



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
DIRECTORATE B
- POLICY DEPARTMENT -**

**INFORMATION NOTE
ON THE POLITICAL AND ECONOMIC SITUATION
IN PARAGUAY
AND ITS RELATIONS WITH THE EUROPEAN UNION**

Content:

Although democracy in Paraguay is undoubtedly becoming stronger and the situation after the 2003 crisis is improving, most Paraguayans still live in very difficult conditions.

Negotiations on the fourth-generation agreement on trade, cooperation and political dialogue, between the EU and Mercosur, of which Paraguay is a founder member, are continuing. The aim is to sign the agreement at the EU-Latin American summit in Vienna (May 2006).

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POLITICAL SITUATION

1. Introduction

1.1 Geographical situation

Paraguay is located in South America and is bordered to the north-west and north by Bolivia, to the east by Brazil, and to the south and south-west by Argentina¹. It has a total surface area of 403 752 sq. km. A land-locked country in the centre of the continent, Paraguay is the only Latin American country, apart from Bolivia, to have no coastline². The Paraguay River divides the country into two sharply contrasting regions: in the west, the Chaco, or western Paraguay, and in the east, Paraguay proper, or eastern Paraguay. The Chaco forms part of an alluvial plain which extends from Paraguay into Bolivia to the west, into Argentina to the south and into Brazil to the east. The region is covered by grassy plains, swamps and forests. Eastern Paraguay consists mainly of the extension of the Paraná Plateau, the altitude of which ranges from 305 metres to 610 metres.

A land-locked country, Paraguay has a small population (under 6 million inhabitants). Its population comprises three broad categories: the *mestizos*, who account for more than 90 % of the population, American Indians (mainly Guaranis) and descendants of Europeans and Asians. More than half of the population of Paraguay lives in rural areas. The capital, **Asunción**, is home to 1.2 million people. A large part of the working population (over 45 %) works in agriculture.

1.2. Background

Paraguay's present territory was inhabited by Tupi-Guarani Indian tribes until the 16th century, when the first Spanish settlers arrived. In 1604, King Philip III of Spain entrusted the Jesuits with the task of taking care of the Indians. They founded the *reducciones*, where the natives were gathered into villages under the temporal and spiritual authority of the Jesuits, and the land was owned collectively. From 1610 to 1767, the system worked well, but the Jesuits made many enemies amongst the settlers, who criticised them for preventing them from taking over the land.

In 1811, Paraguay declared its independence, following Argentina's example. A land-locked country, with few natural resources for export, the large landowners took power. As in the remainder of Latin America, the political struggles set liberals against conservatives (*azules* and *colorados*), and the number of *pronunciamientos* increased. Paraguay leaned towards autarchy, but made up for its isolation with an aggressive nationalism, particularly during the rule of President Solano López (1862-1870). President López was responsible for the disastrous six-year War of the Triple Alliance against Argentina, Brazil and Uruguay (1864-1870), which ruined the country, wiped out two-thirds of the population and dramatically reduced the country's territory. Despite Paraguay's victories in the Chaco War against Bolivia (1928-1929 and 1932-1935), it was not able to regain the territory it had owned before 1870.

¹ See Annex I.

² See Annex II.

Throughout the first half of the 20th century, and particularly in the 1940s, Paraguay was one of the most unstable states in Latin America¹. Five different presidents ruled between 1948 and 1949. Finally, in May 1954, a coup d'état brought General Alfredo Stroessner to power, with the support of the Colorado Party. During his 35-year dictatorship, Paraguay became even more isolated and scarcely developed. During Stroessner's long period of rule, in a country with fewer than 6 million inhabitants at least 150 000 people were imprisoned and between 1000 and 3000 people disappeared or were killed.

In February 1989, when Stroessner had named his son as his successor, a coup d'état brought General Andrés Rodríguez to power. Progress was made towards democratisation during the presidencies of General Rodríguez (1989-1993)² and his successor, Juan Carlos Wasmosy (1993-1998). Human rights were largely respected, as were freedom of thought, freedom of the press and political pluralism. A new Constitution was adopted in 1992. However, the situation worsened from 1996 onwards, after the attempted coup d'état by General Lino Oviedo, Commander-in-Chief of the armed forces. The Supreme Court ruled that General Oviedo could not stand in the presidential elections of 1998, and Raul Cubas Grau, his running mate on the Colorado Party list, was elected President. Three days after taking up office, he had Oviedo released, sparking off another national crisis, which culminated in March 1999 with the assassination of Vice-President Luis Argaña (former Foreign Minister under General Stroessner and an enemy of the Cubas-Oviedo team), for which President Cubas was allegedly responsible. In March 1999, thousands of people (including many young people) called for the resignation of Raul Cubas. He resigned and General Oviedo went into exile. Luis González Macchi, then President of the Senate, who became interim President promised speedy elections. They were not held until 27 April 2003. Despite the confused situation, the constitutional system never broke down, and the armed forces did not intervene.

On 31 March 1999, President Luis González formed a government of national unity. The Republican National Alliance/Colorado Party was the major party within the government, which also included four representatives of the Opposition (Authentic Radical Liberal Party – PLRA). In February 2000, the Liberal Party withdrew from the government, although the Liberal Julio César Franco retained the office of Vice-President. In spite of political instability (another attempted coup by Oviedo supporters in May 2000) and economic problems, this government remained in office until the elections in 2003. The Colorado Party won these latest presidential and parliamentary elections, despite 56 years in power (mostly under the long dictatorship of General Stroessner). Nicanor Duarte Frutos was elected with 38 % of the vote, well ahead of Julio César Franco of the PLRA (24 %) and Pedro Fadul of the *Patria Querida* Movement (22 %). Observers ascribe the Colorado Party's victory to its powerful political machine, which in General Stroessner's era was merged with the state. Analysts have also commented that there has been hardly any change in the political class and corruption and patronage are rife throughout the state machinery. In his manifesto, President Nicanor Duarte promised to campaign against corruption³.

¹ There were 42 coups d'état in the 20th century.

² General Rodríguez was elected President of the Republic after a highly controversial ballot.

³ Transparency International has described Paraguay to be the most corrupt country in Latin America.

2. Domestic policy

2.1. Constitutional system

The President is elected by universal suffrage for a five-year non-renewable term. The Parliament (*Congreso*) is bicameral. The Lower House (*Cámara de Diputados*) consists of 80 Members, elected for a five-year term. The Upper House (*Senado*) consists of 45 Members, also elected for a five-year term. The Head of Government is the President of the Republic, who is accountable to Parliament. The Council of Ministers (12 members) is appointed by the President. The next parliamentary and presidential elections will be held in 2008. The political parties represented in Congress since 2003 (Senate and Chamber of Deputies) are the Republican National Alliance (ANR – the former Colorado Party)¹ (53 seats), the Authentic Radical Liberal Party (PLRA) (33 seats), the *Patria Querida* Movement (17 seats), the *Unión Nacional de Ciudadanos Éticos* (17 seats)², the *País Solidario* Party (4 seats) and the *Encuentro Nacional* Party (1 seat).

The 1967 constitution was revised in 1992. The new constitution limited the President's powers and created a representative democratic system

The judicial system, for decades under the control of the Stroessner regime, is becoming more independent and transparent. In 1995, a new Supreme Court of Justice was established. It has the power to rule that legislation proposed by the executive is unconstitutional. The members of the Court (a minimum of five) are appointed for a five-year term.

Administratively, Paraguay is divided into 17 departments, each with an elected governor. Municipal elections³ will be held in November 2006 and will no doubt represent a test for the government at least two years from the end of its term of office.

2.2. Recent events

During the first two years of his term of office, President Nicanor Duarte's administration consolidated the democratic institutions and began to improve the economic situation. Despite these successes, the government team is not united and ministerial departures are frequent. Elsewhere in the political arena, the Colorado Party has obtained the annual presidencies of the two Houses of Congress (July 2005), for itself and an allied party. Nevertheless, the President's actions are far from obtaining unanimous support within his own party⁴.

The main opposition party – the PLRA – also has internal divisions. The farmers' movement, on the offensive and well organised, is the spearhead of the campaign on social issues⁵, whose *bête*

¹ The Colorado Party, which follows both a conservative and an agrarian ideology, was founded in the 19th century and then used as an instrument of control over the country by General Stroessner. Since Stroessner's fall, it has continued to be part of the Government, either alone or within coalitions.

² A party formed by supporters of General Lino Oviedo (who was behind the coup).

³ There are 228 municipalities.

⁴ President Duarte is aspiring to the presidency of Colorado in 2006.

⁵ 48 % of Paraguayans live below the poverty line.

noire is privatisation. The battle against privatisations urged by international financial organisations has already led to several deaths in the farmers' movement in 2002, as a result of demonstrators being shot. These events have led the President to drop the idea of privatisation of state industries. The government has also had difficulty in reconciling the interests of the *latifundia* with those of landless farmers¹.

The Duarte administration's crusade against corruption has had some successes: by purging the Supreme Court of Justice, including the President, who was accused of corruption and peddling influence; by getting the former Director of the Central Bank prosecuted for fraud; by dismissing a minister accused of corruption and by initiating judicial proceedings against the former President Luis González Macchi, accused of money laundering.

In a country where political instability was frequent, the militants have acquired a taste for power and now, with a democratic government, it is becoming essential for the civil authority to exert control over the armed forces. Thus President Duarte replaced the heads of the various sections of the army in June 2005. The threat presented by General Lino Oviedo is more difficult to resolve. He returned to Paraguay in June 2004, after five years' exile in Brazil and was immediately arrested. He was sentenced to 10 years in prison for an attempted coup in 1996. He was also accused of the assassination of Vice-President Luis María Argaña and the death of demonstrators in Asunción in 1999. Nevertheless he is hoping for rehabilitation. He is now 61; he amassed a fortune during the period he commanded the army. His supporters in UNACE (*Unión Nacional de Ciudadanos Éticos*) hope he will run for President in 2008.

Following the attacks on 11 September 2001, the Bush administration is interested in the triple frontier area between Paraguay, Argentina and Brazil, particularly Ciudad del Est, a multilingual town of 200 000 inhabitants where there is a sizable Arab community. The hunt for possible terrorists led to the arrest of about 20 Arab nationals, who were later released. This operation, in conjunction with the regional economic crisis in 2002, has led to an exodus of business people, primarily of Arab origin, to São Paulo (Brazil). The formerly prosperous Ciudad del Este has declined and smuggling is developing on the three borders. Nevertheless, the USA insists, there are terrorist training camps in the region and links between the Colombian guerrillas (FARC) and radical Paraguayan elements.

A recent problem in Paraguay is the practice (current in Brazil and Argentina) of kidnapping for large ransoms. These attempts sometimes turn to tragedy: a child of 10, the daughter of a businessman, was assassinated, as was the daughter of former President Raul Cubas. There are rumours that the Colombian FARC guerrillas are involved in these kidnappings, which strengthens US claims that there are terrorists in Paraguay.

3. Foreign policy

Paraguay maintains good relations with its three neighbours, Brazil, Argentina and Bolivia. Following General Oviedo's failed coups and his exile in Argentina and Brazil, relations between Asunción, Brasilia and Buenos Aires were adversely affected.

¹ Landownership is profoundly unequal in Paraguay: 90 % of the land suitable for cultivation is in the hands of 10 % of the population.

Paraguay's membership of Mercosur has also helped to consolidate democracy in the country¹. However, relations have not always been smooth. Disputes between the four partners on subjects such as smuggling and protectionism are common. Moreover, the powerful Paraguayan lobbies are still opposed to Paraguay's involvement in regional integration.

Since the fall of General Stroessner, the United States has supported Paraguay's fledgling democracy. Washington strongly condemned the attempted coups d'état by General Oviedo and the assassination of Vice-President Luis Argaña. On 1 June 2005, the Paraguayan Congress authorised the entry into the country of US troops for a period of 18 months, with the promise of immunity in respect of the International Criminal Court. The US troops have the task of assisting their Paraguayan counterparts in combating drug trafficking, terrorism and corruption. This decision was not supported by other Mercosur partners, such as Brazil and Argentina, which had already rejected the idea of guaranteeing immunity for US troops.

II. ECONOMIC SITUATION²

1. Introduction

With GDP under USD 1500, Paraguay is the poor relation within Mercosur. Thirty years of autarchy under General Stroessner bled the economy dry. However, the country has great potential in the fields of agriculture and energy. Agriculture accounts for almost one-third of GDP, most of the country's export revenues (90 %) and a third of the national labour force. Towards the end of the 1980s, yields of cotton and soya increased rapidly, and the best prospects for the future lie mainly in the cultivation of these crops and of other agricultural products such as sugar cane, yucca, maize and wheat. Paraguay also has large timber reserves, which feed the country's expanding timber industry. Soya oil, cotton and timber are the main export products. The largest industries are textiles and the production of metal goods and machinery. Hydroelectric projects with Brazil, including the construction of the world's largest hydroelectric dam at Itaipu, have made Asunción self-sufficient in energy.

At the same time as becoming more democratic, Paraguay has moved towards a process of economic liberalisation, mainly by reducing public spending and privatising public companies. Paraguay's membership in Mercosur has also benefited the country greatly³. Nevertheless, 48 % of the Paraguayan population still lives below the poverty line. 17 % of the labour force is unemployed and 24 % is under employed.

2. Recent trends

¹ The terms of Mercosur stipulate that member states must be democratic states.

² See Annex III.

³ The total share of Paraguayan imports from this zone rose from 31 % to 53 % between 1990 and 2000; exports rose from 39 % to a little over 52 %.

During the first half of the 1990s, Paraguay experienced significant growth. This came to an end in 1995, following the banking crisis of 1995-1998, poor harvests resulting from the disastrous effects of *El Niño*, recessions which hit its main Mercosur partners, Brazil (1999) and, above all, Argentina (2001) and falling world market prices for Paraguay's main export products (particularly soya and cotton).

Economic problems have led to a fall in purchasing power. This situation benefits the Mercosur countries, as most goods from these countries enter Paraguay at zero duty, and countries where labour is even cheaper, such as the People's Republic of China. However, since 1998 there has been a slowdown in imports. In particular, imports of capital goods have declined and have been mainly restricted to machinery for the agri-foodstuffs industry and electrical and telecommunications equipment.

When the Duarte administration took power in the middle of 2003, Paraguay's economic situation was desperate. The new President's main objective was to stabilise the macro-economic situation and to introduce structural reforms to promote economic growth and the reduction of poverty levels.

The government's efforts have borne fruit as, after the recession in 2002 (-2.3 %), GDP growth in 2004 reached 2.9 %, slightly higher than in 2003 (+2.6 %). The Paraguay Central Bank (BCP) calculated an increase of 4 % in 2005, which seems rather optimistic in view of the rise in oil prices. Nevertheless, if the still very high poverty index is to be cut by half (48 %), national wealth needs to increase from 6 % to 7 % a year over a 10-year period. The favourable results in 2004 may be largely ascribed to the primary sector (+4.8 %), particularly stock farming. The secondary sector advanced only by 3.3 % and services fell slightly, by 2 %.

Recovery was assisted by an improvement in the international economic situation, good government management, good harvests and high prices on world markets (for soya and cotton in particular).

In 2004 there was a budget surplus of 0.5 % points on GDP compared with a 0.3 % deficit in 2003 and -3.1 % in 2002. This performance can be explained by increased tax revenue (+37 %) bringing the tax ratio to 11.8 %, and by a further reduction in public expenditure to 12.5 % of GDP compared with 15 % in 2002.

A rigorous monetary policy has resulted in a considerable reduction in inflation to 3 % in 2004 (compared with 10 % in 2003). Moreover, the rate of the guarani has stabilised at around PYG 6.250 to USD 1, a depreciation of 2.8 % in one year (+13 % in 2003 and -50 % in 2002). The monetary regulation instruments' interest rates are moving downwards (5.7 % at the end of 2004 as opposed to 12.8 % in December 2003), the lowest rates ever operated by the BCP. Arrears in payment of the domestic public debt have fallen from USD 160 million at the end of 2002 to USD 15 million in December 2004.

This economic performance has been assisted by Paraguay's full reintegration in the international financial system. In December 2003 the Duarte administration signed the first agreement with the IMF since 1959. It hopes to obtain new loans in a second agreement that will be valid for the remainder of its term of office.

In foreign trade, in 2004 imports rose by 39 % while exports rose by 27 %. The trade deficit is now around USD 800 million as opposed to USD 600 million in 2003. Mercosur, the European Union and the United States are Paraguay's main trading partners.

Foreign debt has remained high, at USD 2400 million, or 40 % of GDP, compared with 44 % in 2003.

3. Economic outlook

The architect of recent economic success, Dionisio Borda, the Finance Minister, resigned in May 2005. His successor, Ernesto Bergen, has said his priorities in office will be macro-economic stability and reactivation of economic activity and its corollary, employment. The appointment of Mónica Pérez, a former IMF official, as President of the Central Bank, indicates that financial orthodoxy cannot be separated from economic revival. Nevertheless she will have difficulty in getting her objectives under way as structural reforms (tax reform, privatisation)¹ are not progressing and the international situation will become less favourable if oil prices do not stabilise.

According to Mr Bergen, economic revival should primarily be generated by the private sector, which on the one hand is suffering because of the limited domestic demand of a small population with low buying power and on the other because of economies of scale that greatly favour large neighbours such as Argentina and Brazil. The economic machinery undoubtedly has to be relaunched round objectives that encourage sustainable development: an increase in agricultural and agro-industrial production, diversification of production towards sectors with a higher value added, investment that makes a significant contribution to infrastructure (roads, bridges, telecommunications), better use of tax revenue, an increase in GDP on more sustainable bases. However, recent macro-economic performance and solid financial prospects should also be translated into real improvements in the situation of the Paraguayan people (whose per capita income has increased by only 0.3 %), who have been waiting for more than two years to see concrete results from Nicanor Duarte's election promises.

III. RELATIONS BETWEEN THE EU AND PARAGUAY²

1. Bilateral relations

Economic relations between the EU and Paraguay are not as well developed as those between, for example, Paraguay's immediate neighbours (Argentina and Brazil) and the EU, and bilateral trade amounted to just EUR 471 million in 2004. The main exports from the EU to Paraguay are transport equipment, machinery, chemicals, beverages and tobacco. Paraguay supplies the EU

¹ There is a risk of tax reform being delayed because of municipal elections in December 2006. The executive and legislature (Chamber of Deputies) are allies in opposing moves towards privatisation.

² See Annexes IV – VI, pp. 18-20.

with raw materials and foodstuffs. Italy, the Netherlands and Germany are Paraguay's main trading partners in the European Union. The balance of trade has been adverse for the European Union since 2003. This import-export activity also includes trade relations within Mercosur, of which Paraguay is a member.

As a member of Mercosur, Paraguay already benefits from EU aid, but specific cooperation with the country has also been put in place.

After a long silence in the 1970s and 1980s, largely the result of the alarming situation of the country under the dictatorship of General Stroessner, dialogue and cooperation between the EU and Paraguay was able to resume. The EU has become the largest provider of aid to Paraguay, with EUR 87 million granted during the period 1993-2000, which proves, should such proof be necessary, Europe's commitment to the process of democratisation in South America. Further proof was provided by the signature on 3 February 1992 of the 'third-generation' Cooperation Agreement, which included the 'usual' clauses on respect for human rights and the rule of law.

Since the renewal of relations between the EU and Paraguay, certain EU Member States have provided considerable support for the country, mainly in the form of grants. Germany has supported Paraguay's environmental policies, France has provided assistance for the country's projects in the fields of regional planning, institutional reform, education and the conservation of the cultural heritage, whilst the United Kingdom and Italy have directed their aid towards education, public health and rural and industrial development.

At Community level, EUR 82 million was granted in aid during the period 1991-1997 in the fields of institutional reform, rural, social and industrial development, training and water resources. Paraguay has also benefited from two regional projects run by the Commission; the first concerning development of the basin of the Pilcomayo River (shared by Argentina, Bolivia and Paraguay), and the second concerning the creation of an intergovernmental committee (involving Argentina, Bolivia, Brazil, Paraguay and Uruguay) responsible for studying the water resources of that river¹.

In order to ensure efficient use of the funding allocated for cooperation between the EU and Paraguay, the two parties decided to lay down guidelines for this cooperation in a Memorandum of Understanding for the period 2000-2006, which dealt with technical, economic and financial cooperation. The Paraguayan Government demonstrated its resolve to cooperate fully with the EU during the drawing up of a planning document for the period 1999-2003. Priority areas were identified as:

- institutional reform and modernisation of the state, so as to support and enhance Paraguay's role within the region and Mercosur (EUR 6 million),
- education and social reform, in order to improve the quality of life of the population and to integrate the rural economy into the production system (EUR 24 million)²,

¹ This included financial and technical aid for studying the resources.

² Particularly by means of technical innovations and the modernisation of agriculture. Plans have also been put in place to support small farmers, small cooperatives and rural development.

- productivity and regional integration, with the aim of supporting the development of the private sector by the setting up of an efficient information system and the promotion of SMEs so as to increase their competitiveness¹ (EUR 21.7 million).

In order to guarantee fully that these projects would be implemented, the EU created a budget heading against which EUR 51.7 million was entered for the period 2000-2006. An additional EUR 1.95 million in humanitarian aid was also released by the EU, divided between Bolivia and Paraguay, to help the inhabitants of certain regions following the prolonged drought which affected the countries in 1999.

Four main projects are currently being implemented: economic development in Caaguazú and aid to vulnerable children, modernisation of institutions and improvement of infrastructure (River Pilcomayo area).

As Paraguay is a member of Mercosur, it not only maintains bilateral relations with the EU, but also, and more importantly, participates in the EU-Mercosur dialogue.

2. Relations between the EU and Paraguay within Mercosur

2.1. Introduction

Bilateral relations between the EU and Paraguay acquired a new dimension after the signature of the Cooperation Agreement between the EU and Mercosur in December 1995, the objective of which was to create an interregional association.

Ever since its creation, the European Union has supported the process of integration within Mercosur. In 1992, the Commission signed an Interinstitutional Agreement with Mercosur to provide it with technical and institutional support. At present, relations are based on the Interregional Framework Cooperation Agreement, signed on 15 December 1995 in Madrid, which, as well as a section on trade issues, includes two other sections on cooperation and political dialogue. The Agreement institutionalised the dialogue which had existed previously and provides for two annual meetings at the level of Heads of State, Ministers or other high-ranking officials. Since 2001, several official meetings have taken place, as well as meetings held in the margin of the United Nations General Assembly between the EU Troika and the Mercosur member states.

The aim of this cooperation is to reinforce the process of regional integration within Mercosur, and, in the long term, to create a large free-trade area in goods and services between the two blocs, in accordance with WTO rules, as well as a basis for strengthened political dialogue. Negotiations on a future Association Agreement were launched at a summit meeting in Rio de Janeiro on 28 June 1999, and negotiations proper began in November 1999 in Brussels. The forum for negotiations is the EU-Mercosur Biregional Negotiation Committee, to which are

¹ Cooperation with the EU has also enabled the creation in 2001 of an institute for monitoring products destined for export, in order to improve the quality of these products, as well as the setting up of an assembly of SMEs, responsible for monitoring the activities of SMEs.

linked a Subcommittee on Cooperation, three Subgroups on specific cooperation areas and three technical groups dealing with trade matters.

The first round of negotiations took place on 6-7 April 2000 in Buenos Aires. The participants decided that the future Association Agreement should not be limited to the liberalisation of trade in goods and services but should also deal with public procurement, investment, intellectual property, competition, trade defence instruments and dispute settlement.

It was not until the fifth round of negotiations, held on 2-6 July 2001 in Montevideo, that negotiations properly started between the EU and Mercosur. The EU presented its tariff proposals for goods, services and public procurement. The Mercosur states highly appreciated this demonstration of support for the integration mechanism at a time when the region was facing difficulties¹.

The second EU-Mercosur summit (Madrid, 2002) should have been an opportunity for setting a timetable and a deadline for negotiations. However, in spite of its efforts, Mercosur did not succeed in securing a pledge from the EU that it would conclude negotiations by 2005. The Summit merely welcomed 'the progress made so far on the trade chapters and the adoption of a package of measures to facilitate trade', but did not set a deadline. The two parties also agreed to strengthen their political dialogue on matters such as human rights and the rule of law, sustainable development, conflict prevention in the framework of the UN, the fight against terrorism and drug trafficking.

2.2. Recent developments

The EU and Mercosur met at ministerial level on 12 November 2003, before deciding to complete the negotiation of an association and free-trade agreement in October 2004, with an interim assessment at the EU-Latin American summit in Guadalajara in May 2004. Despite encouragement from Guadalajara, the negotiations in Lisbon in October 2004 did not result in the signing of the agreement.

Following a ministerial meeting in Brussels on 2 October 2005, the two parties decided to resume negotiations at the beginning of 2006, with a view to concluding a fourth-generation agreement on trade, cooperation and political dialogue aimed at creating the largest free-trade area in the world with a market of over 680 million people and a volume of trade of USD 40 billion. For four years negotiations have stalled in the wake of demands from all sides: Mercosur wants lower customs duties for their exports of sugar, beef and poultry while the EU wants better access to the South American services and public contract markets. Europeans and Latin Americans will meet again at ministerial level in the first half of 2006, when they will know the results of the WTO Ministerial Conference in Hong Kong in December 2005. The objective is to sign the agreement at the EU-Latin American summit in Vienna (May 2006).

¹ Commissioner Lamy stated that Mercosur was the solution to the Argentinian crisis and that the EU's commitment '*remains untouched, in spite of the temporary difficulties in the region. On the contrary, this is a further demonstration that the discussions must be intensified*'.

3. Role of the European Parliament

The European Parliament has always shown great interest in the political and social situation in Paraguay and, in particular, in problems related to human rights and respect of the rule of law¹. In addition, aware of the great interest generated by the biregional negotiations, in May 2002 Parliament called for the creation of a free-trade area between the EU and Latin America by 2010 and called on the Madrid and Guadalajara Summits to set a specific timetable for negotiations and to reach pragmatic conclusions for improving the standard of living of the population, respect for human rights and the participation of civil society in the decision-making process.

After the 2004 elections, Parliament created a delegation for relations with Mercosur.

¹ For example, when the European Parliament congratulated the Paraguayan Government on having overcome the attempted *coup d'état* by General Oviedo in 2000 (OJ C 67, 1.3.2001).





PARAGUAY
MACRO ECONOMIC DATA AND FORECASTS

	1999	2000	2001	2002	2003	2004	2005
GDP Growth %	0.48	-0.35	2.72	-2.33	2.55	2.90	3.50
GDP US\$bn	7.74	7.72	6.85	5.59	6.04	7.54	7.68
GDP Per Capita US\$	1502	1465	1270	1015	1070	1306	1301
Inflation (CPI) %	6.75	8.98	7.27	10.51	14.23	4.33	4.41
Population m	5.15	5.27	5.39	5.51	5.64	5.78	5.91
Population Growth %	2.30	2.31	2.28	2.23	2.41	2.34	2.27
Current Account Balance US\$bn	-0.17	-0.29	-0.27	0.07	0.15	-0.06	-0.16
Current Account Balance % GDP	-2.14	-3.76	-3.89	1.31	2.42	-0.81	-2.14
Trade Balance US\$bn	-1.06	-1.14	-1.10	-0.72	-0.71	-0.97	-0.94
Imports (G+S) US\$bn	2.84	2.65	2.61	2.44	2.48	2.93	3.09
Imports (G+S) US\$bn % Change	-26.75	-6.88	-1.59	-6.33	1.50	18.44	5.20
Exports (G+S) US\$bn	1.78	1.51	1.50	1.72	1.77	1.94	2.07
Exports (G+S) US\$bn % Change	-26.66	-15.19	-0.40	14.35	2.80	10.00	6.60
Local Currency to Euro	3325	3212	3672	5394	7252	7413	8405
Foreign Direct Investment \$m	336	95	119	79	40	65	84
Foreign Direct Investment % GDP	2.30	1.23	1.54	1.13	0.56	1.14	1.25
Total External Debt \$m	2289	3393	3101	2817	2715	2650	2780
Total Debt % GDP	26.90	44.00	40.22	40.18	38.03	46.56	41.42
Debt Service Ratio % Total Exports	4.70	6.71	10.25	9.92	13.65	13.91	14.32

Source: World Market Analysis

Trade relations EU(25)-Paraguay, 2004

By products		1000 EUR			
HS Chapters	Harmonised System (HS): Sections and chapters	Imports (cif)		Exports (fob)	
		1000 EUR	% of total	1000 EUR	% of total
01-99	Total	315.246	100,0	156.003	100,0
	of which:				
01-24	Agricultural prod. (incl. fish, prepared foodstuffs etc.)	261.802	83,0	22.108	14,2
	of which:				
06-14	Vegetable products	248.695	78,9	436	0,3
	of which:				
12	Oil seeds/oleaginous fruits; miscell. grains, seeds and fruit; indust./medical plants e	236.485	75,0	284	0,2
16-24	Prepared foodstuffs; beverages	8.788	2,8	20.968	13,4
	of which:				
22	Beverages, spirits and vinegar	101	0,0	18.251	11,7
28-38	Products of the chemical or allied industries	3.295	1,0	32.978	21,1
	of which:				
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	3.004	1,0	11.750	7,5
39-40	Plastics and rubber and articles thereof	43	0,0	4.592	2,9
44-49	Wood/art. of woods etc; pulp of wood or other fibrous cellulosic	17.720	5,6	10.665	6,8
	of which:				
48	Paper and paperboard; art. of paper pulp, of paper or of paperboard	22	0,0	9.495	6,1
50-63	Textiles and textile articles	7.004	2,2	4.432	2,8
	of which:				
55	Man-made staple fibres	6	0,0	3.058	2,0
71	Natural or cultured pearls, precious or semi-precious stones etc.	1	0,0	12.757	8,2
72-83	Base metals/articles of thereof	112	0,0	2.311	1,5
84-85	Machinery and mechanical appliances; elec. eq., sound recorders etc.	557	0,2	42.552	27,3
	of which:				
84	Nuclear reactors, boilers, machinery and mechanical appliances	262	0,1	15.982	10,2
85	Electrical machinery/equip. and parts thereof; sound recorders etc.	295	0,1	26.571	17,0
86-89	Vehicles, aircrafts, vessels and associated transport equipment	137	0,0	14.701	9,4
	of which:				
87	Vehicles other than railway/tramway rolling-stock etc.	126	0,0	14.271	9,1
90-92	Optical, photographic, cinematographic etc. instruments	100	0,0	2.608	1,7
Various ch	Other products	1.211	0,4	3.752	2,4

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

Trade of the EU with Paraguay by Member States, 2004

	EU-imports (cif)		EU-exports (fob)	
	1000 €	- % -	1000 €	- % -
Total (EU25) *	315.246	100,0	156.003	100,0
<i>of which:</i>				
France	13.697	4,3	19.736	12,7
Netherlands	72.200	22,9	6.354	4,1
Fr Germany	66.817	21,2	34.206	21,9
Italy	120.593	38,3	27.361	17,5
Utd. Kingdom	1.552	0,5	23.217	14,9
Ireland	13	0,0	311	0,2
Denmark	476	0,2	1.222	0,8
Greece	13.297	4,2	697	0,4
Portugal *	11.989	3,8	372	0,2
Spain	10.118	3,2	15.861	10,2
Belgium	3.227	1,0	3.579	2,3
Luxembourg	1	0,0	751	0,5
Sweden	181	0,1	18.065	11,6
Finland	96	0,0	1.223	0,8
Austria	113	0,0	1.789	1,1
Malta	3	0,0	0	0,0
Estonia	0	0,0	4	0,0
Latvia	0	0,0	190	0,1
Lithuania	1	0,0	0	0,0
Poland	733	0,2	66	0,0
Czech Republic	63	0,0	369	0,2
Slovakia	14	0,0	119	0,1
Hungary	36	0,0	503	0,3
Slovenia	0	0,0	5	0,0
Cyprus	25	0,0	0	0,0

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

* Excluding Portugal January 2005-April 2005

Trade of the EU25 with Paraguay: 1999-2004

	<i>MIO ECU/€</i>		
	EU-imports (cif)	EU-exports (fob)	Balance
1999	186	269	82
2000	171	284	114
2001	261	252	-9
2002	155	187	31
2003	291	140	-151
2004	315	156	-159
Jan-June: 2004	130	71	-59
Jan-June: 2005*	109	73	-36

Source: COMEXT database, EUROSTAT

Production: JDa/DG INFO/European Parliament

*Data for June 2005 are not included for Malta

