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## The hidden treasure of Latin America

Global Insight talks with Horacio Cartes, President of Paraguay, about initiatives to drive the growth of the 'Heart of South America.'

**GI:** According to a recent statement by the Inter-American Development Bank, "the macroeconomic situation in Paraguay is spectacular." What are your objectives for the coming years?

**HC:** The scenario in which Paraguay currently finds itself allows us to excel in comparison to the other countries in the Mercosur region, with the average economic growth over the last 10 years at close to 5 percent, controlled inflation at just 3.7 percent to the end of 2013 and debt levels among the lowest, with the external debt of just 12 percent of GDP, which includes the latest bond issue of \$1 billion.

Our work for the next 10 years must focus on developing production models that ensure the economic development is tangible in all social strata (poverty alleviation), and will work on several fronts.

We can mention some emblematic examples, such as the development of transport, energy infrastructure, and technology that improves the productivity of the country, and in the process help to create jobs for less skilled

workers.

We also need to promote the attraction of our industry, and exploit the competitive advantages of the country in the region, such as the availability of renewable electricity at low cost, a young population available for labor and a simple taxation system with very low rates. Paraguay today is an option as a base for industries that want to sell to Brazil, because, in relative terms, they find it more expensive to settle in Brazil.

**GI:** Which public projects do you see as key to improving the competitiveness of Paraguay?

**HC:** In my view, good management cannot and should not work alone for just one term in office. It is necessary to structure a plan and leave a legacy for the whole country.

This government has an investment plan that includes major infrastructure projects that are vital for the country's development and need to be well-structured.

We are also continuing to boost investment for the public sector, in so much as the state has agreed multilaterally and directly with

foreign governments on loans for infrastructure in the amount of \$1 billion, to be implemented during this government. One project being the second 500 kV transmission line, exporting to the south, and improving the integration of other corridors.

It is essential to ensure the quality of expenditure to maximize the benefit to Paraguay. The efficient and transparent use of these funds is vital. Ultimately, the goal of this government is to expand the growth potential of the Paraguayan economy to over 6 percent annually, with the growth rate currently close to 5 percent year on year.

**GI:** How important is it for you to promote the country, and how do you intend to publicize Paraguay's potential to your current and future partners?

**HC:** By creating the right ecosystem to attract international investment, and to better position Paraguay in the world is one of the three pillars of this government's plan.

We are working on creating a world-class legal and taxation framework and providing the civil infrastructure and basic

services necessary to ensure stability and a favorable economic climate, exploiting what we can for the benefit of Paraguay now and in the future.

**GI:** What, in your opinion, is the benefit of further integration of the Mercosur market with the Pacific Alliance, taking into consideration the size of both markets and Paraguay's development prospects?

**HC:** My government believes that Paraguay's geographical position and its commercial interests should help expand our developmental prospects beyond Mercosur. Mercosur is our natural economic environment, but I think Mercosur and the Pacific Alliance can be a complementary relationship that optimizes markets' potential.

There is an invitation for the Pacific Alliance to talk with Mercosur, to move forward together via close cooperation. Remember that both blocks have large natural and energy resources, which are vital. Our relationship with Japan is a priority and I am convinced Mercosur should initiate a process of dialogue with Japan to establish a free trade agreement.

**GI:** How are you going to get more Japanese companies



President Horacio Cartes and Vice President Juan Eudes Afara: moving forward together

to invest in the future of Paraguay?

**HC:** By improving the country's infrastructure and connectivity, through the construction of all-weather roads, bridges, ports, airports and sanitation. This is important added value to the potential of the country.

With these advantages

Paraguay will become increasingly attractive to foreign capital, and above all to friendly countries such as our friend Japan, which has a high regard for the authorities and all Paraguayans.

**GI:** Finally, what is your vision for the country in the long term?

**HC:** My intention is to lay the groundwork so Paraguay can develop and become more involved in this globalized, modern world.

In 10 years I hope that my country is well-known, for, amongst other things, as a country with high economic growth; as a fully integrated,

globalized and attractive country for foreign capital; as one of the largest exporters of processed foods, and not just raw material; as a country that has been successful in reducing poverty; and ultimately as a country that has a diversified economy, with no dependence on the success of a single economic sector.

## Pulling producers together to improve the country's economy

Paraguay has rapidly increased its agricultural production in recent years, so how can it continue its meteoric rise into the future?

Paraguay is an agricultural powerhouse that has made huge strides over the past decade in pulling together its hundreds of thousands of small-scale farmers, and in the process creating one of the most productive sectors in the region and the world. The underlying strength of the sector has been the amazing increase in productivity, which has seen in many cases a doubling or tripling of output per hectare, and has seen Paraguay become a production leader in many areas such as beef, soy and cereals.

Juan Eudes Afara, vice president of Paraguay has been

a key player pushing the sector to increase production to help the South American nation export its way to growth for the population.

As he explains, "As food producers, we want to increase our production. Firstly, new technology allows us to grow, over at least the next ten years, three times in tonnage, our food production."

"We will be more efficient, we will produce more in smaller areas and we will have much more capacity and can confidently say that we will triple our food production. This will allow us to become more important in providing food to countries who

need produce, and will lead to the industrialization of agricultural production in the country."

Also vital are the international relationships the country builds as it escapes the isolation that slowed its development to this point and the Cartes government is working hard to build these bridges to export markets.

As Afara says, "Paraguay is seeking allies in all markets of the world, because, as a major food producer that is increasing output each year, the growth we have is in fact the world's largest. Paraguay grew at 14 percent recently and that speaks volumes. We have the third

largest barge fleet in the world that carries our products to the overseas port fleet.

"We have a very well-defined strategy that as more markets open up, and we find more markets to explore, we will continue to work with everyone, because we intend to not only be focused on Mercosur, we also know that a big market for export is Asia, and so we will seek more alliances in order to enter those important markets."

**Leading the charge**

"You know Paraguay is like a diamond," the Stadecker brothers, owners of Arasy Orgánica explained. "We have everything. We have the energy, we have low taxes, we have the young people. This makes Paraguay a very strong country. We have

the knowledge, we have the machines and the know-how. And, we really love Japan because we feel that they have given us a helping hand to grow as we have. This is the reason we talk so much about Japan."

Arasy has grown from just 500 producers in their stable to over 35,000 and the impressive figure looks set to continue into the future, as they expand their operations into cotton production, a field Paraguay used to be very strong in, but has lost ground in. And as Arasy expands, so the agriculture sector becomes further unified, which will lead to more improvements in the sectors productivity.

This hugely impressive expansion is linked to the desire of the brothers to improve the lot of their farmer clients, and of

the nation as a whole, and with the increase in technicians the company can call on, expansion can continue apace.

Sitting on top of one of the

further abroad, specifically the huge Asian market, and the reforms made recently will stand Paraguay in good stead.

"Paraguay," Afara says, "is a

**"Paraguay is a major producer of food, Asia is a major buyer of food, so our view is that we must seek out alliances that lead us to these markets."**

Juan Eudes Afara, Vice President

world's biggest aquifers — the Guarani — which straddles the Mercosur countries, means that water will never be an issue for Paraguay, in turn feeding the agriculture sector to feed the world.

Afara can see only positives in the country and its relationships with the region, and

country of opportunity and we really are the best kept treasure in South America.

"Paraguay wants to open its heart to all who want to come to and invest, and work in peace and produce here. We are a country that welcomes investment from abroad."

An immediate next step

objective for the country is connectivity; to connect itself to the regional network of roads, railways and airports. This lies at the heart of the current strategy of the public sector.

In addition to 'fiscal responsibility' reform, legislation has been introduced for private sector participation in this infrastructure build-out. Combine this with the pre-existing fiscal incentives (the so-called Law 60/90) such as 0 percent tax on capital goods (machinery and equipment), no VAT on capital goods purchased locally or abroad, no taxes on remittance abroad of capital or interest, and a 10-year holiday of dividend and profit repatriation for new projects and you have a cocktail for stimulating private sector investment.



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# Technological advances bare fruit

Paraguay is improving its production methods to great success for businesses, and for its rapidly improving international reputation.

With 2015 fast approaching, the reforms of the Cartes government have really begun to take hold and help the central South American nation continue its meteoric rise towards prosperity through its manufacturing and agricultural sectors. As the man behind the push to improve yields and the integration of the sector with the wider societal push for progress the government has made, Jorge Gattini, minister of agriculture and livestock knows first hand how rapidly things can improve with new technology.

However, the drive for improvement is not solely focused on boosting the country's coffers, although that is a much appreciated aspect, it is also highly engaged in pulling small scale local farmers out of the trap of poverty.

As he explains, “Our main goal at the Ministry of Agriculture is to fight poverty through using market mechanisms, and we also want to create markets and give opportunities to small farmers, and give them the technological innovation, infrastructure and technical support in order for them to become more competitive.”

“This is a long-term project, and one of the main actions of the president was to create a decree called the ‘Acquisition of Commodities from Family Owned Farms,’ and so it represents a market of about \$300 million, which could be a legitimate opportunity for small farmers to expand.”

“I visited a farmer in Caazapá



Jorge Gattini  
Min. of Agriculture and Livestock

and he said that three years ago he produced one thousand five hundred kilograms of corn and nine thousand kilograms of cassava, and that after he incorporated green fertilizers, in his third harvest he raised the cassava production from 9 tons to 42 tons. And his corn produc-

**“Labor is cheap, taxes are cheap; in fact the tax rates in Paraguay are the lowest in South America.”**

Jorge Gattini, Minister of Agriculture and Livestock

tion went from 1,500 tons to 7,200 tons, which is amazing and very impressive. You can really improve the conditions with very simple agricultural practices.”

#### Recapitalizing the nation

However, the introduction of new technology alone will not help further the government's aims; there needs to be serious and wholesale financial help for farmers to implement the

changes to the sector that are needed to bring it up to international modern standards. For example, the provision of money for improving irrigation is vital, as are new and improved storage facilities.

“There are undercapitalized farmers who need support and technical assistance, so we estimate we need one extension officer for a hundred farmers, and in the ministry we only have seven hundred extension officers so we can only take care of seventy thousand small producers.”

“The reality is that we have two hundred and forty thousand farmers, so we have a lot of things to do to reach our frontiers. There's a lot of work to do here and also a lot of room for investment. For example, one hectare of irrigation costs about \$4,000 to \$7,000 per hectare and one

small greenhouse costs about \$6,000, so we plan to invest in and develop at least one thousand five hundred small greenhouses for a thousand and a half farmers.”

Paraguay is naturally blessed geographically, as it sits on top of the Guarani Aquifer, one of the world's largest sources of fresh water, and as such has no issues with plentiful supply, although there are issues with access. Again, the Cartes government



Pure, fertile soil and decades of small-scale farming prowess make Paraguay the bread basket of South America

has set about this task rapidly, pushing to irrigate the whole country.

#### Watering the path to growth

As Gattini says, the water supply is also fantastic for the provision of cheap, renewable electricity, provided by the many hydroelectric dams in the country, such as the Itaipú Dam, which provides more electricity than the famous Three Gorges Dam on the Yangtze River in China.

“We have plenty of water which is very important,” Gattini says, “also cheap electricity. What do we need? We need infrastructure, technology as irrigation and now we are going to do that. We expect to invest just in irrigation about \$4 million over the course of five years. We have

\$50 million for irrigation projects this year alone. We are a team, I am a team player and that's something really good.”

“We work very well together with the other ministers and there are many things that but then as the time goes on you have a more holistic approach. We are new at this, we were not in the political field before, we were businessmen and consultants. Some were very strong businessmen, but you see we don't have any biases or political issues so we don't have any problem working together which is very important.”

#### Climate for growth

All in all the new government is trying to make Paraguay as

attractive an investment proposition as possible and reassure international investors that the country has all the right tools to succeed, from human capital to resources.

He explains, “When they [investors] come here and they see it [the country] they really like it and they see the potential. We not only have the potential of agriculture, the climate, the soil, and more, but also the tax burden is very low. The president is a very serious and moral man, so we are not going to take any money under the table, we have the direction and the order from the president to be very fast and welcoming to any investor or any person who wants to come to Paraguay.”

“In Paraguay, whatever you

want to do, you can do it. I think the best opportunities are in agribusiness, when you process and industrialize food, because as input for the factory we can produce at a low cost and we are very competitive on the level of farming.”

So if you open a competitive factory your final product will be competitive. Labor is cheap, taxes are cheap, in fact the tax rates in Paraguay are the lowest in South America.

“We have employees who learn quickly and who are also the most effective and productive workforce in the world. Paraguayans are very good at understanding things and quickly. So even when they are not prepared, when you teach them they learn very fast.”

## The finance sector goes from strength to strength

After escaping the recession and the bumps down the road relatively unscathed, the Paraguayan banking sector is a model of success.

The macroeconomic situation in Paraguay has some unique characteristics, in that it has a historical low inflation rate of around 5 percent average (in 2013, the rate was 3.7 percent) and international reserves that total 20 percent of GDP, which is twice the amount of the external national debt. On top of those excellent signs, the country has renewable energy production of 8,700 MW, with current domestic demand of just 2,300 MW, leaving some 6,000 MW for export.

Couple this with the superb growth rates the country has seen over the last few years, where in 2010 and 2013, Paraguay experienced the greatest economic expansion of the Mercosur zone and the highest in South America, with a GDP growth rate of expansion of 14.5 percent and 13.6 percent, and the ground is ripe for investment.

Germán Rojas Irigoyen, minister of finance understands that international investors need to see solid governance and also the prospect of good returns in order to invest in a country, and the government is more than willing, and able to provide that framework. He says, “From our experience in our country, seeing people suffering all kinds of economic and social problems, solving them is our first priority, and secondly we also prepared public-private partnerships to attract investment here.”

“We are offering to the world 23 to 24 percent of all investment plans to the private sector. We made a reform in the taxes here by introducing for the first time ever the primary sector as contributors. We expect to have no less than a hundred and twenty



Germán Rojas Irigoyen  
Minister of Finance

thousand new contributors to the tax base, and also to the personal income taxation system.”

#### Low tax, high returns

The simplified taxation system is something that the country

**“Our financial sector has become more conservative, old fashioned. We take deposits, we make loans and that's it.”**

Germán Rojas Irigoyen, Minister of Finance

is rightly proud of, and is a key tool for attracting inward investment. It also mirrors the simplicity of the sector, which is very well-financed and run and as such avoided many of the pitfalls that has held back other nations escaping the recession of 2008.

“Due to the well funded sector that was not overly leveraged on foreign debt, the sector rapidly returned to profit. As Conor McEnroy, president of Sudameris Bank explains: “Our financial sector has become more conservative, old fashioned. We take deposits, we make loans and that's it. We don't



Conor McEnroy, President  
Sudameris Bank

lend money to companies below cost because we might get a bond issue. We have the last innovation of banking that works. The result is, because we have realistic margins, the capitalization of the financial sector in Paraguay

far beats Basel III that all nations are hoping to introduce in 2017 and 2018, so we don't have risks as banks so our financial system is solid as a rock.”

Paraguay has an international rating of stable to positive, with multiple agencies confirming that it is one of the top performers in the region, in regards to macro and microeconomic policy.

A huge positive for the country is that the boost comes from not only the country's official ratings partners, but also from third parties such as the IMF, the World Bank and the IDB, who all recognize that the country is

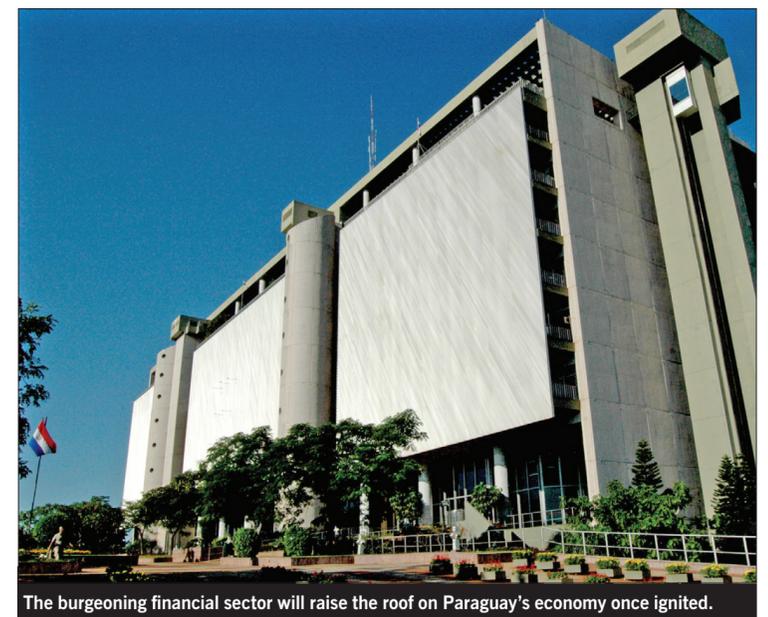
moving in the right direction, and has the right policies to attract investment, a real confirmation that Paraguay's policy for investment can be trusted.

In 2012 the economy shrank by 1.2 percent, but bounced back with a very impressive growth rate of 13.6 percent in 2013, which is a ringing endorsement of government policy. The median growth rate over the last 10 years has been between 4 percent and 8 percent, highlighting the steady growth, which undoubtedly outstrips many of their neighbors.

Which are thoughts that Sebastien Lahaie, managing director of Abbeyfield & Group echoes. He says, “The growth has not been fueled by demand from developed countries for raw materials used in construction, minerals used for consumer goods or oil, but from demand for feeding a growing number of people living on the planet. This is also very different from other emerging economies and is not about to change anytime soon.”

It is this impressive growth that Irigoyen wants to use to attract further investment into the country. “There is a need for a higher level of investment, because at this moment we have less than 20 percent of GDP per year, the average of the region is around 24 percent,” he says. “We cannot rely on the public sector since we need to maintain fiscal discipline, so in this matter we have to rely on the private sector and we need a combined task force. We really believe that the private sector will be keen to boost the economic growth of the country.”

“This is a very simple financial market. We have plain vanilla deposit rates. I remember when I was head of the central bank in 2007 and I used to visit the annual meetings of the AMS, The World Bank, at that time



The burgeoning financial sector will raise the roof on Paraguay's economy once ignited.

the many bankers told me that I needed to change the market there and try a little more sophistication, try the royalties, try the exotic instrument that were being developed, to improve Paraguay's financial system.”

#### Japanese relations

“The relationship between Japan and Paraguay is very important,” Irigoyen says, “Because the relationship, the mutual support is why the president said how thankful we are for Japanese immigration.”

“It could be considered as something that Paraguay did for Japan, I think that it's the opposite because to get this culture, to get the know-how doing things, the discipline, the work ethic that the Japanese showed us is extraordinary and we are more than thankful for that.”

“The thing is, as it happens in Asia and other countries that you

find the right partner, to know the country and the advantage that the Japanese businessmen in Paraguay is that he can talk with Japanese people who came here before, they can talk about the millions that these Japanese communities have in Paraguay in all this long-term relationship and so for us to show Paraguay it becomes easier, then we have Japanese people explaining the country and what is going on.”

This relationship is what the government and private business want to build on, as it is so well established in so many areas of the economy. It also allows Paraguay to export its own brand of economics, that has seen the solid growth and low inflation rates over many years.

Irigoyen explains that the application of technology will push the economy forward even faster than it has been growing. “I always say that Paraguay

is trying to consolidate this economic model. How? By applying technologies to the production. There is a possibility of increasing terms of bare productions to irrigation and to better technologies applied to seeds and so on, but have the challenge of keeping that production sustainable through taking care of the environment for instance, the natural resources which are huge and rich here in Paraguay. We won't be successful if we don't share this prosperity with society and that's the main focus of the President in his agenda, the fight against poverty.”

As McEnroy says, “We are the size of Germany, we don't have seventy million people, but we do have huge water resources, and great human ones. Paraguay is the last great opportunity in the Americas, and the reason for that is there's so much to be done, so we can do it better.”

# A nation with high yield beckons

Paraguay's huge production potential in the seed and grain sector is only hampered by a lack of foreign investment.

Paraguay's many agricultural successes can easily be measured. In just under 10 years, it managed to become the world's premier exporter of organic sugar and renewable energy, the second largest exporter of stevia, with the world's third largest barge fleet, the fourth largest exporter of soy and the starch, fifth largest exporter of chia, the sixth largest exporter of corn, the seventh largest beef exporter and the 10th largest exporter of wheat. The list is seemingly endless.



Arturo Fernández, CEO, Bioexport



Martín Maciel, President, Fondo Ganadero



F. Javier Giménez García de Zuñiga, Vice President, GICAL

## Filling the nation's coffers

The number of agencies and companies dedicated to helping farmers and agribusinesses grow in the country is impressive, with the likes of Bioexport, Fondo Ganadero, GICAL and Seagro making a real difference to the country's coffers.

Bioexport, established in 2009 with the principal objective of incentivizing, promoting, processing and exporting family-run farming products, and under its subsidiary Bio-agro Trading, the country's premier sesame exporter, is now on a mission to make greater gains in Asian markets, particularly Japan.

As the company's CEO, Arturo Fernández says: "Paraguay is the only country in the region that has recorded 95 percent growth in rice production. We could easily cover Japan and China's demands for high-grade rice. At present, it is difficult for us to sell to Japan and I believe that they lack the confidence in Paraguay as a producer at present. We have an image problem and are seen as less than we are, but this is what we are looking to rectify now."

"I have tried to address this with the three past governments, unsuccessfully, but Horacio is different. He is a businessman, he has an entrepreneurial mindset and he understands that government is there to govern and serve the country and its people and step in when things aren't working well. I like this philosophy as it offers a beneficial compromise."

## Business friendly

Nowadays, the business climate is so much more friendly, Fernández asserts. "Before, public institutions were almost working against enterprise ... it used to take up to a year to register a brand, for example. Today, the public sector is working with us, accompanying us and facilitating the needs of business. It is a much more flexible

business environment and there are young people managing these organizations; people with a much more modern mindset."

With a buoyant economy now going from strength to strength, and the doors wide open for business, Global Insight asked Fernández what his long-term plans would be if he were at the helm of the county. There was little hesitation.

"I would invest heavily in education because it is the basis of society," he says. "With the revenues of our hydroelectric plants, we could build new schools and colleges in every county. I'd also assure good nutrition for all children so they have the opportunity to advance. It's also important to give those leaving college opportunities to build their own business if that's what they want."

"To look at a project, see if it is sustainable, give them financing and help them execute it."

## "Paraguay boasts a good geographical position and is a heart that beats strongly in South America."

Martín Maciel, President, Fondo Ganadero

Paraguay has all the resources it needs, including water. If you have water, you have everything. Today, compared to other countries in the region, Paraguay is a paradise, and we want everyone to know that."

## The drive to export

This drive has seen Bioexport grow exponentially over the last five years and it now boasts its own state of the art processing plant that meets rigorous international standards. This July, the company also unveiled a new sesame and chia oil plant at a cost of \$1 million. The oils, which are primarily used in energy drinks and bars and turrons, are of exceptional quality and their production shows the new face of Paraguay. One that means business and is largely untapped by world markets.

As pundits have suggested, all eyes should now be on this enclave of South America, with its many hectares of organic, pristine soils, young population and energy potential. Bioexport is dedicated to local enterprise and promoting Paraguay's exceptional raw materials outside the country. It is also now able to work as a financing organ within the financial services system and works with committees, individuals and cooperatives to help them grow.

## Entrepreneurial drive

Paraguay has a good country risk rating from Standard & Poor's, better compared with Brazil for example, and the opportunities are many.

Among the most important are the abundant raw materials, low comparative costs to produce, low taxes, abundant hydropower and room for growth that can be shared with Japanese

businesspeople.

The Livestock Fund (Fondo Ganadero), in line with government policy, is open to serve as a bridge between entrepreneurs of Japan and the Paraguayan livestock sector.

As President Martín Maciel says, "We have a sound financial system, a stable monetary and macroeconomic policy and in this scenario the foreign entrepreneur can develop their business activities with less risk."

"And then there is the assurance that the government and the various political parties have interpreted the current international reality of what should be a country with a good business climate, and that has been transmitted and generates an obligation on society. We also boast a good geographical position located in the center of the

continent. We are a heart that beats strong in South America.

Maciel is sure that "in 2015, we are going to see a huge accumulation of resources and more equitable distribution of the priority resources."

"At the end of August, there was a fiscal surplus of \$100 million, which is a formidable figure considering what the government came into. Despite all the difficulties, we have good cause to believe that this financial assistance will help restructure our resources so that everyone in the sector benefits," Maciel says.

## A new Paraguay

Meanwhile, GICAL, a 50-year-old private agro-industrial company, whose core businesses includes certificates and warrants, logistics (river transport and industrial complexes) and livestock is also keen to get the message of the new Paraguay out to Japan.

Says Vice President F. Javier Giménez García de Zuñiga: "The most important thing the government is doing is differentiating itself from what's going on with other South American countries."

With Chávez, with Venezuela, becoming at the height of its popularity, the most influential country in South America, even becoming more influential than Brazil, which is the biggest country in South America, things started to go badly for businesses in South America in general and there are certain countries that are differentiating and separating from Venezuela.

"Paraguay is one of them. Uruguay and Chile are others. Paraguay has offered a climate of respect for private properties, is offering clear rules, and is offering the necessary political stability we need for investment and growth. So I think that is very important."

As a man who has business acumen running through his veins, Giménez's dream is to see GICAL become the largest

company in Paraguay's logistic services for industrial automobile industry and also the biggest river terminal operator in Paraguay for grain companies.

How does he think he will achieve this? "We are already talking about a company handling the most amount of volume for exportation of grains in Paraguay. We have five terminals, we want to grow in size, in capacity, in volume and of course in efficiency with investment."

"The number one export item in Paraguay will always be grains and we want to be the most important company handling grains on the rivers. First of all, we need production to keep on a roll, which is a matter of commodities prices, climates and infrastructure and something we particularly need is infrastructure, which is capital."

Is it hard to find capital? "With the finance industries in Paraguay, the banks are doing a tremendous job, we have good

## "With the revenues of our hydroelectric plants, we could build new schools and colleges in every county."

Arturo Fernández, CEO, Bioexport

interest rates but unluckily we still lack the sheer size of the credit, we do not get the total volume of the capital needed and the biggest issue is long-term capital investment.

"Most of the loans in Paraguay are from five to seven years and sometimes we need longer terms," he says. "I work with foreign companies a lot. I think the number one thing we need to maintain is the general climate of business in Paraguay, which is political stability, clear rules,

of course something very important, low bureaucracy and of course, low taxes.

"No one realizes that Paraguay is paying 10 percent tax from net profit, which is the tax rate in Paraguay. In Brazil it is 30 percent. In other countries we have 35 percent to 40 percent. There is a huge debate internally, there are many people saying that taxes in Paraguay are too low and we need to increase taxes so we can invest in infrastructure, I don't think that is true, I think that right now maybe is not the ideal competitive advantage but still is a very important one. People are coming here because the country is offering security and low taxes."

"They are running away from costs in Brazil and Argentina and they are starting to come to Paraguay. This is very important because we need to grow the infrastructure with taxes. Some Brazilian companies were telling me recently that Brazil

has two problems, one is the high rate of taxes and the other one is that it is too damn complex. Nobody understands it. In Paraguay we have three taxes, one is the revenue, the VAT and the third one is the tax on the salary of employees. Three. Low and simple. People can file their tax papers easily here."

## Exporting and production

For Pedro Semeniuk, CEO of major rice producer, Seagro, the big challenge in the production



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chain and exporting to Japan is Paraguay not having a port. "We are want to be competitive, but it's not so easy when we have to ship from Montevideo (Uruguay)," he says. "We have to add those charges to our production costs, even though we our actual production costs are much lower than Argentina, Brazil and Uruguay. On the other hand, we have two energy plants which mean we have lots of energy to extract the water from the rice. This is where we can be competitive in price."

"Here in the south of Paraguay, with access to the Rio Grande del Sur, we can get our shipments out more quickly and at a lower price. The infrastructure challenge was never addressed by previous governments, but it is being addressed by President Cartes and that is a blessing."

"He knows that in order to grow economically, whether it's in the production of rice, cotton, tobacco, soya or whatever crop, we must attract foreign investment and we must work in a different way. "Paraguay is a land of

opportunity where there is still much to be done. Here there are roads, paths, reservoirs, good telecommunications, and a wide range of things that Japanese industry could come and install and take advantage of the rice-by-production sector. Bran oil, for example, is the most expensive and healthy kind of oil and we could produce it. "If a Japanese factory came to Paraguay and invested between \$3 to \$5 million into a rice plant, it could absorb the bran oil as a byproduct and become a win-win model."

"The Japanese consume this oil, not Paraguayans. It could also make sake for the Japanese market. There are so many possibilities, but we do need the investment. There is the space, the raw materials for us to grow at a rate of 10 percent a year."

"We have water, we have land, and most importantly, today's government supports production. First it has to fix the damage done by the previous administration, and that's not easy, but the political will is there, and that's what matters."

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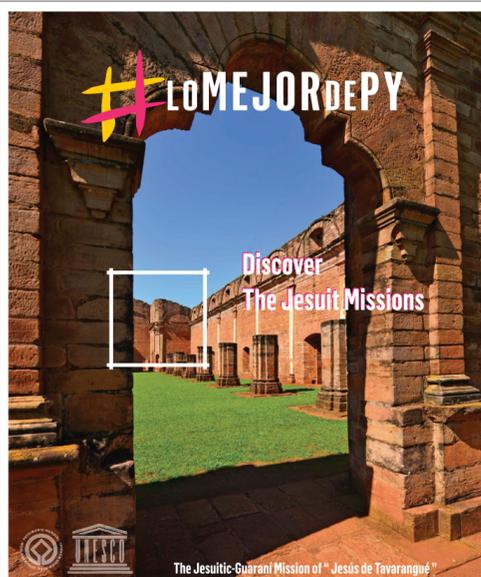
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Salt Lagoons in the Paraguayan Central Chaco

# Industrialization will improve fortunes

Rapid growth of the agricultural sector in Paraguay has seen the country experience impressive, yet steady economic expansion, with both areas looking set to continue growth in the future.

There are so many success stories in Paraguay, Japanese investors could be spoiled for choice when choosing local investment partners, but for Arasy Orgánica, a premier producer, processor and exporter of sesame seeds, the success started with Japan.

Fernando Stadecker, who started the company with brothers Mauricio and Javier, takes up the story.

"After starting working with the Japanese market it was so easy to start working with Europe and the United States. It is very easy to open other markets when you already trade with Japan. Right now we will start working with the North Americans, we handle new products like the chia seeds, and we are top sellers in Paraguay," he says.

"We have a company made by the Japanese people. We were so young when we started so we had to do whatever they wanted us to do. We learned a lot from them; enough to build the number one company of sesame, cotton and chia in Paraguay.

"There are so many young people who can learn from the Japanese as we learned from them. This is a very unique country. In the next 10 years we will have even more young people who want to learn everything. This is a good moment, and I am not saying this because I am Paraguayan. I travel a lot, I spend perhaps 100 days a year outside of Paraguay, working around the world: something like 30 days in Japan and after that we go to Europe and the United States. We have a lot of success in the American market, because everybody there knows that Argentina and Brazil have challenges and it is much easier to work with a Paraguayan company.

"This is our advantage, there's no other sesame seed or chia company in South America that can work like we do. We have the knowledge, we have the



Alfredo Raatz, Director General  
Oleaginosa Raatz



Fernando Stadecker  
Director, Arasy Orgánica

machines, the know-how. We really love the Japanese because we feel that they have given us their hand. This is the reason why we talk so much about Japan."

So what do the three gifted young men believe the government should do next?

"We have to develop industry here, that's the main key so every single investment the Japanese can make in Paraguay would be

**"We have to develop industry; that's the key so every single investment the Japanese can make in Paraguay would be great... we need industry and we need more investors."**

Fernando Stadecker, Director, Arasy Orgánica

great. We are not an industrialized country, we need industry we need to bring more and more investors to Paraguay."

As a company, Arasy (which means "mother of creation") wants to recover the cotton industry in Paraguay.

"Paraguay used to be the biggest seller of cotton fiber in South America back in the day. While the industry got more technical and more professional elsewhere, we stayed with the old culture of small farmers.

"Right now we have one million hectares of cotton fields and less than fifty thousand hec-

tares is productive so it is going down every year.

"With cotton alone, we could make \$150 million over the next five years, if we make the challenge that we are planning, but now we are trying to develop cotton with the medium size and large sized farmers.

"Last year we started with 200,000 hectares, and this year we are close to a thousand. Our goal is to have 100,000 hectares

employ 2,000 people. In other countries, we have seen that around the major factory plant, they have smaller sites finishing the cut of the jeans.

"The dream for us would be to have this set up, and that part alone employs another 10,000 people.

"In the next five years, our goal is to have recovered the cotton market, and be selling chia and sesame to the U.S. We will also be consolidated in the Japanese market and have more than 40 percent of the sesame share.

"Right now we are starting a new business and exporting soybeans to the Asian market. We would like to take this opportunity to thank the Japanese for their support. We are the proof of how you can grow from a \$50,000 business to a \$70 million empire."

## Looking to industrialize

Alfredo Raatz, director general and Alicia Flecha, foreign trade assistant of Oleaginosa Raatz, a private company that produces animal feed, tung crude oil, edible oils, special oils and flour are also looking to industrialize.

"Our dream is to finish the whole cycle, from raw materials to industrialization, make balanced meals and then turn it into food for humans," they say, and they are optimistic in their plans.

"With this government we can achieve a lot because it's a much more open government and knows where it's going.

"We need financing, because although the country has sufficient financial resources to execute large projects, we need a market and that is difficult to achieve.

"Logistics are a serious problem as they are run by multinationals and it is difficult to get space. It is important to get other logistic partners in other parts of the world who are interested in our food and from there we could develop much larger businesses.

We could increase the cash-in and it could increase the produc-



The Jesuit-Guarani Mission of Santísima Trinidad del Paraná

tion of meat and animal feed.

"The good news of course is that Paraguay has the advantages of low cost energy and a young population, which investors like."

## Sowing seeds of prosperity

Meanwhile, seed giant Agropecuaria Produza is also offering Japan partnership opportunities. Boasting sales in excess of \$10 million a year in Miami and \$12 million in Paraguay, the company exports 200 tons of chia and is ready to export 100 more.

Run by President Humberto Sarabia, Produza is the newest exporter of chia and sesame in Paraguay and benefits from having complete ownership of the foodchain, from the ownership of land, to the labor, the equipment, the harvest and up to the grain processing and manufacturing stage.

Operating primarily in the North American market, where they have an office and a warehouse, their team now sells to customers across the country and more recently opened the markets in Europe and Oceania.

"Our company in Miami called South American Grains,

witnessed spectacular growth in chia as it has become more popular in the areas of nutrition and medicine and was fairly highly priced.

"To grow more in Paraguay, we need a better distribution of energy, more roads and rail connections, especially to connect with Brazil, and other ports to cut costs. If we can double or triple production of sesame here, the impact will be huge. Japan is the largest consumer of sesame world, and the small Paraguayan

low. Companies that come from Japan pay less tax. We have the most fertile land in the world, there is plenty of water and cheap energy. Paraguay has the potential to be another Switzerland, if the policy permits.

"Another interesting point is that Paraguay has six million inhabitants, Brazil has two hundred million and there are fewer problems. Here, doing a good job at this time gives you a much better result in twenty years than in Brazil.

**"We have an important role to play. First, we work legally, pay taxes, and we have our companies that create jobs. We have 50 people working with us continuously and more seasonally."**

Humberto Sarabia, President, Agropecuaria Produza

producer knows how important sesame is today. If Japan enters the chia market, it will be even field, we will have skilled labor, family farming, in that it will benefit greatly Paraguay.

"Brazil and Argentina are better prepared for skilled labor, better educated. But the advantage of Paraguay is that taxes are

The company also takes its social responsibility seriously.

"We have an important role to play. First, we work legally, pay taxes, jobs are created and we have our companies that create jobs. We have 50 people working with us continually, and other people working per season.

"And that's a good job, paying

a fair wage and serving families in the rooms themselves have housing assistance. I think it fulfills an important social role, giving our people decent work. For example there is a car that takes children to school every day.

"We work also aiding peasant production. We teach small farmers how to sow and we fund them. Today there are those who have their own tractor at home. They are progressing with our support and our help.

"Paraguay is a country where you can invest, which is reliable, you have to come, see, feel what it is. All that I have is invested in Paraguay. It is a healthy, peaceful, young country. I think there are many opportunities and we are producing to sell to everyone. The livestock sector in Paraguay today has more than 3 million head of cattle and it is also a market that will increase much and see much progress. The agricultural sector is growing too. More and more people come, we have space and produce top-quality goods."

"We're ready to make a good quality product, we are acquiring new machines for a new production line."

## Sample Paraguay's unique range of attractions, officials say

With history, culture and breathtaking natural landscapes as its trademark, Paraguay is now a must-see for the discerning Japanese.

With nature, crafts, culture and history part of Paraguay's attraction, it is not surprising that the tourism sector will be an important part of future growth, especially as tourism represents excellent outcomes for job creation and sustainability.

With this in mind, government officials are making a concerted effort to market Paraguay's charms to world travel markets.

"Our growing economy and our excellent geostrategic position internationally predicts sustained growth in tourism, particularly with regard to business tourism, events, corporate and conferences," says the Minister of the Executive Secretary National Tourism, Senatur, Marcela Bacigalupo.

"Paraguay receives a large number of visitors every day who want to know what attractions are present in its cities, its culture, nature, abundance in water resources and the variety of its regions.

"We are now focused on marketing our country internationally. We participate in a tourism trade fairs in Japan in July or October every year, but there are certain things about Paraguay that the Japanese need to know. With this in mind, we make a concerted effort to meet tourism operators from Japan and journalists from Japan too, to promote our country there."

Until last year, Paraguay's principal markets were mainly regional, namely, Brazil,

Argentina, Chile, Uruguay and Bolivia, followed by Europe and the U.S.

As Bacigalupo says: "Paraguay can soon become a hub for tourism, because we offer more and more direct flights from Colombia, Peru and Mexico, as well as the emerging markets of Russia, China and India. We are currently focused on printing our brochures and marketing materials in Russian and Mandarin."

According to figures from the Japanese tourism board, 18 million Japanese tourists went abroad in 2012 spending more than \$25 billion.

It is well known that the Japanese prefer traditional countries and culture, to beach holidays, so it would make sense



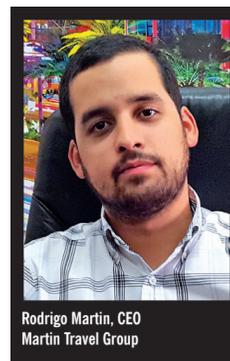
Marcela Bacigalupo  
Minister of Tourism

for them to visit Paraguay.

Here are just a few reasons why:

## Circuit of gold

To know Paraguay from a tourism point of view, the tourism minister strongly recommends the "Golden Circuit," a route that can be easily taken



Rodrigo Martin, CEO  
Martin Travel Group

without going more than 70 kilometers from Asunción.

The journey starts from the capital and includes the Central Departments, Paraguari and Cordillera, where visitors can learn about the major cities (some with the name in the Guaraní language) of "Franciscan Way."

## Passage of the Jesuits

Considered one of the major attractions of Paraguay, the Jesuit Route. Since 1609 with an incredible experiment of colonization and communal life in Paraguay, the Jesuits founded about 30 missions in territories that now belong to Paraguay, Argentina and Brazil.

## Holy Trinity of Paraná

The last of the Jesuit buildings in Paraguay. Founded in 1706 and declared a World Heritage Site in 1993. Trinity Church is the largest and best of all missions. Built with stones, has a very beautiful vault, high clarity, proportion and adornment. The facade and tower are superb, a time of prosperity and cultural and architectural boom to speak about.

In the meantime, Rodrigo Martin, CEO of the Martin Travel Group's Paraguay office,

has written a personal invitation to Japanese travelers:

"Martin Travel is one of the most important tour operators in Paraguay with over 30 years of experience in the traveling sector and for the last five years we have worked closely with the Japanese market and we can say that the Japanese tourists have been increasing in Paraguay and all indicators show that this will grow in the coming years even more. Japan is discovering every year more about this country.

"Paraguay has a great natural attractions, lush biodiversity, rich ancient culture and major attractions like the Jesuit Missions, Itaipú Hydroelectric and the Great Chaco, but the main wealth of Paraguay is its people. The Paraguayans have a natural hospitable spirit that surprises visitors and makes everyone feel warmly welcome.

"In Paraguay this all to be done, there are several approved projects to be undertaken in the next two years, one of them is a unique river port for tourism. Paraguay is well known for its large rivers across the country, and an opportunity for investors could be a river boat for short trips.

There is a very strong bond between Japan and Paraguay because, unlike other groups that migrated to different destinations in Latin America, the Japanese who migrated to Paraguay established colonies in

different part of the country and thanks to this they were able to keep their customs and language for several generations, regardless of the distance or cultural difference that exist between the two countries. This is something that is pleasantly exciting for all Japanese tourists that visit Paraguay.

"Also Paraguay receives a lot of support for development from the Japanese government through the Japan International Cooperation Agency (JICA), keeping strong relationships between both countries.

"The Japanese are educated people who have visited several destinations around the world and are looking to travel to different and exotic places. To visit Paraguay is a unique adventure; it is a wonderful destination waiting to be discovered, it is full of surprises and unique landscape and scenery.

"The location of Paraguay, in the heart of South America, puts it near the main attractions of the region, such as the mighty Iguazú Falls, just 300 kilometers from Asunción; the great Salar de Uyuni, a two-hour flight away; three hours' flight from the magnificent scenery of Machu Picchu, and several other tourist spots in South America, making Paraguay a destination that links the most famous attraction in Latin America.

"Hope to meet you soon!"

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# The building blocks of growth

With the need for infrastructure worthy of a 21st-century emerging economy, Paraguay is looking for PPPs and other ventures with Japanese investors to raise the capital needed.

With infrastructure such a crucial part of Paraguay's modernization, the government is now geared up to attracting more foreign investment in order to provide the capital needed. Japan, which has been cautious until now to invest in the South American country, is firmly within the government's sights as a nation that can help build up Paraguay so that it can fully mature and reap the benefits of its enormous potential.

"Paraguay and Japan have shared a long history of cooperation. Japan has been a good friend to Paraguay and has offered economic support and technical cooperation, but until recently we have seen very few Japanese companies come and invest in Paraguay."

So says Ramón Jiménez Gaona, minister of Public Works, who is now keen to change this picture.

"We have done very little to understand what Japan needs to buy and work closely to adapt our production to those requirements," he says.

"I see Japan as the right partner, looking at these projects. Japan has the technol-



Julio Vázquez  
Naval Service

ogy, the engineering and the economic capacity to help us speed up our investment in infrastructure.

"We are not looking for a free lunch. We are looking for a partner that will do business in Paraguay and will stay with us for the long run, through concessions.

"We want to go beyond the technical operations and the donations and develop good business opportunities in Paraguay. We believe our geographic location at the center of South America — between Brazil and Argentina, two very important

markets — gives Paraguay and our partners the opportunity to develop alongside one another and mutually benefit.

"Paraguay has some natural resources. We hope to find oil pretty soon. There is some very promising oil exploration going on in the country, gas as well, but we have tons of electric energy.

"We are using less than 20 percent of the electric energy we are generating, so there is an opportunity for industrial production taking into account these big markets around us. We're looking for the right partners and I believe many of them are, or should be in Japan."

The ministry is dedicated to promoting the economic and social development of Paraguay through the provision of basic, quality infrastructure services.

"I am responsible for developing a plan that is unprecedented for Paraguay, a country that has executed no more than \$200 million a year in public works and one that is now looking at improving and increasing that investment to at least \$1 billion a year, which is 3.5 percent of our GNP.

"Between 3.5 percent and

5 percent is internationally accepted as a good investment objective for public works, and in order to be at 3.5 percent, we need to be at \$1 billion.

"That means creating a revolution from the inside out, starting from our ministry. We are very aware of the limitations that the public sector normally has, Paraguay is no exception; limited resources, limited ability to hire the best professionals and public labor restrictions, so we decided to do something dif-

**"I see Japan as the right partner. It has the technology, the engineering, and the economic capacity to help us speed up our investment in infrastructure."**

Ramón Jiménez Gaona, Minister of Public Works

ferently. We tendered an international project management firm and we are in the process of deciding which company will be awarded with the contract. That will help us make the jump from less than \$200 million, \$178 million to be precise, which is the average for the last 12 years, to \$1 billion a year or more."

## Teaching know-how

One of the things the government is trying to implement as part of the international management firm project is to not only be able to speed up our investment in infrastructure, but train close to 100 young professionals at the ministry in order to transfer that knowledge and retain the capacity for processing \$1 billion in public works.

It is a process that will take approximately three years, Jiménez Gaona says.

"I would like to see a ministry capable of managing that volume and more. Historically, over the

until we make this investment happen. I don't simply want to be known for building a few bridges and starting a few roads.

"I was to install in the ministry the capacity to work well over the next 20 years. We have a transportation master plan for the next 20 years, and I want to make sure that I install the capacity to do it efficiently and transparently."

## Moving full steam ahead

With a wide network of busy waterways and ports, the Naval Service company is a key cog in the country's services sector, providing mechanical and structural ship repairs, that include soldering, plumbing and carpentry at affordable prices.

What sets the company apart, says President Julio Vázquez is that it can offer integrated solutions for the shipping company. With its years of experience and expertise, Naval Service provides the technical know-how needed and is therefore the go-to company for shipping service, delivering repairs on time and on budget.

"Our mission is to be strongly positioned in the marketplace," says Vázquez.

"Nowadays, within Paraguay, with the quantity of shipping activities there are, there is no



Infrastructure projects will push development forward.

shortage of work, but we want to be the premier company for repairs and the reference point for vessels. We are aiming to build a dock next year, to invest more in infrastructure, and power this sector in every way possible."

For that to take place, Vázquez says, there needs to be more capital. It is certainly not a time issue. "With more capital, we could invest in advancing much more quickly," he says. "In the short term, we are planning to expand our operations to more places, so there is not just one base dedicated to this. We want to be able to operate on an inter-

national level so that we better serve the multinationals that we are in contact with. We have been in contact for example with a travel company in Switzerland that wants us to build them two cruise ships.

"They came here with the intention of seeing other ships of ours. However, they only want to rent the ships, but they are speaking about running a project called Paraná, that goes from Buenos Aires to the port of Iguazú on the river Paraná. So, in this respect, we are very excited about this and are about to embark on the construction of the ships."

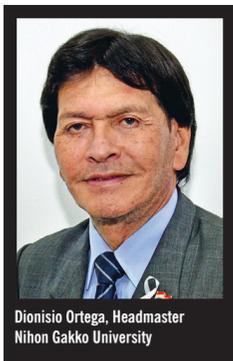
## Training a new generation of Paraguayan workers

Ties between Japan and Paraguay are improving by the day, with partnership and collaborations found in the most unlikely places.

Japan's ambassador in Paraguay Yoshihisa Ueda is keen to increase trade and cultural links between the two countries. He gives an interesting insight into Japanese and Paraguayan relations.

"Sustained Japanese immigration came here around 1936 and that was an organized immigration by the Japanese government, as it wanted to expand the population outside Japan and particularly in the agricultural sector because the Japanese land is very small but many people had to return to Japan.

"One of the countries that Japan decided to send their immigrants was Paraguay as it offered a huge amount of land for agriculture. They came by ship taking two months from Japan to Paraguay, entire families came here and settled to not only work on agriculture, but also they created clinics, schools and sports fields. The land itself was almost like a jungle when they came so they started everything from scratch to clear the land.



Dionisio Ortega, Headmaster  
Nihon Gakko University

"Now you can see huge soybean fields but originally it was almost a jungle. And before this there was no agricultural sector in Paraguay, just the livestock industry. But the Japanese started to grow vegetables, tomatoes and fruits and all the production was done by the Japanese immigrants. "These colonies contributed a lot to the Paraguayan economy. And then the descendants were very well educated so they contributed

not only in the agricultural sector but other sectors as well, for example some financial institutions were founded by the Japanese descendants. Also, sesame began to be grown. The Japanese helped grow the Paraguayan economy. So president Cartes knows them and he is very close to them.

"The Japanese immigrants are grateful to the country of Paraguay and people of Paraguay because they started from scratch, but they always received the support from the Paraguayan people. Even though they are successful now they always remember they achieved success because of the Paraguayan government and people. In exchange of the support that Paraguay gave us, we support Paraguay back.

"Paraguay is always ranked as one of the worst countries in the region for its infrastructure. My opinion is completely different because Paraguay is more open and compatible. I have visited almost 100 countries in my life

and my feeling is that Paraguay is relatively high compared with other countries of the same level of per capita income. Paraguay's is low but I know, compared to similar countries, we are best among these countries.

"Another issue that Paraguay needs to improve is the capacity of government administration. So far this country has been quiet and not so exposed to other countries but now things are changing a lot. Now things are looking up a lot."

## The new face of education

One of the most interesting links to have hit the South American country is the Nihon Gakko University. A Paraguayan university based on the Japanese philosophies of effort and discipline, the institution is strongly tied to teaching Japanese language and cultural activities.

Dionisio Ortega, headmaster and Hermelinda Alvarenga de Ortega, vice rector, both received scholarships to study in Japan and came back to Paraguay on a mission to raise the standards of education in their home country.

"Nihon Gakko has faculties; Law and Judicial Sciences,

Science and Technology, Humanities and Health Sciences," Ortega says.

"At the current time, we offer more than 17 degree-level courses. We focus on effort, discipline and success. Our university offers exceptional quality and we integrate both Japanese and Paraguayan culture into the mix.

"Although we are not quite at the level we want to be, we place major emphasis on our students being able to collaborate in the development of Paraguay. This

needs a superior level of education, and we have a master plan that will raise us to this level by 2020. The university is only five years old, but we are already seeing success. "Within 10 years, we want to see high-quality human capital in our administrations that can help shape Paraguay's education, health and industrial sectors. Human capital is the most important thing in a country, and we will see this progress as the university grows.

"With more people enrolling,

more infrastructure requirements, more laboratory equipment, we will be satisfied. There is a tendency to invest in industry and manufacturing here, but we come with a more holistic approach, with the goal of equipping our population for the years ahead. Paraguay needs more than 1,000 new engineers a year, 5,000 investigators to cover the mid region. Nihon Gakko has the potential to get those human

resources out there." Paraguay's key challenge will be to invent the second phase of its growth story outside of the obvious development of its agro-industrial sectors. It has the capacity to become a key producer in certain heavy industries and a regional energy player. And, providing education standards are raised, it can also develop substantially its services and consumer sectors.

This report was produced by Global Insight and can also be read online at: [www.japantimes.co.jp/international-reports](http://www.japantimes.co.jp/international-reports)



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# Paraguay: Land of opportunities

*Industrialization, commercialization and a business-friendly environment are driving Paraguay toward becoming the heart of South America's economy.*

Paraguay has recently tapped international bond markets with stunning success, selling \$1 billion of dollar bonds in August, an offer that was oversubscribed four times, a strong endorsement of the June 2014 rating upgrade from Standard & Poor's. The Mercosur nation issued 30-year bonds with a yield of 6.1 percent, which compares well with the average of 6.29 percent for countries that share Paraguay's BB rating.

The nation is in the midst of redefining itself as a country, and also what it is to do business in South America, attempting to move the region toward becoming a place that is easy to operate in for international investors and regional ones alike.

Paraguay is undergoing rapid development in its industrial and commercial sectors by developing free trade zones, instigating a simplified tax system that is the most competitive in the region, and using its prime geographical position to take advantage of trade on either side of the continent, looking to the Pacific and Atlantic oceans as routes to trade its goods.

The Ministry of Industry and Commerce, led by Gustavo Leite, and REDIEX, an agency under the ministry that is also charged with leading the revolution in business practices the government wants to see implemented, leading the process of sustainable development for the country. There is a distinct mandate to establish clear policies aimed at strengthening the industrial, commercial and service sectors toward constant growth and improvement, while concurrently seeking social equity for the population.



Gustavo Leite  
Ministry of Industry and Commerce

player.

Paraguay is a major partner in multinational trading blocks thanks in no small part to its

***"The laws of Paraguay are reliable and people can do business in reliable countries. Therefore we can do business with the world in a credible, simple and serious fashion."***

Gustavo Leite, Minister of Industry and Commerce

envious topography, bountiful water and energy supplies and its youthful, well-educated workforce. A player in the Mercosur agreement, the free trade block consisting of Paraguay, Brazil, Uruguay, Venezuela and Argentina, with a majority of the remaining South American countries as associate members, gives Paraguay privileged position to trade with the regions biggest economy, Brazil, as a prime partner.

This allows foreign investors the opportunity to take advantage of Paraguay's competitive taxation framework and high productivity that give the coun-

try's exports to Brazil a huge boost. In effect, Paraguay is the central nervous system to the region, a powerhouse punching above its weight to great effect.

Leite is Paraguay's minister of industry and commerce, and as such it is his job to sell the benefits of Paraguay to the world and facilitate inward investment, as with only 7 million inhabitants the country itself is too small to be considered a market. "We call Paraguay 'The Land of Opportunities,'" he explains, "And wherever we go we sell our country as such. We don't want to dwell too much on the past, as previously we had never really been on the world stage." "In Paraguay there is fiscal stability, there's economic stability, and there are rules that the government, business and the people abide by. The laws of Paraguay are reliable, and people can do business in reliable countries. Therefore we can do business with the world in a credible, reliable, simple and serious fashion." "Paraguay is an unknown

diversification of exports and the final destinations is important to the push for continual growth.

#### Looking eastward

"Asia is a huge market in the world nowadays," Leite explains, "And Japan is the second largest market in Asia after China. However, Japan is a protected country, and we understand that, and we are going to keep on trying to convince the Japanese authorities that we can supplement or even replace some suppliers they have."

"I think that when it comes to herbs and natural, organic high-end products we have a chance to

He says: "Paraguay has major advantages for investments and logistics. The triple border region of Paraguay, Brazil and Argentina is extraordinary and an excellent platform for exports and imports."

#### Tapping markets

Paraguay has taken advantage of its ability to freely trade with the rest of South America by focusing on areas of economic specialization that are not affected by credit crunches and downward spiraling economic growth. As such, the country has taken the route to focus on exports of foodstuffs, manufactured parts for cars and other essentials that will not decrease in growth or consumer necessity for the foreseeable future.

For example, 20 percent of Paraguayan exports head directly to Brazil, but come from Brazilian companies headquartered in São Paulo, who operate out of the Paraguayan capital, Asunción. This advanced and symbiotic relationship between the two countries shows just how far Paraguay has come in developing and strengthening relationships with its powerful neighbors, and gives a strong indication of the way in which they would like to develop and grow the economy heading into the future.

"Brazil is about 16 percent of our trade," Leite explains, "and our exports and manufacturing shipments to Brazil have grown at around 50 percent a year, which means that in key areas of the Brazilian economy we have clear advantages to take advantage of, more specifically in the food sector, auto parts, leather and manufactured leather goods and



Paraguay's exports are driving the economy forward, benefitting the whole population.

Argentina is going to experience negative growth. Chile began the year with 4.5 percent, and then lowered their prediction to 3.5 percent. We started at 4.5 percent to 5 percent, but economists believe we will finish with 4 percent. "We are proud to achieve what we will in spite of the world economic situation. Our aim is to invest \$16 billion in infrastructure to help us be more competitive, and to adjust the holes in infrastructure that are relics of the past, but also to give our economy, our GDP, an boost of 2 percent."

"We expect that over the next four years, Paraguay can grow at between 6 to 7 percent, and to achieve this our administration has three main objectives: the first is to eradicate extreme poverty, the second is to foster economic growth with inclusion, meaning everyone has the ability to participate, and the third is Paraguay entering fully into the world economy and diplomacy."

#### Historical ties

Paraguay's re-entry into international diplomatic circles has seen many ministers crisscrossing the globe to drum up interest, solidify opportunities for investment, and sell brand Paraguay. As one of the world's agricultural powerhouses, currently the world's 10th-largest exporter of wheat, the eighth-largest beef exporter, seventh-largest exporter of corn, sixth-largest producer of soy, fifth-largest exporter of chia and soy flour, and fourth-largest exporter of yucca flour and soy oil, Paraguay has potential to become a huge exporter to the lucrative Asian markets, specifically looking toward Japan as a potential partner in many areas of the economy.

The two countries have a history of trade in both human and economic capital, a process that began in the early 20th century. However, the relationship needed a kick-start after being neglected by previous administrations.

"Japan and Paraguay have a long history," Leite explains, "Some very deep ties. We have had very successful Japanese immigration which started in the 1930's, and then after World War II the government from Hiroshima district sent a delegation to discuss emigration, and what they found was the heaven of southern Paraguay."

"They generally settled in the areas of La Paz and Pirapó, which, by the way, are the regions in Paraguay where the highest GDP per capita is, which in itself is one thing, with the other being how we have seen in Paraguay that there is a very tangible relationship between people who have a better standard of living and our past Japanese immigration."

"There must be something right about what our Japanese population does, and we feel it

has a lot to do with work ethic, discipline and the willingness to work hard, and for those reasons the president, as a businessman and hard worker himself, admires that. "When president Cartes visited Japan, he met with Emperor Akihito and Prime Minister Shinzo Abe, and that created lots of interaction. In reality, and over the long term, people have analysts, the big businesses of the world, don't really do what a president says, they go by track records, and the track record of Paraguay over the last ten years is impeccable, and that is a sign of optimism for us," he concludes.

#### Simplified taxation

A headline policy that will grab the attention of investors is the country's taxation rates. As Leite explains, "As regards to taxation, Paraguay is a 10-10-10 country. Cartes expressed his willingness to make Paraguay a very simple country for business, which means, in Paraguay you pay 10 percent tax as a corporation, you pay 10 percent VAT on all transactions, and you pay 10 percent in taxes as an individual and that is all."

"Business people don't come to

***"Paraguay has major advantages for investments and logistics. The region of Paraguay, Brazil and Argentina is extraordinary and an excellent platform for exports and imports."***

Ignacio Ibarra, President of Fujikura Automotive Paraguay

new countries to look for romantic stories, they come to make money, and Paraguay is a friendly country for people who would like to make good, legal money."

This simplified tax code extends to the whole population, meaning it is easier not only for inward investors to create profits from their operations, and also to keep them in the country's stable banking system without fear of them disappearing in a myriad of local tax grabs, but also for Paraguayans to join with the rush toward a fully liberalized, Westernized market economy.

This will allow the population to help itself out of poverty, and provide continued growth throughout all sectors. Of course, agriculture is a prime example of Paraguay setting the pace for the rest of the world to keep up, and not the other way around as could be seen as the case in the recent past.

As Leite explains, the Government is trying to expand the exponential growth the country has seen throughout all sectors of society, as this will highlight to the world the fully integrated nature of the changes they have made to the economy. He says: "There are two messages, actually. For the

Paraguayan people, we would like to see poverty decrease tremendously, and we would like to see Paraguayans take part of this 'cake of opportunity.'

"To the world, we would like to be recognized as a serious, simple country to do business in and with, where people can go not being afraid of their security. A place where people can go and not be afraid of changes in laws or changes in the rules of how you do business, and where you can go to honestly make your money, pay your taxes and be happy with the money in your pocket."

A great deal of the confidence that Leite shows comes from the adoption of the Maquila Regime doctrine, a Mexican system of regulation that allows a local company, branch or subsidiary to sign a contract with a foreign entity to produce goods or provide services for export only, with the local producer operating 'for account and risk of' the foreign company."

The foreign company can import or buy locally all of the raw materials needed from any supplier as well, freeing up each company to get the best possible deal for themselves, and for every party involved.

related and managed economy. He explains: "We feel the fears of Japanese businessmen in the region should be taken care of positively in Paraguay. For instance, Japanese businesses are worried about exchange rate fluctuations that come out of the blue. However, Paraguay has shown over many years that we have a very stable exchange rate. Japanese companies are worried about high taxation and Paraguay has by far the most competitive tax regime in the region."

"Japanese companies are worried about rising labor costs, and once again, Paraguay has proven over the last ten years that not only does it have the best labor force, but it's also less troublesome and probably by far the most competitive labor force. Paraguay also has the most competitive labor-energy-tax mix of the region. If you look at energy and the availability of energy, Paraguay is the only country in the region that offers clean, renewable electricity at very competitive prices — in fact at half the cost of Brazil, and almost three times less than Chile, for example."

#### Gaining recognition

What Leite and the Government would like to do is effect a wholesale change in the international opinion of Paraguay.

He explains: "When I used to travel abroad before I took office, I found that throughout the region, Paraguay is well known. Anywhere from Mexico to Argentina, people know about us. Also, in the U.S., in the South of the country, they know who you are."

"It is not an easy job to position Paraguay in the minds of people for business, but that's what we are trying to do with this government's push. By sending our president, a minister or an important delegation to our vital markets, we get a lot of coverage in the media which is really what we need."

"What we would like is that Paraguay is known as the Switzerland or Japan of South America, but of course that's not easy if you look at where we started from. "We started from total isolation and in one year we've done a great job, and I think that president Cartes has made a tremendous effort. He travels a lot, and he really is the face of Paraguay we want to present, a hard working, serious one. Someone who hits the ground running, just like the country is now," he concludes, and the smart investor would agree.



The government is looking to diversify the economy toward high-value products and services.

Paraguay has a need to foster the economic redevelopment of the country, which for a long time was not fully internationally engaged with the obvious pitfalls of stunted growth and lack of inward investment that follow the path of isolation.

#### Encouraging competition

In order to harmonize the interests of the productive sectors of the economy, such as agriculture and value added manufacturing, the ministry and REDIEX are looking to facilitate the distribution, circulation and consumption of domestically produced goods, both in the country and around the globe. Through promoting internal and external trade within the context of fair competition for all, and by encouraging legal methods of trading and doing business, such as full compliance with consumer rights and intellectual property rights, the government is creating fertile ground for the economy and country to thrive as a new and powerful international

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