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Paraguay's Outgoing President Draws Scant Political Benefits from Pro-Investor Laws

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When he took office as president of Paraguay in 2013, Horacio Cartes began putting together a collection of laws and regulations with which he hoped to industrialize the country, tame its chronic unemployment problem, and launch major infrastructure projects that would encourage economic growth. Those accomplishments, he reasoned, would then allow him to seek and win a second term and thus stay on as president until 2023.

But with the presidential elections now just five weeks away, few of his plans came to fruition, including his hope of running again (NotiSur, May 26, 2017), which ended with a reminder from the judiciary that the Constitution expressly prohibits reelection. Nor was he able to continue his crusade through an heir apparent, in this case his political disciple Santiago Peña, who lost an internal election in December for a chance to represent the governing Partido Colorado (Colorado Party, PC) in the elections scheduled for April 22 (NotiSur, Jan. 19, 2018).

Cartes pinned his hopes for an economic turnaround in Paraguay on new incentives and regulations for maquiladora (assembly and manufacturing) plants; a public-private partnership scheme called the Alianza Público Privada (APP) to develop infrastructure and create jobs; and legislation aimed at boosting youth employment.

Paraguay's laws regulating maquiladora activity date back to 1997, but they underwent changes in 2013 after Cartes took office (NotiSur, Oct. 16, 2015). The government and the business-sector association Unión Industrial Paraguaya (Paraguayan Industrial Union, UIP)—both eager to create partnerships with Brazilian investors—hail the model as "very good," because it was designed to resemble the Mexican maquiladora system, which is geared toward attracting US investments within the framework of the North American Free Trade Agreement (NAFTA). The changes introduced starting in 2013 focused on adapting the norms to the even laxer rules used in the Mercado Común del Sur (Southern Common Market, MERCOSUR) trade bloc, which ties Paraguay to Argentina, Brazil, Uruguay, and Venezuela (currently suspended).

The system guarantees low taxes and production costs for investors based on the idea that companies coming into Paraguay will boost state coffers, create jobs, and bring technology and technical-scientific knowhow. It also allows for the duty-free import of equipment and machinery and facilitates the subcontracting of local companies (which also benefit from the generous tax rules) to carry out partial or complementary activities. Little wonder that the UIP became one of the principal private voices championing the maquiladoras.

In many ways, though, the rules undermine many of the system's supposed benefits by allowing foreign investors to set up shop wherever they please (without having to follow government plans and locate their plants, for example, in designated development hubs), pocket the vast majority of their earnings (i.e. pay only minimal taxes and tariffs), and send all of that money back to their respective parent companies.

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Positive press

The opposition accused the Cartes administration of spending large amounts of money to promote its economic policies abroad, including through costly press campaigns in Brazilian and US media outlets. Indeed, starting in mid 2017, when Cartes still thought he could seek reelection, there was an uptick in favorable news articles that seemed to follow the same line of reasoning.

Brazilian media outlets such as RecordTV and the dailies O Estado de S. Paulo and Gazeta do Povo all highlighted the same six arguments for doing business in Paraguay: 1) the proximity to São Paulo, Brazil's industrial center; 2) the incentives offered; 3) "the social stability that has made Asunción the second safest capital city in South America after Montevideo, in Uruguay"; 4) inexpensive labor and energy costs; 5) a policy of repression that makes labor organization all but impossible, according to the UN's International Labor Organization; 6) the absence of the state when it comes to regulating labor relations.

On Aug. 26, 2017, The Wall Street Journal also took a turn singing the maquiladora system's praises. In an article titled "Brazil's Woes Multiply as Manufacturers Move to Paraguay," journalist Jeffrey T. Lewis spelled out how, in his opinion, Cartes' policies have influenced Paraguayan industrial development. "So far, 115 factories have opened up in Paraguay under the so-called maquila program, 89 of them since 2013, with another 20 preparing to start operations," he wrote.

Lewis then quoted Paraguay's minister of industry, Gustavo Leite, as saying, "Paraguay is the least developed country in MERCOSUR; we need to industrialize if we want to catch up." The journalist concluded by saying, "To be sure, Brazil, with thousands of factories and 65 times the economic power of tiny Paraguay, still dwarfs its neighbor. But for a small, landlocked country of nearly seven million people, the shift is significant, not least for the 13,000 people employed directly by the factories."

Dependence on Brazil

In statements to the state news agency Información Paraguay (IP), Ernesto Paredes, the secretary of the Consejo Nacional de las Industrias Maquiladoras (National Council of Maquiladora Industries), specified that exports had increased 10% last year due in large part to textiles, plastic products, and light auto parts (cable kits produced by five Brazilian firms for their respective parent companies, shock absorbers, and brake pads, among other items). The products together brought in about US $160 million and were sent primarily to Brazil.

"[The maquiladoras] breathed oxygen into Paraguayan industry, which needs to develop," said Óscar Stark, the deputy minister of industry. Citing numbers from the World Bank, the official noted that Paraguay ranks 99 out of 145 countries. "That's why the insertion of Brazilian industrial interests is so vital," he said.

The dependence on Brazil—evident also in agribusiness (16 of the 100 leading companies in the sector and more than half of the land in the wealthy border departments of Alto Paraná and Canindeyú belong to companies or landowners of Brazilian origin) (NotiSur, July 18, 2014)—has prompted many analysts to question why Paraguay would want to be even more aggressive in encouraging Brazilian industrial and agricultural interests with which it can't compete.

"Why would the Paraguayan state offer such generous treatment if, at the end of the day, the real beneficiaries in all this are the investors from the neighboring country?" This is the question posed

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by researchers from the Argentina-based Consejo Latinoamericano de Ciencias Sociales (Latin American Social Sciences Council, CLACSO).

In answer to the question, academics at CLACSO, a prestigious, non-nongovernmental entity, say, "Use of the maquiladora system results in a kind of Brazilian economic annexation via the extraction of the Paraguayan labor force to produce and export inputs for [Brazil's] monopolies." The "bourgeoisie" in both countries "complement each other," the researchers add, "in so far as earnings for the Paraguayan bourgeoisie are associated in a dependent way on the earnings of the Brazilian bourgeoisie."

More investor incentives

The APP, for its part, failed to generate much popular support. Critics call it "the most complete privatization project imposed on South America since the overwhelming introduction of economic neoliberalism in the last decade of the past century," and even investors have steered clear in large part.

The controversial law gives the executive branch, now headed by Cartes, special powers to privatize all public assets, services, and resources as it sees fit (NotiSur, Nov 1, 2013). It applies, as the law's text states plainly, to "infrastructure projects and the provision of services, including roadways, railroads, ports, airports, waterways, dredging, and the maintenance of river navigability; social and electric infrastructure; and urban improvement, equipment, and development projects. All this for periods of 30 years that can be extended to 40 years if, at the end of the original period, the companies say that they still haven't obtained sufficient returns."

As a complement to the aforementioned economic policies, investors can also take advantage of benefits provided by the so-called Youth Employment Law, or First Job Law, also approved in 2013 and applicable to people between 18 and 29 years of age—approximately 56.6% of a population of 6.5 million people.

Under the guise of "training," the legislation allows maquiladora owners to hire workers on short contracts and pay them just 60% of the minimum monthly salary. They can also extend worker trial periods and thus avoid paying severance. Employers are exempt from other worker-benefit payments as well, and can force employees to do any task they ask for the same minimal salary.

Already in 2015, the specialized website Automotive Business—linked to the Federação das Indústrias do Estado de São Paulo (São Paulo Industry Federation)—noted that in Paraguay, companies "will find cheap labor and energy costs, and for setting up assembly lines, they can import tax-free machinery and raw materials. When they export, they only have to pay a tariff of 1% on the declared value of the product, something no other country offers."

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