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Quo Vadis Paraguay?



Evan Ellis | May 1, 2023
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Source: (AP/Jorge Sáenz).

Representing both potential change and continuity, the victory of the Colorado Party in Paraguay's April 30, 2023 national elections puts the country on a delicate path with both risks and opportunities for its partner the United States and with the rest of Latin America.

President-elect Santiago Peña's Colorado Party of has been entrenched in power as a social institution as much as a political force. Nonetheless, Peña's overwhelming victory over the Concertación coalition candidate Efrain Alegre counterintuitively reflects Paraguayans' deep discontent with the status quo of endemic corruption, poverty and inequality, criminal networks, and rising homicides. Until the final weeks of the election, Peña and Alegre were in a very close race with a high number of undecided voters. In the final days, outsider candidate and self-styled "romantic anarchist" Paraguayo "Payo" Cubas surged in the polls thanks in part to his broad attacks on the status quo. Ironically, his surge principally took votes away from Alegre, catapulting Peña—head of the quintessential status quo Colorado Party—to victory.

Peña will take power on August 15th with a disillusioned and cynical electorate, despite earning 43% of the popular vote. On the other hand, his disciplined Colorado Party performed well in elections for Paraguay's Congress against the more politically dispersed Concertación—winning a majority in the Paraguayan Senate as well as in the Lower House. This will give Peña some latitude to advance a legislative agenda, albeit with no guarantees. The Colorado party also won at least 14 of 17 state governorships.

Peña, Paraguay, and Three Strategic Tipping Points for the Region

The new Peña government will take office positioned delicately in the middle on three interrelated "strategic tipping point" issues which are vital for the future direction of South America: **1)** its diplomatic relationship with the PRC versus Taiwan; **2)** its posture on corruption and organized crime; and **3)** its

relationship with the United States. Paraguay's course in each of these three areas will profoundly influence the course of events in South America and across the globe. These three strategic "tipping points" are a function of the unique position of Peña in Paraguay and of Paraguay within South America.

Peña has the potential to take the country in a different direction than outgoing President Mario Abdo Benítez. This is a virtue of his personal orientation as well as being from the "[Honor Colorado](#)" wing of the

Colorado Party that is a rival to that of Abdo Benítez's "[Republican Force](#)" wing. Indeed, Peña is [the handpicked candidate](#) of Abdo Benítez's chief Colorado rival, former president and current head of party Horacio Cartes. Abdo Benítez called Cartes—who has been implicated by the United States [for corruption](#)—a "[cancer](#)" on the party. For his part, Peña is a [respected technocrat](#), formerly working with the International Monetary Fund, as Minister of Finance, and as head of Paraguay's Central Bank. Through his [focus on investment-friendly policies and running a positive campaign](#), Peña largely avoided vulnerability to accusations of involvement in Cartes' corruption. On the other hand, Peña's inexperience with elected public office and lack of a political base independent of Cartes makes him potentially susceptible to the latter's influence going forward. Peña's struggle to define his own path for a clean, well-run, pro-market Paraguay will likely define his administration.

With respect to Paraguay itself, the nation's strategic centrality gives its course more influence on the trajectory of South America than is commonly

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recognized. Its geographic position makes it key to drug and other illicit flows, as well as a critical logistics corridors connecting Brazil's agricultural production areas and major urban markets to the Pacific. Paraguay is also connected to the Atlantic via the continent's strategic Paraguay-Parana river corridor. It is also home to two very large binational hydroelectric facilities serving the region: Yacyreta and Itaipu. As a member of MERCOSUR, Paraguay also plays a key role in a trade block that comprises all of the Southern Cone except Chile. MERCOSUR is also currently negotiating or exploring trade agreements with both the European Union and the People's Republic of China. As with many other governments in Latin America, Peña's navigation of Paraguay's three "tipping point" issues will be colored by the country's broad array of challenges, including an unprecedented drought, the operation of multiple powerful transnational organized crime groups, and endemic corruption.

Tipping Point 1- PRC versus Taiwan

Paraguay is the last nation in South America that maintains diplomatic relations with Taiwan. In contrast to his opponent, Peña pledged to continue and prioritize relations with Taiwan. Arguably however, Peña does not have the same level of personal commitment to Taiwan as did Mario Abdo Benítez—whose father worked for Paraguayan Dictator Alfredo Stroessner, whose government counted Taiwan as a vital ally. More worrisome, a souring of the U.S.-Paraguay relationship over corruption or other issues could push a Peña government to turn toward China as a market and source of investment independent of Western political pressure.

On the heels of Honduras' March 2023 shift in diplomatic recognition, a future Paraguayan abandonment of Taiwan would symbolically damage Taiwan's global position and fuel expanded PRC aggression. In the context of Paraguay's sometimes weak and corrupt institutions, diplomatic relations with the PRC would also open the door for a significant expansion of China's

economic presence in the country—along with the associated influence among its commercial, media, and government elites.

If the Peña government recognizes the PRC, likely axes of the PRC advance in the country would include in the areas of agriculture, logistics, telecommunications and digital industries, electric sector, and educational and governmental projects. The PRC-owned agro-logistics companies Nidera and Noble—already operating in Paraguay—would have a privileged position with access to the PRC market through parent China Oilseeds and Foodstuffs Corporation (COFCO) to make major inroads in the Paraguayan agricultural market. Those advances would come mostly at the expense of more established producers such as ADM, Bunge, Dreyfuss, and Cargill.

In logistics, Chinese companies, would be well positioned to secure non-transparent deals with the government for completing Paraguay's important segment of the Bioceanic Corridor—from Carmelo Peralta at the Brazilian border to Pozo Hondo, on the border with Argentina—as well as building future supporting commercial infrastructure. Likewise, PRC-based firms—in conjunction with local businesspersons—would be well positioned to build and operate new river ports that would capture the transportation value added of exporting Paraguayan agricultural products. This is critical in so far as the construction of ports are largely unregulated, on private land, and 80% goods in the Paraguayan economy move by river.

In telecommunications, Huawei—already present in Paraguay—would be well positioned to win new projects and support the expansion of other Chinese phone and component providers such as Xiaomi and Oppo. Additionally, recognition of the PRC would position the Chinese scanner company Nuctec to win a competition—already reportedly in the works—to operate in Paraguay's ports and airports.

Consistent with other cases where governments have recognized the PRC, its government would likely open a Confucius Institute at the National Autonomous University in Asuncion or at the National Polytechnic University—which ironically was established with the assistance of Taiwan. The PRC would likely provide training programs for Paraguay’s export promotion organization, Rediex, which currently has little knowledge or connections to support export of Paraguayan products to China. Paraguay’s media outlets would also be vulnerable to PRC influence campaigns including paid invitations of journalists to China, providing of free CGTN audio and video feeds, and buying lucrative advertising supplements.

A Paraguayan flip to the PRC would also be strategically impactful to MERCOSUR. Paraguay is currently the only member not recognizing the PRC. Paraguay-PRC diplomatic relations would reinforce interest by Brazil and Uruguay to expand trade with China, opening a path for a MERCOSUR-PRC free trade agreement which could transform the economic structure of the Southern Cone.

Tiping Point 2- Paraguay and Organized Crime

Paraguay is currently a strategic node for multiple transnational criminal flows and networks. Its ability to maintain the integrity of its own institutions and effectively fight against criminal challenges will strongly impact illicit flows and governability in the region. Paraguay is a key transit point for cocaine smuggled from Bolivia and Peru, before subsequently moving to the south of Brazil and on to Europe. Major Brazil-based groups including the First Capital Command (PCC) and the Red Command (CV), as well as home-grown groups such as Insfrán, struggle to dominate the Paraguayan market and ship contraband from Paraguay into Brazil and other destinations. In addition, a significant amount of the continent’s marijuana is produced in Paraguay.

A small but persistent band of terrorists/criminals, the People's Army of Paraguay (EPP, by its Spanish acronym) and its splinter factions operates in the same region. The Paraguayan city of Ciudad del Este—part of the “Tri-Border Area” where Paraguay intersects Brazil and Argentina—is also one of several regional centers of contraband and illicit finance.

Currently the Paraguayan national police, the National Anti-Drug Secretariat (SENAD, by its Spanish acronym), the National Intelligence Service (SINAI, by its Spanish acronym), and other Paraguayan institutions are struggling against this multitude of challenges. The success of the Peña government in effectively fighting crime, and the corruption associated with illicit activities, will be decisive for the future direction of the country.

Tippling Point 3- Paraguay's Relationship with the United States

Before the election, the United States pledged to work with whatever government the Paraguayan people elected. The U.S. has long had a very close relationship with Paraguay across a range of issues from security and economic cooperation to a range of global political issues. Nonetheless, the U.S. sanctioned Horacio Cartes and the current Vice President Hugo Velasquez in January 2023 for “significant corruption” and ties to Hezbollah. While the sanctions were well-perceived by many Paraguayans, it arguably generated discontent among others—including some in the Colorado Party and especially Cartes' Honor Colorado wing—who perceived the action as a U.S. attempt to influence the election.

Senior Paraguayans consulted for this work suggested that the Colorados are pragmatic. As candidate, Santiago Peña expressed the importance that he places on a good relationship with the United States and the values the two countries share. The Peña government will likely be looking for signals from Washington regarding the tone and direction of the relationship.

Paraguay is one of only a handful of South American governments that still reliably cooperates with Washington on key national security interests. The Biden Administration has been able to find common ground with many of the region's new left governments on issues of the environment and social justice. However, Honduras' flip to the PRC and Brazil's ties with Russia highlight the strategic importance of nurturing the dwindling number of reliable U.S. partners in the region.

The Way Forward

The incoming Peña government needs continued and expanded U.S. support. Washington can help by increasing the prioritization that Paraguay receives. This should come from across the government—from Defense programs to the Development Finance Corporation.

Given Paraguay's grave security challenges, the Department of Defense is well positioned to support these efforts. Paraguay would benefit greatly from expanded security assistance such as "Building Partner Capacity" (BPC) programs. Paraguay would also benefit from U.S. Corps of Engineers support in designing its infrastructure programs for the most positive results.

Beyond security, Washington should also fast track USDA re-certification of Paraguayan beef—critical not only to for access to the U.S. market, but also other developed country markets which follow USDA's lead. Paraguay has cut off beef exports to Russia over the invasion of the Ukraine, increasing its need for alternative export markets. Opening important democratic markets for Paraguayan beef will diminish the voices calling for Paraguay, to switch recognition to the PRC in an attempt boost market access.

If the Peña administration moves to abandon Taiwan for the PRC, Washington should do everything possible to educate it on the negative consequences of such a move for Paraguay. Such consequences include the loss of Taiwanese development assistance, the loss of the Taiwanese market, the difficulty of

penetrating the PRC market, the abandonment of Paraguayan students in Taiwan, the risks of PRC displacement of Paraguayan businesses locally, the disproportionate trade benefits received by the PRC rather than Paraguayans, the dangers of expanded Chinese influence, domination of Paraguay's digital infrastructure, and people-to-people “diplomacy” capturing China-facing academics, journalists, and government functionaries, among others.

With respect to anti-Corruption efforts, Washington should actively seek to partner with the Peña administration. Importantly, it should also do so from a tone of respect—separating the its relationship with the Peña Administration from the corruption of Horacio Cartes and Hugo Velasquez.

The election of Santiago Peña is an opportunity for Washington to affirm Paraguay's strategic importance and refresh its longstanding cooperative relationship with the country. Washington may even find a willing technocratically adept new partner in Peña. In light of all that is at stake, a little money and love for Paraguay may be one of the best bargains Washington has in 2023.

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