



April 30, 2024 |

Brazil and the Southern Cone, Economics, Trade & Development, U.S.-Latin
America Relations

Paraguay: A Promising Government Navigating a Perilous Path

The greatest gift that Cartes can give the country and President Peña is to empower Peña to take the real and symbolic steps to frontally tackle corruption.

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security trends in the region to Paraguayan President Santiago Peña and his National Defense Council (CODENA), as well as speaking with members of both chambers of the National Congress, the local press, and addressing Paraguay's National Defense College, the Instituto de Altos Estudios Estrategicos (IAEE), among other activities. This article is the first in a series regarding his findings from that trip.

Paraguay, a land-locked country at the heart of South America, is strategically important for the region, the U.S., and even the Indopacific, in ways that exceed the attention given to it by Washington D.C. Larger than Germany, Paraguay's geographic centrality means that the country's commercial and political dynamics and institutional health affect, and is affected by both its immediate neighbors, Brazil, Argentina, and Bolivia, and the rest of the continent, through both licit and illicit activities.

As a major exporter of agricultural products, Paraguay's access to the Atlantic through the Paraguay and Parana rivers gives it a key role in ongoing subregional negotiations involving Argentina, as well as Brazil, Uruguay, and Bolivia over the maintenance and associated tolls for the use of those waterways. Paraguay further lies at the heart of a partly improved transport corridor (the "bi-oceanic highway") connecting the agricultural and mineral resources and markets of the middle latitudes of the continent, to Asia through Chile. Paraguay is also member and President Pro-Tempore of the South American Common Market, MERCOSUR, creating enormous opportunities for Paraguayan growth as a manufacturing hub, and also guiding the block as it seeks to complete a derailed free trade agreement with the European Union, although for both sides, success appears unlikely.

With respect to the region's criminal economy, Paraguay's centrality makes it a key route for cocaine produced in Peru and Bolivia, smuggled through the country en route to Argentina and Brazil, ultimately heading for Europe's and Africa's expanding cocaine market. Correspondingly, powerful Brazil-based criminal organizations including the *First Capital Command* (PCC), the *Red Command* (CV), and "*Bullet in the Face*," (*Bala Na Cara*), fight each other and local groups, such as the *Rotela Clan*, for control over drug routes through the country. Beyond cocaine, marijuana, produced in the east of Paraguay, dominates the South American market. Ciudad del Este, at the border between Paraguay, Brazil, and Argentina, has become a manufacturing and trading hub because of the access that low tax, low labor-cost Paraguay affords to the markets of its larger neighbors through MERCOSUR. That commerce has also made Ciudad del Este one of several areas in which the Iranian surrogate extremist organization Hezbollah generates licit and illicit funds for its political and terrorist activities elsewhere in the world.



action to end Taiwan's autonomy. Reciprocally, a Paraguayan diplomatic trip from Taiwan to the PRC would facilitate a rapid expansion of PRC presence and influence in the region, through memorandums of understanding, free trade agreements, entry of PRC-based companies, and the sponsorship of trips to the PRC for journalists, academics, government personnel and others that traditionally accompany such changes.

Given the strategic impact of Paraguay, it is significant that the current government of Santiago Peña has the potential to significantly strengthen the economic and institutional health of the country, its role as a powerful, if often overlooked, voice for free markets and democracy, and a key friend of the United States, Taiwan, and Israel.

Peña's strong pro-market orientation, on top of Paraguay's low tax rate, low labor and electricity costs, stable currency, central location, and access to larger neighboring markets through MERCOSUR, all create opportunities to expand the role of the country as a regional manufacturing and distribution hub. Paraguay's vast amounts of fertile soil will continue to make the country attractive as an agricultural producer. Completion of the Paraguayan portion of the bi-oceanic corridor, including a rail route which could logically be built eventually along the right-of-way of land legally set aside by the Paraguayan government for such a transport corridor, will help connect Paraguay's agricultural and other sectors to Asia, although there are no near-term plans for such a project. The low-cost "green" energy that Paraguay generates through the Itaipu hydroelectric facility, and Brazil's continuing refusal to pay higher rates for buying Paraguay's "excess" electricity, creates potential for a range of Paraguayan projects to make use of that inexpensive electricity for itself. These include possible "green hydrogen" production (with one such project already underway), to information sector initiatives such as data centers, computational support to artificial intelligence, and even bitcoin mining. As a compliment, Paraguay has some of the highest quality fine silica (sand) in the region, key for making advanced computer chips.

As a compliment to Paraguay's multidimensional economic potential, the capability and commitment of Santiago Peña as a national, and eventually regional, leader is arguably underestimated. He has been burdened by the association of his political patron and mentor, ex-President Horacio Cartes, with "[significant corruption](#)." Yet on his own terms, Peña is a remarkable figure, who brought himself up from relatively humble origins through hard work, to go on to become an economist with an important role in the Africa division of the Interamerican Development Bank, then later becoming the nation's Finance Minister, before his election as President in 2023. Interacting with Santiago Peña at the personal level, the president exudes charisma and intelligence, yet also a notable sincerity in the way he expresses his



worked with Brazil to ferret out Brazilian gang members hidden in Paraguayan prisons in Operation Purgatorio/[Joapy](#). During the prior administration, Paraguay's Financial Intelligence Unit, SEPRELAD, critical for the fight against illicit criminal financial activities, passed its certification by the Financial Action Task Force (GAFI-LAT), and its head, Liliana Alcaraz, was selected [President Pro Tempore](#) of the organization.

Unfortunately, such promising steps still pale against the magnitude of the problems Paraguay faces.

The “elephant in the room” in what could be a significant and surprising “success story” for long overlooked Paraguay, is the long-standing corruption that profoundly penetrates Paraguayan institutions and society, and which, in combination with institutional inefficiencies and shortages of certain technical skills in the labor force, arguably is the number one obstacle in the perceived lack of juridical security that makes many investors hesitant to take advantage of the considerable opportunities in the country.

Notably, local government spending on infrastructure and other activities spiked in the run-up to the last election, leaving a hangover of debt and paralyzed projects since the election has passed, fueling discontent that the Peña government is not producing results. Of greater concern is a widespread perception that ex-President Horacio Cartes, rather than Peña, continues to run the country from behind the scenes through his influence in key ministries, the Congress, and judicial organs. Santiago Peña's freedom from substantiated allegation of corruption, is an impressive contrast to his mentor. Cartes' recognition of Peña's enormous talent, and facilitation of his path to the Ministry of Finance and the Presidency, has arguably benefitted Paraguay in ways independent of whatever illicit activities Cartes may have been involved in. If Cartes' continuing influence in Paraguayan politics is even a fraction of that heard by the author during his interactions in Paraguay, the greatest gift that Cartes can give the country and President Peña, whom he likely believes in and cares for deeply, is to empower Peña to take the real and symbolic steps to frontally tackle corruption, and in the process, showcase his independence and remarkable capability, and the too long overlooked promise of beautiful Paraguay.

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