

Paraguay - Living Investing and Business

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Paraguay may be a poor country on the surface, but it is very rich in natural resources, which are only now attracting serious attention from outsiders. Paraguay has water, oil, iron ore, gold… and vast unexploited agricultural capacity. With commodity and food prices at record highs and still climbing, these factors mean Paraguay has suddenly popped up on the radar of international investors. By the way, it’s also one of the world’s few forgotten tax havens, with no personal income taxes.

This article is about how you can become involved, whether you are looking for a place to live and retire, invest, save taxes or all three – and most importantly, why you would want to!

Nobody Bothers Paraguay

For centuries, travelers had little reason to visit poor, empty, landlocked Paraguay. Those who did had specific reasons to seek out its remoteness and the resultant freedom and privacy. Varied immigrants included both the persecutors and the persecuted from European wars, as well as religious groups as varied as the Mennonites and the Moonies who searched for and found their safe havens.

In Paraguay, nobody really bothers you, or even watches what you are doing, provided you don’t upset locals. From that point of view it’s very much “live and let live.” There is no Big Brother in Paraguay. (The rumor of a secret American military base in Paraguay is not true – I checked it out personally)

From 1954-1989, dictator Alfredo Stroessner ruled Paraguay with an iron fist, throttling all political opposition but dividing his significant financial gains enough to keep enough people happy. The country became still more isolated, relying mainly on smuggling. Luxury goods were extremely highly taxed in Brazil and Argentina at that time, while Paraguay had only a few, very low taxes and a very liberal if under-developed economy.

Stroessner’s grand projet was the Itaipu power plant, the construction of which in the 1970s gave Paraguay the highest growth rate of all Latin America. Still today, Paraguay is the world’s largest exporter of hydro-electric power. Paraguay doesn’t need oil at all, because it already has far more electrical energy than it needs. That’s one reason why those hydrocarbon reserves in the Chaco were never really developed.

After Stroessner’s exile in 1989, his Colorado Party remained in power through a series of debatably-free elections. High levels of corruption have ensured that the country’s significant natural wealth has been concentrated in the hands of a few, maybe 500, families. This elite shipped nearly all their wealth out of the country, in the form of foreign investments and importation of luxury goods like cars.

Now fast forward to 2008, the end of the Colorado regime. The new President Lugo, a former Archbishop who was excommunicated by the Catholic Church, was sworn in in August 2008. Most signs point towards him following the successful, free market moderate stance of another ex Communist neighbor, Brazil’s President Lula.

Paraguay's Large Informal Sector

Paraguay's economy today is still hard to judge, because of the large informal sector. There is little industry, which I see as an opportunity over the longer term, as the country gradually grows wealthier.

Agriculture, too, is a great opportunity, in the shorter term. Many Argentine farmers have already noticed. Land prices in the Chaco have approximately doubled in the past year or so. That means they increased from \$25 to \$50 per acre. Yes, you read that right! European and American investors, too, have been quietly buying up vast tracts of virgin land recently.

Here are a few of the reasons why Paraguay is looking interesting:

- **Water** What will happen when the oil runs out? People will find renewable energy sources. What will happen when the water runs out? Some of the world's biggest cities, for example Los Angeles and Mexico City, are perilously short of water already. Paraguay does not have this problem. There is plenty of water to go around, most of it in sparsely populated areas. This creates ideal conditions for agriculture.

- **Electricity** The Itaipu power plant is one of the seven wonders of the modern world. It produces 14 Megawatts of power (for comparative purposes, that is four times as much as America's largest coal power plant, Plant Scherer). In terms of power, the energy this monster dam creates every day is equivalent to 433,000 barrels of oil. Except, of course, this is not oil. This is green, renewable energy. The total estimated hydropower potential of the River Pirana and its upstream tributaries is 40,000 megawatts. Wow! Paraguay is already the world's largest exporter of hydroelectric power, but most of it is sold to Brazil at a fraction of market value as a result of cozy agreements made in the 1970s. The new government is determined to change this. This will be interesting to watch.

- **Oil and Gas** The Bolivian territory directly to the north-west of Paraguay has South America's second largest natural gas reserves (second to Venezuela). It doesn't take a genius to figure out that Paraguay's northern Chaco bordering Bolivia might have similar resources. And that the country's economy could transform almost overnight with a big find and the start of commercial production. The simple fact is there have been easier areas in the world for oil and gas exploration and distribution, which is why after the Suez Crisis big oil companies like Texaco who were looking for oil in Paraguay invested in exploration elsewhere instead. But with the high prices of today, exploration in remote areas is worthwhile, and technology makes it easier than it was a few decades ago. Oil and gas companies like Pantera Petroleum from the USA and CDS Oil and Gas from London, UK are already there exploring. They claim already to have identified substantial reserves.

- **Land** This is another thing Paraguay has an abundance of. The land exists, is fertile and natural irrigation is easy. It is virgin. There are no people there. So nobody got around to developing it or putting in roads. High prices for soya, beef and other commodities have changed this. Argentina's ban on beef exports has helped too... Argentinean farmers can't export beef anymore, so they are quietly exporting their whole beef industry with all its expertise instead... to Paraguay. Meanwhile Brazilian farmers, hurt by the strong real, are also looking to reduce costs without having to move far from their familiar territory. Where are they headed? You guessed it – Paraguay.

- **Minerals** Paraguay has established iron reserves, in the south of the country, along the Paraguay River and near

the capital. It is likely that there is much more iron in the unexplored Chaco region. Once again, high iron ore prices are making exploration worthwhile. The new excitement, however, focuses on Gold and Uranium, which have been found in Paraguay and extracted informally by locals, but is not yet commercially mined. Most of the investment is coming from Canada, in particular the companies Latin American Minerals, Cue Resources and Crescent Resources. Cue's COO Chris Healey was quoted as saying last month, to Business News Americas, "People are just starting to realize that there is something there. There is a lot of potential for gold, probably base metals, certainly uranium." Of the new government, he says: "They are very keen on getting foreign investment and the new government is pretty favorable for us."

These developments have not been lost on world markets. The Paraguayan currency, the Guarani, has long been the butt of jokes. But it appreciated more than 25% against the dollar over the past year. Paraguay is a dual currency country. Day-to-day business in Paraguay is in Guaranies, but most higher-priced items are tagged in US dollars. ATM machines pay out both currencies.

As somebody told me last month, in Paraguay "everything is virgin." That is the reason for investing in Paraguay right now. There is lots of opportunity in all areas. But our prediction is that for the next decade or so, natural resources will be the driving force in the economy.

Paraguay is also very attractive as a personal tax haven, due to the fact that it has no income taxes on foreign source income. It is a relatively simple process to acquire formal residency as a foreigner, which can be used to reduce your tax liabilities elsewhere (depending, of course, on your personal situation). Then after as little as two to three years, you can apply for a Paraguayan passport with visa-free travel to Europe and much of the rest of the world. Dual citizenship is permitted.

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