Uruguay is a market-oriented economy in which the State still plays a significant role. It became a high-income country by World Bank standards in 2012. Adjusted by purchasing power parity, Uruguay’s per capita GDP is the highest in South America, but still about one-third of the United States. Uruguay has the most equal income distribution in Latin America, and strong social indicators by regional standards. Transparency International ranks it as the most transparent country in Latin America, and the Economist Intelligence Unit ranks it as one of only two full democracies in the region.

The economy experienced its longest growth period from 2004-2014 (5.4% annual average growth), led by an international commodity boom at the time, low interest rates, and strong capital inflows. Since then, Uruguay weathered the Argentine and Brazilian economic downturns but growth decelerated significantly 2015-2019. In 2020, COVID-19 threw the economy into recession for the first time in two decades. GDP fell 5.9% in 2020, with a strong negative impact on unemployment and poverty. The government thinks the worst of the crisis is over and expects 3.5% growth for 2021.

Short-term domestic challenges include increasing employment, curbing the budget deficit, and grappling with inflation. Medium-to-long-term challenges include fostering productivity and competitiveness, as well as improving education and infrastructure.

Uruguay provides significant incentives to local and foreign investors. It treats foreign and national investors alike, provides free remittance of capital and profits, and allows most investments without prior authorization. Domestic investment and foreign direct investment (FDI), which have been traditionally low, increased significantly during the economic boom but have flagged since then. Reacting to COVID-19, in October 2020, the government announced tax breaks for investments to stimulate investment and employment.

Local authorities report that with an investment flow of USD 1.3 billion, the United States was the largest foreign direct investor in Uruguay in 2019, with an accumulated USD 3.6 billion stock. About 120 U.S. companies employ over twenty-thousand people. Several U.S. firms warehouse their products in some of Uruguay's eleven free trade zones to service their clients.

Imports from the United States have risen following past robust economic growth. The U.S. is currently Uruguay’s 4th largest supplier of goods, and its 3rd largest export destination. The U.S. is a major buyer of services, especially IT. In 2019, it bought almost three-quarters of Uruguay’s IT exports, equivalent to USD 655 million, surpassing its purchases of goods.

Uruguay has bilateral investment treaties with several countries, including with the U.S. Uruguay and the U.S. also have agreements on Open Skies, Science and Technology, Promotion of Small and Medium Enterprises, and Customs Mutual Assistance. A Trade and Investment Framework Agreement signed in 2007 provides the basis for the bilateral economic and commercial relationship. Because of Uruguay’s “high-income” status, it is ineligible for most U.S. assistance and financing programs.

Uruguay is a founding member of MERCOSUR, the Southern Cone trading bloc that also includes Argentina, Brazil, and Paraguay (the bloc suspended Venezuela in 2017). Montevideo hosts the MERCOSUR Secretariat and Parliament. Uruguay has trade agreements with most countries in South America and Mexico, which provide for comprehensive free trade of goods and other trade matters. Uruguay’s strategic location and special import regimes make it an effective distribution center for U.S. goods into the region. Uruguay is also a good place to test U.S. products with a view to exporting them to the region.

While Argentina and Brazil remain key partners, Uruguay has gradually reduced its longstanding dependency on the region and increased its relationship with China, its principal trading partner. China accounts for roughly one-fourth of Uruguay’s goods exports, primarily in soy, beef, and wood pulp. Uruguay was the first country in the Southern Cone to join China’s One Belt One Road initiative in 2018, and in 2020 it joined the Asian Infrastructure Investment Bank.