

THE UNPRETENTIOUS SUPERSTAR

{ *Kamilia Lahrichi* }



Paraguay maintains robust growth in the midst of sluggish Latin American economies



Foreign banks like BBVA, shops like Pizza Hut, TGI Friday, and companies like Samsung and even Porsche, have mushroomed on the Avenida Avia- dores de Chaco, the main road from Paraguay's Silvio Pettrossi International Airport to the capital Asun- cion – indicative of the South American country's economic achievements over the last decade.

About 25 years ago, Paraguay was under Alfredo Stroess-

ner's fist rule – the most enduring dictator in the region.

This US-backed and anti-communist former president isolated his landlocked country of six million inhabitants for 35 years, until 1989. His leadership prompted an economy based on the contraband of cigarettes, coffee, cocaine and cars.

Today, however, Paraguay is the fastest-growing economy in Latin America – despite the regional economic slow- down. Neighbouring countries have suffered from declining commodity prices, downturn in the Brazilian and Argentine markets, and sluggishness in top partners' economy like China.

Buoyant growth

While regional growth plummeted from about 2.5 in 2013 to 0.8 in 2014 – the slowest in more than a decade except for 2009¹ – Paraguay grew by 5.8% in the last quarter of 2014. On average, it grew by 3.3% in the last decade.

¹ <http://www.tradingeconomics.com/paraguay/gdp-growth-annual>





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Between 2003 and 2008, its commodity-based economy enjoyed robust growth thanks to higher commodity prices globally, growing demand and advantageous weather conditions for agriculture.

Its economy heavily depends on agricultural production and foreign trade, namely soybean and beef. The World Bank set out that both made up about 40% of the country's total exports in 2013.

Outlook for this economic powerhouse is positive.

An April 2015 report² titled "Uneven Growth: Short- and Long-Term Factors" and released by the IMF forecasted that Paraguay's economy is expected to expand by 4% this year, compared with 0.9% for Latin America and the Caribbean.

"In reality, the official forecast of Paraguay's government is maintained at 4.5% for 2015," says Humberto Colman, Director of Fiscal and Macro Policy in Paraguay's Ministry of Finance in Asunción.

Although the fall of commodity prices affected Paraguay's grain exports, the country overcame an economic downturn by relying on other sectors. "The growth of the last five years can be explained by the dynamism of other sectors, such as construction, manufacturing [...] and services," says Mr. Colman.

For instance, the construction sector – which expanded the most in 2014 with a 14% growth – has registered an average expansion of 7.8% annually in the past five years. Services grew by 7% a year

and industry by 5.3% a year over the same period.

"There is a big housing deficit in Paraguay, estimated at one million homes, and there is a shortage of offices too," says Amílcar Ferreira, President of Consultora SEI, a consulting firm in Asunción specialising in financial management and strategy.

Paraguay's government is implementing a public works program to attract investments of \$1 billion a year.

Economic achievements

In addition, the country enjoys a rather stable exchange rate and "historically high" international reserves, according to the World Bank³. It amounted to over \$6.6 billion in March 2015.

The government has consolidated macroeconomic

stability in the last decade.

Between 2004 and 2011, the fiscal surplus averaged 1% of its GDP, official data pointed out. Inflation reached 4.5% in 2015, which was below the Central Bank's target of 5%.

The South American nation also introduced adequate fiscal and monetary stimulus packages after the economy fell to 3.8% in 2009, due to lower demand for commodities globally. This enabled the country to expand by 13% the following year – the highest level in South America.

Besides, Paraguay has become an attractive market for foreign investment – benefitting from lower production cost and a large and young labour force.

It is the third easiest country to do business with in the region – after Peru

² <http://www.imf.org/external/pubs/ft/weo/2015/01/>

³ <http://www.worldbank.org/en/country/paraguay/overview>



▲ The cost of agriculture land is lower than in other Latin American countries, which has driven investment from neighbouring countries

and Chile – according to the Doing Business 2015 report⁴.

The report assesses regulations in business areas, such as the ability to start a company, protect investors, get a credit, deal with construction permits, resolve insolvency, register property, enforce contracts, pay taxes and trade with foreign countries.

In agriculture in particular, the cost of the land is lower than in other Latin American countries, which has driven investment from neighbouring countries.

Many Brazilians own land in Paraguay's eastern region, which produces most of the country's soybean production. This has triggered social discontent – amid long-lasting battles over land disputes between

the powerful Paraguayan landed elite and poor farmers.

Moody's Investors Service hence upgraded Paraguay's government bond and issuer ratings in March 2015⁵.

The credit rating firm rewarded the country for strengthening its fiscal policies – with its 2013 fiscal responsibility law and income tax reforms, spurring infrastructure investment, enhancing governance and diversifying its economy.

Moving away from agricultural dependence

Yet, Paraguay remains a largely agricultural country. It is the world's fourth largest soy supplier. It also exports bovine meat, corn and wheat – mainly to Brazil, Russia, Germany and the US⁶.

“Paraguay still depends on agribusiness (25% of its GDP in 2014), which in turn depends on climate and rainfall's variations,” says Mr. Ferreira. “These explain the volatility in Paraguay's dependence has decreased in recent years with a greater diversification of the economy.”

For example, Paraguay's GDP reached a record high of 12.9% in the first quarter of 2013, after dropping to -5% a year earlier – a historic low.

In 2011-12, the South American nation's agricultural exports, namely beef, plummeted due to severe drought and the outbreak of the foot-and-mouth disease – a highly contagious virus affecting cattle.

Exports to Paraguay's top

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Director of Fiscal and Macro
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⁴ <http://www.corpax.com/bairexport/DoingbusinessParaguay.pdf>

⁵ https://www.moody.com/research/Moodys-upgrades-Paraguays-government-bond-rating-to-Ba1-from-Ba2--PR_320602

⁶ <https://atlas.media.mit.edu/en/profile/country/pry/>



↗ Ciudad Del Este, the second largest city in Paraguay, is flooded with street vendors, microenterprises and malls selling counterfeited goods

markets were suspended. Uruguay, Brazil and Argentina banned meat imports from their ill neighbour, as Paraguayan soldiers slaughtered and buried a large amount of cattle.

“We seek to expand the scope of medium and long-term financing for the farming and livestock sector to confront the negative shocks that could be caused by adverse climatic conditions,” says Mr. Colman, from Paraguay’s Ministry of Finance.

He also mentions the government’s actions to improve agricultural technology.

One key solution to address drought problems is the Itaipu dam, the planet’s largest in terms of energy generation. It is the second largest dam after China’s

Three Gorges Dam.

Itaipu, which is owned by both Paraguay and Brazil, enables use of the hydraulic resources of Parana river to produce cheap and clean energy. With its 20 generators producing 14,000 MW, the dam serves about 75% of Paraguay’s energy demand and 17% of Brazil’s.

“Under the table”

Paraguay’s exceptional economic performance does not take into account the huge informal sector – undocumented and untaxed transactions that are not included in the GDP.

About 320 kilometres away from the capital, Ciudad del Este is flooded with street vendors, microenterprises and malls selling counterfeited goods from across the globe.

Just a few kilometers away from Argentina and Brazil, this commercial hub is a transit port to the two giant markets.

Paraguay’s informal economy accounts for almost half of its \$29 billion GDP, according to a November 2014 study by the local organisation Pro Development Paraguay (Pro Desarrollo Paraguay in Spanish).

It indicated that the country’s underground sector amounts to about \$30 million worth of goods a day. This number – 47% – stands above the regional average of 41%.

This vast sector of the economy highlights how Paraguay is trapped in the past, due to widespread corruption and cronyism. The South American nation remains a poor country with

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Javier,

a 33-year old taxi driver in Luque, a town at the outskirts of Paraguay’s capital

an unemployment rate that stood at 6.5% in January 2015⁷.

Despite the big colonial houses with large gardens on the side of the roads throughout the country, one in four Paraguayans is poor and one in 10 is extremely poor, according to data from the World Bank.

Although poverty rates have declined in the past 10 years, it affected nearly 24% of the population in 2013.

“The country has grown economically in the past few years but there is still a lot of people suffering from poverty,” explains Javier, a 33-year old taxi driver in Luque, a town at the outskirts of Paraguay’s capital.

“If you have a job here, you eat well and get dressed properly, but you don’t have a future in which you are likely to buy a house,” he explains. **IFM**

THE CLANDESTINE ECONOMY

In the San Pedro department, one of Paraguay’s most agriculture dependent regions, 250 kilometres north of the capital Asunción, fields of stevia hide a large and illegal production of marihuana.

The South American nation is the largest marihuana producer in the region and the second largest in the world, after Afghanistan.

About three hours driving away from Asunción, the soil of the wet local roads suddenly turns from light beige to earth tones, amid small producers’ agricultural fields.

In some provinces, such as Amambay and Canindeyu, the local economy significantly depends on drug trafficking. At the national level, the trade contributes markedly to the country’s \$29 billion GDP.

“In regard to [marihuana], we are aware that an important percentage of the economy operates within the informal or underground economy,” says Humberto Colman, Director of Fiscal and Macro Policy in Paraguay’s Ministry of Finance in Asunción. “It is generally associated with criminal activities and smuggling.”

Paraguay’s National Anti-drug Secretariat (SENAD⁸ is its acronym in Spanish) estimated that there are about 5,000 to 8,000 hectares of illegal plantations of marijuana in the country. The organisation set out that the South American nation produces 48,000 to 30,000 tonnes of marihuana a year – as one hectare produces 6,000 kilos of the drug.

SENAD also determined that about 20,000 people cultivate marihuana in the country of 6.8 million inhabitants.

Personal consumption of the plant is decriminalised in the highly Catholic nation, even though the law on drugs 1,340/88 criminalises its production and marketing. One can thus carry up to 10 grams. Yet, being help in possession of over 10 grams is considered a crime and the consumer can go to jail.

About 80% of Paraguay’s marijuana production is smuggled into Brazil – a market of 200.4 million consumers – through the loose and lawless tri border between Paraguay, Argentina and Brazil, and light aircraft, SENAD reported. The rest of the production goes to Argentina, Uruguay and Chile.

There has been a government crackdown on marihuana producers.

On April 27, 2015, SENAD officials burned more than 3,900 kilos

of marijuana in a natural reserve in Paraguay’s Itapúa department. About four tons of marihuana were harvested⁹ there.

In addition, the organisation seized more than \$25 million kilos worth of marijuana from January to April 2015¹⁰. Earlier in January 2015, Paraguayan anti-drug agents set fire to six hectares of marijuana worth \$3.6 million dollars, in the northeast of Paraguay.

Yet, next-door Uruguay’s decision to be the first nation on the planet to legalise the production and trade of marihuana in 2013 is likely to impact drug trafficking in Paraguay.

Paraguayan officials criticised Montevideo’s decision as they expect an increase in marijuana and drug consumption.

“We are more than convinced that that is going to stimulate domestic consumption there and therefore trafficking of marijuana,” said Rojas, Head of the National Anti-drug Secretariat of Paraguay.

According to Rojas, marijuana prices in Uruguay “are much higher” than in Paraguay. “There will be more Paraguayan marijuana than in Uruguay and at lower cost,” he said.

⁷ <http://www.tradingeconomics.com/paraguay/unemployment-rate>

⁸ <http://www.senad.gov.py/>

⁹ <http://www.senad.gov.py/noticia/12467-destruyeron-mas-de-3900-kilos-de-marihuana-en-reserva-san-rafael.html#.VUeorNNViko>

¹⁰ http://www.senad.gov.py/archivos/documentos/RESUMEN_161n19aa.PDF