

The account that remains for later: the externalities of the Paraguayan rebirth¹

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Paraguay experiences the largest cycle of economic growth in its recent history. Economy with performance historically linked to the Brazilian economic performance, in 2013 its gross domestic product (GDP) grew 14.1%, while the Brazilian economy remained low, at 2.2%. To a large extent, this detachment is associated with the ease of doing business in Paraguay and the country's greater insertion in international trade.

Deepening trade relations and opening to foreign investments have boosted the Paraguayan economy. Contrary to speculative financial flows, openness to productive capital and to foreign direct investment, if well conducted, may increase the dynamism of the local economy. The benefits derive from the development of new supply chains, through the training of local labor force, technological transfer and efficiency and scale gains. In other words, productive investment can leverage the competitiveness of a sector or industry, bringing new comparative advantages.

However, the new reality does not deny the important challenges that must be overcome to achieve local development. Investments often have side effects, which economists call negative

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externalities. In less developed countries, institutional weaknesses favor the occurrence of social anomalies such as concentration of wealth and income, environmental degradation and disrespect for fundamental rights, triggering social conflicts.

Under this framework, would economic growth be leveraging Paraguayan welfare and sustainable development? Are foreign investments and greater international insertion benefiting the local population? How to build a new orientation in a society forged by old structural problems? This essay starts from these questions to analyze the recent growth in Paraguay. The case of "brasiguaios" soybean producers [Brazilian nationals investing and working in Paraguay] investments serves as a basis for the debate.

The Paraguayan spring

According to the World Bank, Paraguay presented the third largest economic growth in the world in 2013, totaling US\$ 30.5 billion in nominal GDP³. The economic activity is distributed in services (59%), in the sale of electricity from Itaipu and Yacyretá (7%), agriculture (16%) and industry (18%)⁴. With the fall of the harvest due to climatic effects in 2012, the country has experienced a period of economic recovery in 2013. Thereby, it has used surpluses from the exploitation of agricultural and energy commodities to leverage the manufacturing, infrastructure and rentier sector, such as the real state industry. According to the International Monetary Fund (IMF), Paraguayan GDP will close 2014 at 4.8%, and 4.5% in 2015 – the highest expectations for the Southern Cone⁵.

The attractiveness of the country is based on its production costs and the pragmatism of the regulatory environment. In relation to Brazil and Argentina, the country has low electricity costs, low tax burden, labor flexibility for obtaining permits and registrations and lower wages. “The tax burden is 50% cheaper than in Brazil and electric energy, 65%”, emphasizes the president of the Brazilian Nation Confederation of Industry (CNI)⁶. In the IFC/ World Bank international

³ See: <<http://datos.bancomundial.org/pais/paraguay>>.

⁴ Paraguay - Foreign Trade Report. Published February 2014. Trade Intelligence Division of the Ministry of Foreign Affairs. Brazil. Available in <www.mre.gov.br>.

⁵ State of São Paulo. Scenario for region is of uncertainties ahead. economy, B8. 04/05/2014.

⁶ Época. Robson Andrade: Paraguay is an opportunity. 01/04/2014. Available in: <www.epoca.globo.com.br>.

ranking, Paraguay ranks 109th among the easiest countries for doing business, ahead of Brazil (116th) and Argentina (126th)⁷.

The trade balance is sustained by the export of primary goods and by the re-exports. From 2009 to 2013, the flow of trade increased almost 200%, based on exports of soybeans (27%), electric energy (24%), meats (11%) and cereals, such as corn and wheat (8%)⁸. With low import tariffs, Paraguay is the gateway of manufactured goods, bound for Brazil and Argentina. Brazil remains the main trading partner, with 30% of exports, but the diversification of commercial partnerships with Russia and the Middle East has benefited the country. Still, the trade balance remains historically negative, closing 2013 with a deficit of US\$ 2.17 million⁹.

Sworn in 2013, the pro-business government of the President Horacio Cartes intends to stimulate the economy through foreign investment. While the Common Market of the South (Mercosul) drags down the negotiations with the Europe Union (EU), the Paraguayan government has advanced the understandings with the United States, in an agreement that would give commercial advantages to the country. Added to this, is the recent suspension by the EU of the tariff preferences granted to Brazil, since considering it as a medium-developing economy. This new trade context may convert Paraguay not only a re-export route to Brazil, but also a platform to produce higher value-added items for the US and European markets. In this way, the attractive conditions of Paraguay and the fall in competitiveness of Brazil and Argentina contribute to a strategy of regional productive chains integration. This is the context that the Cartes administration has used to “harass Brazilian industries”, pursuing to sell the country to new investors and trading partners¹⁰.

The Paraguayan economic spring reflects the new airs of the country’s political and economic orientation, as well as its stance in international trade. The stability consolidated by a liberal government and pro-investments, added to the competitiveness of production factors, has facilitated an increasing flow of investments in the country. Optimism is founded, but must be shared by all.

New airs and old problems

⁷ International Finance Corporation, 2014. Doing Business Index. Available in: <www.doingbusiness.org>.

⁸ MRE, 2014. Also.

⁹ MRE, 2014. Also.

¹⁰ Época, 2014. Also.

The opportunity for development that the momentum of dynamism and entrepreneurship can leverage, faces old structural problems of Paraguayan society. Although limited logistics and unprepared labor are constraining factors for investors, what really raises doubts is the new government's ability to maintain "legal security of investments" against the country's constant social instability and institutional weaknesses. Despite the good times, the country must overcome structural issues, sources of social inequality.

Paraguay has its social structure marked by the prevalence of economic oligarchies and traditional policies. In recent history, the National Republican Association (the Colorado Party) was in power from 1946 to 2008, resuming in 2013 with Cartes. Like the Liberal Party, an opposition political force, the Colorados are mostly made up of landowning family groups with a conservative inclination. In a rare moment of rupture, in 2008, former Bishop Fernando Lugo was taken to the presidency by the Patriotic Alliance for Change, with the support of a coalition of social movements and small parties and with the tenuous support of the Liberal Party. After being accused of stimulating violence against large landowners and being unable to manage conflicts in the countryside, in June 2012 he suffered a "constitutional coup" in unprecedented political judgment, uniting Colorados and Liberals. The concentration of political power, with state control, and the transfer of benefits to interest groups create the conditions for the perpetuation of inequalities.

Since land is the main wealth-generating capital, land concentration is the main vector of exclusion and social conflicts. Throughout the twentieth century, property titles were handed over by the state to its interest groups, national or foreign, deepening the process of land concentration. According to the 2008 census, 2% of the properties accounted for 85% of the land. Between 1991 and 2008, rural units up to 50 hectares had a 28% reduction, while the larger than 500 hectares had a 57% increase¹¹. To a large extent, smallholder and family-based agriculture (*campesinos*) and indigenous groups have had their land incorporated into agribusiness, migrating to the cities where they have worked in the informal economy.

With a fragile land registry system, many of the ceded areas rely on irregular occupations or with fraudulent documentation. In this environment of uncertainty, private property is guaranteed using private forces (*matones* - the henchman, private security guards of the ranchers) or by the

¹¹ Agricultural Census, 2008. Ministry of Agriculture and Livestock. Available in: <www.mag.gov.py>.

cooptation of the police apparatus, with often disastrous results. The combination of the absence of access to rights, with the purge of traditional populations, becomes the trigger for movements of resistance and struggle for land rights. Between 1990 and 2006, 980 land conflicts were registered, with 366 evictions and 7.346 arrests¹².

The patrimony-power relation has guaranteed a model in which productive activity perpetuates land concentration and social exclusion. Considering the agricultural activities, the entry of foreign investments, with the acquisition of large properties, can contribute to the deepening of a process of exclusion that, in the limit, has originated violence activities in the countryside.

Development dilemmas: the "brasiguia" soy

In a large extent, the expansion of soybean production and its complete insertion in the international market have enabled the growth of Paraguayan economy. Although the sector accounts for one third of Paraguay's GDP and has generated wealth over the years, it has also left scars with its social and environmental impacts.

With 2.7 million hectares of cultivated land, soybean production is the main export product of Paraguay. The country is the fourth largest exporter of soybeans in the world, with 60% of its production destined to Europe for livestock feed and biofuel production¹³. Brazil is also an important destination, using grain from Paraguay to regulate its own market. The internationalization of the sector also occurred through large international conglomerates, that supply inputs such as seeds, pesticides, fertilizers and agricultural machinery. Therefore, from foreign investments in the soybean production sector, the formation of complementary chains was observed, with new technologies and capacities being incorporated into the Paraguayan economy.

Soybean cultivation on large farms was stimulated by the State, from the frontier lands with Brazil. During the 1960s and 1980s, the Stroessner government offered "free lands" to German, Japanese, and especially Brazilian investors, with the goal of introducing mechanized agriculture in the country. Nowadays, 7,7 million hectares (32% of the arable land and 19% of the territory) correspond to the properties of foreigners. Of this parcel, the "brasiguaios" farmers represent

¹² BASE. NGO Reporter Brazil. Socio-environmental impacts of soybean in Paraguay - 2010. August 2010. Available in: <www.reporterbrasil.org.br>.

¹³ BASE,2010. Also.

60%¹⁴. The great majority came with the entrepreneurial spirit, eager to make wealth on a new frontier, often generating previously unknown social and environmental impacts.

Among the main social impacts of soybean cultivation, land concentration and agricultural practices stand out. The formation of large properties made traditional activities such as hunting and fishing impossible, and the family farming model for food production not feasible. In addition, high mechanization contributed little to generation of jobs in the countryside. Those who sold their lands migrated to the cities to survive in the exclusion of the peripheries and suburbs; those who have remained complain about the fragmentation of the local social fabric, the loss of cultural manifestations and health problems. The intense use of pesticides is considered to cause human intoxication in communities and contamination of soils and rivers, affecting local biodiversity.

In the process of soybean expansion, the environmental imbalance was associated to the soil use. In the upper Paraná basin, of the original eight million hectares of Atlantic Forest, only 10% is currently preserved. The soybean crop also contributes indirectly to deforestation, by pressing pasture lands towards the North, in the Chaco region. In addition to affecting biodiversity and the ability to provide environmental services, deforestation contributes to the erosion and sedimentation of rivers, significantly changes the microclimate and contributes to global warming. According to the 2000 inventory, 98% of the CO₂ emissions are related to changes in land use¹⁵.

Although, to a large extent, being responsible for the good moment experienced by the Paraguayan economy, the expansion of soybean left important marks for the country. In a political context of the 1970s and 1980s, where fundamental freedoms were curtailed, social and environmental impacts were not considered as externalities, nor even considered in the calculation. If, on the one hand, foreign capital leveraged productive activity in the countryside, enabled the industry and the services sector, on the other hand, it deepened a model inducing inequalities.

The model reform

¹⁴ Agricultural Census, 2008. Also.

¹⁵ See: <<http://www.dgeec.gov.py/newspaper/index74.php#nogo>>.

The recent economic growth will not be sufficient to transform Paraguay into just society and that guarantees well being to its population. New investments will certainly come, attracted by the competitiveness of production factors in industry and the countryside. Due to the level of insertion in international trade and integration in the South Cone, this capital will have the expected level of return guaranteed. What this wealth does not guarantee is the generation of income and, especially, access to rights and freedoms, conditions for development.

The exclusionary social structure model, based on the concentration of assets is, therefore, an important barrier to Paraguayan development. Land concentration and the direct relationship between land tenure and economic and political control are the source of conflicts and social anomalies also in cities, compromising the well being of society.

To think beyond, breaking with the model of exclusion, it is necessary that the Paraguayan State adopt a new posture. It will take the courage and dynamism that President Cartes has taken to the economic and commercial field to promote structural reforms that will allow Paraguay to seize the moment and put the country on the path of development for all.

By disregarding the social and environmental impacts in its model of integration, foreign investments of the agricultural monoculture have opened the scars of a society marked by its inequalities. Thus, it's expected that the current flourishing Paraguayan in the field and industry avoid the mistakes of the past, considering their externalities.

The experience of "brasiguia" soybean also reflects on the feasibility of a large-scale export model in less developed countries. The current movement of utilization of the Mozambican savannas very much resembles that occurred in Paraguay. Once again, Brazilian producers are putting themselves ahead for the attractive endeavor. Of course, the conditions and care for investments that are transformative for development will also be valid in this new frontier.