Acquisition	Buyer(s) unknown			Software
Nov-19	Prometeo	Minorityshare holding	LatinialInteractive Business SA (Latinia)	Spain		Software
Nov-19	CiameLtda	Acquisition	Fresenius Medical Care AG & Co KGaA	Germany		Wholesale
Oct-19	Neutax SA (Neutral Duty Free Shop)	Acquisition	Top Brands International SA	Panama	JH Partners; Private investor(s)	Retail
Sep-19	Cerro Grande windfarm	Acquisition	DIF	The Netherlands	EAB New Energy GmbH; Enercon GmbH	Energy

May-19	Meitre	Minorityshare holding	Andreessen Horowitz	United States		Software
Jan-19	Two Aldo shoestores	Acquisition	Forus SA	Chile		Shoe Store
Jan-19	NettaGrowth International Inc	Acquisition	KhironLifeSciencesCorp	Canada		Medicinal and botanical manufactures
Jan-19	SiSi	Acquisition	Grupo Komax	Chile	Gabriel Arlin - privateinv estor	Clothing
Jan-19	Frigorifico San Jacinto Nirea SA	Minorityshare holding	Perez Companc Group	Argentina		Refrigerator

Source: Uruguay XXI based on EMIS

Greenfield Projects[18]

Announcement date	Investment	Description	Origin	Estimated amount (Mill. US$)
Sep-20	GeoPagos	ICT's	Argentina	1
Sep-20	CEVA Logistics	Transportation	France	19,8
Sep-20	Boreal Agrominerals	Pharmaceutical	Canada	29
Aug-20	Centralis	Business Services	Luxembourg	2,2
Jul-20	Ebanx	ICT's	Brazil	4,7
Jul-20	UPM-Kymmene	Logistics, Distribution and Transport	Finland	25
Jul-20	Etermax	ICT's	Argentina	2
Jun-20	Norman Alex	FinancialServices	France	2,2
Jun-20	MercadoLibre	ConsumerGoods	Argentina	9,3
May-20	HolbertonSchool	Creative Industries	United States	1,5
May-20	FacePhi	ICTs and Electronics	Spain	4,7
Feb-20	Ecolat Uruguay	Manufacturing	Peru	1
Dec-19	KEPCO Plant Service & Engineering (KEPCO KPS)	Electricity	South Korea	294,2
Dec-19	7 For All Mankind (Seven For All Mankind)	Retail	Israel	3,2
Nov-19	Brilliance China Automotive	Manufacturing	Hong Kong	264,9
Nov-19	Google	ICT's	United States	157

[18] Announced projects (not necessarily confirmed).

Oct-19	Hennes&Mauritz (H&M)	Retail	Sweden	3,2
Sep-19	KhironLifeSciences	Manufacturing	Canada	29
Sep-19	Prune (Prune)	Retail	Argentina	3,2
Aug-19	Crocs	Retail	United States	3,2
Aug-19	Lumin	Manufacturing	Brazil	30
Aug-19	Epidata	Services	Argentina	1,4
Jul-19	UPM-Kymmene	Logistics, Distribution and Transport	Finland	280
Jul-19	UPM-Kymmene	Logistics, Distribution and Transport	Finland	2700
Jul-19	UPM-Kymmene	Logistics, Distribution and Transport	Finland	70
Jun-19	Alsea	Retail	Mexico	36,7
May-19	Technisys	ICT's	United States	8,3
Apr-19	ArcangelMaggio	Manufacturing	Argentina	5
Apr-19	NeoDocto	Business Services	United States	0,2
Mar-19	Grupo David Enterprises	Retail	Panama	3,2
Feb-19	NN Investment Partners (ING Investment Management)	FinancialServices	The Netherland s	34
Feb-19	Nowports	Transportation	Mexico	10,9
Jan-19	GAC Group	Transportation	UAE	10,9

Fuente: Source: FDI Markets, Business Ads and Multiple Media.

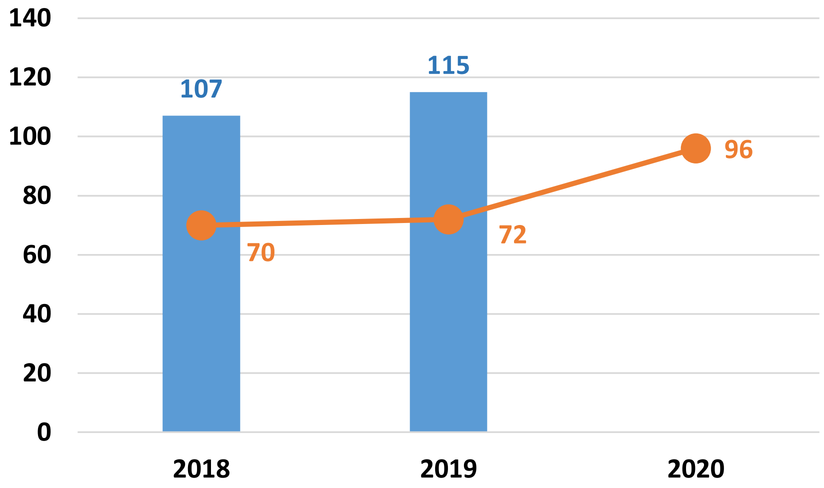
6. Investment opportunities in Uruguay

This section presents investment opportunities managed by Uruguay XXI.

Investment Opportunities 2018-2020

Based on the investor assistance process carried out by Uruguay XXI, information is collected on the origin of potential investors, the characteristics of their projects and the sectors in which they are interested in investing. Based on this, the trends presented below are analyzed.

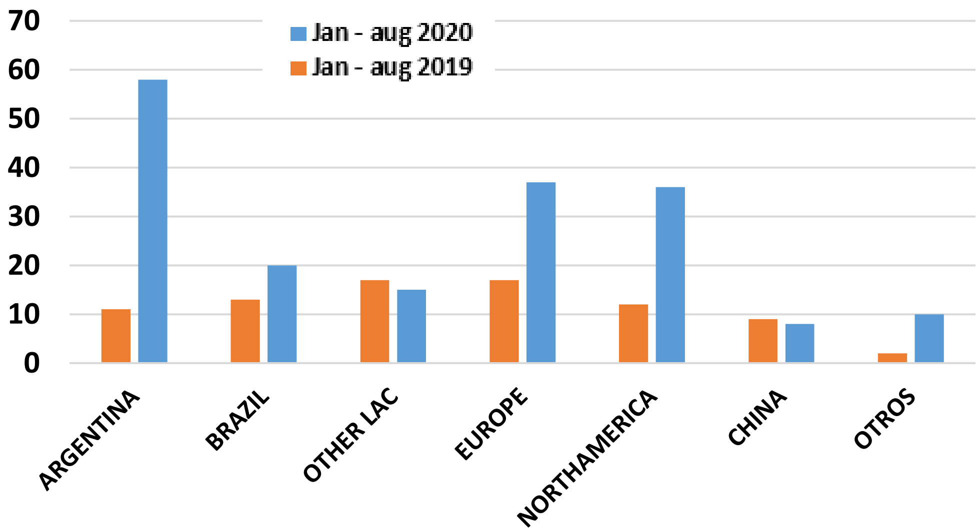
Graph N°6.1 – Investment opportunities initiated (2018-2020)



In January-August 2020 there were 96 new investment opportunities, an increase of 33% compared to the same period last year. As shown in Chart No. 6.1, by 2019, the number of steps taken had already increased by 7.5%. In this context, in January-August 2020 Uruguay XXI assisted 184 foreign investors (including those generated in 2020 and previous years). These figures include both foreign investors without a presence in Uruguay and already established foreign companies wishing to expand their activities.

The main origins of the investors who attended Uruguay XXI in 2020 come from Argentina, North America and Europe. During this period, there has been a strong increase in the number of inquiries received from these countries, especially from Argentina.

Graph No. 6.2 – Assisted Investment Opportunities by Origin (2019-2020)



As for the sectors of activity, the increase in the number of companies in the technology sector stands out, representing 28% of the total. This is followed by pharmaceutical and agri-food companies. Among the queries of technology companies, those from Argentina and North America predominate. While in those belonging to the industrial sector are predominantly those of European origin.

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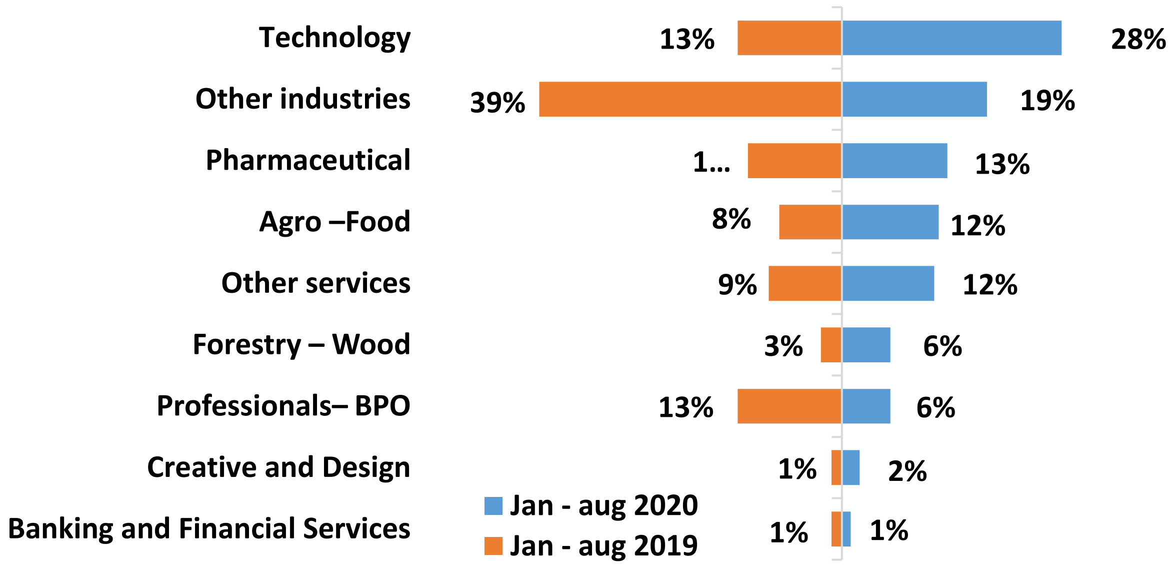
Graph No. 6.3: Opportunities by sector (2019-2020)



Companies interested in investing in Uruguay can plan to develop their activities under different business models. Regardless of the sector to which the company belongs, it can install a Distribution Center for its imported products for the region; a Support Service Center (e.g. accounting, HR management, IT support, etc.); a Research & Development Center; a Manufacturing Plant; or simply open a commercial office for the domestic market.

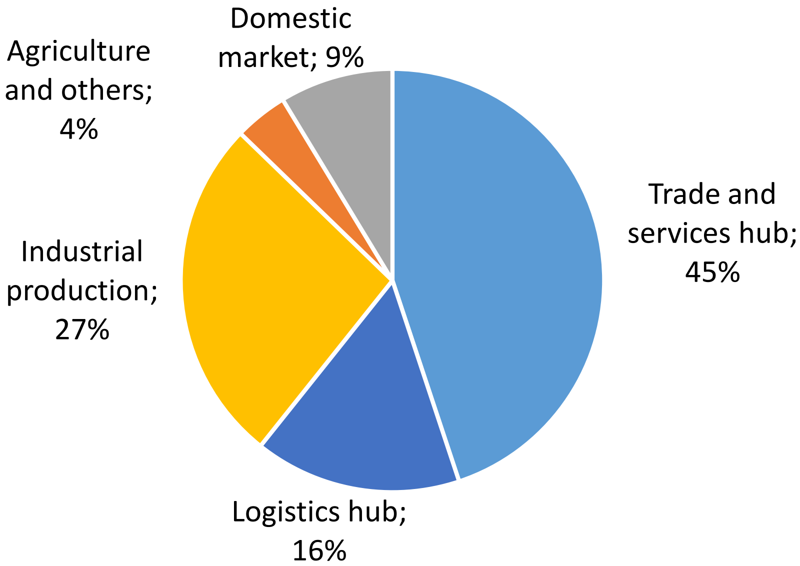
Based on this logic, five business platforms are defined:

1) *Trade and Services Hub: it is installed to provide services from Uruguay.*
2) *Logistics Hub: a distribution center is set up from which logistics services are provided.*
3) *Industrial Production: a product manufactured in Uruguay is produced.*
4) *Agriculture and others: some agricultural or mining activity is developed.*
5) *Domestic Market: it is installed to provide a service for the internal market.*

Graph No. 6.4 shows the main platforms under which companies that have had contact with Uruguay XXI can operate.

Among the investment opportunities managed in 2020, there is a predominance of those included in the Trade and Services HUB platforms, which represent almost half of the opportunities. This includes companies in the technology and business services sector. They are followed by opportunities in industrial production (27%), particularly in the food sector, and the logistics Hub (16%) with a strong preponderance of distribution activities in the pharma sector.

Graph 6.4: Opportunities by platform (2020)



Investment opportunities in Uruguay

Beyond the general characteristics of the country, there are some sectors that stand out for their attractiveness for foreign companies to develop their activities.

Agribusiness

Uruguay has comparative advantages in food production at the international level. The country has a recognized international prestige in the production process and the quality of several agricultural products, based on a safe production and under strict sanitary controls.

The country has great potential to increase the production of agro-industrial goods. With a population of 3.5 million inhabitants, it produces food for 28 million people. Global demand for agricultural goods will remain strong in the coming decades, sustained primarily by increased consumption of protein, fats and sugars in the developing countries

For more information see: [Agribusiness Report]

Forestry

In Uruguay there are important opportunities for the installation of industries that achieve a greater added value to wood. The great offer of pine wood, coming from managed and certified plantations, is a great attraction for the installation of first and second mechanical transformation companies. The annual availability of this wood exceeds 3 million cubic meters annually, far exceeding the industrial capacity of the country.

For more information see: [Forestry Report]

Cannabis

Uruguay was the first country in the world to regulate the production of cannabis, both for recreational, medical and industrial use. The activity of companies linked to the cannabis industry in Uruguay is reaching a wider range of possibilities, and the associated services are multiplying. In particular, the authorizations by IRCCA (The Institute of Regulation and Control of Cannabis) and the Ministry of Public Health reach the crops - psychoactive and non-psychoactive -, research and industrialization. While the activity of the main companies is explained by these activities, many others provide associated services and complete the business map of the sector.

For more information see: Cannabis Report

Global Services

In the last few years, Uruguay has seen a dynamic business segment known as **Global Export Services.** These services, which are provided from Uruguay to the world, arise from a company's decision to relocate an activity or process and transfer it abroad.

Global Services have proven to be one of the sectors that had the best performance worldwide due to COVID-19 and with greater resilience to the health and economic crisis caused by the mandatory quarantines that were implemented in most countries. In Uruguay in particular, one of the most important lessons learned for Global Services companies in this context, has been their ability and flexibility to adapt and maintain continuity of operations using different tools and showing the possibility of being able to implement remote work quickly.

For more information see: Global Services Report

Renewable Energies

The transformation of Uruguay's energy matrix, driven by the public sector in coordination with the private sector and with a notable contribution from foreign investment, places Uruguay at the forefront of renewable energy use in the world. The participation of renewable energies in the primary matrix and especially in the electrical matrix is well above the world average (less than 20%).

In addition to continuing to incorporate renewable sources into the electricity grid (wind, biomass, solar and micro-hydro), in the coming years there will be opportunities to expand the electricity transmission network, incorporating Smart Grid systems and technologies for energy storage, to advance in the energy recovery of agricultural, industrial and urban waste and to incorporate clean technologies into the transport sector.

For more information see: Renewable Energy Report

Other sectors

This link presents other relevant sectors that present investment opportunities in Uruguay.

Investment projects

Beyond the highlighted sectorial opportunities, Uruguay XXI compiles investment opportunities in specific projects in various sectors: agribusiness, manufacturing, retail, real estate, and infrastructure, among others. These projects correspond to operating companies seeking to restructure or expand operations, ideas and investment projects, companies in difficulty, or projects tendered by the state where the private sector is seeking to make an investment or management.

For more information see: Investment projects

7. Institutions for FDI in Uruguay

The following is a review of the institutional system of investment promotion and some recent changes aimed at improving the business climate in Uruguay.

It is Uruguay's investment and export promotion agency. Among other functions, Uruguay XXI supports and advises foreign investors free of charge, both those who are evaluating where to make their investment and those who are already operating in Uruguay. In this way, it works to attract new productive investment, increase re-investment and play an articulating role between the public and private sectors to improve the business climate. It also manages the country brand, promoting Uruguay as an investment destination and highlighting its competitive advantages.

::Web site:: www.uruguayxxi.gub.uy/en/

The purpose of the Commission for the Application of the Investment Law (Ministry of Economy and Finance) is the promotion and protection of investments made by national and foreign investors in the national territory. The COMAP centralizes the attention to the investor –national or foreign- destined to the development of the Private Sector. It provides information and advice on the new tax exemptions that an investment can access, as well as on the rest of the programs that the State offers in this area. It accompanies the investor in the process of presentation of the project and advises him/her on all requirements, making the procedure agile and simple.

::Web site::www.mef.gub.uy

Foreign trade facilitation mechanism that will make it possible to centralize in a single system all the procedures associated with import, export and transit operations. The information will be processed electronically with the highest security standards and will be accessible on the Internet 24 hours a day, 365 days a year.

The creation of the VUCE is a strategic project for Uruguay, since it Is part of a vision of the country as a trade facilitator. The project contemplates the integral redesign of the country's foreign trade processes accompanied by a total revision of the regulations that govern them, incorporating technology that allows for a single platform to manage operations.

The ease of carrying out procedures with the intervention of the public sector, which make the creation of companies and the development of different businesses, is a success factor for attracting new companies, the emergence of local enterprises and competitiveness in general. In some countries there are initiatives for Single Investment Windows (VUI), which, like what is already being done in Uruguay with the VUCE for foreign trade procedures, for platforms that facilitate and simplify the formalization of companies at the start of their operations, as well as maintenance and possible extensions.

A VUI is an integrated and centralized platform, available 100% online, where companies (domestic and foreign, with a focus on the latter) have a single point of access to access all key management and perform them in an automated and remote way.

In Uruguay, although significant progress has been made in terms of e-government led by AGESIC *and in terms of foreign trade within the framework of the VUCE, there are still many processes directly linked to the needs of the investor and especially the foreign investor, which have opportunities for improvement. In this sense, VUI will complement thework done by VUCE as a facilitation tool.*

::Web site:: vuce.gub.uy

8. Annex

Regulations to promote investment in Uruguay[19]

Uruguay offers a comprehensive regulatory framework to promote investment, within a reliable institutional environment, with the highest political and social stability within the region.

In addition to attractive tax benefits, Uruguay offers free repatriation of capital and profits through a flexible financial system and a free exchange market, in addition to a regime that does not discriminate between local and foreign investors.

All this constitutes a unique investment promotion regime in the region. The following is a brief presentation of the main tools offered by our country to promote investments.

Investment Promotion and Protection Act

The foreign investor enjoys the same benefits as the national investor and does not require prior authorization to set up in Uruguay. Law 16.906 of 7/1/98 declares the promotion and protection of national and foreign investments to be of national interest. Decrees 455/007, 002/012, 143/018 and 268/020 determine these regulations.

This regime provides the investor with tax benefits on the income and assets of companies. The investment projects covered by this regime and promoted by the Executive Branch, may compute as part of the payment of the tax (IRAE – Corporate Income Tax) between 30% and 100% of the amount invested. The exempted tax may not exceed 90% of the tax payable.[20]The fixed IRAE rate at the national level is 25%. Also exempted is the estate tax on movable fixed assets and civil works.

Additionally, the law provides other benefits such as the refund of VAT included in the purchase of materials and services for civil works and in the purchase of movable goods destined to the investment project; and the exemption from the payment of import duties or taxes on movable fixed assets that have been declared non-competitive with the national industry. There are other additional incentives and specific benefits. For example, related to Mipymes and the scientific-technological industrial parks.

In case the project is promoted, it has the possibility of accessing a set of additional benefits. To evaluate the project, the score obtained based on different indicators present in a matrix (with different weightings) is taken into account. The indicators taken into account are: employment generation, decentralization, increase in exports, clean technologies, Research, Development and Innovation (R&D&I) and a sectorial indicator. Companies may also apply to a simplified regime by committing only to the employment generation indicator.

[19]For more information see: Investor'sGuide

[20]The fixed IRAE rate at the national level is 25%.

This regulation does not apply to those projects that are intended exclusively for the construction and subsequent sale of real estate. However, those projects that include the construction of a building as a component of a promoted activity (tourism, expansion or creation of new productive activities, etc.), can make use of the incentives provided by the rule.

The application to enter the investment promotion regime is submitted to the Commission for the Application of the Investment Law (COMAP), which will determine which Ministry and agency will be responsible for its evaluation, depending on the nature of the project and the activity to which it corresponds.[21].

[21] http://comap.mef.gub.uy/

Other incentives

Within the framework of the Investment Promotion Law, in order to boost some priority areas, tax benefits have been established for companies that carry out activities related to certain sectors. The following sectors are declared to be of national interest.

Renewable Energies: generation of energy from non-traditional renewable sources, generation of electrical energy through cogeneration, transformation of solar energy into thermal energy, national manufacturing of machinery and equipment for the above-mentioned activities, among others.

Naval Industry: construction, maintenance and repair boats and water transport vehicles With respect to the electronic industry.

Electronic Industry: production of electronic components, telematics equipment, professional electronics, consumer electronics and industrial and domestic electrical equipment.

Remote Care Centers: services provided by tele-operators who receive or send telephone calls, Internet messages and other channels.

Tourism: The company is also involved in the development of civil tourism projects, which include activities aimed at providing accommodation, cultural, commercial, congress, sports, recreational, leisure or health services and investments related to the acquisition of goods for the equipment of tourism projects and hotels, apartment hotels, hostels, motels and tourist accommodation.

Condominium Hotels: activity developed by hotels in the modality of condominium, destined to the offer of services of lodging carried out for the attraction of tourist demand.

Bio technology industry: generation of biotechnological products, services and processes with application in strategic productive sectors, prioritizing the agricultural, environmental, energy, human and animal health sectors.

Shared Services Center: advisory and data processing services provided to related parties, which are used exclusively abroad.

Parking lots: construction, expansion and operation of parking lots in certain areas of the country.

Promotion of projects of great economic dimension: promotes the construction and sale of properties for offices or permanent or sporadic housing, corresponding to projects of great economic dimension.

Software: Exemption from corporate income tax for export activities of software and related services

Other activities that receive tax benefits are: **Manufacture of Agricultural Machinery and Equipment, Treatment and final disposal of solid industrial waste, Installation and operation of point of sale terminals, Universal access to public passenger transport, Manufacture of vehicles and equipment for cargo transport.**

In the following link you will find all the specific regulations that govern these benefits: http://comap.mef.gub.uy

Free Zone Law

Free Trade Zones in Uruguay are regulated by Law No. 15.921 of 17 December 1987. They can be operated by the State or by duly authorized private entities. The Free Trade Zones of private operation are administered, monitored and controlled through the General Directorate of Commerce - Free Zone of the Ministry of Economy and Finance. This office is the main point of contact for all regulations, permits and controls relating to free zones in the country. As for the free zones operated by the State, this is the area in charge of their management. Commercial, industrial or service activities are allowed in the free zones. In addition, companies established under this regime can provide services to other countries and, in some cases, to Uruguay.

The companies authorized to operate from the free zones can be individuals or legal entities under any corporate form. As for legal entities, there are no restrictions as to their form, but they must have an exclusive purpose. There is no distinction between national or foreign investments and the latter are not obliged to comply with any special process or requirement. As for the personnel, up to 25% may be foreign. However, this percentage may be modified if necessary, with a more detailed explanation of the reasons why it is required. The goods can be kept indefinitely in these premises and their destination can be changed at any time.

The benefits granted to companies established in the Free Trade Zones are:

- 100% exemption from Corporate Income Tax (IRAE), Net Worth Tax (IP) and any other current or future national tax. The State is the guarantor of this exemption.
- Dividends distributed to shareholders residing abroad are also tax-exempt in our country.
- Foreign personnel may choose to contribute to social security in Uruguay or in their country of origin.
- Purchases and sales of goods and services to and from abroad are exempt from VAT. Sales and provision of services within the free zones are also exempt from VAT.
- Companies can also trade and provide services to Uruguay. In this case, there are no tax exemptions for these goods and services provided to the country.
- Non-resident entities are also exempt from the Income Tax on Economic Activities (IRAE) with respect to activities carried out with foreign goods declared in transit or held within the free zone when they are not destined for the national customs territory. These are also exempt from IRAE as long as the sales destined to the national territory do not exceed 5% of the total sales of goods in transit or maintained within the free zone.
- The goods traded by the free zones with the rest of the world are exempt from customs duties.

Public-Private Participation Contracts

Law No. 18,786 of 2011 establishes the regulatory framework applicable to the Public-Private Participation (PPP) regime. The last regulation in relation to this law is **Decree 35/018**[22].

These are contracts in which a public administration commissions a private party, for a determined period, to design, build and operate infrastructure or any of these services, in addition to financing.

The Law allows contracts to be entered into in the following areas:

- Infrastructure: road, port, airport and railway works

[22]A compilation of all relevant regulations can be found at the following link: http://ppp.mef.gub.uy/

- Prisons (not including security, health and prisoner re-education services)
- Educational Centers (not including educational services)
- Health centers (not including health services)
- Social Housing
- Energy infrastructure and waste treatment

The contracting procedure consists of several stages: public or private initiative of the process, previous evaluation, approval of studies by the Office of Planning and Budget (OPP) and the Ministry of Economy and Finance (MEF), public call for tenders, presentation of offers, examination and awarding of the same. Several institutions make up the institutional framework for this type of contract. The Unit for Public-Private Participation Projects works in the Ministry of Economy and Finance (MEF) and among other aspects is responsible for monitoring the economic and financial aspects, linked to the previous studies of the projects.

On the other hand, the contracting Public Administration is responsible for the design, structuring and execution of the Public-Private Participation contracts, as well as for the control of their correct execution and the fulfillment of the obligations assumed by the contractors. The promotion of Public-Private Participation projects and the preparation of technical guidelines applicable to such projects is the responsibility of the National Development Corporation (CND). On its part, the Office of Planning and Budget (OPP), among other tasks, is responsible for ensuring the adequate development of each project according to the fundamental conditions and characteristics of the PPP contracting model.

Law for the promotion of construction of social interest housing

Another attractive regime for investment is that proposed by Law 18,795 for the promotion of investment in construction of social interest housing, which aims to facilitate access to housing for middle and lower income sectors. In this context, it promotes private investment in construction, renovation, recycling or expansion of a minimum of two and up to one hundred homes per census, which may be used for sale or rent, through the granting of tax exemptions and access to a guarantee fund that facilitates obtaining bank loans (FOGADI)[23].

Other promotional regimes

Uruguay has various regimes that generate an even more attractive regulatory framework for attracting investment. Among these regimes are Free Ports and Airports, Industrial Parks, Temporary Admission, Customs Warehouses[24], and sector-specific regulations (see box).

It should be noted that in March 2018 the **Special Economic Zones Law** was enacted, which amends certain points of the Free Zone Law. Among other things, it encourages high quality employment, the generation of national added value, the development of high technology and innovation activities, the decentralization of economic activities and regional development. It also includes a particular modality called Thematic Service Zones that provides for the promotion of activities in the area of health care; recreation and entertainment; and audiovisual[25].

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[23]For more information see: Real Estate Sector Report
[24]For more information see: Report on Industrial Parks
[25]For more information see: Report on Free Trade Zones in Uruguay

Trade and investment protection agreements[26]

Uruguay has been a member of the World Trade Organization (WTO) since its creation in 1995, and is part of the Latin American Integration Association (ALADI, 1980). In addition, since 1991 it has formed, together with Argentina, Brazil and Paraguay, the Southern Common Market (MERCOSUR), which became a Customs Union in 1995, with free circulation of goods, elimination of customs duties and non-tariff restrictions between the parties, and a Common External Tariff against third countries. Since 2012 Venezuela is a full partner of the block. To date, Venezuela is suspended.

1) Trade agreements with access in goods

Uruguay has signed, as part of the MERCOSUR or by itself, a series of trade agreements that allow it to access other markets with tariff preference. As part of MERCOSUR, Uruguay has signed trade agreements with several Latin American countries: Chile (1996), Bolivia (1996), Colombia[2], Ecuador and Venezuela (2004), Peru (2005) and Cuba (2006) An agreement was signed with Mexico (2002) that exclusively covers the automotive sector. Outside the region, MERCOSUR has signed agreements with Israel (2007), India (2004), SACU (2008), Egypt (2010) and Palestine (2011). The agreement with Palestine has not yet entered into force.

With the exception of the agreements with Cuba, India and SACU that include preferences for a limited number of products, the remaining agreements signed by MERCOSUR tend to form Free Trade Zones, with schedules of tariff reductions that are completed for the substantial part of the trade on dates that vary according to the country. The agreements with Chile and Bolivia have already reached 100% tariff relief for the entire universe of goods. Except in the case of Egypt, whose entry into force is recent (end of 2017), in the remaining agreements in force, full tariff reduction is achieved for most trade before 2019.

MERCOSUR recently concluded negotiations of free trade agreements with the European Union and EFTA, and in both cases the legal review of the agreements is underway. Likewise, it is carrying out negotiations with Canada, Korea and Singapore.

MERCOSUR is part of the Global System of Trade Preferences among Developing Countries (GSTP), in force in Uruguay since 2005. The last round (2010), not yet in force, involves preferences from 20% to 70% of tariff lines with Cuba, Egypt, India, Indonesia, Malaysia, Morocco and the Republic of Korea.

Uruguay also signed a bilateral Free Trade Agreement with Mexico (2003), which allows for the free circulation of goods and services between both countries since June 2004, with certain exceptions whose treatment is expressly provided for. Con Chile, Uruguay firmó en 2016 un Acuerdo de Libre Comercio bilateral, que incluyó áreas no cubiertas en el ACE 35.

In the automotive sector, which is outside the provisions established in MERCOSUR, Uruguay has bilateral agreements in force with Argentina and Brazil that are regularly updated.

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[26]For a more detailed description of the international agreements in forcesee:https://www.uruguayxxi.gub.uy/en/information-center/article/international-agreements/

[2]A new agreement was signed with Colombia in 2017 (ACE 72) which once in force replaces ACE 59 for the relations between the parties.

Finally, it should be noted that Uruguay is a beneficiary of the unilateral preferences granted under the Generalized Systems of Preferences of Australia, New Zealand, Norway, Switzerland and the Eurasian Economic Union.

2) Investment Protection Agreements

Uruguay has signed investment protection and promotion agreements with 31 countries, including Spain, the United States, Finland, France, Japan and the United Kingdom, among others. A Protocol for Cooperation and Facilitation of Investments is in force in MERCOSUR. It has two signed agreements not yet in force (with India and the United Arab Emirates).

Also, Uruguay has negotiated within the MERCOSUR, chapters with investment disciplines in the agreements negotiated with the EU in the Services and Establishment Chapter, and EFTA in the Non-Service Investment Chapter. Both processes are currently in the legal review stage.

Negotiations with Canada, Korea and Singapore are underway.

3) Trade in Services Agreements

Uruguay participates in different negotiation instances of trade in services:

General Agreement on Trade in Services (GATS): multilateral negotiation within the WTO. The 159 members of this organization participate, but the negotiations have been practically stagnant since 2008.

Preferential agreements with services chapters: parallel to the GATS, and allowed by its rules, several preferential agreements have emerged that include negotiations on services.

Within the MERCOSUR, the Montevideo Protocol (which came into force in 2005) sets out the conditions for the liberalization of trade in services in the MERCOSUR, including lists of individual commitments by country. The protocol was signed by Paraguay in 2014. So far there have been seven rounds of negotiations in MERCOSUR that deepen the list of initial commitments. Uruguay is the only country that has incorporated the VII Round by Law No. 19.629 published on 27 July 2018. In 2009, the Protocol on Trade in Services between MERCOSUR and Chile was signed, which entered into force in 2012 between Uruguay and Chile. The FTA between Uruguay and Chile contains a chapteronservicesthatincludesthecommitmentsalreadynegotiatedwiththe trans-Andean country in the MCS-Chile Agreement. In July 2018, the MERCOSUR-Colombia Services Agreement was signed.

The MERCOSUR-European Union and MERCOSUR-EFTA Agreements, both currently under legal review, contain provisions and commitments on services.

Finally, the Free Trade Agreement between Uruguay and Mexico includes provisions for all service modalities covered by the GATS. Currently, Uruguay is negotiating within the scope of MERCOSUR Trade Agreements that include services chapters with Canada, Korea and Singapore.

4) Double Taxation Agreements and Exchange of Information

Uruguay has agreements in place to avoid double taxation with 22 countries. Argentina (2013), Belgium (2017), Chile (2018), Ecuador (2012), Finland (2013), Germany (2011), Hungary (1991), India (2013), Liechtenstein (2012), Luxembourg (2017), Malta (2012), Mexico (2010), Paraguay (2019), Portugal (2012), Romania (2014), Singapore (2017), South Korea (2013), Spain (2011), Switzerland (2011), United Kingdom (2016) and Vietnam (2016).

It should be noted that in the case of Argentina's agreement, it is an information exchange agreement with a clause to avoid double taxation in certain cases.

Negotiations have been concluded, but there are no double taxation avoidance agreements in force yet with Brazil, Italy and Japan.

In addition, Uruguay has 14 other information exchange agreements and the Multilateral Convention on Mutual Assistance in Tax Matters.

Uruguay in brief (2020)

Official Name	República Oriental del Uruguay
Geographical location	South America, bordering Argentina and Brazil
Capital	Montevideo
Area	176.215 km^2. 95% of the territory is productive land suitable for farming
Population (2019)	3.52 million
Population growth (2019)	0.4% (annual)
GDP per capita (2019)	US$ 15,914
Currency	Uruguayan Peso ($)
Literacy rate	0.987
Life expectancy at birth	77.6 years
Form of government	Democratic Republic with a presidential system
Political Division	19 departments
Time Zone	GMT - 03:00
Official language	Spanish

Main economic indicators 2015-2020

Indicators	2015	2016	2017	2018	2019	2020e
GDP (Annual % Change)	0,4%	1,7%	2,6%	1,6%	0,2%	-4,3%
GDP (Millions of US$)	53.182	52.734	59.520	59.519	55.995	49.062
Population (Millions)	3,47	3,48	3,49	3,51	3,52	3,53
GDP per Capita (US$)	15.339	15.152	17.039	16.976	15.914	13.895
Unemployment Rate – Annual Average (% EAP)	7,5%	7,8%	7,9%	8,3%	8,9%	13,3%
Exchange Rate (Pesos per US$, Annual Average)	27,4	30,1	28,7	30,8	35,3	42,1
Exchange Rate (Annual Average Variation)	17,6%	10,1%	-4,8%	7,3%	14,7%	19,4%
Consumer Prices (Annual Cumulative Var %)	9,4%	8,1%	6,6%	8,0%	8,8%	9,3%
Exports of goods and services (Millions of US$)**	15.632	14.532	16.079	16.241	16.286	12.882
Imports of goods and services (Millions of US$)**	13.912	11.799	12.440	13.093	12.924	10.900
Trade Surplus / Deficit (Millions of US$)	1.720	2.733	3.640	3.148	3.363	1.982
Trade surplus / deficit (% of GDP)	3,2%	5,2%	6,1%	5,3%	6,0%	4,0%
Overall Fiscal Result (% of GDP)	-3,6%	-3,8%	-3,5%	-4,2%	-4,8%	-
Gross capital formation (% of GDP)	19,7%	17,8%	15,2%	16,5%	16,2%	-
Gross Public Sector Debt (% of GDP)a	59,3%	63,5%	65,3%	64,5%	66,4%	-
Foreign Direct Investment (Millions of US$) ***	903	-1.177	-837	-246	1.690	-
Foreign Direct Investment (% of GDP)	1,7%	-2,2%	-1,4%	-0,4%	3,0%	-

Sources: Data on GDP, foreign trade, FDI, exchange rate, international reserves, and foreign debt come from the Central Bank of Uruguay(BCU); rates of population growth, literacy, unemployment, and inflation come from the National Institute of Statistics. Data estimated for 2020 based on BCU economic and inflation expectation surveys and Exante projections.

** In 2017, BCU adopted the methodology of the 6th Balance of Payments Manual. The data based on this new methodology includes the purchase and sale of goods and re-exports and is available from 2012.

*** In 2017, BCU adopted the methodology of the 6th Balance of Payments Manual. The data are net flows so they can takenegativevalues.