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## ***Small is Beautiful—Uruguay’s Competitive Advantage***

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Economist E.F. Schumacher’s 1973 opus *Small is Beautiful* advocates for small, appropriate technologies that are believed to empower people above a “bigger is better” philosophy of economic development.

The advantages of bigness are obvious—among them large producer/labor and consumer markets, economies of scope and scale, broader sources of financing and attractiveness for domestic and foreign investment. Ironically, while bigness possesses inherent advantages for exporting, large countries such as the U.S. and Brazil have *less* incentive to export—11.9%, export to GDP in the former and 12.6% in the latter—due to their large internal markets.

While smallness may appear to be a disadvantage for competing in the global economy, that is not the case. In *Small Firms, Global Markets*, Jörg Meyer-Stamer and I make the case with worldwide examples of how small size is no hindrance to the competitive prowess of an enterprise. Small countries with good infrastructure, high levels of education, outward orientation (trade), geographically well-positioned, prudent economic policies, pro-investment architecture, all exhibit sustainable advantages. For example, Denmark, Estonia, Singapore, Costa Rica, Hong Kong, Finland and Israel all have populations smaller than the Chicago Metropolitan area.

Uruguay must be included in the group; for in the Americas the nation truly stands out as a case where a country need not be the size of Brazil, Mexico, Colombia or Argentina to succeed in the global economy.

The secret ingredients of Uruguay’s success are not so secret: “fundamentals,” technology entrepreneurship, logistics and services, and government support of enterprise. To begin with there are the *fundamentals*. The nation is an egalitarian society with high income per capita, low level of inequality, the largest middle class in Latin America (over 60% of its population) and a highly educated population. According to the World Bank’s Human Opportunity Index, Uruguay has managed to attain a high level of equal opportunity in terms of access to basic services such as education, running water, electricity and sanitation.

In terms of *technology entrepreneurship*, KPMG ranks Uruguay #4 worldwide in IT infrastructure. The nation’s IT industry has grown to nearly \$1.5 billion with more than 700 technology exporting software across 52 different markets. Uruguay remains the leading software exporter per capita in

South America and third worldwide. The nation's embrace of technology is embodied in its 2008 adoption of the One Laptop per Child Program aimed at bringing computing to the developing world.

Uruguay's entrepreneurship scene is dynamic and growing. The country's gaming studios are world-renowned. The ecosystem hosts meetups, such as TestingUy, Remote Workers Montevideo, and Montevideo Python Meeting Group. Start-ups include InfoCases, an online real estate marketplace; Feng Office, collaboration software to boost group productivity; and MVDtrading for financial services. Accelerators and incubators dot the landscape; and in 2017, with the support of several public institutes, San Francisco-based 500 Startups developed the Montevideo Accelerator Program, a six week intensive program for 20 hand selected startups.

As for *logistics and services*, these are two of Uruguay's most competitive capabilities. The country's strategy has been successful, and the nation is now recognized by multinational firms as an innovative global services and distribution hub in Latin America, with these companies capitalizing on location, human capital, and financial incentives. For example, Uruguay's strategic location offers easy access to major business and industrial centers in the region. Approximately 70% of Brazil's, 60% of Argentina's and 56% of Chile's GDP is generated in the area surrounding Uruguayan territory.

A special strength of Uruguay is its 11 free zones where over 1,200 companies operate and are exempted from all taxes such as net income tax, VAT, customs duties and property taxes. The nation's call centers (half the call centers of American airlines are located in the country) along with centers for shared services, procurement, trading and R&D are expanding so global firms can enhance their efficiency and profitability.

Finally, in terms of *government support*, the National Agency for Investigation and Innovation (ANII) is a government entity that promotes research and the application of new knowledge and makes awards to public and private entities. ANDE is a government unit that promotes economic development throughout Uruguay and through its Validation of Business Ideas (VIN) program assists entrepreneurs in the validation process of a business idea or product. Finally, Semilla (Seed) ANDE is a government program that offers non-reimbursable contributions to startups and other rapidly growing companies.

Multilateral organizations also provide support to enhance Uruguay's competitiveness. For example, the Inter-American Development Bank approved a \$100 million Conditional Credit Line for Investment Projects to strengthen corporate productivity in Uruguay by fostering innovation, entrepreneurship, research, and human capital.

Looking ahead, Uruguay's economic growth has remained positive even in 2017 and 2018, in spite of recessions experienced by Argentina and Brazil. Its projected GDP for 2020 is 2.4% with 2.7% projected for 2023. Trade liberalization, reduced tariffs and import restrictions, and a trade surplus of over \$1 billion make Uruguay well-positioned to take advantage of international business opportunities regardless of volatility in the global economy. For firms, tax benefits and government incentives are generous, including 100% exemption of income tax on revenues from exports of software and related services. The nation ranks well in measures such as starting a business,

obtaining credit and resolving insolvency. On the other hand, the country performs poorly when it comes to companies obtaining credit, registering property, paying taxes, and enforcing contracts.

Within today's global economy, Uruguay's assets far outweigh its few liabilities. It is unquestionably one of the brightest spots in the Hemisphere for doing business. Most importantly, the nation illustrates that bigger is not necessarily better; for in today's hyper-competitive landscape, smallness (especially when wedded to location, infrastructure, technology and human capital) can provide speed and agility—at both the national and firm levels—in challenging (and matching) one's competitors.

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