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United States Department of State

Washington, D.C. 20520

NOV 12 2010

Case No. 200701753, FSI-1

A Department of State Appeals Review Panel, whose members are listed in an enclosure to this letter, has considered your appeal of March 27, 2010, for the release of one document withheld in part by the Department in the course of responding to your request under the Freedom of Information Act.

It has decided to release the full 52-page document in its entirety. The released material is enclosed.

Sincerely,


Chairman, Appeals Review Panel

Enclosures:

List of Panel Members

One document



DEPARTMENT OF STATE

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LIST OF RELEASED DOCUMENTS

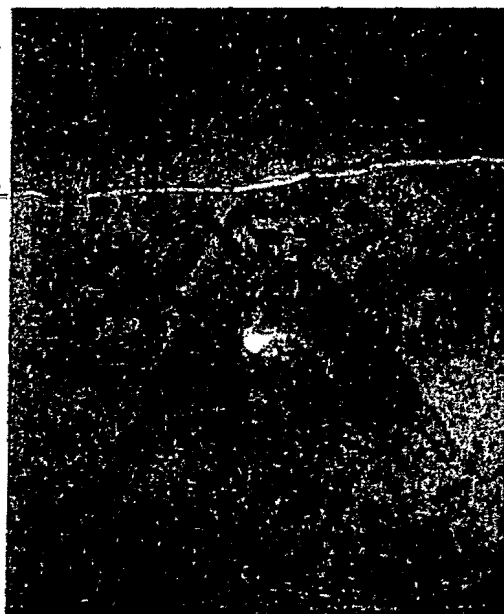
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PARAGUAY: B6 SELF-STUDY GUIDE

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UNITED STATES DEPARTMENT OF STATE School of Professional and Area Studies
 REVIEW AUTHORITY: APPEALS REVIEW PANEL Foreign Service Institute
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Self-Study Guide to Paraguay

The **Self-Study Guide: Paraguay** is intended to provide U.S. Government personnel in the foreign affairs community with an overview of important issues related to Paraguay's history, geography, politics, economics, culture, religion, media, and international relations. The Guide should serve an introductory self-study resource.

The topic is far too complex to be covered in depth using only the text in this Guide. The reader is encouraged to explore the questions and issues introduced, using the Internet and bibliographic sources provided in the text and in the resource sections. Most of the referenced material can be found on the Internet or in the Foreign Service Institute or Main State Libraries.

The first edition of this Guide was prepared by Robert E. Service former United States Ambassador to Paraguay and Karol C. Service. The views expressed in this Guide are those of the author and

UNITED STATES DEPARTMENT OF STATE

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BIBLIOGRAPHY

1524–30 Explorations of Aleixo García and Sebastian Cabot.

1537 Founding of Asunción by Juan de Salazar y Espinoza.

1609–1767 Period of Jesuit colonies (*reducciones*).

1720–35 Comunero revolt against Spanish authority.

1776 Viceroyalty of the Río de la Plata established (with authority over Paraguay).

1811 Paraguayans defeat Argentine Army under Belgrano and declare independence.

1813 First Paraguayan constitution.

1814–40 Dictatorship of José Gaspar Rodríguez de Francia.

1841–62 Dictatorship of Carlos Antonio López.

1862–70 Dictatorship of Francisco Solano López.

1864–70 War of the Triple Alliance against Brazil, Argentina, and Uruguay.

1876–77 Brazilian occupation ends; mediation of Rutherford B. Hayes gives disputed portion of Chaco to Paraguay rather than Argentina.

1878–04 Large areas of country sold in order to raise money and promote development.

1887 Liberal and Colorado Parties formed.

1904–40 Period of Liberal Party dominance.

1925–26 First Mennonite colonies in the Chaco.

1932–35 Chaco War with Bolivia (won by Paraguay).

1936–37 Febrerista revolt and government.

1940–48 General Morínigo rules with dictatorial powers Paraguay declares war

on Axis Powers in early 1945; U.S. economic and technical assistance begins.

1947 Civil war pits Colorado Party against other parties and much of officer corps.

1948–54 Six presidents, all Colorado Party.

1954–89 Dictatorship of General Alfredo Stroessner.

1955–57 Growing ties to Brazil lead to road and bridge across the Alto Paraná and to construction of Itaipú Dam. Paraguay no longer depends on Paraná River for access.

1969–1989 Opposition to Stroessner joined by Catholic Church and then by U.S. and other Governments on human rights grounds.

1989 Stroessner ousted by military coup; General Rodríguez elected to 4-year term in contested election.

1991 Treaty of Asunción joining Paraguay, Argentina, Brazil, and Uruguay in Southern Common Market (Mercosur).

1992 New, democratic constitution.

1993 Colorado Party candidate Juan Carlos Wasmosy wins election for President.

1996 General Oviedo threatens coup; resigns; launches successful campaign to win Colorado Party nomination for President.

1998 Oviedo imprisoned for coup attempt. Vice President candidate, Cubas Grau, wins election over opposition alliance candidate and pardons Oviedo.

1999 Assassination of Vice President Luis María Argaña sparks riots that force Cubas Grau and Oviedo to flee country. Senate President González Macchi assumes Presidency.

2000 Liberal Party wins election for vacant Vice President position.

2003 Next national elections.

GEOGRAPHY

Nowadays, most foreigners arrive in Paraguay by air from São Paulo. Most of the forest has gone. Clay red is the predominant color. You cross the Paraná River near the Iguazú Falls and the Itaipú Dam, and then glide down toward the flood plain of the Paraguay River and Asunción. Now, roads connect Brazil and Paraguay, the most important of which crosses the Paraná just below Itaipú into Ciudad del Este, Paraguay's second largest city.

It was not always this easy. Until 1950, Paraguay was the hemisphere's least accessible country. Almost everyone arrived by river from the south. It is 800 miles up the Paraná River to where the Paraguay River flows in from the left, while the Alto Paraná bears off to the right. At the point where they meet there is a wooded bluff, the southernmost point of the country. Behind it is a lush, fertile, and rolling land, broken here and there by wetlands and by hills that separate broad valleys. To the east, along the Alto Paraná River, an escarpment extends down from Brazil. The lake behind Itaipú Dam, the Amambay Mountains (high hills, really), and the Rio Apá separate Paraguay on the north and east from Brazil. This is eastern Paraguay, about 40 percent of the country and the home to well over 95 percent of all Paraguayans. It used to be heavily forested. Now only scattered remnants remain. Farming, grazing, and urbanization have claimed the rest. The highest point in the country is here, less than 3,000 feet.

Continue up the Paraguay River. On the right, where the river narrows and makes a bend to the east, you pass Humaitá and then Pilar in the Department of Ñeembucú. At Humaitá (little more than a ruined church remains), the Paraguayans held off the Argentine and Brazilian forces for almost 3 years during the War of the Triple Alliance, helped by the waterlogged nature of much of the terrain. Old battlefields are reminiscent of those of our Civil War. Although Pilar has the biggest textile plant in the country, there is little other development. Ñeembucú only recently got its first paved road.

On the left the land is flat as far as the eye can see; Argentina at first, then Paraguay north of the Pilcomayo River. This is the Chaco, a gently rising, former seafloor that has wetlands along the Paraguay River and becomes increasingly arid the farther west and north you travel. A paved highway that runs past the Mennonite colonies gives way to sand well before the Bolivian border. Just north of the Pilcomayo, but on the eastern side of the Paraguay River, is Asunción, the capital and center of Paraguayan history since 1537. Farther north is the old town of Concepción, on the right shortly before reaching the Apá River and Brazil. Paraguay continues on the western side for another 140 miles to the border with Bolivia. This area, from Puerto Casado to Bahía Negra used to be a major source of *quebracho* wood (used for extracting tannin and for railway ties).

Beyond the riverbank, few Paraguayans find the Chaco an attractive place to work or live. It is the home to most of the country's remaining Amerindians, to three large Mennonite colonies, and to cattle ranches, but not much else. Almost all of the country's history and economic activity is in the eastern portion.

Rivers define Paraguay. The Paraguay River, wide, meandering, and relatively slow moving is much like the Mississippi. The Paraná to the east is more like the Columbia, and carries a greater volume of water in a more rapid descent.

Asunción is by far Paraguay's largest city, with 1.5 million people within the metropolitan area. Regional centers are Encarnación in the south across the Alto Paraná from Argentina, Villarrica, and Colonel Oviedo in the center of the eastern portion, Ciudad del Este in the east, and Concepción in the north. The country's main transportation artery goes almost due west from Asunción to Colonel Oviedo and then Ciudad del Este. Other main roads link Asunción and Ciudad del Este with Encarnación in the south. From Colonel Oviedo a paved road goes north to Pedro Juan Caballero on the Brazilian border.

Paraguay's area of 157,048 square miles is about the same as California's. It has 1,880 kilometers of border with Argentina, 1,290 kilometers with Brazil, and 750 kilometers with Bolivia. The rivers provide access to small oceangoing ships, although nowadays most waterborne cargo travels by barges to deeper ports in the River Plate Basin. Paraguay sits on the Tropic of Capricorn. About 80 percent of the country is in the Tropics, the remainder, from Asunción south in the Temperate band. If it were in the Northern Hemisphere, Paraguay would be South China, the Hawaiian Islands, or Egypt below the Aswan Dam.

The weather in most parts of Paraguay is hot and humid during summer months (December through March), warm to hot in spring and fall, and cool during the winter months of June through August. Summer days in the 100's and winter nights in the 40's are not uncommon. Snow is almost unknown; but, for those living without heating in houses that are partially open to the elements, most Paraguayans, the winter days and nights can be quite cold. Average annual rainfall is 100 inches in parts of the eastern portion. In the Chaco it tapers off to 15 inches near the Bolivian border.

Six percent of the land is described as arable. The principal crops are soybeans, corn, manioc, cotton, sugar, and tobacco. Fifty-five percent of the country is in permanent pasture, much of which is devoted to cattle. Forests and woodland now make up less than one-third of the territory.

There is very little mineral wealth apart from Limestone and clay. No known commercial deposits of petroleum, gas, or coal exist. There may be minable gold.

Questions/Issues

1. Despite past isolation, is Paraguay's central location a plus or a minus for future development?
2. Does Paraguay have significant tourism potential?

Further Reading

[See end of Guide for full bibliographic citations.]

Meditz, Sandra W. and Dennis M. Hanratty. *Paraguay, a Country Study*. See particularly chapter 2.

Pendle, George. *Paraguay: A Riverside Nation*. See chapter 1 for the geography of the country.

Pincus, Joseph. *The Economy of Paraguay*. Three geographical appendixes by Timothy G. Smith, pages 449–505, give a very detailed account of Paraguay's geography, land use and colonization.

Washburn, Charles A. *The History of Paraguay*. Chapter 27 of volume 1 gives an idea of what the country looked like 140 years ago.

HISTORY

In bald outline: The Guaraní Amerindians occupied much of what is now Paraguay when Europeans discovered and began to settle the area from 1524 to 1537. After a brief stint as the center of Spanish administration of the River Plate Basin, Paraguay passed two centuries as an isolated outpost of an empire. Independence, when it came in 1811, was less a rejection of Spain than a determination by the country's first dictator not to buckle under to Buenos Aires and its local allies. In the 1860's, Paraguay fought a disastrous war against Argentina, Brazil, and Uruguay. In the 1930's, it won the Chaco War against Bolivia. Without significant mineral wealth, Paraguay has always been predominantly agricultural. Since 1870, Paraguay's experiments with democratic governance produced alternating periods of one-party rule and then almost 50 years of military dictatorship. Since Stroessner's ouster in 1989, Paraguay has made a serious effort to modernize; success has been only limited thus far.

The Guaraní Inheritance

The first Europeans known to have set foot in Paraguay were the Portuguese Aleixo García who came overland from the coast in 1524 and Sebastian Cabot who sailed up the Paraná River in 1526. They encountered large settlements of Guaraní Amerindians who, for the most part, were friendly. The Guaranís are often linked with the Tupí Amerindians. Together the Tupí-Guaraní occupied a large part of what is now coastal Brazil, extending through Paraguay into eastern Bolivia. According to some experts, the Guaranís may have originated in the Paraguay River Basin. They practiced slash-and-burn agriculture with corn and manioc as the principal crops, and hunted and fished. The social unit was the family. Each community had a chief, but a shaman often held the real power. There was little in the way of a governing or upper class, and no central government. Related communities joined together in time of war.

More than any other country in the Americas, modern-day Paraguay is a fusion of what existed before the Spaniards and what came later. Today, there are perhaps no more than 100,000 pure Amerindians, mostly in the Chaco, few of whom are Guaranís. But most Paraguayans have some Amerindian blood

and almost all still speak some Guaraní. In the rural areas, Guaraní is still the preferred language. For an aspiring politician, fluent command of Guaraní is a plus. Contrast this to Andean or Central American countries where large indigenous populations exist side by side with mestizo and European populations—or frequently in separate parts of those countries. Although many other Latin American nations have substantial mestizo populations, in Paraguay because of limited European settlement, the mix is probably more weighted to the Native American side than elsewhere in the region.

The first Europeans did not pose an immediate threat to Guaraní life and customs. They wanted to find a passage to the Pacific Ocean or a shorter route to the mineral wealth of the Andes. The Guaraní Amerindians saw the new arrivals as potential allies in their own battles with hostile tribes. Living in a fertile area, the Guaraní appear to have been willing to share that abundance with the newcomers; in any event, personal property barely existed. Even today, what we might call theft is often viewed as simply taking something that the other person has more of than you do, and therefore is a form of social sharing. Similarly, personal enrichment by dubious means is something less than corruption if the political candidate shares his wealth with potential voters.

For more than 400 years after Spanish settlement, subsistence agriculturalists occupied abundant unowned or unworked land. Aside from the demand for Amerindian labor (see below), those in whom the Guaraní inheritance was still strong could continue living as they had. Following the War of the Triple Alliance, foreign individuals and companies bought large chunks of territory, but development was seldom intensive. Only in the past 50 years, has land become scarce, giving rise to a serious problem of landless peasants and property invasions. (See [Social Issues](#) and [Economics](#).)

Far Away With no Gold or Silver

On August 15, 1537, Gonzalo de Mendoza y Espinoza built a fort above a small bay on the East Bank of the Paraguay River and called it Nuestra Señora Santa María de la Asunción. He viewed it as a base to explore for silver and gold in the direction of the Andes. For a time, Asunción prospered. In 1541, the Spanish Government abandoned Buenos Aires (Nuestra Señora del Buen Ayre) and moved its remaining settlers to Asunción. For 40 years, the small settlement 1,000 miles upriver from the coast was the center of Spanish activities in the southern part of the continent, east of the Andes. By 1560 the population was 1,500. Domingo Martínez de Irala, the first effective governor (1544–1556) encouraged the settlers to take Guaraní wives—there were as yet very few European women—to learn the local language, and to adopt some of the local customs.

The Chaco route to the Andes proved harsher and longer than explorers had hoped. They soon recognized that bringing mineral wealth to the east would not be economically feasible. Nor, were any nearer valuable deposits found. The exploratory phase had ended. After the Spanish reestablished Buenos Aires in 1580, Paraguay became an outpost of the empire, largely ignored by the Crown and not given much more attention by its nearer neighbors. The resulting isolation lasted for 400 years. Only after 1950, with commercial aviation and the building of all-weather road links to Brazil, did Paraguay become readily accessible. Looking forward, some foresee a virtue in Paraguay's central location: as a

hub for continental transport by land, air, and the rivers.

Isolation meant that the viceregal regimes (in Lima until 1776 and then in Buenos Aires) exercised only limited authority in Asunción. The early European settlers claimed with mixed success the right to choose and depose the royally appointed governors. Since Asunción had no royal troops, governors had to rely on the dubious loyalty of a locally recruited militia. Rather than more or less orderly governance maintained by a distant imperial authority, Paraguayans learned early the political value of controlling the most guns and men at the local level.

In 1811, with revolution starting to sweep through Spain's American colonies, Argentines naturally assumed that Paraguay would continue as a dependency of Buenos Aires. That it did not, that it opted for independence from both Spain and Argentina, was largely the work of one man, José Gaspar Rodríguez de Francia. After twice defeating an Argentine army, an assembly in Asunción declared independence on May 14–15, 1811. When further negotiations broke down, Argentina closed the Paraná River to Paraguay, not finally granting recognition until the 1850's. Francia's response was to close Paraguay in on itself, making a virtue of an isolation that had been the normal order of events for much of its history.

Initially, Francia was one of two consuls charged with running the country. By 1814, he had decreed a law replacing the two heads with just one, his own. In 1816, he was declared Ruler for Life with the title of El Dictador Supremo. A well-educated man, of ascetic temperament, Francia's response to Argentine hegemonic pretensions was to severely curtail the once-dominant positions of those who looked to Buenos Aires for commercial or other reasons—first the small Spanish-born elite, then the Creole elite, and eventually the Catholic Church. Many who left the country were not allowed to return. Some who entered were not allowed to leave. Francia expropriated large amounts of land that had previously belonged to the elites or the Church. At the same time, he nationalized much of the trade that continued and looked to the overland route with Brazil as an alternative to the traditional supply route up the rivers. Francia also diversified Paraguayan agriculture, thus, making the country less import. Efforts to overthrow Francia were quickly and harshly crushed. When he died in 1840 at age 74, Paraguay's independence had been solidified, but, at the cost of almost total isolation. Francia was hardly an enlightened leader, but the country had enjoyed peace and some limited internal development. This example of a hardworking, unflamboyant, dictator would echo more than a century later in the even longer rule of Alfredo Stroessner.

The Agricultural Imperative

Lacking other alternatives, the Paraguayan economy quickly came to depend on agriculture and forest products, which still account for the bulk of exports. The *encomienda* system, originally developed by the Spaniards in the heavily populated and more developed areas of Mexico and Peru, apportioned Amerindians among Spanish settlers who, in return for labor or payment, saw to the spiritual well-being and protected their wards. In Paraguay, about 20,000 Amerindians were divided among the 320 surviving Europeans. In theory, there were two types of *encomienda*: those requiring labor from the Amerindians; and those requiring an annual payment instead. In Paraguay, which operated almost entirely on a barter

basis during the early period, almost all *encomenderos* enforced year-round servitude on the Amerindians in their charge. This system remained in effect throughout the colonial period, and its legacy is still visible in the relations between landlords and the landless in the Paraguayan countryside.

Beginning in 1609, the Jesuits set up an alternative model for organizing the indigenous population—the so-called *reducciones* or missions. Building on work that had started in Brazil in the preceding century, the Jesuits gathered Guaraní Amerindians in the interior into self-contained communities, some with as many as 6,000 members and usually administered by just two Jesuit priests. The Jesuit communities developed yerba mate as a major crop, and also traded cattle, hides, tobacco, and food crops. On occasion they provided native troops to the Crown to ward off attacks from the Portuguese, English, and French. Voltaire, in *Candide*, includes a short episode about the Jesuit state within a state.

Inevitably, the settlers from Asunción viewed the Jesuits as rivals for the control and exploitation of Amerindian manpower. In 1720, Paraguayans rebelled against royal authority when the Viceroy in Lima reinstated a pro-Jesuit governor the local inhabitants had earlier deposed. One of the issues was access to Amerindian labor, which prominent families viewed as being more and more walled off by virtue of the Jesuit settlements. When the rebellion spread to poorer elements of the mestizo community, the more prominent families reversed direction and called for imperial help to end the revolt. Ironically, Amerindian troops from the Jesuit *reducciones* helped restore order. Antipathy toward the Jesuits continued, however, and leading Asunceños were not unhappy when the Jesuits were banned from the Spanish Empire in 1767. The Franciscans maintained some of the *reducciones* for a time, but now only ruins remain.

After the War of the Triple Alliance, foreigners, and some Paraguayans, invested heavily in commercial agriculture—first cattle and forest products such as tannin—and, more recently, in cotton and soybeans. Except for Brazilian soybean interests in eastern Paraguay, foreign influence has diminished. Overall, however, economic performance continues heavily dependent on year-to-year fluctuations in agricultural productivity.

Little Country in the Middle

Carlos Antonio López replaced Francia from 1841 to 1862 and made some progress in opening up the country to modern influences. He was selected by a popular assembly, but he ruled as a dictator. Where Francia had sealed off the country, López wanted to bring in foreign investment and technology. Paraguay's one railroad, little changed to this day, was López' idea. He began construction of the Presidential Palace in Asunción and other public buildings. López also built more than 400 schools, and he strengthened the army. In 1852, Argentina formally recognized Paraguay's independence and other countries followed suit.

At Carlos Antonio's death the Office of President passed to his son, Francisco Solano López. Solano López is Paraguay's greatest national hero, buried now in the Panteón in downtown Asunción. Many historians judge that he was a megalomaniacal tyrant. Solano López had spent numerous years in Europe,

purchasing arms and studying the ways and intrigues of great countries. He also found an Irish-French mistress, Elisa Lynch, who was to bear him five children and to be at his side throughout the War of the Triple Alliance. Solano López had some reason to believe that Brazil and Argentina had designs on Paraguayan territory, but his ambitions were not solely defensive. Paraguay had a central location; the economy, based largely on agriculture, was stable; both Francia and Carlos Antonio López had begun the work of creating a professional military; and the latter had started an iron industry. When Brazil made demands on Uruguay in 1864, Solano López sent troops to the defense of its small sister republic, marching without permission across Argentina.

The War of the Triple Alliance arrayed Brazil, Argentina, and nominally Uruguay against Paraguay. The outcome was preordained, but it took 4 years for Asunción to fall and 2 more before Brazilian troops killed Solano López at Cerro Corá near the Brazilian border. Reputedly, Solano López' last words were "I die with my country." Whatever he intended the words to mean, Paraguay almost did die with him. By most accounts, well over 50 percent of the adult men were dead. Much of the country's limited infrastructure was destroyed. The peace settlements with Brazil and Argentina lopped off about 30 percent of the prewar territory and imposed reparations.

Although the War of the Triple of Alliance was a disaster for Paraguay, Paraguayans have also found ways to profit from the country's central location. At various times they have played off Argentina and Brazil to gain economic advantage, notably in the building of the Itaipú Dam. There has always been substantial contraband back and forth across the borders, to the benefit of Paraguayan middlemen.

The Triple Alliance War largely fixed Paraguay's borders with Brazil and Argentina, but those with Bolivia, also considerably larger, were still unresolved. The Spanish had never bothered to clarify the dividing line between the jurisdictions of Lima and Buenos Aires. The Bolivians, after losing their Pacific coast to Chile in 1883 were eager to establish an outlet on the Paraguay River, and there were rumors that the disputed area of the Chaco contained extensive petroleum deposits. The Chaco War is generally dated from 1932 to 1935. In the final analysis, the lowland Paraguayans were more capable of fighting in the region than were Bolivia's Andean conscripts. Paraguay retained much of what it had claimed.

Men Over Laws

Paraguay shares much the same cultural history as the rest of Latin America. Its Government and its laws, often explicitly based on foreign models, are very similar to those found elsewhere. Like every country, Paraguay has had its enlightened leaders and exemplars of civic virtue. Yet Paraguay, to the outside observer, seems to have had a harder time than most in establishing the supremacy of law over the will of those with power. Dictators have ruled for more than half the period since independence and they have been tolerated, even welcomed at times, because they seemed to promise more stability and certainty than available alternatives. Even in periods of more-or-less democratic governance, the executive branch has dominated the other two. Judges and Congressmen could be bought or intimidated. The history of political parties is that of individual leaders and factions, more than ideology. In the

economic sphere, there is a long history of foreign partnerships with the Government or influential Paraguayans that later went sour because of perceived failures of the legal system.

Various factors may play a part: The Guaraní cultural inheritance, the “thinness” of Spanish rule over three centuries, the historic isolation and poverty of the country, rural predominance, the frontier mentality until very recently, the apparent belief of many Paraguayans that they can outwit richer neighbors, indeed any foreigners, and profit as a result.

Personal relationships remain very important in Paraguay. Most businesses are individual or family owned. Historically, politics has offered one of the few avenues for upwardly aspiring Paraguayans. Many of the more successful politicians have been caudillo-type leaders who cultivate patron-client relationships, trading protection and favors for support. The imperative of power, once gained, is to make sure that supporters get the benefit of Government action (or inaction, as quite often is the case when it comes to legal issues). Although now declining in importance as Paraguay slowly diversifies, a Government job at almost any level is a plum.

The personalist nature of Paraguayan life may have reached its apogee during the 35-year dictatorship of Alfredo Stroessner (1954–89). Since then Paraguay has embarked on its most serious experiment with democratic governance, joined with neighbors in forming the Southern Common Market (Mercosur), and attempted to convince foreign investors that Paraguay is a land of opportunity. Success remains uncertain.

Questions/Issues

1. What has to change in Paraguay if there is to be a strong and independent judiciary?
2. What is the role of other governments and international organizations in promoting political and economic development?
3. What are the prospects for significantly less corruption? What might be the key factors for such reduction?

Further Reading

[See end of Guide for full bibliographic citations.]

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CULTURE

Language

Paraguay is a bilingual country. Since 1967, both Spanish and Guaraní have been recognized by the constitution as national languages. The degree of bilingualism in the population varies with respect to education and urban-rural circumstances. Nearly all Paraguayans (about 90 percent) speak some Guaraní. About half the total population is bilingual, and 40 percent of Paraguayans speak only Guaraní. Although Spanish is the official language in Government, education, and religious activities, Paraguayans of all classes use Guaraní in their homes and, according to some linguistic specialists, in their thoughts. Fluency in Spanish is related to educational attainment and is much more widespread in urban than in rural areas. Exclusive use of Guaraní is most common in rural areas.

At various times in the nation's history, Guaraní has served as an effective nationalistic symbol and unifying force. Guaraní is closely associated with Paraguayans' sense of national identity, and it has proved to be a vital communications asset in politics, particularly in rural areas. Jesuits in the 17th century developed an orthography for Guaraní. In contemporary Paraguay, Guaraní is often used in poetry, popular music, and theater productions; it is widely used in radio broadcasts; and some newspapers contain columns written in Guaraní. For most Paraguayans, however, Guaraní is primarily a spoken language, one they have learned at home or in the countryside with little or no formal instruction. Until the 1960's only Spanish was used in schools; bilingual instruction was introduced in the late 1980's.

At least 5 percent of the population speak languages other than Spanish and Guaraní. Mennonites who speak Plattdeutsch, a German dialect, are part of this group. Other languages spoken are Portuguese, Japanese, German, Korean, and Chinese.

Ethnic Composition

High rates of intermarriage swiftly produced a fairly homogeneous mestizo society in Paraguay. Most of the original 350 settlers were male and from Spain, but the group also included some settlers from France, Italy, Germany, England, and Portugal. An early governor encouraged the settlers to give up thoughts of returning to Europe and to take Amerindian wives. Polygamy was common among the Guaraní tribes; some chiefs had as many as 20 concubines and shared them willingly with visitors. The settlers followed this practice, and some had as many as 10 to 20 wives and concubines. Before long, the mestizos outnumbered the Europeans, and by the 18th century, they outnumbered the Amerindians. Since almost all Paraguayans are of mixed blood, the term mestizo is seldom used in Paraguay.

Ethnic minorities, chiefly immigrants from Europe, Asia, and Latin America and Amerindians who continue to pursue an indigenous way of life, comprise less than 10 percent of the total population but are of considerable importance in some areas and activities. European and some Middle Eastern immigration began after the War of the Triple Alliance. Government efforts to attract immigrants in the late 1800's brought some 12,000 new residents from Italy, Germany, France, and Spain. There was also some immigration from Argentina at that time. German-speaking Mennonites came to Paraguay from Canada, Mexico, and Russia between 1920 and 1950 and established three agricultural settlements in the Chaco where, within a generation, they converted the semiarid desert into fertile farmland. Including a few smaller communities in the eastern region, the Mennonite population is estimated at some 25,000. Japanese immigration, which began in the 1930's and continued in the 1950's, was also largely agricultural in orientation. There is some Japanese involvement in commercial farming in the eastern region and several Japanese agricultural settlements have a total population of 30,000–40,000. Immigration from Brazil is more recent and of a significantly larger scale. Repeal of land ownership restrictions for foreigners in border areas and low land prices brought 300,000 to 400,000 Brazilians to eastern Paraguay in the 1970's and 1980's. More recently, immigrants from South Korea, Taiwan, and Hong Kong, estimated at a total of 30,000–50,000 have settled chiefly in Ciudad del Este and Asunción where they are engaged primarily in the import and sale of electronic goods from Asia and other commercial activities. (See [Social Issues](#) for information on the Amerindian population.)

Religious Beliefs

More than 90 percent of Paraguayans are Roman Catholic. Mennonites and various Protestant groups account for the balance. Freedom of religion is guaranteed by the constitution. At one time the constitution required that the President be Roman Catholic, but that is no longer the case.

Catholic rituals and communal religious celebrations are an integral part of social life in Paraguay.

Catholic rituals generally mark important transitions in life, but there is some class distinction in this participation. The costs involved in the accompanying celebrations for weddings and baptisms are often a burden for the lower classes, causing them to postpone or curtail some of these rituals. Religious fiestas are community and national events that are celebrated by all social strata. Most church holidays are public holidays.

National Holidays

January 1	New Year's Day
March 1	Heroes Day
Variable	Holy Thursday
Variable	Good Friday
May 1	Labor Day
May 15	Independence Day
June 12	Chaco Armistice
August 15	Assumption of the Virgin, founding of Asunción in 1537
September 29	Victory at Boquerón
December 8	Virgin of Caacupé
December 25	Christmas

Questions/Issues

1. What are the benefits and disadvantages of bilingualism: Would Paraguay be better off with just a single language, presumably Spanish?
2. If the Mennonites could make a success of the Chaco, why can't other groups or sectors of the population?
3. What should be the role of Government or nongovernmental organization policies in promoting cultural change?

Further Reading

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SOCIAL ISSUES

Population Characteristics and Trends

Paraguay must make substantial investments to adequately educate and care for its population. The Paraguayan population, estimated at 5.6 million in 2000, has been increasing at 2.6–2.9 percent a year. It is a relatively young population, with 39 percent under 15 years of age; 56 percent between 15 and 64 years; and 5 percent age 65 and older. The fertility rate, 4.16 per woman of childbearing age, is above the 3.4 average for Latin America. Considerable improvements have been registered in the last 25 years in the infant mortality rate, which was 36 per 1,000 live births in 1999; this rate compares favorably with infant mortality in Ecuador (39.4), Brazil (39.8), Peru (43.0), and Bolivia (59.). Life expectancy was nearly 70 years, for men 67 years and 72 years for women.

Mobility is high within the country, and emigration has been significant. Paraguay has, thus far, avoided the massive rural-urban migration so prevalent elsewhere in Latin America. Urbanization, however, has increased in recent decades and by the late 1990's more than half (52 percent) of the population resided in urban areas. One-fourth of the total population lives in the Asunción metropolitan area. During the last 25 years, internal population migration has been focused on the eastern region of the country where new agricultural lands were opened for colonization. There was a significant outflow from the central region to the eastern departments of Alto Paraná and Caaguazú where population increases have averaged about 10 percent a year. Most of this was rural-rural migration, but there was sufficient rural-urban movement to produce significant growth in small cities and towns. As a result, by the 1980's Paraguay had more than 30 cities with at least 5,000 residents. Some of the most spectacular growth was in Ciudad del Este where the population increased almost sixfold in 1972–82.

Emigration is chiefly to Argentina and follows long-established patterns. Since the mid-1800's, great numbers of Paraguayans have sought economic or political refuge in Argentina. As many as 2 million Paraguayans live in Argentina today, mainly in the northeastern agricultural areas and in Buenos Aires. Some 366,400 Paraguayans are regarded as part of the Argentine laborforce, and they are particularly notable among the construction trades in Buenos Aires. Reportedly, there are also numerous Paraguayans living in Brazil, and about 28,000 Paraguayans live in the United States, chiefly in New York.

Social Structure and Income Distribution

Paraguay is generally regarded as having a more egalitarian social structure than most of its Latin American neighbors. Differences in income and cultural levels are not as extreme as in many Latin societies, and although Paraguayan society is stratified it is not rigidly divided. There are urban-rural distinctions. It is chiefly in urban society that a middle class is evident.

The basic social dichotomy is between the rural poor and the urban elite, between a broad stratum of small farmers and landless peasants many of whom operate on a subsistence level and a narrow stratum of elite families with ties to industry, commerce, and Government. The upper class is centered in the capital; most of its members have known each other since childhood and many are interlinked by kinship and marriage. Most of the urban population falls between these extremes. There is a small middle class in the major cities and towns largely delineated by education and occupation, essentially entrepreneurs, professional and technical workers, white collar employees, highly skilled craftsmen, civil servants, and military officers. The urban poor is the larger component, comprising as much as 80 percent of the population of Asunción; included in this group are unskilled laborers, most service workers, the self-employed and family workers in small businesses, and the unemployed. Education and military service are the traditional means of advancing from lower to middle level status. Acquisition of wealth in the Itaipú boom years broadened the ranks of the elite, adding high-ranking military and Government officials and others who profited from the huge project.

Income distribution data are very limited but indicate a relatively more even distribution than in similar Latin American countries. At the upper end of the spectrum, the 20 percent of households with the highest levels of income account for 46 percent of total income and at the lower end, the poorest 20 percent of households represent 6 percent of total income. About one-third of the population was regarded as living below the poverty line in 1999. Poverty is most evident in rural Paraguay among small farmers, farm workers, squatters, and the Amerindian population where most farm at the subsistence level. More than 200,000 rural families depend on subsistence farming and are only marginally involved in the money economy. In 1999 about one-fourth of the rural population experienced extreme poverty.

Land Ownership and Use

Over the last 40 years, the Government has attempted to improve conditions for the rural poor through agrarian reform, land distribution, and agricultural resettlement programs with varying degrees of success. The colonizing program in eastern Paraguay degenerated into a land grab benefiting Brazilians

as well as Paraguayans, and when the dust settled, there were still a great many landless Paraguayan peasants. By the 1990's the Government's land resources were exhausted, but rural poverty and discontent persisted. Conflicts between squatters and landowners were common, and as land values increased, relations between commercial and subsistence farmers deteriorated.

At the core of many rural problems is the clash between traditional land use practices and commercial farming. For generations, the abundance of land and sparse population allowed Paraguayans to be fairly casual with regard to land ownership and use. Nomadic farming and squatting were established practices, and custom permitted squatters to settle on the fringes of large holdings. Although this land use arrangement was considered transitory, it could last for years; in the interim squatters could be called upon by landowners to provide labor as needed. Problems developed as commercial farming expanded and land values increased, and squatters were no longer widely tolerated.

Until the 1960's few farmers owned their land; nearly half of all farmers (49 percent) were squatters in 1956. The largest landowners were the Government and foreigners. The Government had acquired about 60 percent of the land area through confiscation of church and Spanish property in the 1800's; it sold off large tracts, chiefly to Argentines, to pay debts from the War of the Triple Alliance. These sales marked the beginning of foreign ownership of large landholdings in Paraguay, a trend that has continued to the present and now includes Brazilian, U.S., and European interests. Over time, the Government used its landholdings to reward political loyalty and for colonization projects; in the 1960's land distribution became the escape valve for rural discontent in the densely settled central region.

Land reform began in the 1960's with the creation of the Rural Welfare Institute; it was empowered to issue land titles to farmers for the land they were using and to organize colonizing projects in vast tracts of untitled land near the Brazilian border. Land ownership broadened considerably under this program, and the circumstances of about one-quarter of the population were directly affected. Some 250,000 Paraguayans moved to new settlements in the eastern region. Over the next decade, thousands of Brazilian colonists also moved to the newly opened lands, and several foreign-owned agribusinesses bought large holdings in this area. As land values rose, conflicts developed. Some original settlers sold out to larger landowners, and the squatters who'd traditionally lived in this sparsely populated area were soon in conflict with the colonists, immigrants, and agribusinesses.

The latest agricultural census (1981) indicates about 14 percent of the rural population was landless but land ownership has increased; 58 percent of all farms were owned outright and 15 percent were share cropped. Most of the nation's 273,000 farms are very small; those under 5 hectares (1 hectare equals 1.43 acres) in size represent 35 percent of all farms and have an average size of less than 2 hectares; they comprise 1 percent of all farmland. In contrast, large farms averaging 7,300 hectares, constitute 1 percent of all farms, and have nearly 80 percent of the farmland.

Family and Kinship

For Paraguayans of all classes, family and kin are the center of their social world and the focus of their

loyalties. Since authority in Paraguay is exercised along personal rather than legal or institutional lines, family and kinship ties are extremely important. These ties apply to godchildren, godparents, and members of the extended family. Assistance in times of need can be expected from extended kin, and kinship ties are important in most economic activities, from business connections to employment opportunities.

Most households are nuclear families, made up of spouses and unmarried children. About 20 percent of all households are headed by a single parent, usually a woman. Few households are intergenerational. The prevalence of nuclear families is generally attributed to the limited economic opportunities available to most families. Few Paraguayans earn enough to support more than their immediate family members.

Godparenting (*compadrazgo*) is an important means of strengthening and extending kinship ties. Parents select godparents for a child at baptism and also for confirmation and marriage; the godparents have a special relationship with the parents and are regarded as coparents. The social link between coparents can be significant; they are expected to treat each other with respect and to assist each other in times of need. Class distinctions are evident in the selection of godparents. The upper and middle classes tend to select social equals as coparents. The relationship has less practical significance for these classes than it has for the poor. Potential economic benefits and the forging of ties outside one's social circle are more relevant for the urban and rural poor who are likely to select an influential benefactor for the godparent role. In these relationships, the poorer person acquires protection from someone above his own social standing, and the benefactor is entitled to absolute loyalty in return. These kinship ties can be politically significant in Paraguay and political parties have used them to mobilize rural support.

The Status of Women

Paraguay is a conservative male-dominated society that has been slow to grant women equal rights or access to political power but in recent decades fundamental changes have occurred. Women only gained the right to vote in 1963. Although some women have been elected to Congress, few women serve as mayors or judges or in other positions of civil authority. The principal Government organization concerned with women's issues is the Secretariat of Women in the Office of the Presidency. Recent changes in the civil code have provided women with protection in the division of marital property in separations; divorce became a legal option in 1992. A domestic violence law was enacted in 2000.

Women constitute about 20 percent of the total laborforce in official statistics. Many sources contend that women represent a larger portion of the laborforce, as much as 40 percent in urban areas and even more in most rural areas. The economic contribution of women has always been important in the countryside where women traditionally perform all domestic work and most of the fieldwork on small and subsistence farms. Services and commerce are the main sectors of employment for women in urban areas. Pay rates for women tend to be at the low end of the scale, and many working women earn less than minimum wage.

The Role of Religion

Exception for the Jesuit missions, the Roman Catholic Church had little influence in Paraguay's formative years. In colonial times, the Paraguayan church was often without a bishop for several years at a time. The Asunción diocese was established in 1547 and greeted its first bishop in 1556. Reportedly only 20 of the first 40 bishops actually reached Paraguay. The Jesuits arrived in 1588 with the aim of pacifying and converting the Amerindians; they established their missions in remote areas, and most of their activities were conducted outside the formal church structure under special arrangements with the Spanish Crown. This did not endear the Jesuits to the local church hierarchy in Asunción, which welcomed the expulsion of the Jesuits in 1767.

Relations between church and state were antagonistic at times after independence but later during the Stroessner regime, became overtly hostile. In the early 1800's Francia confiscated church lands and closed the seminary and convents. The execution of the bishop of Asunción in the War of the Triple Alliance (1865–70) was another low point; at that war's end there were just 50 priests left in Paraguay, and the bishop was not replaced for more than 10 years. During the Stroessner era, the Catholic Church became the regime's most important opponent. Friction centered on student and agrarian affairs in the early years but then broadened to human rights and social justice issues in the 1970's and 1980's. Confrontations were frequent. When the Government expelled foreign-born clergy and periodically closed the Catholic University in Asunción, the archbishop countered by excommunicating several prominent Government officials and suspending church participation in civic religious celebrations. A papal visit in 1988 lent support to the local church in its opposition to Stroessner. During that visit, Pope John Paul II repeatedly stressed human rights, democracy, and the right and duty of the church to be involved in society. Since Stroessner's ouster, the Catholic Church has continued to support human rights and social justice but has been less militantly involved in politics.

Amerindians

Paraguay's destitute and dependent Amerindian population poses complex social and cultural problems for modern policymakers. Traditional Government policy has been to leave the Amerindian population to the care of religious organizations. In the 1970's the Stroessner government was accused of genocide against the Amerindians, and it was chiefly Catholic and Protestant missionaries who denounced the Government's policies.

The Amerindians are not a homogeneous group; there are 17 tribal groups and at least five language families. Exactness is lacking in statistics on this segment of the population, but it is generally estimated that 50,000 to 100,000 people maintain indigenous traditions and live apart from the general Hispanic culture. This group comprises less than 3 percent of the total population but represents about 10 percent of the poorest Paraguayans. Many Amerindians are no longer economically independent; in recent decades they have lost access to the lands they traditionally used for hunting and farming and have become dependent on wage labor and the protection of missionary groups. Prejudice against Amerindians is strong in some rural areas.

Around a third of the Amerindians live east of the Paraguay River, where their traditional way of life has become less viable in recent years. For generations these Amerindians have lived in remote areas along the Brazilian border; until the 1960's they were able to practice slash and burn agriculture and hunting and gathering in this area without being disturbed. Beginning in the 1960's Government colonization programs brought thousands of Paraguayans and Brazilians to this area, and the Amerindians were forced to move elsewhere. As the pace of this development quickened, the land available to the Amerindians for their traditional lifestyle diminished. Very few Amerindians held titles for the land they utilized, and most were dispossessed as the newly arrived settlers claimed this land. Without the land they'd used to hunt and fish and grow food crops, the Amerindians were forced to move elsewhere or seek wage employment. Many of these Amerindians have become totally dependent on agricultural employment and some have taken refuge in missionary settlements. The Aché tribe suffered greatly at the hands of these settlers. Members of this tribe lived in remote forest areas; their contacts with rural Paraguayans had seldom been peaceful. The killing and enslavement of Aché members predates the colonization programs but during the 1960's and early 1970's these practices became organized activities, as Paraguayans and Brazilians mounted "Aché hunts." Governmental efforts to establish a reservation for the Aché were a total debacle, placing the Aché in even greater physical danger and subjecting them to disease. Almost all the surviving Aché now live in communities run by missionaries.

The other two-thirds of Paraguay's Amerindians live in the Chaco; their traditional way of life has disappeared. These Amerindians were hostile to the early Spanish settlers and resisted pacification. Most of the Chaco Amerindians engaged in hunting and gathering and maintained herds of sheep and goats; they avoided contact with the general Paraguayan society until the Chaco War (1932–35) and the subsequent expansion of ranching in the area and the Mennonite colonization of the central Chaco. Many of these Amerindians became dependent on wage labor provided by ranchers and the Mennonites, and by the 1970s, most Amerindians in the Chaco lived on settlements under missionary auspices or on ranches where they worked.

Labor Force

The laborforce is currently about 1.8 million (2000) with an unemployment rate of 15–16 percent. Males account for 80 percent of the total laborforce, but it is very likely that female laborforce participation is underrepresented in official statistics. Almost half the laborforce engages in agricultural pursuits; industry (manufacturing and construction) absorbs about 20 percent; and services employ some 30 percent. This distribution has changed very little over the last 50 years. The construction sector expanded in the 1980's but overall the distribution has been fairly static, giving Paraguay the distinction of having the highest percentage of labor in agriculture in South America and also the continent's lowest percentage in services. Decades of inadequate investment in human capital are reflected in the educational attainment of the laborforce; only 41 percent has received more than a primary education.

Most of the country's labor legislation has been enacted since the 1960's, and enforcement is not universal. The 1993 Labor Code regulates working hours, holidays, child and female labor, unions, collective bargaining, minimum wages, and work safety and hygiene. Minimum wages have been in

effect since 1974 but have usually not kept pace with inflation; moreover, the rates established have generally been above prevailing wages, and it is widely reported that about 80 percent of Paraguayan workers receive wages below the legal minimum. The monthly minimum was about \$205 in May 2001; average wages were estimated to be about \$195.00 per month.

Civil service employment is governed by a law passed in January 2001; it established a merit-based system intended to end traditional clientelism in public administration. Just months after its enactment, the Supreme Court declared several articles of the civil service law unconstitutional. A limited form of social security applies to most public sector employees and to about 40 percent of nonfarm private sector employees. (See "Health and Welfare" for social security information.)

Organized labor does not have a long history in Paraguay. Beginning in the early 1900's, periodic efforts to organize unions among urban workers were met with Government resistance. The Government either co-opted these unions or dissolved them and exiled the leaders. In rural areas, church-related groups have been involved in organizing peasant groups; most of these movements have been oriented toward social protest rather than workers' rights, and they also met with strong Government opposition. The Stroessner government was openly antiunion, and it crushed Catholic efforts to organize agrarian leagues in the 1970s. Since 1989 private sector workers have been free to form unions. There are currently more than 200 unions and three labor centrals.

Education and Literacy

Government spending on education, about 1 percent of GDP, is low by international standards. Public schools educate about 90 percent of all primary students and nearly 75 percent of secondary students. Throughout the educational system, teachers are poorly paid, and there is a general lack of qualified personnel and materials. Rural schools are often understaffed and some offer only a few grades of instruction. About 90 percent of eligible children are currently registered in the six primary grades that are compulsory for children 7 to 14 years. Unfortunately, attendance rates are low, and dropout rates are high; consequently, completion rates are low, especially in rural areas. About 10 percent of primary students repeat grades, usually the first two, and nationwide, less than 50 percent complete the primary program. In urban areas the completion rate is highest, roughly two out of three students, but in rural areas it is only one out of four students. Secondary education has separate 3-year programs for college preparation, teacher training, and technical-vocational fields. In rural areas, enrollment drops markedly at the secondary level; less than 12 percent of rural children attend secondary programs. Any major effort to broaden secondary education would require substantial investments in school construction. Paraguay has two universities, the National University of Asunción (UNA) which has about 20,000 students and the Catholic University of Asunción with close to 15,500 students. Both universities are headquartered in the capital but have campuses in several other cities as well.

The adult literacy rate is officially 92 percent, but many critics claim this statistic overstates the ability of the population to actually read and write. It appears to many of these critics that the Government uses primary school registration data to determine literacy rates. In addition, there is some doubt about

literacy levels among the 40 percent of the population that speaks only Guaraní. Literacy data in the 1982 population census are also at odds with the official rate; according to that census 21 percent of Paraguayans over age 10 were illiterate, and among the rural population 20 years and older 29 percent of the men and 38 percent of the women were illiterate.

Health and Welfare

Paraguay made significant improvements in health care delivery in the 1970s and 1980s, and began an overhaul of the entire health care sector in 1996 (Law 1032). More than 95 percent of all health care is publicly provided. The Ministry of Public Health and Social Welfare has been responsible for all public and private health programs; the newly enacted reforms are expected to decentralize many aspects of health care and establish a National Health System. The new system will face inadequate funding, shortages of trained medical and nursing staff, and the limited scope of water and sewage service for the population.

The leading causes of death among adults are heart disease, stroke, cancer, diarrhea, and acute respiratory infections. The chief infectious and parasitic diseases are malaria and Chagas disease. The leading causes of infant deaths are diarrhea, pneumonia, malnutrition, and infections. Malnutrition and other deficiency diseases (anemia and goiter) are most prevalent in the rural and Amerindian population. Major improvements in infant and early childhood health were achieved through an extensive immunization campaign begun in the 1970s; this program brought infant immunization rates for diphtheria, pertussis, tetanus, and measles from 5 percent to more than 60 percent in 7 years. Since then most infant immunization rates have risen to more than 80 percent but about one-third of all children still have not been vaccinated against polio or measles. Advances were also made in prenatal care, and the proportion of infants receiving medical care has increased to nearly 75 percent.

Improvements in sanitation conditions, particularly in rural areas, will require major infrastructure investments. Almost 60 percent of the urban population have access to safe drinking water but only 7 percent of rural residents have this service. Sewage service is only available to 32 percent of the urban and 20 percent of the rural population. Manpower shortages may also limit further improvements in health standards. In the 1990's Paraguay had 1 doctor for 1,231 people and even fewer nurses.

Basic social security coverage is provided by six institutions; the largest are the Instituto de Previsión Social (IPS) which covers about 40 percent of private sector nonfarm employees and the Caja Fiscal which includes most public sector employees. The IPS offers old age and disability pensions, sickness and maternity benefits, and temporary and permanent disability for work accidents; the IPS operates its own clinics and hospitals for medical and maternal care. Contributions are based on a 23 percent payroll tax. Financial problems plague all the social security institutions. Pensions have been eroded by inflation and are generally below minimum wage levels. The financial position of the IPS was severely undermined by the banking crisis in the late 1990's; its reserve funds were deposited in banks that became insolvent, and it held a number of unredeemable loans.

Questions/Issues

1. What are the implications for stability and development of continued migration from rural areas to the cities?
2. Now that Paraguay has managed to enroll most rural children in primary school, what can be done to ensure that most complete at least the primary grades?
3. Should national policy aim to integrate the remaining Amerindians, or to preserve their ways of life?
4. Given the development of commercial agriculture and its importance to the economy, is further land reform an option open to policymakers?
5. Why is the IMF so insistent that the IPS funds for health care and pensions be separated?

Further Reading

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ECONOMICS

History and Overview

Paraguay has a market-based economy with a very large informal sector that includes both legal and illegal activities.¹ The nation's economic development has not had a

smooth trajectory. By almost any reckoning, Paraguay is ideally suited for agricultural pursuits, but there

have been tremendous difficulties in getting land, labor, and appropriate technology into balance and in maintaining a stable political and financial framework. There have been two periods in the nation's history when Paraguay registered remarkable economic growth and notable improvements in living standards; one of these was in colonial times and involved only a portion of the economy, while the other was fairly recent and had a more generalized impact. In the 1700's significant economic progress was made in the settlements or missions established by the Jesuits. This was wiped out almost overnight and subsequently, for two centuries, whenever economic advances were secured, they were dissipated in internal strife or wars with neighboring countries. Notable progress was not achieved again until the 1970's.

The Paraguayan economy changed very little from colonial times to the 1970's. The recurrent wars adversely affected manpower resources and burdened the nation's treasury, causing postponement of much needed investments in education, health care, utilities, and roads. The developmental policies favored by other Latin American countries, such as import substitution, found little favor in Paraguay which ambled along with a significant segment of its population engaged in subsistence farming and essentially outside the money economy. Commercial farming and livestock raising were mostly small scale and traditionally oriented; innovation was minimal. Very little agricultural processing or manufacturing was established. The physical infrastructure was rudimentary. Paved roads were rare, and only a small portion of the population received water, sewage, electrical, or telephone service.

Paraguay made major catch-up steps in its economic development in the 1970's and early 1980's. The prosperity of this period was spurred by construction of the Itaipú hydroelectric complex and augmented by favorable developments in agriculture. During the boom years, 1974–81, Paraguay outperformed all of its Latin American neighbors, as GDP increases averaged 8.5 percent a year and reached a level of 11 percent annually in 1977–80. Brazil and Paraguay were partners in the \$20 billion Itaipú complex, the largest

¹ All general statistics are from the late 1990's and 2000–2001 unless otherwise noted. Most data are from composite sources, chiefly International Monetary Fund staff reports, the Economist Intelligence Unit, and Central Bank of Paraguay. National statistics refer to the formal or official economy and do not expressly include activities of the informal sector; this sector is covered separately in the text, and statistics related to this sector are identified as such.

in the world at 12.6 million kilowatts. The key developments in agriculture that contributed to the boom were a major shift to soybean cultivation, the expansion of colonization, and an influx of foreign capital and technology.

As the impact of the 1970's boom reverberated through the economy, it became evident that the pace of change had quickened noticeably. However, all sectors were not affected equally, and, many underlying problems were brought to light. Considerable improvements in road construction and paving were

achieved, but the nation's physical infrastructure remained inadequate and investment in human capital sorely lagged. The Government found its obsolete and largely unenforced tax system did not bring in much additional revenue from the boom. Construction and commerce expanded. In agriculture very little technological change trickled down to small-scale farming, and problems began to loom in land use and tenure.

The 1980's and 1990's brought little sustained economic progress. When the major construction work on Itaipú was completed in 1981, the Paraguayan economy went into a

severe downturn, and for most of the decade inflation, unemployment, and rising external debt were serious problems. In the late 1980's Paraguay and Argentina began work on another major hydroelectric project, Yacyretá, which is roughly one-fourth the size of Itaipú and has had less impact on the general economy. Moderate growth was restored in the early 1990's; much of this was credit driven and came to a crashing halt with a banking crisis that began in 1995 and continued until 1998. Total losses from this crisis, estimated at \$900 million, were borne by the public sector. The Paraguayan economy has been in a sustained contraction ever since.

In 2000 Paraguay's GDP was estimated at \$7.4 billion, a decline of 0.4 percent from the previous year. Per capita income, less than \$2,000 a year, has been virtually stagnant for two decades. Unemployment is 15-16 percent in a laborforce of 1.8 million. Minimum wage is about \$200 a month; but wages average slightly less. Inflation, which reached over 40 percent in 1990, had been brought down to single digits in the latter part of the decade and was 8.9 percent in 2000.

[Sources: Central Bank of Paraguay and IMF Staff Estimates]

Agriculture (including livestock raising and forestry) has been the mainstay of the economy since colonial times although the crops, scale of activity, and acreage under cultivation have changed markedly over time. The sector has a substantial direct impact on the economy, accounting for nearly 30 percent of GDP, employing almost half (48 percent) of the laborforce, and providing more than 60 percent of export earnings. It also has a significant indirect impact, particularly in manufacturing which includes a great deal of agricultural processing, and in transportation, commerce and financial services.

Soybeans are the principal crop and the country's largest export; they are sold as raw beans and processed oil. Soybeans were first planted in quantity in Paraguay in the late 1960's, and acreage expanded rapidly. Most production is in the newly opened

agricultural lands in the east (Itapúa, Alto Paraná, Canindeyú, and Amambay Departments) and utilizes modern technology. High world prices for soybeans in the late 1970's attracted large-scale producers to this sector, including several large agribusinesses

from Brazil, the United States, and Italy. Acreage in soybeans was estimated at over 1.2 million hectares in 2001 with the harvest expected to exceed 3.1 million tons. Soybeans generally provide 30 to 40

percent of Paraguay's exports.

Second in importance is cotton, a traditional crop that has been grown in Paraguay since the time of the Jesuit missions. It is grown in the central region by small farmers and in the east by large-scale foreign producers; the latter account for most output. In 2001 Paraguay had some 300,000 hectares devoted to cotton and the harvest was estimated at 384,000 tons. Weather conditions and world price fluctuations determines the outcome of Paraguayan cotton harvests. In the mid-1990's cotton provided 20–30 percent of exports; in recent years it represented 9–10 percent of exports.

Paraguay also exports tobacco, coffee, sugarcane, and yerba mate tea; these crops account for about 2 percent of agricultural exports. The principal food crops, grown chiefly for the domestic market, are manioc (cassava), corn, beans, peanuts, sorghum, sweet potatoes, rice, and wheat.

Livestock raising contributed about 25 percent of total agricultural production and provided about 13 percent of the sector's exports in the late 1990's. Cattle ranches occupied more than one-fourth of the land area and accounted for 80 percent of all capital investment in agriculture. The chief exports are meat and hides; most of this trade is directed to Brazil and Chile. Government policies have promoted cattle production and export. Other livestock activity includes poultry and pig farming. Both the Mennonite and the Japanese agricultural colonies are important poultry producers.

Forestry activities account for 10–12 percent of agricultural production. Paraguay is an established supplier of fine timber, and its wood exports compete effectively in world markets. About one-third of the land area is forested. Timber is processed by more than 150 small sawmills for export as well as for use in the paper, construction, and furniture industries. In recent years Paraguay has officially exported as much as \$100 million annually in lumber products; some timber is also reportedly exported illegally to Brazil, perhaps as much as one-third of production. Deforestation has only been marginally addressed in national policymaking. In addition to traditional lumbering, virgin forests were cleared for the colonization of eastern Paraguay, and a great deal of wood is consumed as charcoal and fuel. The nation's largest steel mill is fueled with charcoal; the railroad is wood powered; and wood is also important in household energy consumption. The rate of deforestation in Paraguay is one of the highest in the world, causing some analysts to predict that by 2020 there will be little land available for commercial lumbering if current levels of deforestation and reforestation are maintained.

Manufacturing (15 percent of GDP) is concentrated in consumer goods; less than 5 percent of output is capital goods. More than 60 percent of manufacturing involves processing of agricultural raw materials. Food, beverage, and tobacco products account for 45 percent of output. Next in importance are wood products (about 15 percent of output); these include lumber, milled wood, plywood, chipboard, and parquet. Manufactured goods generally constitute about 35 percent of exports. Most manufacturers are small or medium scale; many of the largest and most modern factories produce oilseeds, meat products, and beverages chiefly for export. Paraguay is one of Latin America's major oilseed exporters; it processes cottonseed, soybean, peanut, coconut, palm, castor bean, flaxseed, and sunflower seedoils as well as tung oil and petitgrain oil. Most new investment in manufacturing is in offshore assembly plants

for re-export within Mercosur; eight plants, representing an investment of \$30 million and more than 2,000 new jobs, were certified in 2001. Exports from these plants are subject to the Mercosur requirement that 60 percent of the value be of local origin. Toshiba is one of the largest investors in offshore plants; it is establishing an assembly plant in Paraguay to serve the Brazilian market.

Construction (5–6 percent of GDP) has been one of the most dynamic sectors of the economy. During the building of the huge hydroelectric project at Itaipú, Paraguayan firms received construction contracts valued at \$2 billion: the sector grew at about 30 percent a year in the boom years and hired an additional 100,000 workers. Unemployment was widespread when the Itaipú project was completed; many construction workers returned to agriculture, and some may have emigrated. Growth was modest and uneven in the 1980's and 1990's, spurred chiefly by the hydroelectric project at Yacyretá, infrastructure improvements, and residential housing in Asunción and Ciudad del Este.

Services represent about 46 percent of GDP and employ some 30 percent of the laborforce. Included in this sector are transportation and communications, commerce and finance, general Government, and other services. Increased foreign investment in Paraguay's mobile telephone system prompted expansions of the communications sector in 1995–2000, and mobile telephones now account for more than two-thirds of all telephone usage. Commerce and finance account for over 50 percent of services. The commercial sector is primarily engaged in importing goods from Asia and the United States for reexport to neighboring countries. This commercial activity, which generated exports of about \$1.6 billion in 1999, is to be phased out by 2005 under the terms of the Mercosur agreement. The financial sector was restructured in the aftermath of the banking crisis that closed 15 of the 19 locally owned banks in 1995–98; ownership in banking is now predominately foreign. The only remaining state-owned bank, Banco Nacional de Fomento, is in severe financial difficulties. Among the causes of the banking crisis were lax regulation and poor supervision, but the underlying problems derived from poor banking practices, including off-the-books transactions, poor risk loans to related enterprises, and fraud.

General Government services account for about 6 percent of GDP. Several major reforms are underway in the public sector, including a restructuring of the central government administration and the social security systems. Public sector payroll and pension costs have risen rapidly in recent years, hampering efforts to control budget deficits. During the late 1990's financial difficulties also plagued the eight fully state-owned enterprises, many of which are utility companies. The largest of these enterprises are ANDE (electricity), PETROPAR (gasoline and diesel), and ANTELCO (telecommunications). There are two midsize enterprises, CORPOSANO (water and sewage) and INC (cement factory) and three small organizations involved in transportation (river ports, airports, and the railroad). For many of these enterprises, the rates they charge for their services are set by the Government once a year; and in the late 1990's there were serious lags in adjusting these rates and some rates were frozen for several years. Compensatory rate increases in early 2001 prompted public protests. Privatization of state-owned enterprises is allowed under a 1991 law; only one enterprise, the former national airline, LAPSA, has been sold. ANTELCO and CORPOSANO were slated for privatization in 2001. The Government also has major investments in the ACEPAR steel company. The cement and steel investments were made in the latter Stroessner years; both have been highly unprofitable and have added significantly to the nation's external debt.

Public sector finances have deteriorated in recent years. In the early 1990's the Government had modest fiscal surpluses, but it has run deficits since mid-decade. Paraguay's public sector deficit reached \$330 million (4.5 percent of GDP) in 2000. As a result of increasing fiscal deficits, Paraguay's public external debt has doubled during the last 5 years, to about 32 percent of GDP. Early in 2001, the Paraguayan Government sought IMF assistance in reversing these negative trends. With this aim, the Government established a series of economic targets for 2001; these include GDP growth of at least 2 percent, inflation of less than 10 percent, reduction of the fiscal deficit to \$146 million through spending cuts, personnel freezes and agency closures, and privatization of the telecommunications and water companies.

Trade and Balance of Payments

Essentially Paraguay exports raw and semiprocessed agricultural products and imports fuels, capital goods, and manufactures. Its export base is very narrow; soybeans and soy oil represent about 50 percent of registered exports (1998); cotton and beef account for another 20 percent. This base is highly vulnerable to climatic conditions and changes in international commodity prices. In recent years exports of domestic products have run \$1.0 to 1.4 billion: total exports, including the re-export trade (see informal economy), were \$2.3–2.7 billion a year in 1999–2000. Imports have been at high levels since the 1970's; they were about \$3 billion in both 1999 and 2000. Paraguay began to experience trade deficits in the 1980's, and it has had a negative trade balance since 1994.

Since Paraguay joined Brazil, Argentina, and Uruguay in a regional customs union, Mercosur, in 1991, its trade with the member countries has increased substantially. Almost 50 percent of Paraguay's exports were shipped to Europe in 1990; by the end of the decade, the European share was about 20 percent and 60–70 percent went to Western Hemisphere countries. Paraguay's merchandise exports to Mercosur countries doubled in the last decade and represented more than 60 percent of export earnings in 2000; Brazil is the largest purchaser (39 percent in 2000), followed by Uruguay (13 percent) and Argentina (11 percent). The reexport trade, which involves chiefly Brazil and Argentina, is slated to be phased out by 2005 under the Mercosur agreement. Sourcing for imports is more diverse. About 70 percent of imports come from the Americas; Brazil provides about 30 percent, the United States, 20 percent, and Argentina, 15 percent. Asian sources supply 15–20 percent of imports and Europe less than 10 percent.

Energy-related activities, particularly, electricity exports and oil imports, are important in Paraguay's balance of payments and have a broad impact in the general economy because many sectors are highly sensitive to increases in energy costs. Increases in utility rates and in the price of diesel fuel in early 2001 set off a round of protests and demonstrations that began in the agricultural sector and moved on to reflect general discontent. Paraguay was almost totally dependent on thermal and diesel power sources before the massive investments in hydroelectric power. Today, Paraguay is a major exporter of electricity; its revenues from Itaipú and Yacyretá were \$370 million in 2000 and \$433 million in 1999. These earnings fluctuate because of the effects of climatic conditions and water volume on electricity output. In contrast, Paraguay is totally dependent on petroleum imports; it has limited refining capacity

and many derivative products are imported as well. There is some domestic production of renewable alternatives to fossil fuels; in the late 1980's it was estimated that the use of these products reduced oil imports by about 130,000 barrels a year.

The nation's balance-of-payments situation was precarious through most of the 1990's. The overall deficit in 2000 was \$265 million. The current account has been in deficit since the mid-1990's largely because of trade deficits. For the last 10 years, the service account has also been in deficit because of transportation costs associated with the re-export trade. Paraguay's transfer balance is usually positive due to remittances from Paraguayans living abroad; these amounted to \$184 million in 1999. Direct foreign investment declined steeply in 1999, from \$336 million to \$66 million, and recovered slightly in 2000 to reach \$95 million. Since the banking crisis in 1995 there have been substantial capital outflows and foreign exchange reserves have declined. The reserve cover ratio for imports fell to 2.6 months in 2000. These reserves were reduced by nearly \$100 million (from \$700 to \$608 million) in the first 3 months of 2001. The IMF has called for minimum reserves of \$1 billion to protect the guaraní from speculative activity. Reduction of the balance-of-payments deficit to less than \$100 million is another of the Government's economic targets for 2001.

The Informal Economy

Unregistered and illicit trade has been a feature of economic life in Paraguay for many decades and perhaps since colonization. Legal requirements, particularly taxes and import or export duties, have always been a little lax and somewhat discretionary in Paraguay. At some point, smuggling and contraband trade became an occupation and evolved into an industry. Opportunities for extra-legal trade expanded in the 1950's and 1960's as Brazil and Argentina set high tariff rates to rein in luxury imports and to protect newly established industries. Items such as scotch whiskey, cigars, cigarettes, and perfume found their way from low-tariff Paraguay into neighboring countries. Later, as economic ties with Brazil grew in the 1970's and 1980's, some of this trade was formalized into what is currently called the reexport or tourist trade. This commerce is generally legal but is largely unrecorded because the goods imported into Paraguay are subject to little or no taxes. Bulk buyers and tourists purchase goods in Ciudad del Este and other Paraguayan border towns at advantageous prices, and import them into neighboring countries within duty free limits. Some of the products sold in this manner are manufactured in the neighboring countries; they are imported into Paraguay net of sales or value added taxes and are sold at prices that are attractive to buyers from the country of origin who bring the goods home tax free. The range of goods involved in this trade has broadened from whiskey, tobacco, and perfume to include electronic products, computers, sound equipment, cameras, household appliances, cosmetics, clothing, and other items. Part of this trade involves pirated production and has led to serious intellectual property conflicts with the United States and other countries. Paraguay's low tax and duty rates and exemptions from the common external tariff of Mercosur have fostered the reexport trade. Brazil has periodically tried to restrain this trade by lowering its duty-free limits. Mercosur agreements require Paraguay to phase out this trade by the end of 2005. It remains to be seen how and if this will be accomplished.

The informal sector also includes small-scale enterprises, the self-employed, family workers, street

vendors, and other workers or enterprises in activities outside the scope of general tax and licensing requirements. Household surveys conducted by the Paraguayan Statistical Office suggest that some 40 percent of the urban laborforce may be occupied in this manner. Most of this economic activity is legal but is not included in national accounts and census data. Some is questionable and involves counterfeit trademarks.

Criminal elements are also included in the informal sector; they are involved in drug trafficking and stolen cars and probably other activities as well. The drug trade consists chiefly of locally grown marijuana that is sold in Brazil and of transshipment of cocaine that is produced outside Paraguay. The stolen car trade is a big business and notorious in South America. Brazil and Argentina are the main sources for the stolen vehicle trade, which includes automobiles, trucks, and even limousines. The Paraguayan police estimated in 2001 that 400,000 of the country's 600,000 cars had been purchased on the black market.

By their very nature, the activities of the informal sector are difficult to measure or estimate. The reexport trade is the most easily quantified; it was estimated at \$1.6 billion in 1999, down from a high of almost \$3 billion in 1995. Some estimates place the overall value of the informal sector as high as 50 percent of GDP. Studies of the legal portion of this sector by the Central Bank of Paraguay indicate these activities may represent almost 20 percent of GDP.

Economic Outlook

Serious economic problems in Argentina and Brazil may impede Paraguay's efforts to improve its own economy. Disruptions in the economies of its chief trading partners are bound to have repercussions in Paraguay's economic performance. Although the Paraguayan Government's economic targets for 2001 were in line with IMF guidelines, they will present a major challenge for policymakers. Bumper soy and cotton harvests in 2001 may be sufficient to restore GDP growth, but the reduction in Government deficits is more problematic. Privatization plans for telecommunications and the water company pose political difficulties and have been postponed before. Looking a little further ahead, the scaling down of the reexport trade may prompt recourse to smuggling, and it is likely to augment balance-of-payments difficulties.

Questions/Issues

1. What is the relationship of corruption to development? *Realistically*, what can be done to reduce the negative aspects?
2. Should Paraguay continue to focus on commercial agriculture, or place a higher priority on nonagricultural manufacturing?
3. What would be the environmental impact of developing a third major hydroelectric dam on the Alto Paraná and "improving" the Paraguay River for barge traffic to/from Central Brazil?
4. How can Paraguay attract foreign investment?

Further Reading

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POLITICS

Paraguayan political history revolves around personal rivalries within a small elite, overwhelmingly centered in Asunción. Until recently the population was largely rural and agricultural. Even now, with about 52 percent of the population living in cities and larger towns, Paraguay is still one of the hemisphere's least urbanized countries. Historically, the great bulk of the population has been poor and uneducated, with little interest in political theories. Personal ties with a local or national leader were what counted. In return for that loyalty, a leader (still frequently called a *caudillo*) could provide protection and the occasional gift or favor, if not to the individual then at least to a family member. For those higher up the socioeconomic ladder, the rewards for support became proportionally greater.

Paraguay's location as an outpost of the empire contributed to the growth of personalism. Spanish rule was never backed up by extensive bureaucracy. The ruling court (*audiencia*) was far away in what is now Bolivia (Sucre, then called Charcas). Rather than a sizable and growing proportion of European settlers, bringing with them at least the rudiments of Western political heritage, Paraguay's was the most

thoroughly “mixed” population in the Americas. Even today, a fluency in speaking Guaraní is a strong plus for a politician. Isolation, limited immigration, and the lack of mineral wealth delayed development of alternatives to agriculture that eventually led to social and economic diversification in larger countries. It is still true, but just barely, that the party with most effective control in the countryside is likely to win a national or regional election.

While Paraguay’s postindependence political history is the story of individuals more than parties, and the country has only recently become democratic by generally accepted standards, grassroots support has had recurring importance. Local, regional, and national *caudillos* are measured by how many bonds of personal loyalty, however gained, they can muster. Through the civil war of 1947, Paraguayan politics frequently broke down into armed struggle that enlisted the support of rural and urban poor. The organized demonstration of bused-in supporters remains an important political tactic. In a crudely democratic sense, the head count behind one or another leader has always been a factor in Paraguayan politics.

For 58 years after independence, three dictators governed Paraguay. From 1869 to 1954 when Alfredo Stroessner became President, political power alternated at long intervals between one major party and the other. The country had 44 presidents with an average term of office of less than 2 years. Violence or the threat of violence forced the early departures of more than half. Since Stroessner’s forced exit in 1989, the country has for the first time experienced more-or-less fair, open, and contested democratic politics. Having had little prior practice, substantially less than almost any other Latin American country, Paraguay faces a steep learning curve.

The Early Dictators: "As the twig is bent ..."

A good case can be made that Paraguay’s first dictator, José Rodríguez Gaspar de Francia, and the third, Francisco Solano López, set the frame for much of what came after—by loose analogy, the George Washington and the Abraham Lincoln of Paraguayan history. By almost any standard, Francia was an unusual person. He was one of the very few well-educated Paraguayans of his day and was personally austere. He never married and when he died, in 1840 after a quarter century of total control, unused portions of his salary reverted to the treasury. Francia’s prime objective, apart from maintaining his own power, was to preserve Paraguayan independence. Since Paraguay’s nonsubsistence economy was almost totally dependent on the river connection through Argentina, the country’s small Spanish-born and Creole elites, and affiliated church leaders, were disposed to find accommodation with the dominant neighbor, if necessary at the expense of independence. Francia maneuvered to break their power by convening an assembly of regional and local leaders to give him the dictatorial powers that then allowed him to exile many upper class opponents and to confiscate their properties. Control of the countryside outside Asunción has had continuing importance in later Paraguayan political dynamics. The rivalry between Brazil and Argentina ([See Foreign Affairs](#)) also worked to Francia’s advantage. Even so, for more than two decades Paraguay was largely shut off from the rest of the world.

Carlos Antonio López, also acclaimed by a popular assembly weighted toward rural areas, succeeded

Francia from 1841 to 1862. He was no less dictatorial but reopened Paraguay to the outside world. Fatefully, he sent his son off to Europe to buy arms. Francisco Solano López seized power when Carlos Antonio died in 1862. The War of the Triple Alliance see History ruined Paraguay, but in retrospect is the single most powerful ingredient of Paraguayan national identity, with Francisco Solano López its avatar.

Francisco Solano López now occupies the place of honor in Asunción's Panteón. For his early formative influence, Francia's bust is on display at the headquarters of the Organization of American States in Washington.

The Beginnings of Democracy in Paraguay, 1869–1940

In July 1887 a group of politicians formed the Centro Democrático, which soon became known as the Liberal Party. The next month, rival politicians formed the Asociación Nacional Republicana which adopted a red banner and hence its popular name as the Colorado Party (blue is the color of the Liberal Party). Both grew out of less formal political clubs and groupings that had existed (some in exile) since the 1850's. Together they continue to dominate Paraguayan politics.

Protodemocratic politics in postwar Paraguay was an uneasy mix of occupying Governments (Brazil in Asunción, Argentina across the river), survivors of the López forces, and returned exiles, some of whom had fought against Paraguay with the allied armies. Although there remains a popular belief, encouraged by Colorado Party propaganda, that the exiles (often called legionnaires because of wartime service in the Paraguayan Legion on the side of Argentina) formed the basis of the Liberal Party, while those who had remained loyal to Francisco Solano López founded the Colorado Party, Paul Lewis in *Political Parties and Generations in Paraguay's Liberal Era, 1869–1940* has demonstrated that there is little basis in fact for that dichotomy. Legionnaires and loyalists were almost equally important in both parties.

To the extent they were ideological, both the Liberal and Colorado parties were liberal parties. Progress was to come through good government that left most economic activity to the private sector (unlike the strict controls of the Francia period or the national socialist ideas that were to come later), while encouraging international trade and foreign investment and immigration—the latter preferably from Europe.

Absent significant ideological differences, personalities assumed dominant importance. Since Paraguay had no tradition of open, freely contested elections (perhaps not very different from other Latin American countries of the period), the party in power never lost an election. Accordingly, intraparty struggles for leadership often predominated over interparty competition.

Adherents to the Colorado Party controlled Paraguayan politics from 1874 to 1904. The dominant figure was a loyalist general, Bernardino Caballero. The Liberals gained power after a 4-month armed struggle in 1904, and held on to it for most of the period to Estigarribia's death in 1940. They were, if anything,

even more faction-prone than the Colorados. During both periods, the party out of power seldom contested an election (1928 the exception). Just as the War of the Triple Alliance had ushered in Paraguay's first period of attempted democracy, the Chaco War hastened its demise.

The Chaco War and the Nationalist Resurgence

A Paraguayan Communist Party began in 1928, a Nazi Party in 1931. Of more enduring importance than either was the Febrerista Party that grew out of a military-led revolt in 1936 that installed Chaco War hero Col. Rafael Franco as President for 18 months. Franco drew many of his political ideas from Italian fascism. Like other nationalists of the period he was looking for ways that the state could take the lead in promoting economic development and address the socio-economic needs of the poor majority—and thereby, not incidentally, ensure long-term political support. His administration enacted labor laws and made a start at agrarian reform. He had Francisco Solano López's body exhumed and placed in the Pantheon.

Franco departed the way he had come, the victim of a military-led revolt. The Liberals regained power for 3 years, but the balance between civilian and military politicians had shifted. During the 66 years from 1870 to 1936, active duty military had often played important roles in support of one or another faction. For the next half-century, military officers turned politician were usually in the forefront, neutralizing the political parties if they could not bend them to their own purposes.

Soldiers as Presidents: Estigarribia to Rodriguez

Paraguay's military leader during the Chaco War, José Félix Estigarribia, won the presidential election in 1939. In 1940, convinced that the state had to play a more dominant role in the nation's economic and social affairs, he pushed through a new constitution (only marginally modified by Stroessner in 1967) that greatly strengthened presidential powers. Soon after, he died in a plane crash. Since the new constitution did not provide for a Vice President, and elections had not been held for the one chamber legislature, ranking military leaders took it upon themselves to appoint a successor. They saw War Minister Gen. Higinio Morínigo as an interim appointment. Instead, displaying some of the skills that Stroessner was later to perfect, Morínigo held on to office until 1948, despite a civil war in 1947 that saw much of the officer corps go over to the insurgent side.

Having backed the winning side in 1947, the Colorados returned to power for the first time since 1904. Torn as usual by factional fighting, they fielded six Presidents in 6 years, before Stroessner assumed office in 1954.

General Alfredo Stroessner was born in Encarnación in 1912 to a German immigrant father and a Paraguayan mother. He entered the military academy at 16, served with distinction in the Chaco War, and went to Brazil for advanced military training. In the 1947 civil war he was one of the few military officers who remained loyal to the Morínigo government, and played a key role in the defense of Asunción. From 1948 onward Stroessner was a factor in Colorado intraparty maneuverings, even though

many in the party distrusted him.

In May 1954, Stroessner was instrumental in the overthrow of President Chaves. To the warring party factions, the relatively nonaligned Stroessner may have appeared as the least objectionable interim alternative. He received the party's nomination for President and took office on August 15, 1954. He did not leave it for almost 35 years.

Stroessner's longevity in a political system marked by chronic instability for 85 years is attributable to a number of factors. Central were his work ethic, his attention to detail, and his political shrewdness—until age and complaisance began to exact a toll. Like Francia he avoided private ostentation. Entering office without a solid personalist base in the Colorado Party, Stroessner moved adroitly over the first 6 years to eliminate those factional leaders who could not be coopted. At the same time he took steps to ensure that the military stayed out of politics, while making Colorado Party membership a requirement for officers. Stroessner also realized that his long-term success depended on economic development and the resulting income flows that would ensure the support of those whose interests were more material than partisan, particularly the business and professional sectors. By painting himself as an ardent anti-Communist, Stroessner was able to gain the support of the United States. Through the mid-1970's the United States provided military assistance that Stroessner used effectively to combat guerrilla incursions.

Expanding economic ties to Brazil were vital to Stroessner's success (see [Economics](#) and [Foreign Affairs](#)). The overland transportation route with Brazil supplanted the river link to Argentina, and the building of Itaipú Dam sparked a decade of very rapid economic growth—and made fortunes for a number of Paraguayans who would later seek political office.

By the 1980's Stroessner's control had begun to deteriorate. After 1986, in a manner reminiscent of earlier internecine struggles, those around Stroessner began to jockey for the succession and to protect their own wealth and incomes. The so-called "militantes" backed Stroessner's son Gustavo. Opposed were the "*tradicionalistas*." Ostensibly, they favored a return to the dominance of the party over individual or family interest. More to the point, they wanted to preserve space for their own political ambitions. On February 3, 1989, military members of the "*tradicionalista*" faction forced Stroessner to resign and put him on a plane for Brazil (where he still lives as of this writing).

The fourth soldier-president was General Andrés Rodríguez. Like Estigarribia he was a transitional figure. Whereas Estigarribia's 1940 constitution paved the way for the Morínigo and Stroessner dictatorships, Rodríguez oversaw the writing of the 1992 constitution that restored democracy, perhaps for the first time in a durable form. In some ways Rodríguez was an unlikely leader for such an effort. He was a long-time Stroessner subordinate and confidant, and had made a fortune from various types of business activity, including drug trafficking.

Democratic Paraguay: Will it Last?

The international environment had changed markedly by the time Stroessner departed. Brazil, Argentina,

and Chile had already or were about to return to civilian rule after long periods of military leadership. The cold war had ended. Even earlier, U.S.-Paraguay relations went sour over human rights abuses and narcotics. Democratic rule and open economies appeared to be the wave of the future.

Internally, the post-Itaipú slump continued, suggesting to many the need for a new style of political leadership. After fitful guerrilla insurgencies during the first two decades of Stroessner rule, much of the political opposition had settled for tolerated minority status (one-third of congressional seats under the 1967 constitution) while awaiting the dictator's demise. Newer generations of political leaders, within and outside the Colorado Party, were better educated and more aware of the outside world. There were parallels with other periods of major political change, particularly those that followed the War of the Triple Alliance and the Chaco War.

Rodríguez won a 4-year term as President in May 1989. During his tenure, a multiparty assembly drafted a new democratic constitution, the Liberals returned in force as a national mass-based party, and a new agglomeration of younger, more idealistic leaders captured the Asunción city government and a few offices elsewhere. In 1991 Paraguay joined Brazil, Argentina, and Uruguay in establishing the Southern Common Market (Mercosur). To his credit, Rodríguez stepped down when his term ended.

The choice of a Colorado Party candidate to succeed Rodríguez, and the continuing political aftermath, tells us much about the still-fragile nature of Paraguayan democracy. Luis María Argaña was an older style *caudillo* politician who enjoyed broad support within the party. However, Rodríguez and those around him did not trust Argaña to protect their interests. Instead, they proposed Juan Carlos Wasmosy, an Itaipú-wealthy engineer with limited party credentials who had served in Rodríguez' cabinet. Argaña probably won the party primary, but vote counting was interrupted for 3 months and Wasmosy was declared the victor. He went on to defeat Domingo Laíno for the Liberal Party and Guillermo Caballero Vargas, representing the newly formed Encuentro Nacional (National Encounter Party). Combined, the opposition parties won a majority in the Congress.

In 1998 Wasmosy's most important accomplishment was being the first civilian President since 1932 to complete a term of office, arguably the first democratically elected-Paraguayan President ever to do so. To achieve that milestone he had to survive a threatened coup in 1996 that was not unlike those that had prepared the way for Stroessner in 1954 and then forced his ouster in 1989.

Lino Cesar Oviedo, an army colonel, had played a role in the Stroessner departure. He was also instrumental in ensuring Wasmosy's win over Argaña in the Colorado Party primary of 1992-93. Wasmosy, as President, rewarded him with leadership of the army. A *caudillo*-type leader like Argaña, and, thus, almost by definition an archrival, Oviedo had used his military position like Rodríguez to amass substantial personal wealth. Far better than Wasmosy or Argaña, he had fluent command of Guaraní and a flair for the more public manifestations of Paraguayan politics. Many viewed him as the real locus of power in the Wasmosy administration.

In late April 1996, Wasmosy asked for Oviedo's resignation. The general initially refused, demanding

instead that Wasmosy and his Vice President step down. Strong support from the United States and from the other Mercosur countries enabled Wasmosy to survive. Oviedo retired and immediately launched his campaign for the 1998 election. In 1997 he narrowly won the Colorado Party primary over Argaña, and he almost certainly would have won the Presidency in 1998 had not a military court sentenced him to 10 years in prison for the coup attempt. The Vice Presidential nominee, Raul Cubas, moved to the top of the ticket (with Argaña taking his place as Vice President) and won the election with 55 percent of the vote to Laíno's 44 percent. Laíno was the coalition candidate of the Liberal and Encuentrista Parties. Once in office, Cubas pardoned Oviedo.

The victory proved short-lived. In addition to being Vice President, Argaña continued to control the Colorado Party apparatus. Dissident Colorado legislators, together with those of the opposition parties, controlled the Congress. The situation was not unlike the erosion of sharp party lines that had led to the Liberal replacement of Colorado dominance in 1904. The assassination of Argaña in early 1999 (almost certainly inspired by Oviedo) provoked massive demonstrations that led to further deaths. Cubas and Oviedo fled the country, and Senate President Luis Angel Gonzalez Macchi of the Colorado Party became President. A special election for Vice President in August 2000 gave a narrow victory to the Liberal Party's Julio Cesar Franco over one of Argaña's sons. The next presidential election is scheduled for 2003.

The Constitution of 1992 and the Structure of Government

The 1992 constitution, Paraguay's sixth, is a democratic document that provides for a clearer and more balanced separation of powers than existed in the constitutions of 1967 and 1940. The Presidential term is 5 years and there is no reelection. Vice Presidents can run for the Presidency if they resign 6 months before the election. The Chamber of Deputies has 80 members, elected from the 17 Departments and the capital city of Asunción. The 45 senators are elected nationally on the basis of proportional representation. Both deputies and senators can be reelected. Congressional elections are coterminous with the presidential election, but Congress takes office a month before the presidential inauguration date of August 15.

The judiciary consists of a five-person supreme court and lesser judges, nominated by the President and confirmed by the Senate. If appointed again after a 5-year initial term, judges have tenure. The judiciary is guaranteed a budget that cannot be less than 3 percent of the overall national budget.

There are also a number of quasi-independent organs: The Office of the Comptroller, the National Electoral Commission, and the Office of the Attorney General. In theory, at least, they are to ensure the fairness of elections and to serve as checks on the abuse of power by the three main branches of government. The record to date has been mixed.

Political Parties

Asociación Nacional Republicana—ANR (The Colorado Party): In power since 1948, the ANR has lost

support in urban areas but continues to have the best grass roots organization in rural areas. It makes effective use of government patronage and at times still waves the banner of nationalism to set it apart from the supposedly more internationalist orientations of other parties. In most recent national elections it has polled in excess of 50 percent.

Partido Liberal Radical Auténtico—PLRA (The Liberal Party): Paraguay's other traditional party, which controlled government from 1904 to 1940, with the exception of 18 months in 1936–37. Like the Colorado Party, it is mass-based and has support throughout the country. Nowadays, it is strongest in the cities and among more educated and wealthier segments of the population. It controls the Asunción city government and some other smaller cities. A Liberal, Julio Franco, won the Vice Presidency in 2000.

Partido Encuentro Nacional—EN: Beginning in 1991 as a loose coalition of primarily younger, democratic, reformist leaders that was able to win control of the Asunción City Government, it backed Guillermo Caballero Vargas for President in 1993, expecting to win. Then and subsequently, it has failed to demonstrate the organizational strength necessary to have significant impact in the countryside. Encuentristas tend toward the left side of the ideological spectrum, but the party is not dogmatic and includes elements of the business community.

Partido Revolucionario Febrerista—PRF (Febrerista Party): The party is an outgrowth of the February 1936 revolt that made Col. Rafael Franco President for 18 months. Originally attuned to European national socialism, the party later allied with the international social democratic movement. It was part of the legally recognized opposition under Stroessner after 1964, but has never been able to return to electoral importance.

There are also very minor Christian Democratic (PDC), Socialist, Communist, and Humanist (Green) Parties.

Interest Groups

Although the Colorado and Liberal Parties continue to be the most important determinants of what happens in Paraguay, both in turn respond to pressures from other social and economic sectors. The most important of these are:

The Military

Stroessner made the military, primarily the army, a pillar of his regime. Since his ouster there has been some movement back toward an apolitical role, in this following the lead of developments elsewhere in the region. Party affiliation is no longer a requirement for entry or advancement. After the Oviedo coup attempt of 1996, the military was more forceful than civilian authorities in opposing Oviedo's political ambitions. The military role in society will probably continue to decline (and, with it, budget allocations). If not managed skillfully, there will be potential for another military leader to emerge, playing on institutional interests as well as appealing to the deeply embedded Paraguayan respect for a

strong leader.

The Church

For much of the last two decades of the *Stronato* (the years of Stroessner's regime), the Catholic Church was the strongest and most vocal opposition force, particularly over human rights and the lack of social reform. It no longer has to play the lead role in those areas and conservatives within the hierarchy have become stronger. Protestant groups have made some inroads into Catholic dominance, particularly among poorer segments of the population. On balance, however, the Catholic Church remains a force for modernization and reform.

The Media

Less successfully than the Church, the media played a role in eventually bringing about the downfall of Stroessner. Freedom of expression is now a fact of life and will play an increasing role in shaping public opinion and national policy. Although ownership is for the most part in the hands of the political elites, reporters and columnists draw heavily from the ranks of the younger generations (see below).

Landowners and the Landless

Paraguay has very unequal ownership of land, and, historically, a great deal of land has been underutilized. The population will continue to expand at a rapid rate for the foreseeable future. Although many peasants are moving to urban centers, the number of landless and other rural poor is still increasing, and illegal land occupations continue. Agrarian reform efforts thus far have been limited.

Those who own the large estates are part of the political elite. Many hold political office or exercise professions other than farming. A booming economy would provide funds and the alternative occupations to carry out more far reaching agrarian reform. Barring that, the large landowners and the rural poor will continue to exercise contradictory and largely irreconcilable pressures on Paraguay's Government.

Business Groups

For much of Paraguayan history, business took a backseat to agricultural interests. Since 1950 and particularly after the start of construction on Itaipú, business organizations assumed increasing importance. Success usually required accommodation with the Government and often with the Colorado Party. That is much less the case now, but not irrelevant. The business community is at best divided over Mercosur. Most manufacturing establishments are small and fear the competition. Commercial enterprises on the other hand may benefit. One of the less gratifying results of democracy has been to make corruption and "the rules of the game" less predictable. Some businessmen yearn for a return to a strong, even if authoritarian, regime.

Urban Labor

Unlike its neighbors, Paraguay has never had a strong labor movement. The lack of extensive industrialization, the paternalistic nature of much of Paraguayan life, the pre-emptive political role of the two traditional parties, inhibited its development. The democratic opening after 1989 has, if anything, led to further fracturing of organized labor. If/when Paraguay resumes consistent economic growth, labor will become more important.

The Younger Generation

Almost despite itself, Paraguay is changing. Modern communications technology, the fact that many more Paraguayans are traveling and studying abroad, and membership in Mercosur, make it much more difficult to maintain old ways of doing things. When the *Stronato* collapsed, leadership passed to those who had been shaped by events of the preceding four decades. Now, gradually, younger politicians and other professionals, less weighted with past battles and who understand the need to modernize practices and institutions, are replacing them. Not even the Colorado Party is immune. There is hope in this, albeit little assurance of orderly progress.

Looking Ahead

Paraguay's democratic tradition is 12 years old. In all its almost 200 years of independence, Paraguay has not yet had a peaceful transition of political power from one party to another. Civil-military relations remain delicate. The still high population growth rate places heavy demands on scarce resources. Particularly among the poor, rural, or uneducated that make up at least 60–70 percent of the population, the success or failure of Government is measured much less by civic and political freedoms than by material benefits, including physical security. Paraguay's economy has stagnated since the completion of the Itaipú and Yacyretá Dams and the near-collapse of the border trade with Brazil and Argentina. New investment, particularly from abroad, is discouraged by the apparent fragility of Paraguay's newfound democracy. While the 1992 constitution looks good on paper, it remains to be seen whether the country can move beyond personalist politics to institutionalized democratic rule.

Questions/Issues

1. Are Paraguay's major parties likely to become more ideological over time? Would that be good for Paraguay's development and stability?
2. What accounts for the fact that General Oviedo, after attempting a coup in 1996, could then win the Colorado Party primary and almost become President in 1998?
3. Is Paraguay ready for a President from another party (other than the Colorado)?

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FOREIGN AFFAIRS

As a small, poor, thinly populated state between much larger countries, the central theme of foreign policy for much of Paraguay's history has been preserving national integrity and independence. Pervasive subthemes have been the perceived requirements of successive governments to maintain themselves in office and how to take advantage of Paraguay's central location and the rivalries of other states to gain economic advantage. The first predominated until the end of the Chaco War in the 1930's. Since then, the second and third, not unrelated, have been more salient.

Independence and Territorial Integrity

Spain ruled Paraguay through Buenos Aires after 1776. Not illogically, the Creole elites there expected Paraguay to continue as a province of Argentina after independence. Paraguayan forces defeated Argentine invasion attempts in 1810–11. The Argentine response was to close the Paraná River system to Paraguayan commerce. Francia, making a virtue of necessity, walled Paraguay off from almost all foreign influence for the next quarter century, in the process expelling many Paraguayans with close ties to Buenos Aires and confiscating their assets. His dictator successor, Carlos Antonio López, taking advantage of political change in Argentina, finally gained Argentine recognition of Paraguayan independence in 1852. Brazil, in 1844, had already granted recognition. By the mid-1850's, the U.S. and leading European countries had also formally recognized Paraguay.

Francisco Solano López, Paraguay's third and last 19th century dictator, almost managed to undo the achievements of Francia and the first López. Fearing that Argentina and Brazil still had designs on Paraguayan territory, for which there is probably some basis in fact, but also because of his own aggressive personality, he enmeshed Paraguay in the War of the Triple Alliance. Brazil and Argentina

(Uruguay was a passive partner) eventually wore down dogged Paraguayan defenses. They occupied Asunción in 1868 and Brazilian forces did not finally leave until 1876. Most Paraguayan males of military age, and many who were not, died. The country was bankrupt. In the aftermath of the war, Brazil and Argentina annexed about 30 percent of the territory that Paraguay had previously claimed.

The lead Brazilian role in the War of the Triple Alliance laid the basis for an eventual split between the foreign policy orientations of Paraguay's two major parties. Historically, and continuing through the first half of the 20th century, Paraguay's main avenue of access to the outside world was through Argentina. The commonality of language also meant that Paraguayans went to Argentina to study or when they were in exile. Some of the latter, the so-called Paraguayan Legion, fought with Argentina in the War of the Triple Alliance. In general the Liberal Party has had closer ties with Argentina, while the Colorado Party has looked to Brazil.

Both Argentina and Brazil preferred to maintain Paraguay as a weak buffer state rather than to have it dominated or annexed by the other. To the extent that one of the two main parties had close ties with Buenos Aires, there was an incentive for the other, and for Brazil, to cultivate closer relations. But the Brazil-Colorado Party nexus did not flourish until after 1950, by which time the relative economic balance had shifted markedly in Brazil's favor.

The second major threat to national integrity was the longstanding dispute with Bolivia over the Paraguayan Chaco. The origins go back to the colonial period when, since the whole area was governed by Spain, there was little perceived need to define borders precisely, particularly so in a region of almost no population or profitable resources. After Bolivia lost its Pacific Ocean access in the war with Chile of 1879–83, some Bolivians began to look to the Paraguay River as an alternative outlet for commerce. The discovery of oil on the western side of the Andes in the 1920's led to speculation that the entire Chaco region might contain valuable deposits. Bolivian forces gradually extended a chain of forts into territory long claimed by Paraguay. The Chaco War of 1932–35 was the result. Although Argentina was neutral and played an active role in the efforts to bring about peace, it also provided or permitted critical support to Paraguay's war effort. The longstanding ties between Liberal politicians and Argentine leaders were a factor.

The U.S. as a Friendly but Distant Power

Official U.S. contact with Paraguay began in the 1840's when President Polk named Edward Hopkins as a special agent in Asunción. Hopkins' interests were primarily commercial and he entered into various agreements with the Paraguayan Government that eventually went sour. In 1855, Paraguayan troops fired on a U.S. naval research vessel, the *Water Witch*, killing the helmsman. That incident, plus pressure generated on the U.S. Congress by Hopkins seeking compensation for the broken commercial agreements, resulted in the sending of 19 ships and 2,500 men to Paraguayan waters in 1859. The López government agreed to pay \$250,000 for the death of the helmsman, but Hopkins got little satisfaction.

After the War of the Triple Alliance, Paraguay resisted Argentine demands for a part of the Chaco north

of the Pilcomayo River and the matter was submitted to the mediation of U.S. President Rutherford B. Hayes. He came down on the Paraguayan side of the dispute, an outcome no doubt viewed favorably by both Brazil and Bolivia.

The United States also played a role in the final brokering the Peace Treaty of 1938 that formally ended the Chaco War between Bolivia and Paraguay. This time, however, many Paraguayans believed that U.S. pressure played to Bolivia's advantage, since Paraguayan troops had to withdraw from some of the positions they had captured.

Making the Most of Being a Small Country in the Middle

Beginning with the Febrerista Revolution of 1936–37, Paraguay looked to the European models of national socialism that had also found strong support in neighboring South American countries. German immigrants were a significant part of the small foreign-born community. Morínigo broke relations with Germany and Italy in 1942 but did not declare war until 1945 and meanwhile refused to move against German economic interests. In an effort to encourage Paraguayan action against German activities, the United States began an economic and technical assistance program that eventually peaked under the Alliance for Progress. For two decades U.S. assistance was very large relative to the national budget. Many roads, schools, and other infrastructure can be traced to what was, for the times, a massive inflow of capital and expertise.

In the 1950's, Brazil and Paraguay started to develop the lines of communication that would eventually lead to much closer economic and political ties. Paraguay sought an alternative to its historic dependence on Argentina as the avenue for trade. When Perón was ousted in 1955 he went first to Paraguay, straining relations between the two Governments. Stroessner assumed office in August. He had attended Brazilian military schools. As a Colorado, he did not have any partisan inclination toward Argentina. Brazil for its part was eager to do business. Its own economic development was moving westward and it was interested in Paraguay for its resources and also as a market. A number of agreements were signed, the most important of which provided Brazilian financing for completing a road across Paraguay to the Paraná and for a bridge linking the two countries at Puerto Stroessner (now Ciudad del Este). Paraguay also gained freeport privileges in Paranaguá to supplement those it already had in Santos.

By far the most important element in the growing link between the two countries was the agreement in the 1960's to move ahead with construction of the Itaipú Dam, still the world's largest. Argentina objected strongly, but had to settle for Paraguayan agreement to build a smaller dam lower down on the Alto Paraná (Yacretá) and perhaps eventually a third at Corpus. At the same time Stroessner, not wanting to tie Paraguay too closely to Brazil, refused to convert Paraguay's electrical grid to make it compatible with Brazil's. This would have reduced the overall costs of the dam. Brazil is now Paraguay's principal trading and investment partner, and many Brazilians have settled in Paraguay.

In the 1991 Act of Asunción, Paraguay, Uruguay, Argentina, and Brazil formed the Southern Common Market (Mercosur). Paraguayan negotiators were successful in gaining advantages not equally available

to the other three.

For his first 20 years in office, Stroessner exploited U.S. preoccupation with the cold war to gain substantial U.S. military assistance, which he used to suppress the guerrilla efforts stimulated by Cuba and by more radical dissidents. Beginning with President Carter and continuing until Stroessner's ouster, U.S. policy placed increasing emphasis on human rights and democracy. Pressure from the U.S. was instrumental in encouraging and sustaining the democratization process that began in 1989.

Paraguay under Stroessner and after has cultivated relations with countries ostracized elsewhere, but with a price tag. South Africa provided substantial military assistance and some trade opportunities. It still has diplomatic relations with Taiwan and has reaped considerable economic assistance. In recent decades Japan and the European Community have moved ahead of the US as sources of assistance. Japan's assistance is directed in part to the agricultural colonists who came to Paraguay before and after World War II.

Throughout Paraguay's history, but of more than local importance only during recent decades, Paraguay and individual Paraguayans have maneuvered for economic advantage out of Paraguay's central location. Contraband has a long tradition. Many of the vehicles in Paraguay were stolen from one of the richer neighbors. When Argentina and Brazil moved to import substitution models of development, placing high duties on most imports, Paraguay developed a lucrative business in selling legitimate or pirated goods at bargain prices (see section on Economics).

Two other issues have assumed prominence in Paraguay's relations with the U.S. and other countries in recent decades: drugs and terrorism. Beginning about 1970, Paraguay has been an important transshipment country for drugs, first heroin and then cocaine. It is also an important producer of marijuana, most of which moves to neighboring countries. Under Stroessner, senior high officials profited from the narcotics trade. Direct ties to central government officials are now less likely, and the Government has recently taken a more active role in fighting the drug trade, but more needs to be done.

Over the past two decades, the border area around Itaipú, particularly in Brazil and Paraguay, has attracted a significant Arab population. An estimated 12–15,000 people of Arab descent live and work there. A small percentage are affiliated with Middle East groups that have a history of terrorist action: Hizbollah, Hamas, Islamic Jihad and al Qaeda. The Argentine Government believed that some of these groups might have had a role in the 1992 and 1994 bombings of the Israeli Embassy and the Argentine-Israeli Community Center in Buenos Aires. Since the September 11, 2001, attacks in the United States, antiterrorist coordination has received increased attention in bilateral and regional relations. The Paraguayan Government arrested two officials for selling Paraguayan passports to foreigners.

Twelve years after the end of the Stroessner dictatorship, Paraguay has had considerable success in breaking out of the pattern of *sui generis* isolation that characterized much of its history. There is still a ways to go before the country has an assured place in the democratic developing world.

Study Questions

1. Given the relatively small U.S. investment and trade with Paraguay, will U.S. influence decline if and as Mercosur develops?
2. What would be the impact on Paraguay's foreign relations of a return to non-democratic rule?

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