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Paraguayâ€™s President Highlights the Economy in Preparation for Re-Election Campaign

AndrÃ©s GaudÃn

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by Andrés Gaudín
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Given the meager achievements of the Paraguayan government's strategy to encourage foreign investment, President Horacio Cartes' administration has resumed efforts to show any economic improvement before the end of its mandate in August 2018. It needs to do so in order to validate Cartes' move into politics after a successful business career, and above all, to tackle a reelection campaign—if he manages to get the constitutional reform that would allow him to seek a second term (NotiSur, Dec. 9, 2016).

The Cartes administration closed 2016 with a diplomatic coup when—with help from right-leaning new governments in Argentina (elected democratically) and Brazil (via controversial use of a constitutional provision)—it achieved its ambitious goal of excluding Venezuela from the Mercado Común del Sur (MERCOSUR) (NotiSur, Jan. 29, 2016, Sept. 9, 2016, Feb. 3, 2017). This was the first step toward allowing MERCOSUR to pursue an agreement with the Alianza del Pacífico (Pacific Alliance) without having to deal with obstacles imposed by Venezuela.

Courting the US, Dubai, and Europe

In its search for capital in and beyond the region, Paraguay signed a framework agreement with the US during former President Barack Obama's last week in office to promote a positive investment climate and diversify bilateral trade of goods and services. Paraguay also awakened the interest of capitalists in the powerful Arab emirate of Dubai, although that has yet to bear any fruit. Then, using initiatives begun by neighboring Bolivia, it embraced the idea of building a binational railroad financed by Germany and Switzerland that, if realized, would connect South America's interior with a network of waterways that would give Paraguay access to Argentina's and Uruguay's maritime ports (NotiSur, Oct. 14, 2016). And on March 20-21, Paraguay will host the III Paraguay-Europe Investment Forum in Asunción.

Since taking office in August 2013, Cartes has been able to perfect legislation that allows it to present the country, in the words of Minister of Industry and Commerce Gustavo Leite, as "America's factory." Speaking to a Spanish trade mission, Leite told visiting businessmen, "Come with your eyes closed; Paraguay can be the China of Latin America."

To reach that goal, the country offers a tempting franchise package that includes low taxes, fiscal benefits for investments that can go as far as total tax exemption, a law that fully regulates an export maquiladora regime, the region's most generous tax-free zones, and legislation on public-private associations (PPAs) that allow private investment in public works. Another factor the Paraguayan authorities don't point out, but that visiting businessmen mention as an advantage in the context of the country's poverty, is a young, abundant, and cheap workforce.

"Our people are not afraid of 14-hour days in 41-degree Celsius temperatures," Minister Leite told the Uruguayan daily El Observador.

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When traveling abroad and making international presentations, or when receiving business delegations at home, Cartes' discourse is attractive for potential investors but rejected by his opponents and repudiated by women's groups in Paraguay and abroad, which have labeled him a "sick misogynist."

Cartes presents Paraguay as "the country of the triple 10: 10% personal income tax; 10% business tax; and 10% value added tax." He always repeats the phrase and then adds that Paraguay is a country open to everything. In October 2013, two months after assuming the presidency, he visited the MERCOSUR countries (Argentina, Brazil, and Uruguay) except for Venezuela, and in each one, he defined his country with a phrase that shocked various audiences, in which there were as many women as men: "Paraguay," he said, "is easy, like a pretty woman. Look at her and take her."

When, in February 2014, he received a delegation of businessmen from Brazil's Confederação Nacional da Indústria in Asunción, he spoke in Portuguese so as to avoid any interpreting errors. Translated to English, he said: "Use and abuse Paraguay, because it's really an unbelievable moment of opportunity."

Maquiladora and joint ventures promoted

Although the package of measures is conceived as a whole, the government presents its maquiladora and PPA laws as its two most attractive items.

In Paraguay, as in Mexico and Southeast Asia, maquiladoras are known for their ability to attract direct investment and generate precarious work conditions, journalist Mariana Cianelli wrote in the Jan. 5 issue of the Montevideo weekly Brecha. It is a system of production in which companies set up shop in a country to produce goods and services for export. Since the beginning of the century, the Brazilian state itself has financed the installation of its companies on Paraguayan soil to produce what parent companies need, the auto parts industry being an emblematic case. The main attraction for companies is that they are exempt from paying taxes on the production process. The maquiladora operations are taxed only 1% of the value added to the product within Paraguayan territory.

"The maquila regime operates as a real violation machine for workers' rights," the workers' union Central Unitaria de Trabajadores Auténtica (CUT-A) complained. "The goal is to benefit capital in exchange for rapid job creation. However, once the worker enters the system, he does not receive the legal minimum salary (US$350 in Paraguay), has no benefits, and cannot unionize."

The Paraguayan plan has had strong repercussions in the region, particularly in Uruguay, which is small economically speaking and where even minimal operations can throw the market off balance. According to the Banco Central de Paraguay (BCP), accumulated Uruguayan investment in Paraguay between 2010 and 2015 is US$90 million. In relative terms, it represents 2% of the direct foreign investment in Paraguay and ranks 12th in a list of countries headed by the US (26%) and Brazil (19%). To have an idea of the weight these US$90 million have on the Uruguayan economy, and hence the government's concern, it is useful to look at per capita investment (investment in relation to a country's population): By that measure, Uruguay ranks third, after Luxemburg and Panama. In 2016, 17 Uruguayan firms set up in Paraguay (many of them shutting down their activities in Uruguay) in order to operate in the fields of agriculture, information technology, real estate development, gastronomy, and the media, as well as in the construction, clothing, and fashion industries.

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Federico Perazza, Uruguay's ambassador to Paraguay, told Brecha that although maquiladoras have become the main incentive for direct foreign investment, Paraguay had not reached its stated objectives. According to official figures, the system employed some 11,500 people directly and another 4,500 indirectly through 2016. Maquiladoras account for barely 0.5% of Paraguay's economically active population (EAP) of 3.2 million. Statistics from the Paraguay Central Bank show that in 2016, exports via this route totaled only US$301 million. Of the 124 companies opting for this kind of investment, 84 were from Brazil, representing auto parts, agriculture and animal husbandry, construction, clothing, textiles, shoes, information technology and call centers, plastics, wood, and process foods.

A few weeks after taking office, Cartes got Congress to endorse Law 5.102 of the PPA. He presented it as a vital tool to attract private investment and thus overcome the infrastructure deficit that put Paraguay among the 10 countries with the lowest physical development in the region. The idea was to "re-capitalize" the country, but it failed.

Today, nearly three years after the law was approved, the first project, the 332-km extension of the route between Asunción and Ciudad del Este—the country's second largest city, situated on the border with Argentina and Brazil—has just been launched. Awarded to a consortium that includes the Spanish firm Sacyr, Mota Engil of Portugal, and Ocho A of Paraguay, the project will cost US$520 million, the money to be recovered, along with a profit, through toll fees over a 30-year-period. The second PPA project, the expansion of Asuncion's international airport, is paralyzed by the actions of an Uruguayan consortium that charged favoritism on behalf of Sacyr and Ocho A, a company owned by the family of Ramón Jiménez Gaona, a former athlete and businessman who, coincidentally, is Cartes' minister of public works.

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