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Paraguay: An Overview

Introduction

Paraguay is a landlocked country in South America bordered by Argentina, Bolivia, and Brazil. The United States has had close relations with Paraguay for decades, providing assistance to counter corruption and spur trade and economic development. The United States and Paraguay also work together closely on counterterrorism and counternarcotics, among other security issues of interest to some Members of Congress.

In July 2022, the State Department imposed sanctions (visa restrictions) against former Paraguayan President Horacio Cartes (2013-2018) for alleged involvement in significant corruption. In early August, the U.S. government sanctioned Vice President Hugo Velázquez also for alleged corruption and bribery, prompting him to withdraw his candidacy ahead of presidential elections scheduled to be held in April 2023. U.S. sanctions of such high-ranking officials have fueled speculation that tensions in the U.S.-Paraguayan relationship may increase, although neither government has indicated that has occurred.

Political Background

Paraguay had a turbulent political history in the 19th and 20th centuries. In the War of the Triple Alliance (1864-1870), Paraguay lost one-quarter of its original territory to its opponents—Argentina, Brazil, and Uruguay—and more than half of its population died. Political instability followed for several decades, including three civil wars in the first half of the 20th century. For 35 years, from 1954 until 1989, it was governed by a military dictatorship led by General Alfredo Stroessner, which was ultimately overthrown by a military coup.

The newly formed government enacted a more democratic constitution in 1992, and the country has held competitive elections since 1993. The conservative Colorado Party (*Partido Colorado*, also known as the National Republican Association-Colorado Party or ANR-PC) has dominated Paraguay's political system. It held power for much of the 20th century, including under the Stroessner dictatorship, and won nearly every election held since the democratic transition. The only exception was in 2008, when former Catholic bishop Fernando Lugo affiliated with the main opposition party, the *Partido Liberal Radical Auténtico* (PLRA), won the presidency. The Colorado-led congress impeached Lugo in 2012, removing him from office in a rapid process that was condemned by neighboring countries. The 2013 election of Horacio Cartes returned governmental control to the ANR-PC despite allegations of Cartes' involvement in money laundering and narcotics trafficking. His attempt to override the prohibition against reelection in 2017 failed but sparked protests, including the partial burning of the capitol in Asunción.

Current Situation and Upcoming Elections

President Mario Abdo Benítez of the Colorado Party was elected in April 2018, defeating an opposition alliance by a margin of less than 4%. He was inaugurated to a five-year term in August 2018. The Colorado Party holds a majority of seats in the Chamber of Deputies and a plurality in the Senate, but the party has two competing factions: *Honor Colorado*, led by former President Cartes, and the smaller *Colorado Añetete*, led by President Abdo Benítez. Although former President Cartes helped defeat two opposition attempts to impeach President Abdo Benítez in 2019 and March 2021, intraparty tensions have escalated since. The 2021 impeachment attempt was spurred by protests over the government's alleged mishandling of the Coronavirus Disease 2019 (COVID-19) pandemic, which overwhelmed Paraguay's public health system.

Political parties must select their presidential candidates for the April 2023 contest via party primaries by December 2022. For the ANR-PC, with Hugo Velázquez out of the race, Santiago Peña, the Honor Colorado-backed candidate and a former finance minister under Cartes, is in the lead to become the party's presidential nominee. In June 2022, several opposition parties, including the PLRA, formed an alliance, the *Concertación Nacional*, to select a single opposition ticket.

Paraguay at a Glance

Population: 7.35 million (2021, IMF), 95% of whom identify as *mestizo*, a mix of Spanish and Indigenous Guarani descent.
Area: 157,047 sq. miles, slightly smaller than California (CIA)
GDP: \$38.3 billion (2021 est., current prices, IMF)
Per Capita GDP: \$5,207 (2021 est., current prices, IMF)
Top imports: electrical machinery (17%), mineral fuels (13%), mechanical appliances (13%), (2021, TDM)
Top exports: soybeans (29%), meat (16%), mineral fuels (15%), (2021, TDM)
Key trading partners: Brazil (29.1%); Argentina (22.0%); United States (9.1%); China (8.7%) (2021, total trade, TDM)
Legislature: Bicameral Congress, with 45-member Senate and 80-member Chamber of Deputies
Sources: Economist Intelligence Unit (EIU); International Monetary Fund's World Economic Outlook Database (IMF); Central Intelligence Agency's World Factbook (CIA); World Bank (WB); and Trade Data Monitor (TDM).

Economic and Social Conditions

Paraguay's economy is driven largely by agricultural exports—primarily soybeans and beef—and electricity generated by the binational Itaipú dam. Its dependence on

commodities and worker informality (reaching above 60%, per the U.N. Development Programme) have perpetuated social and economic inequities, according to some analysts. Although Paraguay appeared to be coping well initially with onset of the COVID-19 pandemic, deaths surged in 2021. Paraguay's efforts to procure and deploy vaccines have been slower than neighboring countries, and some observers have estimated that it could take until 2023 to vaccinate at least 60%-70% of the population. As of late August 2022, Paraguay reported more than 19,000 deaths from the pandemic and 49% of its population was fully vaccinated, according to Johns Hopkins University.

Although Paraguay's economy was harmed by the effects of the pandemic, its impacts thus far have not been as severe as in several other Latin American countries. According to the International Monetary Fund (IMF), Paraguay's economy contracted by less than 1% (-0.8%) in 2020 and grew by an estimated 4.2% in 2021. In 2022, drought reduced agricultural production. Observers warn that prolonged drought, a global fertilizer shortage and inflation tied to the war in Ukraine, and supply chain disruptions may continue to constrain growth. The IMF estimates Paraguay's GDP growth will total 0.3% in 2022 but could accelerate to 4.5% in 2023.

Before the pandemic, Paraguay had been gradually reducing poverty. According to the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), poverty decreased from 22.3% of the population in 2014 to 19.4% in 2019. However, because of the pandemic-related downturn, ECLAC estimates that the poverty rate in Paraguay returned to 22.3% in 2020. Paraguay may again make progress on lowering poverty if an economic recovery were to take hold.

Security Concerns

Porous borders and ineffective law enforcement have contributed to rising insecurity, drug trafficking, and money laundering, especially in the country's northern states and the tri-border-area (TBA), where Paraguay borders Argentina and Brazil. Paraguay is a transit country for illegal drugs, especially Andean cocaine, destined for neighboring countries and Europe. Paraguay also grows and exports more marijuana than any Latin American country except Mexico.

Paraguay has experienced violence and kidnappings from the domestic armed group Paraguayan People's Army (EPP) and its offshoot organizations since 2008. A former vice president kidnapped in 2020 by the EPP has not been rescued. U.S. officials have expressed concerns about the foreign terrorist organization Hezbollah, which is suspected of drug trafficking and money laundering activity in the TBA to support its operations. The State Department notes although Paraguay has made progress implementing anti-money laundering and terrorism financing laws passed in 2019, prosecutions are rare, in part due to public corruption.

In February 2022, the Paraguayan National Anti-Drug Secretariat (SENAD), assisted by the U.S. Drug Enforcement Administration and other international anti-crime agencies, conducted its largest antidrug and money

laundering operation. Over \$100 million of assets were seized and some two dozen suspects arrested. In May 2022, Marcelo Pecci, a top Paraguayan prosecutor involved in the antidrug operation, was assassinated while travelling in Colombia. Colombian authorities suspect the Brazilian crime group, First Capital Command, and a Uruguayan drug cartel of involvement in Pecci's murder—both syndicates have increased their presence in Paraguay.

U.S.-Paraguay Relations

The U.S. government has provided assistance to Paraguay to bolster democratic governance and combat corruption. The two governments have collaborated on security, counternarcotics, and counterterrorism. In March 2021, Secretary of State Antony Blinken spoke with President Abdo Benítez, reiterating U.S. support for Paraguay as it struggles with the COVID-19 pandemic. In mid-2021, Under Secretary of State for Political Affairs Victoria Nuland and other officials traveled to Paraguay for the second U.S.-Paraguay Strategic Partnership Dialogue, which focused on security, governance, trade, investment, and ties with allies, such as Taiwan. (Paraguay is the only country in South America that recognizes Taiwan and not the People's Republic of China.)

As of June 2022, the U.S. government has provided more than 2 million vaccine doses and nearly \$12 million in COVID-19-related aid to the country. The U.S. International Development Finance Corporation is financing \$333 million toward various projects to support small and medium-sized businesses in Paraguay, with some funds targeting women's economic empowerment. In 2017, the United States and Paraguay signed a Trade and Investment Framework Agreement, which entered into force in March 2021, to advance commercial ties and resolve trade-related disputes.

The United States allocated \$9.6 million in bilateral aid to Paraguay in FY2021, including \$4 million in Development Assistance (DA) and \$5.2 million in supplemental Economic Support Fund aid appropriated through the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). The State Department also provided \$400,000 in International Military Education and Training aid to strengthen the Paraguayan armed forces in FY2021. In FY2022, the State Department allocated \$3.4 million for Paraguay, and in its FY2023 congressional budget request, the State Department includes \$4.4 million for Paraguay, of which \$4 million is requested for DA. Humanitarian organizations operating in Paraguay received an additional \$605,000 in FY2021 to assist the roughly 6,000 Venezuelan migrants and refugees who have arrived since 2014 and their host communities. Congress continues to be interested in U.S.-Paraguayan cooperation on counterterrorism, counternarcotics, open markets, and bilateral trade, as well as building governmental accountability and reinforcing common views held on defense.

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