Is Uruguay a *New World* country? A comparative study against Argentina, Australia, Chile, New Zealand, South Africa and United States

Felipe Bastarrica
febastar@correo.ucu.edu.uy
Department of Economics, Universidad Católica del Uruguay

Abstract
The structure of the global wine industry has changed dramatically during the past decades. On the supply side there have been changes in production methods, organizational structure, research intensity and organization, institutions, technology, competitiveness and trade integration, while the change in consumption patterns has modified the global demand. This revolution was ignited by the so called *New World* producers (i.e. non-European) in the 70s and has endangered the *Old World* (European) world wine hegemony. Despite *Old World* producers remaining to be the top industry players worldwide in terms of production, exports and consumption, the new entrants have significantly increased their market share and value of exports, even in medium-high quality segments, and have overtaken *Old World* producers in some key markets.

In spite of considerable efforts to position Uruguay as a recognized world wine producer, it is not often listed among key *New World* producers in the international literature. This research piece analyzes the perception of a panel of eight experts of the Uruguayan vitiviniculture industry (four of the most important wineries and four leading research and promotion institutions), about its competitiveness compared to a panel of six recognized *New World* countries: Australia, Argentina, Chile, New Zealand, South Africa and United States. The survey included twenty five questions divided into four factors: natural and biological, production and technological, institutional and political, and specific. The local experts were asked to score sub-factors on a scale from 1 (lowest) to 7 (highest) for each country according to the World Economic Forum’s Competitiveness methodology. The average score for Uruguay was below the *New World* average across all four factors and thus overall, mainly due to unfavorable climatic conditions, expensive talent pool and production
costs, and the lack of trade agreements, direct incentives, collaborative actions and partnering activities.

In order to measure the effect of the competitiveness problem on Uruguay’s trade integration, a set of quantitative production and commercial indicators were analyzed and contrasted against the selected *New World* producers. The outcome suggests that Uruguay lags behind the peer group benchmarked against due to low wine production, grape plantations, exports, exported unit value, and the lack of revealed comparative advantages, among other. The argument of lacking economies of scale often cited as a disadvantage of the Uruguayan wine industry was refuted by comparing Uruguay against New Zealand, a fairly similar country in terms of size, population, and climate. The APAC island presented a relatively similar scenario in the 80s and managed to skyrocket its wine industry.

This paper also describes briefly the cluster approach and export-orientation of the *New World*. Paradoxically, Uruguay is focused on the domestic market (unlike Australia, Chile, New Zealand and South Africa) despite its size (unlike Argentina and US), and does not count with the support of an innovative cluster (unlike Argentina, Australia, New Zealand and US).

A low perceived competitiveness, failed trade integration, and a set of old-fashioned protectionist public and semi-public policies which distort the domestic market present a gloomy and uncertain future for the Uruguayan wine industry.