

The Economic Impact of the Forest Sector in Uruguay

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Abstract

Uruguay is a small country located in South America between Argentina and Brazil. Traditionally, the main economic activity was the agriculture; however, in the past two decades the service sector has been growing. Currently, a new sector is rapidly increasing its participation in the economy: the forest sector. This presents an opportunity to attract new investments and develop the country's industrial sector that is slowly recovering from a previous crisis.

The Uruguayan Forest sector has been developed under the Forestry Law 15.939 approved in 1987. The Law created subsidies and tax exonerations for plantations and forest- industries initiatives.

Several analyses have examined impacts of individual forest industry firms on the national economy, but no one has examined the impacts of the whole forest sector. This research project will attempt to determine the effects of the two most important forest value chains in the Uruguayan economy. By using an Input-Output model, the Economic Impacts of the Forest Sector in Uruguay are estimated. The total impacts are divided into three components: direct impacts (the value of the resources brought into the national economy, e.g., increase the manufacturing output); indirect impacts (impacts from recirculation of resources resulting from forestry firms purchases from other firms, e.g., increase employment in transport sector); and induced impacts (they result from activities in the household sector, e.g., the wages paid to the transport employees are spent in the economy to household consumption and it creates economic activity). Forest production is increasing, and it would be mostly exported. Forest products exports have been increasing since 2002, but they still accounts for 5% of total exports.