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Paraguay Pushes Maquila Model At The Expense Of Workers

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Lured by the generous treatment Paraguay offers maquiladora (assembly and manufacturing) companies willing to set up shop there, small and medium-scale Brazilian investors operating on behalf of their country’s industrial giants have come to play a major role in the local economy (NotiSur, July 18, 2014).

In August alone, according to government data, Paraguay received 17 maquiladora proposals representing US$52 million in total investments, or roughly US$3 million per project. The government (despite the relatively low dollar amounts involved) celebrated the news, saying it speaks to the success of its private-foreign-investment-promotion policies. But information published by Automotive Business, an auto industry Web site based in São Paulo, Brazil’s largest city and primary industrial center, makes it clear that what outside investors are really interested in are Paraguay’s tax incentives, low electricity costs, and plentiful supply of cheap and qualified labor.

The maquiladoras, in return, are supposed to create jobs and provide Paraguayan workers with valuable training. Industry numbers, however, suggest that the only real beneficiaries of the maquiladora model are the investors, Paraguayan analyst José Antonio Vera pointed out in a Sept. 18 article in the Uruguayan weekly Brecha.

Rolling out the red carpet

Automotive Business praises the high degree of labor flexibility in Paraguay, which passed a pair of laws—the Ley Maquila (in the late 1990s) and Ley de Inserción al Empleo Juvenil (introduced earlier this year)—that provide outside companies with a series of benefits based on the assumption that they will provide work opportunities and training. The companies are allowed, for example, to pay wages equivalent to just 60% of the minimum monthly salary; extend the trial period for new workers so as to avoid severance payments; scale back basic worker benefits and apply a reduced pensions scheme; and force employees to be multifunctional, meaning they must perform any task asked of them, all for the same salary.

The Brazilian Web site also notes that that companies enjoy a total tax exemption on the imported machinery and raw materials they use to set up their assembly-line operations. "And when they export the finished goods," the publication explains, "they only have to pay a 1% tariff on the declared value of the invoice."

The bulk of these exports supply the Brazilian automobile industry, which, in receiving the parts, is able to take advantage of a Southern Cone Common Market (MERCOSUR) regulation making products at least partially developed in the region tax- and tariff-free. To qualify for the exemption, at least 40% of a given product's inputs must come from MERCOSUR countries.

Another highly attractive feature for companies operating in Paraguay is the low cost of electricity: US$57 per megawatt hour (MWh) versus US$183 in Brazil, nearly 70% less. Paraguay has joint
ownership (in equal parts) of two binational hydroelectric complexes—Itaipú, with Brazil, and Yacyretá, with Argentina—and is entitled to half the energy the dams produce (NotiSur, June 19, 2009, and Nov. 1, 2013). As a result, Paraguay (which is much smaller than its power-plant partners) has a significant electricity surplus and can thus charge far lower power prices.

Government data suggest that the goals of the two laws are not being met and are instead costing the state revenue while forcing it to share bottom-line costs with investors. The Ministerio de Trabajo reports that the unemployment rate for youth remains above 11%, and, according to the Ministerio de Hacienda, maquiladoras contribute just 0.1% of the country’s overall tax revenue.

Congress approved the Ley de Inserción al Empleo Juvenil (youth-insertion law), also known as the Ley del Primer Empleo (first-job law), in June 2013. It took more than a year and a half, however, to be regulated and only went into effect this past February. Under the law, between 5% and 20% of the employees in any company must be young people between the ages of 18 and 29. In exchange, the companies receive the aforementioned benefits and are eligible for a "social responsibility" accreditation that improves their standing with the Dirección Nacional de Contrataciones Públicas, the government body in charge of public contracts.

The text established five legal arrangements regarding youth employment: work training, internships, work fellowships, first-employment contracts, and apprenticeship contracts. The law makes labor conditions more precarious for young people and obliges the state in some circumstances—with work fellowships, for example—to pay a percentage of the employee’s salary.

"These are subsidies to offset the payments made to each worker," said Labor Minister Guillermo Sosa. "They will allow business owners to reduce production costs." Sosa predicted that the measures would help create 1,500 new jobs per year.

"Deep-rooted desperation"

Paraguay has nearly 6.5 million residents, 56.6% of whom fall into the 18-to-29-year-old age group that the Ley del Primer Empleo is supposed to protect. An International Labour Organization (ILO) report made public last April noted that six of every 10 young people in Latin America and the Caribbean work in informal conditions. The report, titled "Promoting Formal Employment among Youth," signaled Paraguay, where between 70% and 80% of young people are in this kind of desperate situation, as one of the region’s six-worst countries in this regard, alongside Chile, Peru, Guatemala, Honduras, and El Salvador.

The UN agency does not believe laws like the one implemented in Paraguay are an effective solution to the problem. "In Latin America, the informal nature of youth employment is of greater concern than unemployment in that segment because it directly affects job quality and conditions," Elizabeth Tinoco, the ILO’s regional director, told the Spanish news agency EFE.

"The unemployment situation isn’t as dramatic [in Latin America] as it is in other regions," Tinoco went on to say. "But here there’s a hidden problem, informality, which generates perverse effects for the worker, who has no social security, pension plan, or access to microcredits and health programs"—precisely the things Paraguay’s youth-employment law fails to guarantee.

From the perspective of investors, those negative aspects of the law are a plus. But there’s another, less obvious factor in Paraguay that is perhaps even more favorable for companies: the difficulties workers there have forming unions to defend their interests.
Technically, Paraguayan workers enjoy freedom of association and the right to organize, as enshrined in various ILO declarations. But in practice, the government's disregard for those guarantees has allowed employers to all but do away with them. The situation is so dire that, in recent weeks, news has surfaced about a group of workers who decided to crucify themselves to draw attention to the situation.

In an article published last month by Brecha, journalist Daniel Gatti posed the following questions: "What could possibly explain why workers desperate to form a union would go so far as to crucify themselves—without any euphemism, exaggeration or metaphor? To nail themselves to a cross? To nail their mouths shut and, on top of that, go on a hunger strike, just so someone will pay attention to them?"

The answer, Juan Villalba, head of the Federación de Trabajadores del Transporte, told Gatti, is that "we're in Paraguay, and things in Paraguay are bad, really bad." Villalba was referring to the case of 24 transportation workers who have been nailed to crosses since June, some in front of the Ministerio de Trabajo; others in front of the company that fired 51 of their fellow workers for taking initial steps toward forming a union.

In late July, Labor Minister Sosa accused the workers of putting on a "show," dismissed their actions as illegal, and stated that "an employer has the right to fire whomever without having to explain anything to anyone." Several days later, a prosecutor charged the 24 crucified men for "the illegality of their actions."

"The story of what pushed a group of people to nail themselves to wooden crosses with palm-length spikes, to sew their lips together with curved 6 cm curved nails, and to stop eating almost seems banal," writes Gatti. And he quotes Francisco de Paula Oliva, an elderly Jesuit priest who has been supporting the workers, "Or at least not all that strange for a country where the absence of labor norms is the rule, unionism is punished, and business owners have no limits to their power."

A group of Spanish unionists from the Comisiones Obreras, Spain’s largest organized labor group, said after visiting the crucified Paraguayans that they didn’t understand the gesture but wouldn’t reproach it either. "Only a deep-rooted sense of desperation can explain something of this magnitude," one of Spanish visitors said. At first, he compared the crucified men to Syrian refugees throwing themselves into the sea. But he then corrected himself. "They’re equally desperate," he said. "But Syria is a country at war, and Paraguay no. In principle, there’s supposed to be a democracy here."

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