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Uruguay exemplifies how to deal with China



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Uruguay, like many countries in Latin America, has deepened its relationship with China in recent years. Unlike in neighboring countries, however, Uruguay's strong institutions and interest in maintaining a relationship with the U.S. have tempered its newfound friendship with Beijing. Under the government of Luis Lacalle Pou, the country has been especially tactful, increasing trade with the People's Republic of China (PRC) while expressing skepticism toward investment. Other countries in Latin America should follow Uruguay's path to make the most of the opportunities provided by China.

The PRC has quietly become an increasingly important economic partner

Frente Amplio coalition, which ruled the country from 2005 until 2020. In October 2016, Uruguayan President Tabaré Vázquez led a state visit to the PRC to participate in the Belt and Road Forum. He returned to Uruguay with a new strategic partnership with the PRC, now one of 10 such relationships that the PRC has in the region.

Vázquez continued to deepen ties with China. In October 2018, just months after Panama became the first Latin American country to formally sign on to China's Belt and Road Initiative (BRI), Uruguay also joined.

The March 2020 inauguration of Luis Lacalle Pou, a member of the center-right Nationalist Party, marked a shift toward seeking balance between relations with the United States and the PRC. While the new government has halted some elements of Uruguay-PRC defense cooperation and major investment projects with China, Uruguay has continued to pursue an economic and political relationship with the PRC in a relatively transparent and pragmatic fashion.

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Lacalle Pou led Uruguay's effort to join the PRC-led Asia Infrastructure Investment Bank (AIIB) in May 2020. Uruguay was only the second country in the region to accede to the AIIB. The decision has paid dividends: almost immediately after Uruguay's acceptance, the bank offered Lacalle Pou's government a \$10 billion loan to support its response to COVID-19. The president publicly proclaimed his relationship with

China as “very good” and stated that Uruguay was “lucky to have China.” He plans to travel to the PRC before the end of 2021.

In the following sections, I will detail Uruguay’s relationship with China across diplomacy, trade, agriculture, nature resources, infrastructure, electricity, manufacturing, telecommunications, banking, exchange of ideas, COVID-19, and security cooperation.

Diplomacy

Uruguay’s day-to-day relationship with the PRC is shaped by two key figures: China’s ambassador to Uruguay, Wang Gang, and Uruguay’s ambassador to China, Juan Fernando Lugris Rodríguez. Observers generally regard Wang as low-key and effective, quietly working with Uruguayan institutions, facilitating significant PRC support to Uruguay during the COVID-19 pandemic, and showing sensitivity to the distrust that many people in Uruguay have toward China. Wang Gang is a far cry from the PRC’s more aggressive “wolf warrior” diplomats assigned elsewhere. Similarly, Lugris, who has held his post since December 2015, while relatively young and possessing limited Mandarin, is reportedly respected within the Chinese diplomatic community.

As with many, but not all, of China’s other strategic partners in Latin America, Uruguay has established a high-level “mixed commission” with China, which meets periodically to advance economic and other forms of collaboration between the two nations.

Uruguay-China diplomacy also occurs at the subnational level. The two countries have a series of “sister-city and regional-departmental relationships.” Montevideo has a sister city relationship with Qingdao, as well as with Chongqing. The Chinese autonomous region of Guangxi and its capital Nanning are paired with the Uruguayan department of

[Lavalleya](#). Other subnational diplomacy includes visits to Uruguay by delegations from [Tianjin, Guangdong, Guangxi, Liaoning, and Guangzhou](#). These relationships involve Chinese support for Uruguayan needs at the local level, such as donations to hospitals. Prior to COVID-19, subnational officials from Uruguay frequently traveled to the PRC, often with financing from the Chinese government.

Trade

Uruguay's trade with the PRC has expanded enormously since the World Trade Organization (WTO) admitted China in 2001. Uruguay's \$2.87 billion in bilateral trade with the PRC in 2020 was 16 times greater than that of 2001. During the period, Uruguay's exports to the PRC expanded from \$104 million in 2001 to [\\$1.34 billion](#) in 2020. At the same time, its imports from the PRC increased from \$75 million in 2001 to [\\$1.53 billion](#) in 2020, producing a modest trade deficit.

Increased bilateral trade ties have made the PRC increasingly important to Uruguay's economy. The PRC has been Uruguay's number one trading partner [since 2013](#), with [25 percent of Uruguay's current exports](#) going to China. Recognizing the importance of the PRC as an economic partner, Uruguay has established [three separate consulates](#) in China: in Chongqing, Guangzhou, and Shanghai, in addition to its embassy in Beijing and a consulate in Hong Kong. Its trade promotion agency, [Uruguay XXI](#), has been successful in boosting agricultural exports to the PRC, although it is reportedly in the process of being reoriented by the current government.

China's increasing importance for Uruguay has also strained the South American nation's relationship with the trading bloc Mercosur, of which it is a member. Successive governments, including that of Lacalle Pou, have been interested in the prospect of a [free trade agreement](#) with the PRC, which they hope would facilitate even greater Uruguayan exports to the

welcome such an agreement, Uruguay's membership in Mercosur limits its ability to negotiate with China. (There are ongoing negotiations within the bloc to increase the "flexibility" of Mercosur to make such a bilateral agreement possible.) At the same time, Mercosur's ability to negotiate a trade agreement with the PRC has remained stalled.

Agriculture

As a principally agriculture-based economy, Uruguay puts food exports at the core of its commercial relationship with the PRC. Indeed, 90 percent of Uruguay's exports to China are agricultural products, principally soy, wood, wood pulp, and beef. In light of that, the government of Tabaré Vázquez opened an agriculture office in its embassy in China in May 2018, designating it an "agriculture attaché."

Key to Uruguay's agricultural trade with the PRC is its beef exports, which increased 50 percent in 2019 alone. The country's livestock minister reportedly visits the PRC on average once each year, complementing visits by the Uruguayan Minister of Agriculture in both 2018 and 2019.

Other major exports include soy—with China receiving 86 percent of all Uruguayan soy exports—and wool, with Uruguay sending 40 percent of its wool exports to China in the first trimester of 2021.

Despite China's significant interest in Uruguayan agricultural products, Chinese companies have, to date, not played a significant role as investors in the agricultural sector in Uruguay itself. Brazil and Argentina-based agro-logistics companies dominate the sector instead. Chinese companies' limited presence in Uruguay includes slaughterhouses in the Uruguay beef industry through the Rosario facility (Rondatel SA) and the Florida plant (Claremar SA). In addition, in the soy and grains sector, China Oil and Foodstuffs Corporation (COFCO) operates in Nuevo Palmira.

Chinese investors have expressed interest in [acquiring timberland](#), and have purchased significant quantities of logs from Uruguay [since 2017](#). The PRC is also a major purchaser of wood pulp from Uruguay's paper pulp mill industry.

Beyond meat, grains, and wood, fishing also plays an important role in Uruguay's agricultural engagement with China. Chinese fishing companies that operate in Uruguayan waters, as well as in the South Atlantic beyond it, include firms such as [Shanghai Fisheries](#). These firms are significant users of the country's ports and fish processing capabilities.

The lucrative use of Uruguayan ports for logistics and resupply by Chinese deepwater fleet vessels conducting illegal or unregistered fishing has, in recent years, become a basis of law enforcement coordination, and sometimes tension, with Uruguay's neighbors.

Petroleum and Mining

Although Uruguay's known oil reserves are modest in comparison with neighboring Brazil and Argentina, its national petroleum company, ANCAP, has actively [solicited bids](#) from Chinese firms such as CNPC, CNODC, and Sinopec. Chinese petroleum service firms Jereh and Kerui have also demonstrated some interest in participating in the sector. Preliminary results regarding Uruguay's petroleum potential have been mixed, however, and to date, there are no major Uruguayan oil projects in the exploitation phase.

As with petroleum, Uruguay has some mining potential in which Chinese companies expressed interest, including the construction of a rail line to facilitate access to the mine. To date, however, nothing has been developed.

Infrastructure

Chinese firms have shown interest in several Uruguayan infrastructure projects, but without much success. Projects discussed have included a deep water port, highway construction, and railroad infrastructure.

In the port sector, Shanghai Dredging is currently performing dredging operations in support of the navigability to Uruguay's commercial ports. The Uruguayan government is also expanding the commercial capabilities of the port infrastructure around Montevideo; Chinese firms have expressed interest in supplying services and equipment.

Previously, the Chinese firm Shandong Bao Ma sought to construct a \$200 million fishing port for Chinese vessels at Punta Yeguas with local partner CSI Ingenieros. Although the Uruguayan government offered an alternate site, the company insisted on a facility on private land. The company appeared to be attempting to set up an enclave in which Chinese companies would resupply their own fishing vessels, apart from the broader port infrastructure of Montevideo, which is under government control. China's ambassador Wang Gang has also expressed interest in Chinese management of nearby Port Capurro. The port has been under consideration to serve as a cruise ship terminal and a gas loading facility, but no action has been taken yet.

Chinese companies were also previously interested in constructing a deepwater port at La Paloma, in the Uruguayan department of Rocha. Under the plan, Indian firm Areterí was to extract iron from an open pit mine in the region, transporting the iron by rail to port. The port would have also supported the local fishing industry. However, companies abandoned the project after local resistance and a decision not to develop the mine.

When it comes to ports, the Lacalle Pou government is currently focused

firms' previous interest in ports, they have not yet made a competitive offering for this project.

With respect to land transportation infrastructure, from 2017 to 2018, the Chinese firms China Mechanical Engineering Corporation (CMEC) and Shandong High Speed Group examined participation in a Public-Private Partnership project for the construction of the Central Uruguay Rail Line, which offers access to an enormous pulp mill being built in the country by a Finland-based company. Although Chinese firms registered as a participant in the process, they reportedly withdrew after unsuccessfully demanding financial guarantees by the Uruguayan state regarding the project.

As in other parts of South America, Uruguay is also renewing its public bus fleet with Chinese electric vehicles. Uruguay's largest public bus operator Cutcsa imported 20 busses from Chinese firm BYD in May 2020. To encourage electric vehicles, the Uruguayan government has also promoted the purchase of electric taxis from BYD, with subsidies estimated at \$100,000 per vehicle.

Finally, negotiations between the Argentine government and Shanghai Dredging to deepen the river along the Argentina-Uruguay border have generated some tension with Uruguay due to the impact of the project on the Uruguayan side. President Lacalle Pou of Uruguay, a center-right figure, also blames his leftist counterparts in Buenos Aires for insufficient lack of consultation regarding the project.

Electricity and Energy Projects

In contrast to other parts of South America, Uruguay has seen limited participation from China in its electricity generation, transmission, and distribution sectors.

At the end of May, the Uruguayan electric utility UTE awarded an important contract to [China Machinery Engineering Corporation \(CMEC\)](#) for the construction of a high-voltage transmission line connecting Tacuarembó and Salta, two cities in the north of Uruguay, for \$191 million, completing the country's northern ring for distributing electricity. Prior to the award, PRC-based countries also expressed interest in a [\\$250 million transmission line](#) bid out by UTE in 2020, and in the same year, the Chinese company TBEA [installed a high-voltage transformer](#) in Montevideo.

In electrical generation, UTE holds a monopoly, obligating investors interested in producing electricity to sell it back to UTE, rather than directly to users. The firm shows little interest in expanding capability. This posture has thus limited the appeal of the sector to the Chinese, relegating it to a handful of established, largely Spanish firms.

Manufacturing

In manufacturing, Chinese investment has been limited. While Uruguay alone has a small market, the country's products do have tariff-free access to Brazil and Argentina, both members of MERCOSUR. The most significant such investment was a factory for Chery automobiles, built by Chinese firm Socma in a Montevideo suburb. The factory experienced difficulties with [labor relations](#) and profitability, and it ultimately [closed in May 2015](#). In 2019, the Chinese companies Lifan and Brilliance announced plans to re-open the factory, to produce [10,000 cars per year](#), including electric vehicles.

Telecommunications

In telecommunications, PRC-based companies Huawei and ZTE both have a significant position in Uruguay. Huawei, which has been present in the country since 2006, is a supplier of telephones and other devices used by

(owned by Telefónica), and Claro (owned by América Móvil). Huawei and the Chinese company Xiaomi (considered a competitor to Apple), have a strong position in Uruguay's cellphone market. Although Huawei has split the Uruguayan market in roughly equal portions with competitors Erikson and Nokia, it has a stronger position with respect to the supply of fixed line infrastructure such as routers and modems.

In August 2019, the Uruguayan government signed an MOU with Huawei in support of cooperation on 5G, as well as the Internet of Things (IoT) and cloud computing. Key decisions on 5G have not yet been made in Uruguay, because in the Uruguayan system, Antel owns the towers and other physical infrastructure used by the other providers. Antel's decision to work with Huawei signals that the Chinese firm could play an important role in the government's auction of the 5G spectrum, which is expected to be finalized by the end of 2021.

While ZTE's position in Uruguay is more limited, it has worked with Antel to implement nationwide broadband coverage. ZTE has a particularly strong position in the supply of end user modem devices and the supply of other equipment such as routers. With the support of Huawei and ZTE, the Antel-built system offers some of the best internet and cellular coverage in South America.

Banking, Finance, and E-commerce

In the e-commerce market, the Chinese giant Alibaba operates in Uruguay, although prior to the pandemic, traditional physical stores dominated the retail market. Presently, a range of foreign companies, including MercadoLibre, TiendaMia, Amazon, and eBay, as well as local firm Woow, content the e-commerce space. Although the physical and financial infrastructure required for a successful e-commerce field in Uruguay is sound, the market is also limited by government restrictions on individuals

With respect to branch banking, by contrast to neighboring Argentina and Brazil, Chinese financial institutions such as ICBC and China Construction Bank have not yet established themselves in Uruguay, although ICBC has [explored entry](#).

Exchange of Ideas

Despite its agricultural exports to the PRC, Uruguay has relatively limited intellectual infrastructure for doing business with the PRC. A notable example is the [Uruguay-China Chamber of Commerce](#), led by [Gabriel Rozman](#), a former President of the India-based firm Tata Consultancy Services Iberoamerica.

As in many other countries in the region, Uruguay has a PRC-sponsored Confucius Institute for the study of Chinese language and culture. The Institute, which opened in [April 2018](#), is hosted by Uruguay's [University of the Republic](#), and partnered with Qingdao University in China's Shandong Province. The Institute is also a vehicle for identifying Uruguayan students with the aptitude and dedication to learn Mandarin Chinese, and to bring the most promising of these to the PRC on Hanban scholarships. In 2018, according to Uruguay's Agency for International Cooperation, the PRC provided 82 scholarships to Uruguayan students for study in China, far more than any other foreign partner.

Beyond the PRC-sponsored Confucius Institute, Uruguay has China studies resources within the international studies program at Ort University and through various private organizations.

By contrast to some Latin American countries such as Peru and Panama, Uruguay has experienced very limited Chinese migration, which in other countries has served as a vehicle for building commercial ties. Presently, there is a small Chinese community living in Uruguay, estimated at 300

people, making it one of the few countries in the region without a Chinatown or notable quantities of Chinese supermarkets.

COVID-19 Diplomacy

From the beginning of the COVID-19 pandemic, the PRC has bolstered its relationship with the center-right Nationalist government in Uruguay through its virus diplomacy. By July 2020, the PRC had sent 900,000 masks, 8,600 units of protective equipment, 21,120 test kits, and five ventilators to the South American nation.

Although Uruguay was not a site for Chinese vaccine testing, as were Brazil, Peru, and Argentina, the Uruguayan government experienced difficulties in its early negotiations for a vaccine from Pfizer and the COVAX facility. In the end, Uruguay was able to secure a commitment through negotiations from the Office of the Presidency for a relatively early shipment of vaccines from the PRC. The first 192,000 doses of the Chinese Sinovac vaccine arrived in February 2021, fulfilling an urgent need in the government's vaccination campaign.

Thanks in part to its receipt of the Sinovac vaccine, Uruguay has positioned itself as a regional leader in vaccinating its population, behind only Chile. The Pan American Health Organization reported that Uruguay had completed vaccination of approximately 35 percent of its population as of early June 2021, with approximately three-quarters of those vaccines coming from Sinovac, with Pfizer and AstraZeneca making up the rest.

The positive effect of the Chinese vaccines on the orientation of the Lacalle Pou government was reflected in the president's previously noted warm rhetoric toward the Chinese over the vaccine, and his declaration that his government was ready to upgrade its health cooperation with the PRC.

Although Uruguay has not purchased significant quantities of military goods from the PRC—as have leftist populist countries such as Venezuela, Ecuador, and Bolivia—Uruguay has cooperated more extensively with the PRC in the security arena than is commonly recognized.

Reflecting, in part, the long-term substantial underfunding of the Uruguayan Armed Forces, its military and police have accepted substantial donations of cars, buses, and other dual-use vehicles from the PRC.

The basis for the current expanding Uruguay-PRC security cooperation was a defense cooperation agreement between the two nations in October 2016, ratified in January 2017 by Uruguay's Congress. Prior to the accord, the PRC donated an estimated \$7.5 million in trucks, tents, water facilities, and other goods to Uruguay. The new agreement created the basis for a January 2018 commitment for \$5 million in Chinese military goods. Pursuant to that agreement, the PRC delivered 10 IVECO Nanjing ambulances, six buses, and various types of construction equipment for Uruguay military engineers in March, including five graders and 14 tractors. China has also provided the Uruguayan Ministry of National Defense with everything from Chery automobiles to bulletproof vests.

Beyond donations, the PRC has also proposed selling Uruguay its L-15 fighter and other equipment to support a badly needed recapitalization of the country's Air Force. In 2016, the PRC hosted Uruguayan military officers to test fly its L-15 fighter and Z-9 helicopter. The sale was reportedly impeded both by the grave financial position of the Uruguayan Armed Forces, and the fact that Russian offers of the Yak-130 were more appealing. The PRC had also offered to donate two Y-12 transports but ended up directing those to Colombia instead.

On the naval side, the PRC has reportedly discussed selling Uruguay its P-

Nigeria in 2016. As with PRC arms sales to Bolivia and Peru, some of its dealings in Uruguay have been tainted by corruption. A \$450,000 contract for the purchase of 150 NORINCO rifles (a Chinese copy of the U.S. M4), for example, was subject to an investigation for price inflation when the arms themselves were valued at only \$362,000.

Many Uruguayan officers have participated in Chinese defense courses, including short courses at its National Defense University in Champing, as well as longer general staff courses in Nanjing.

Uruguayan and Chinese defense officials have visited each other's institutions on multiple occasions. In November 2018, the head of Uruguay's Air Force traveled to the PRC to speak at the Air China conference in Zuhai. The same month, the head of Uruguay's Northern Command, LTG Juan Carlos Henriquez Barrera, engaged with his Chinese colleagues at the China-Latin America defense cooperation forum in Chile. In September 2019, Chinese Defense Minister Wei Fenghe visited Uruguay, signing an agreement of cooperation regarding defense materiel.

Security cooperation with the PRC also extends to the national police. In 2017, the PRC agreed to provide the police with 51 Chery Tiggo armored vehicles, the first 30 of which arrived in July 2017. The vehicles were given to the Republic Guard of the national police, but due to a lack of major confrontations with rioters or narcotraffickers, have not yet been used significantly. As with the contract for the Chinese Norinco-made rifles, however, delivery of the last six of the vehicles was cancelled in 2020 due to price-inflation related irregularities. The PRC also donated two Marcopolo omnibuses and 10 armored trucks to the police.

Beyond vehicles, in April 2018, the PRC provided the police with 4,000 surveillance system components, valued at \$5 million, of which 2,100 were

installed in three departments on the Brazilian border, with other equipment going to the Uruguayan National Response Center in Montevideo in support of a [national response system](#). Beyond support to Uruguay's police, the PRC donated 743 items to the [country's emergency system SINAE](#) in November 2017, including equipment for firefighting and other items such as computers.

Conclusions

Uruguay's pattern of substantial trade with the PRC—coupled with only limited investment—reflects the country's relatively strong institutions while contrasting with the pattern seen in other nations in the region. Nonetheless, the PRC's level of engagement and potential influence in Uruguay's agricultural, telecommunications, security, and public health sectors is considerable and merits monitoring.

As neighboring countries such as Argentina tilt toward the populist left and a more benign view of relations with China, Uruguay exemplifies a combination of strong democratic institutions and a relatively transparent relationship with the PRC. The United States should emphasize Uruguay as an example as Washington engages with other countries in Latin America.

Evan Ellis is Latin America Research Professor with the U.S. Army War College. The views expressed herein are strictly his own. The author thanks Dr. Ignacio Bartesaghi, Daniel Piriz, Rosario Rodriguez, and Yuri Gramajo, among others, for their important contributions to this work.

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