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Paraguayan Government, Business Leaders Encourage More Investments From Already Economically Dominant Brazil

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Brazil has seen its economic preeminence over Paraguay strengthened this year thanks to an unusual offer extended by Paraguayan President Horacio Cartes and the launch of a series of infrastructure products aimed at increasing capital influx.

In February, Cartes encouraged a group of visiting Brazilian business executives to "think of my Paraguay as a beautiful woman." He then invited his 170 guests to "use and abuse my country" (NotiSur, May 2, 2014). The president’s odd overture provoked indignation across the political board in Paraguay, but it was music to the ears of the would-be investors. "We have never been welcomed anywhere with the kind of generosity shown to us by President Cartes," the head of the Brazilian delegation, Edson Campagnolo, was quoted as saying by the DPA news agency.

The president of the Unión Industrial Paraguaya (UIP) Eduardo Felippo was also on hand at the event. Speaking about the various advantages Paraguay offers outside investors, the trade-association leader acknowledged certain "deficient aspects" to the country’s infrastructure. He promised, nevertheless, that "the government is determined to fix [the problem] right away."

That same day, Feb. 18, the Ministerio de Obras Públicas took a first step toward realizing that promise by announcing it would accept bids to carry out US$7.5 billion worth of improvements in the next four years on roads, airports, and the electricity distribution network. Some of that money will also go toward upgrading the country’s two principal waterways, the Paraguay and Paraná rivers, so that they can be used to ship export products—at a relatively low cost compared with land transport—to ports in Argentina and Uruguay.

Work began in June on several of the projects Felippo announced. Builders broke ground on a second international bridge over the Río Paraná. Workers have also begun dredging the Paraná and Paraguay rivers—a vital step toward making the waterways more operable—and laying a stretch of highway between the towns of Carmelo Peralta, in Paraguay, and Puerto Murtinho, in Brazil. The road construction is part of a larger multilateral project to establish a cross-continental route connecting the Atlantic and Pacific oceans.

Comparative advantages

In their effort to attract Brazilian companies and capital, Paraguay’s government and business leaders highlight the various perks and advantages their country offers. They have focused in particular on trying to seduce industries that require large numbers of workers and large amounts of electricity, two things that are both cheap and abundant in Paraguay. Felippo has also pointed out the various tax incentives Paraguay uses to encourage the establishment of export-oriented assembly plants known as maquilas. The strategy was inspired by the approach Mexico uses—within the context of the North American Free Trade Agreement (NAFTA)—to attract US companies and investors.
The UIP also noted in one public document that, "although there is little difference in salary costs, the taxes, social benefits, and health insurance that Brazilian workers receive make them 96% more expensive than [workers] in Paraguay," which offers little in the way of labor protection. The trade association also pointed out that the majority of Paraguay's export products enter the EU duty free. Brazil, in contrast, lost that privilege when authorities in Brussels, Belgium, the EU's de facto capital, determined it had reached a medium level of development. Another comparative advantage Paraguay offers is its juvenile employment law (Ley de Empleo Juvenil), enacted in June 2013. Billed as way to provide young people with more "training" opportunities, the law allows employers to pay juveniles just 60% of the national minimum salary and to sign them to short-term contracts, thus denying them access to the benefits of a stable work situation.

**Complementing interests?**

Many are curious to know why Paraguay's business leaders are so bent on encouraging an influx of large Brazilian companies against which they cannot expect to compete. In a study done for the Consejo Latinoamericano de Ciencias Sociales (CLACSO), an Argentina-based research center, Paraguayan political scientist Cecilia Vuyk explained that the maquila-promotion model fosters a kind of Brazilian economic annexation. "[Brazilian companies] extract our country's labor force to produce and export inputs needed for their monopolies," she wrote. Vuyk went on to explain that the "interests of both bourgeoises complement each other, since the earnings of the Paraguayan bourgeoisie depend on the earnings of the Brazilian bourgeoisie."

Brazil, the researcher noted, receives approximately 20% of all Paraguayan exports, making it Paraguay's primary export destination. Those transactions are not limited to Brazilian companies alone. In 2011, the Japanese multinational Fujikura embraced the maquila model by setting up a plant in Ciudad del Este, a Paraguayan border city, to produce wiring for use in Brazilian automobile factories.

Vuyk's CLACSO study, published in December 2013, also looked at the growing influence of Brazilian capital in Paraguay's agriculture (meat and grains) sector. Paraguay's top export products are meat and soy. Vuyk found that, in 2008, Brazilian investors already controlled 42% of the country's meat production. Since then they have acquired the country's principal refrigerated beef-processing operations—a pattern that is also playing out in Uruguay—and increased their overall market share to roughly 60%. Late last year, the Asunción daily Última Hora offered an even higher estimate (67%) of Brazilian involvement in Paraguay's US$2 billion-a-year meat business. In the case of soy, there are no concrete figures, though it is estimated that planters known as Brasiguayos—people of Brazilian origin who have acquired Paraguayan nationality (NotiSur, Feb. 17, 2012)—produce roughly 80% of the country's total output.

**Major power imbalance**

Energy is another area in which Brazil has long enjoyed advantages over its much smaller neighbor. The two countries co-own the massive Itaipú hydroelectric complex—the largest in the western world. The partnership, however, is hardly a balanced one, since Brazil has nearly full control of the electricity produced there. Brazil uses approximately 84,000 gigawatt hours (GWh) per year. Paraguay uses less than one-tenth that amount (8,000 GWh) per year.

The treaty the two countries signed upon developing the binational facility dates back to 1973, when Brazil and Paraguay were both governed by dictatorial regimes. The terms of the deal assure
the Brazilian state financial, political, and military control of the complex. The treaty has not been modified by the democratic governments that have since taken power in the two countries. Among other things, the deal obliges Paraguay—which is supposedly entitled to 50% of Itaipú’s electricity—to cede whatever energy it does not consume to Brazil. In exchange, Brazil pays the Paraguayan state a "compensation," which is always less than the market value of the electricity in question. The treaty also obliges Paraguay to accept Brazilian military presence in its territory should a situation arise that threatens the complex’s security.

When he assumed leadership of Paraguay in 2008, progressive President Fernando Lugo (2008-2012) began negotiations with his Brazilian friend and counterpart President Luiz Inácio Lula da Silva to revisit the Itaipú treaty and make it more balanced (NotiSur, Nov. 7, 2008). Lugo imagined that fixing a fairer price for the energy Paraguay hands over to Brazil would allow him to gather funds needed to implement an agrarian-reform program he had promised his country’s campesinos. His efforts failed to produce any advances, leaving Paraguay with no choice but to wait until 2023—when the original treaty expires—before it can begin exporting that energy at market prices and share it with the buyers of its choice rather than with the major industries in São Paulo, Brazil’s largest city.

Paraguayan in name only

Brazil’s economic dominance over Paraguay is also apparent in land ownership. "The most valuable land in eastern Paraguay’s border area is in the hands of Brazilian landowners and settlers and is mostly planted with soy," according to Vuyk. "Brazilians control 4,792,528 hectares of arable land [in Paraguay], equivalent to 11.78% of the entire national territory."

The situation has its roots in a 1963 decision by dictator Gen. Alfredo Stroessner (1954-1989), who modified the country’s 1940 Estatuto Agrario by lifting a ban on the sale to foreigners of land within 150 km of Paraguay’s borders.

The nearly 5 million ha mentioned above does not include Brasiguayo farms, which operate with large amounts of Brazilian capital but, from a legal standpoint, are considered Paraguayan owned. Taking that into consideration, Vuyk—basing her research in part on official government figures—concluded that Brazilian capital in reality controls more than 70% of Paraguay’s arable land.

Vuyk’s study included a detailed assessment of the Brasiguayos, a name applied to Brazilian settlers who were either born in Paraguay or migrated to the country and later became nationalized citizens. "Despite being legally Paraguayan, living in Paraguay, and operating under Paraguayan production rules, [Brasiguayos] see themselves as being part of a Brazilian community in Paraguay and maintain the language and Brazilian cultural traditions," she wrote.

"But what really marks the difference," the CLACSO researcher went on to say, "is that they flaunt their origins before the Paraguayan authorities, turning to the Brazilian authorities when they find themselves in conflict with Paraguayan institutions. They call on [Brazilian authorities] to intervene on their behalf because of their [status] as a community of Brazilian origin."

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