International Economic Law Clinic

POLICIES FOR ATTRACTING FOREIGN DIRECT INVESTMENT IN PARAGUAY

A Comparative Analysis with Argentina, Brazil, Chile and Uruguay

Final Report

04 March 2024

Geneva, Switzerland

Submitted by

Mohit Choube, Ishankaur Khalsa & Melanie Ruiz Catalá

To : Vice Ministry of Investments and Exports (REDIEX), Ministry of Industry and Commerce, Asunción, Paraguay

Centre for Trade and Economic Integration, Graduate Institute of International and Development Studies

P.1 805 - Maison de la Paix, chemin Eugène-Rigot 2, 1202 Genève, Switzerland

TradeLab

International rules on cross-border trade and investment are increasingly complex. There is the WTO, World Bank and UNCTAD, but also hundreds of bilateral investment treaties (BITs) and free trade arrangements ranging from GSP, EU EPAs and COMESA to ASEAN, CAFTA and TPP. Each has its own negotiation, implementation and dispute settlement system. Everyone is affected but few have the time and resources to fully engage.

TradeLab aims to empower countries and smaller stakeholders to reap the full development benefits of global trade and investment rules. Through pro bono legal clinics and practica, TradeLab connects students and experienced legal professionals to public officials especially in developing countries, small and medium-sized enterprises and civil society to build lasting legal capacity. Through 'learning by doing' we want to train and promote the next generation of trade and investment lawyers. By providing information and support on negotiations, compliance and litigation, we strive to make WTO, preferential trade and bilateral investment treaties work for everyone.

More at: https://www.tradelab.org

What are Legal Practica

Legal practica are composed of small groups of highly qualified and carefully selected students. Faculty and other professionals with longstanding experience in the field act as Academic Supervisors and Mentors for the Practica and closely supervise the work. Practica are win-win for all involved: beneficiaries get expert work done for free and build capacity; students learn by doing, obtain academic credits and expand their network; faculty and expert mentors share their knowledge on cutting-edge issues and are able to attract or hire top students with proven skills.

Practicum projects are selected on the basis of need, available resources and practical relevance. Two to four students are assigned to each project. Students are teamed up with expert mentors from law firms or other organizations and carefully prepped and supervised by Academic Supervisors and Teaching Assistants. Students benefit from skills and expert sessions, do detailed legal research and work on several drafts shared with supervisors, mentors and the beneficiary for comments and feedback. The Practicum culminates in a polished legal memorandum, brief, draft law or treaty text or other output tailored to the project's needs. Practica deliver in three to four months. Work and output can be public or fully confidential, for example, when preparing legislative or treaty proposals or briefs in actual disputes.

Centre for Trade and Economic Integration (CTEI)

The Centre for Trade and Economic Integration (CTEI) CTEI is the Graduate Institute's Centre of Excellence for research on international trade. The Centre brings together the research activities of eminent professors of economics, law and political science in the area of trade, economic integration and globalization. The Centre provides a forum for discussion and dialogue between the global research community, including the Institute's student body and research centres in the developing world, and the international business community, as well as international organisations and NGOs. The Centre runs research projects and organises events. A core goal of the Centre is to foster genuine, interdisciplinary research and to work across discipline to foster solutions that address the major societal issues of today. The Centre for Trade and Economic Integration fosters world-class multidisciplinary scholarship aimed at developing solutions to problems facing the international trade system and economic integration more generally. It works in association with public sector and private sector actors, giving special prominence to Geneva-based International Organisations such as the WTO and UNCTAD. The Centre also bridges gaps between the scholarly and policymaking communities through outreach and training activities in Geneva.

More at: www.graduateinstitute.ch/ctei

Table of Contents

About the Report

This report is an outcome of the research project undertaken by three graduate students — Mohit Choube and Ishankaur Khalsa of the Geneva Graduate Institute (IHEID) and Melanie Ruiz Catalá of the University of Geneva, as part of the cohort of Fall 2023 edition of the TradeLab - International Economic Law Clinic. The Vice Ministry of Investments and Exports (REDIEX), Ministry of Industry and Commerce, Paraguay is the beneficiary of this research project. The research was conducted from 19 Sep 2023 up to the end of January 2024.

Acknowledgements

The authors thank Prof. Colette Van der Ven, Prof. Scott Andersen and Marios Tokas of the Geneva Graduate Institute (IHEID), Switzerland for their kind guidance throughout the project duration and the feedback they have provided during the preparation of this report. We would also like to express our thanks to various experts and mentors that guided us throughout the project especially

Disclaimer

This report contains information, analyses, and opinions solely authored by the named contributors. The perspectives, conclusions, and recommendations presented herein do not necessarily reflect the views, opinions, or official stance of the Vice Ministry of Investments and Exports (REDIEX), Ministry of Industry and Commerce, Paraguay. Responsibility of the content lies with individual contributors to the report only for the respective sections they have contributed to.

The cover page and diagrams of this report have been designed by the authors themselves, unless cited specifically. However, the authors do not claim any rights to the symbols/logos used in the cover page and in the diagrams of this report.

List of Tables and Figures

Tables

Figures

List of Acronyms

ANII	National Agency for Research and Innovation, Uruguay
ARS	Argentine Pesos
BIT	Bilateral Investment Treaty
CIT	Corporate Income Tax
CGU	Comptroller General of Brazil
CPI	Consumer Price Index
CPI	Corruption Perceptions Index
CSLL	Contribuição Social sobre o Lucro Líquido
DGI	Tax Authority, Uruguay
DTA	Double Taxation Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
FTZ	Free Trade Zone
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GOP	Government of Paraguay
ICMS	State Value Added Tax, Brazil
ICOSA	Tax on the Control of Public Limited Companies, Uruguay
ICT	Information and Communications Technology
ICSID	International Centre for Settlement of Investment Disputes
IDB	Inter-American Development Bank
INCRA	Instituto Nacional de Colonizaçao e Reforma Agrária (National Institute of Colonizations and Agrarian Reform), Brazil
IPTU	Real Estate Property Tax, Brazil
IPI	Import and Federal Excise Tax, Brazil
IRI	Investment Related Instruments
IRNR	Non-Resident Income Tax, Uruguay
IRPF	Personal Income Tax, Uruguay
IRPJ	Imposto sobre a Renda das Pessoas Jurídicas, Brazil
IMEBA	Tax on the Sale of Agricultural Goods, Uruguay
LAC	Latin America and the Caribbean
LDC	Least Developed Countries

ME	Medium Enterprises
MEI	Medidas de Exploraçao Indefinida (Undefined Land Holding Units)
MERCOSUR	The Southern Common Market
MiPyME	Micro, Small and Medium Enterprises
MITIC	Ministry of Information and Communication Technologies, Paraguay
MSME	Micro, Small and Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
PAT	Project of Employee's Nourishment, Brazil
PIS/COFINS	Contributions to Social Integration Programs and Social Security on Imports, Brazil
PPP	Public-Private Partnership
PYG	Paraguayan Guarani
REDIEX	Vice Ministry of Investments and Exports (REDIEX), Ministry of Industry and Commerce, Paraguay
R&D	Research and Development
SCADA	Supervisory Control and Data Acquisition
SIFEN	National Electronic Invoicing System of Paraguay
SM	Small Enterprises
SME	Small and Medium Enterprises
TFP	Total Factor Productivity
TIEA	Tax Information Exchange Agreement
TIP	Treaty with Investment Provision
UF	Chilean Unit of Account
UI	Uruguay Peso in Indexed Units
UNCTAD	United Nations Conference on Trade and Development
UNODC	United Nations Office on Drugs and Crime
USD	United States Dollar
USAID	United States Agency for International Development
VAT	Value Added Tax
WHT	Withholding tax
WEF	World Economic Forum

Executive Summary

Paraguay is a landlocked country in Latin America which has a growing open economy. The Paraguayan government has taken multiple initiatives to attract foreign direct investment (FDI) into the country, like tax breaks, national treatment of foreign investors, support for maquila operations and provisions for full repatriation of capital and profits. Paraguay also has a strategically attractive 10-10-10 regime to attract foreign investors, comprising of 10% rate each for corporate tax, income tax and value added tax. However, the ratio of FDI inflow to GDP for Paraguay is about 1.14%, which is comparatively much less than its neighboring countries.

This report aims to identify the factors which are pulling the country behind, despite government's best efforts for attracting FDI. The report provides a comprehensive overview of Paraguay's policies for promotion of foreign direct investment while comparing them with those of Argentina, Brazil, Chile and Uruguay. The comparative analysis includes fiscal and non-fiscal incentives provided to foreign investors, as well as other factors affecting FDI. The report highlights opportunities and challenges for Paraguay, best practices for attracting FDI and provides policy recommendations which can help Paraguay increase its FDI inflows. Following are the key insights from the report.

A. Fiscal Incentives for FDI

- Paraguay has the lowest total referential of taxes and social contributions (at 35%), as compared to its neighbors.
- The structure of fiscal incentives applicable horizontally to all or multiple sectors varies across the five countries.
- Fiscal incentives provided in Free Trade Zones are often similar across countries.
- Unlike Paraguay, the four other countries studied offer special incentives to investors to engage in Research & Development.
- In terms of sector-specific incentives, Uruguay is a leader among the five countries because it has customized its fiscal incentives for 22 sectors. Paraguay has sector-specific incentives for 6 sectors.

B. Non-Fiscal Incentives for FDI

1. ***Free Trade Zones (FTZs):***
   - Paraguay's central position in South America offers logistical advantages, distinguishing it from neighboring countries like Argentina and Uruguay,
   - Paraguay boasts lower operational expenses, including energy and labor costs, compared to counterparts such as Chile and Uruguay, enhancing its cost-efficiency appeal for businesses.
   - Paraguay's flexible legal environment accommodates various commercial, industrial, and service activities, surpassing the legal rigidity found in countries like Chile and Brazil.
   - Paraguay faces significant infrastructure challenges compared to Uruguay, Chile, Argentina, and Brazil, impacting its competitiveness in this aspect.
2. ***Industrial Parks:***
   - Paraguay has an opportunity to refine its communication and promotional strategies for industrial parks, drawing inspiration from Chile's successful approach in promoting sustainable practices within its industrial zones.

- Paraguay's industrial parks benefit from a flexible regulatory framework that allows for both public and private sector participation, enabling diverse investment models and fostering collaboration between sectors.
- With its abundant hydroelectric capacity, Paraguay can align its policies to attract environmentally conscious investors, mirroring Brazil's emphasis on clean energy investments.
- Paraguay's strategic location near major markets and a skilled labor force contribute significantly to its attractiveness for foreign investment.

3. ***Public-Private Partnership (PPP) Projects:***
   - Paraguay is emerging as a significant player in Public-Private Partnerships (PPPs) and infrastructure development, showcasing promising advancements in regulatory frameworks and innovative approaches to project execution.
   - Paraguay boasts a robust regulatory framework for PPPs, exemplified by initiatives like Decree 4183, which could serve as a model for other countries aiming to fortify their own regulatory systems.
   - Paraguay demonstrates a strong commitment to transparency and sustainable development within its PPP projects, evident in its focus on bidding competitiveness, transparency in contractual changes, and integration of environmental and social considerations into legislations.
   - Despite its progress, Paraguay faces challenges such as limited experience in PPPs and the need to strengthen risk identification and management processes. Drawing lessons from more experienced counterparts like Brazil and Uruguay can enhance Paraguay's capabilities in these areas, fostering investor confidence and project success.

C. Other Factors Affecting FDI

1. ***Ease of Doing Business***
   - Paraguay recognizes the pivotal role of ease of doing business in attracting Foreign Direct Investment (FDI). Recent reforms have focused on simplifying bureaucratic procedures, streamlining business registration processes, and enhancing the overall regulatory environment. However, Paraguay does not compare favorably when compared to other emerging markets of Chile, Uruguay, Argentina and Peru in getting credit, starting a business and corruption where it performs worse than the regional average.
2. ***E-Government/ Digitalization***
   - Paraguay has made substantial strides in digital infrastructure and e-governance to bolster its investment appeal. The government's commitment to digitalization is evident in initiatives such as the implementation of advanced online government services and the continuous improvement of e-governance systems. This digital transformation not only enhances the efficiency of communication and transactions but also aligns Paraguay with the preferences of tech-driven industries and investors seeking innovative and digitally advanced environments. However, while Paraguay's E-Government Development Index rose from 0.47 in 2008 to 0.53 in 2018, it remains below the averages for Latin America and the Caribbean (0.65) and the Organization for Economic Co-operation and Development (OECD) countries (0.82).
3. ***Corruption***
   - Recognizing the detrimental impact of corruption on FDI, Paraguay has intensified efforts to combat corruption and enhance transparency. The implementation of robust anti-corruption measures strengthened enforcement of anti-corruption laws, and a commitment to fostering a culture of integrity contribute to creating a more reliable and trustworthy business environment. Paraguay's dedication to mitigating corruption risks underscores its commitment to providing

a corruption-free climate conducive to long-term investments. However, in comparison with other regional competitors Paraguay ranks highest in Corruption Perceptions Index and lowest in Corruption control. Control of Corruption

- As per World Bank's Worldwide Governance Indicators through the intervals of 2012,2017 and 2022 corruption control has been highest in Chile and Uruguay on a percentile ranking scale of 0-100. The lowest rated countries in this regard are Peru and Paraguay outlining the need for serious efforts to mitigate corruption.

4. ***Private Property Protection (including Intellectual Property)***
   - Paraguay could benefit from a comprehensive review of its legal framework concerning property rights, aiming for more specific and clear provisions similar to Uruguay and Chile.
   - Paraguay should enhance transparency in public administration regarding property rights, improving accessibility to information and adopting oversight mechanisms similar to Uruguay and Chile.
5. ***Logistical Infrastructure***
   - Paraguay still faces limitations in telecommunications infrastructure compared to Uruguay, which has made significant strides in this area.
   - Chile has made notable progress in transportation infrastructure investment, surpassing Paraguay in terms of commercial integration and infrastructure development.
   - While Brazil has made significant investment across all infrastructure sectors, Paraguay can leverage these examples to enhance its own infrastructure development.
6. ***Institutionality***
   - According to a report by the Inter-American Development Bank, Paraguay's institutional quality significantly affects its attractiveness to investors and Paraguay is 25% less likely to be chosen for FDI compared to countries with superior institutional perceptions. Paraguay therefore, has prioritized strengthening its institutional frameworks to foster a more conducive investment environment. Efforts have been directed towards establishing transparent legal and regulatory systems, efficient governance structures, and effective dispute resolution mechanisms. The country's focus on building a resilient institutional framework aims to instill confidence in investors, ensuring stability, predictability, and a secure foundation for successful and sustainable long-term investments.
7. ***Macroeconomic Stability***
   - Paraguay's commitment to maintaining macroeconomic stability is evident in its sound fiscal and monetary policies. The country has effectively managed inflation rates and public debt, showcasing resilience to external shocks. This stability, coupled with the country's consistent economic performance, positions Paraguay as a low-risk investment destination. Investors seeking a secure and stable economic environment find Paraguay's macroeconomic policies conducive to sustained FDI inflows.
8. ***Political Stability***
   - While political stability in a country can be shaped by various other indicators that reflect the strength, consistency, and reliability of its governance system, Paraguay, exhibits a mixed situation across various indicators of political stability. In terms of the BTI Transformation Index, Paraguay ranks at 41/137 in terms of its status index whereas Peru 31/137, Argentina is 27/137, Chile is at 9/137, and Uruguay is at an amazing 5/137.
   - Political stability remains a cornerstone of Paraguay's strategy to attract FDI. The country's commitment to maintaining a stable political environment provides investors with assurance against policy fluctuations and unforeseen disruptions. Paraguay's proactive measures to ensure that changes in government or political unrest do not adversely affect investments make it an

attractive destination for FDI, emphasizing the significance of political stability in the overall investment promotion approach.

9. Labor Costs

- Paraguay boasts lower non-wage labor costs and mandatory contributions compared to Argentina and Brazil, enhancing its attractiveness for foreign investment and business competitiveness.
- Paraguay demonstrates a relatively more flexible labor regulatory environment, with a lower EPR index for individual dismissal compared to Argentina and Chile, potentially favoring employers in terms of labor flexibility.
- Despite a lower GDP per capita compared to Uruguay and Chile, Paraguay’s GDP per capita is comparable to Brazil’s and exceeds Argentina’s, indicating some economic stability and growth potential.
- Paraguay could focus on reducing non-wage labor costs further, streamlining mandatory contributions, enhancing labor market flexibility, and implementing policies to foster economic growth and development, drawing insights from various aspects where other countries excel.

10. Legal Security

- Paraguay can enhance its legal framework surrounding property rights by adopting more detailed and clarified regulations, similar to the precision observed in Uruguay.
- Paraguay enjoys a generally stable political climate, which is crucial for ensuring enduring legal security.
- Despite commendable transparency, Paraguay’s administrative processes could see improvements by adopting lessons from Uruguay and Chile to elevate adherence to the rule of law.
- Streamlining processes for enforcing legal mechanisms, particularly in property-related disputes, could be improved by drawing insights from the effectiveness observed in Uruguay, Chile, and Brazil.

D. International Agreements related to FDIs

1. Overview

- All five countries are party to key investment related instruments like the WTO agreements (GATS, TRIMS and TRIPS), the New York Convention and the ICSID Convention, except for Brazil which is not a party to the ICSID Convention.
- Brazil and Chile have Double Taxation Avoidance Agreements (DTAs) in place with more than 30 countries each. Argentina and Uruguay have DTAs with more than 20 countries each. Paraguay has DTAs with only 8 countries of which only two (Uruguay and Chile, both from Latin America) are major contributors to its FDI inflow.

2. Comparison of Bilateral Agreements Models

- Paraguay’s bilateral agreements primarily focus on agriculture and manufacturing, contrasting with Uruguay’s emphasis on services and Chile’s diversified approach including services and mining.
- Paraguay prioritizes protecting investments in agriculture and manufacturing, whereas Argentina emphasizes manufacturing and energy sectors.
- Paraguay seeks market access primarily for agricultural products, while Chile aims for access in mining and agriculture sectors, and Brazil seeks access for a wide range of products and services.

- Paraguay’s focus on technology and agriculture for intellectual property protection differs from Chile’s emphasis on innovation and Argentina’s focus on manufacturing and technology.

E. Policy Recommendations

- **Design Fiscal Incentives Tailored to the Priority Sectors** to effectively help foreign investors address the challenges they face while establishing businesses in these sectors.
- **Sign Double Taxation Agreements** with key FDI contributor countries as well as other advanced economies.
- **Improve Efficiency of Tax Administration** by focusing on reducing the time required to comply with tax procedures.
- **Assess the quality of the incoming FDI** and its contribution to country’s sustainable development.
- **Enhance Communication and Awareness** about benefits offered by Paraguay’s industrial parks and free trade zones. Foster collaboration between government institutions, industry associations, and private enterprises for effective communication
- **Strengthen Regional Collaboration** among industrial park business to promote shared resources, knowledge exchange, and sustainable practices. Establish platforms for public-private dialogue to address challenges
- **Streamline Regulatory Processes -** address bureaucratic hurdles by streamlining and simplifying regulatory processes for investors. And provide clear and concise guidelines to facilitate a smoother experience for both domestic and foreign investors.
- **Incentivize Sustainable Practices -** Introduce additional incentives for businesses adopting sustainable practices aligning with global environmental standards. Enhance awareness of the economic and environmental benefits associated with sustainable industrial operations.
- **Diversify Public-Private Partnership Projects -** expand the scope of PPP projects beyond infrastructure to include initiatives that support technology transfer, R&D and innovation.
- **Facilitate Cross-Border Trade -** strengthen cross-border trade facilitation, particularly in regions like Ciudad del Este, by investing in infrastructure and technology to streamline customs processes.
- **Continued Investment in Infrastructure -** continue investing in critical infrastructure projects, focusing on transportation, utilities, and logistics to enhance connectivity and attractiveness for investors.
- **Regular Evaluation & Adjustment -** establish a mechanism for periodic evaluation of policies related to industrial parks, FTZs, and PPP projects. Make adjustments based on feedback from investors and evolving economic conditions to ensure the relevance and effectiveness of policies.
- **Global Marketing Campaign -** launch a targeted international marketing campaign to showcase Paraguay’s advantages as an investment destination.
- **Invest in Capacity Building and Training** for local businesses, ensuring they can effectively integrate into industrial parks and free trade zones. Collaborate with educational institutions to tailor programs that align with evolving needs of industries.

1. Introduction

Paraguay is a landlocked country in Latin America which has a growing open economy and the potential for continuous growth in the near future. The country's economic growth relies on its agriculture, energy, retail and construction sectors. The Paraguayan government has taken multiple initiatives to attract Foreign Direct Investment (FDI) into the country, like tax breaks, national treatment of foreign investors, support for maquila operations and provisions for full repatriation of capital and profits[1]. Paraguay has a strategically attractive 10-10-10 regime to attract foreign investors, comprising of 10% rate each for corporate tax, income tax and value added tax[2]. However, the ratio of FDI inflow to the Gross Domestic Product (GDP) for Paraguay is about 1.14%, which is comparatively much less than neighboring countries in Latin America[3]. For example, this ratio is 2.4% for Argentina, 4.6% Brazil, 5.3% for Uruguay and 6.6% for Chile[4]. Paraguay has also observed a decline in FDI inflow during 2017-2021 in comparison to the 2010-16 period[5]. While credit rating agencies have upgraded Paraguay's credit ratings over the past year, the rating in November 2022 still stood at BB+ (Fitch)[6]. Hence, there is a need to identify the factors which are pulling the country behind, despite government's best efforts for attracting FDI.

This report provides a comprehensive overview of Paraguay's policies for promoting foreign direct investment while comparing them with policies of Argentina, Brazil, Chile and Uruguay. The comparative analysis includes fiscal and non-fiscal incentives provided to foreign investors, as well as other factors affecting FDI. The report highlights opportunities and challenges for Paraguay, best practices for attracting FDI and provides policy recommendations which can help Paraguay increase its FDI inflows.

Data Sources

The report is based on publicly available documents and databases published by international organizations and the Government of Paraguay, documents provided by REDIEX to the authors of this report, and interviews conducted including those with experts from Chile's Ministry of Finance, United Nations Conference on Trade and Development (UNCTAD), The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Trade Organization (WTO).

Limitations

This report does not represent all the literature available on the topic and relies only on the reports chosen by the authors at their discretion. It only aims at foreign direct investment and does not consider other forms of foreign investments. The report is focused on laws and policies and does not provide an economic analysis.

[1] United States Department of State. "Paraguay." Accessed October 2, 2023. https://www.state.gov/reports/2023-investment-climate-statements/paraguay/
[2] UNWTO. "Tourism Doing Business Investing in Paraguay." Accessed October 2, 2023. https://www.unwto.org/investment/tourism-doing-business-investing-in-paraguay
[3] UNCTAD. "UNCTADstat - General Profile: Paraguay." UNCTADstat. Accessed October 2, 2023. https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/600/index.html
[4] UNCTAD. "UNCTADstat - Country Profile." UNCTADstat. Accessed October 2, 2023. https://unctadstat.unctad.org/countryprofile/en-GB/index.html
[5] Ibid. (footnote 3)
[6] Ibid. (footnote 1)

Structure of the Report

This report is organized as follows:

Chapter-2: Foreign Direct Investment in Paraguay – An Overview, provides an eagle's eye view of the current status of FDI in Paraguay and how it compares with other countries in the region.

Chaper-3: Fiscal Incentives discusses the fiscal incentives provided by Paraguay for FDI as enshrined in the country's domestic laws. It mentions the fiscal incentives provided by Brazil, Argentina, Uruguay, and Chile and provides a comparative analysis of Paraguay's fiscal incentives with respect to these countries. This chapter concludes with an analysis of Paraguay's performance with regards to fiscal incentives compared to other countries in the region. It will also highlight best practices both in Latin America and globally for providing fiscal incentives to attract FDI.

Chaper-4: Non-Fiscal Incentives discusses the non-fiscal incentives provided by Paraguay for FDI as enshrined in the country's domestic laws and, where relevant, international investment and trade agreements. It mentions the non-fiscal incentives provided by Brazil, Argentina, Uruguay, and Chile and provides a comparative analysis of Paraguay's non-fiscal incentives with respect to these countries. This chapter will conclude with an analysis of Paraguay's performance with regards to fiscal incentives compared to other countries in the region. It will also highlight best practices both in Latin America and globally for providing non- fiscal incentives to attract FDI.

Chaper-5: Other Incentives provides a comparative perspective of the other incentives provided by Paraguay versus other competing economies like Peru, Argentina, Chile and Uruguay. Especially, factors which are not enshrined in the laws directly aimed at foreign investors but affect FDI, with a focus on the ease of doing business, protection of physical and intellectual property rights, digitalization of the economy, labor costs, corruption, institutionality, macroeconomic stability, legal security, logistical infrastructure, political stability and education.

Chapter-6: Conclusion concludes the findings from the synthesis exercise regarding the different incentives provided by Paraguay to attract FDI, how effective these incentives are and how they compare to other countries in the region.

Chapter-7: Policy Recommendations provides policy recommendations for REDIEX which can help Paraguay increase FDI into the country.

2. Foreign Direct Investment in Paraguay and Neighboring Countries – An Overview

Paraguay's total FDI stock in 2021 was estimated at USD 6.3 billion, with investments primarily focusing on natural resources and agri-food industries[7] . Despite high growth levels, Paraguay has struggled to attract substantial FDI, a situation that contrasts with its stable economic environment and advantageous factors like preferential access to major markets, low energy costs, low taxation, and a youthful workforce. As part of this research, we have come to understand it as a unique Paraguay Investment Paradox, and have tried to understand the factors affecting it.

Since 2008, FDI in Paraguay has averaged only 1.8% of GDP, significantly lower than the regional average of 3.3%[8]. This discrepancy signals an underlying issue beyond macroeconomic factors, regulations, or resource endowments.

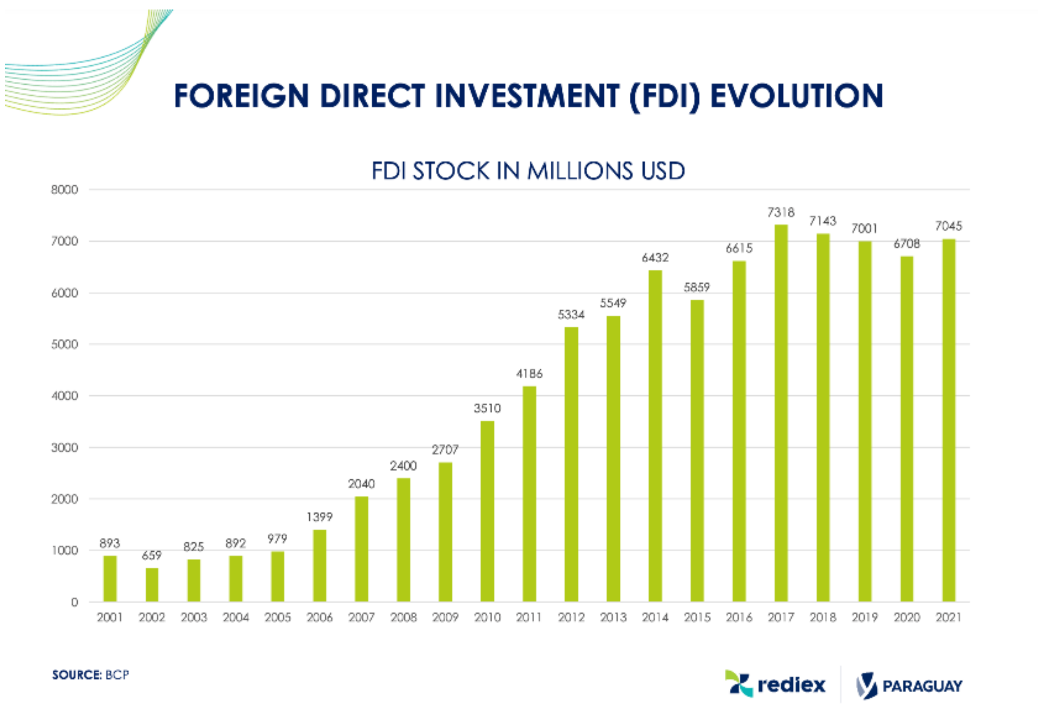


Fig.1: FDI Evolution in Paraguay.[9]

FDI in Paraguay was significantly hit after 2017, due to several factors, including global economic uncertainties and shifts in investment patterns, the COVID-19 pandemic, policy uncertainties, and competition from neighbouring countries and other emerging markets. Sector-specific challenges also show a substantially downward trend. While the 2021 FDI investment rate shows an improvement compared to

[7] United States Department of State. "Paraguay." Accessed October 2, 2023. https://www.state.gov/reports/2023-investment-climate-statements/paraguay/

[8] Quijada, José Alejandro; Sierra, José David; Espinola, Natalia. FDI Flows to Paraguay: What do Investors Prioritize? IDB

[9] Investment promotion documents shared by REDIEX.

previous years, it is still significantly lower compared to other regional players. However, FDI in Paraguay in 2022 was higher than in 2021 (129%) and totalled US$ 474 million.[10]

The literature points to various different factors that explain this paradox in Paraguay including fiscal, non-fiscal and other factors like digitalisation, political and macroeconomic stability, corruption in comparison to other countries in Latin America [11]

To get a clear understanding of how Paraguay performs from a regional perspective this study engages in a detailed comparative overview of all these factors.

FDI Composition

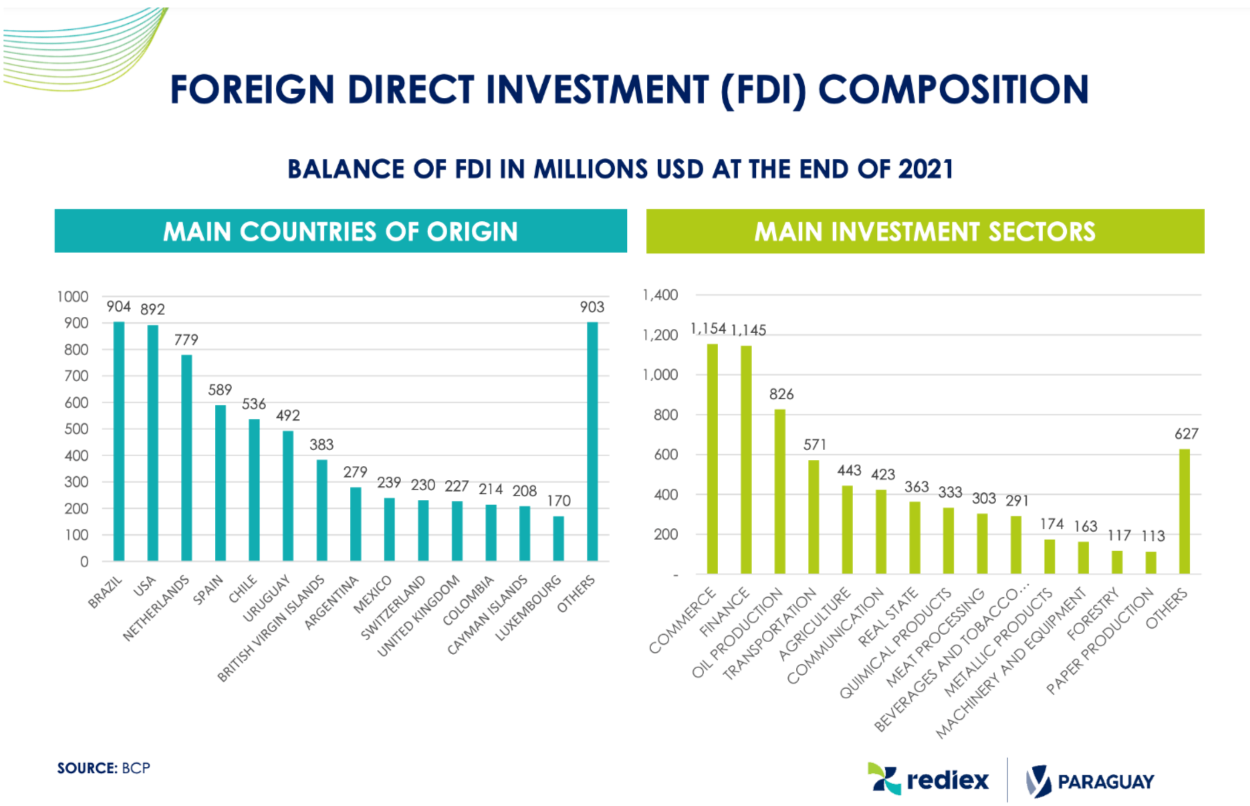


Fig.2: FDI in Paraguay: Composition by countries of origin and main investment sectors[12]

The main countries of origin for FDI Investment in Paraguay are Brazil and USA respectively with 904 and 893 million USD invested at the end of 2021[13]. Apart from that Netherlands, Spain and Chile also contribute

---

[10] Foreign Direct Investment in Latin America and the Caribbean 2023. UNECLAC. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content

[11] Corruption Perceptions Index 2022. Transparency International. https://www.transparency.org/en/cpi/2022/index/pry

[12] Investment promotion documents shared by REDIEX.

[13] World Investment Report 2021. United Nations Conference on Trade and Development. https://unctad.org/system/files/official-document/wir2021_en.pdf

to a significant share of FDI in Paraguay with the maximum coming from private and other sources amounting to 903 million USD.[14]

The main investment sectors include commerce, finance and oil production.[15] Investment in transportation is low compared to other sectors despite a strong need to integrate inland waterway transport for goods which has been overlooked.[16] While the significance of the Parana-Paraguay Waterways is undeniable, the nation possesses four to five navigable rivers with untapped potential. The development of the Inland Waterways (IWW) transport sector has been prompted by various factors, including the traffic volume in the Paraguay-Parana Waterway. However, additional investment, particularly in dredging and signage, is essential to ensure year-round navigation.[17]

Despite being one of the largest exporters of soybean, investment in agriculture is also low but the agri-business sector holds significant potential in terms of scaling regional and international trade.[18]

Regional Comparison Trends

In 2022, Paraguay experienced a significant surge in Foreign Direct Investment (FDI), with inflows totaling US$ 474 million, marking an increase of 129% compared to the previous year.[19] Despite this growth, Paraguay's FDI remains comparatively lower than some of its regional counterparts, such as Chile, Argentina, Peru, and Uruguay. Indeed, as Figure 3 below illustrates, with two exceptions, the proportion of FDI compared to GDP that Paraguay attracts is consistently the lowest when measured with the comparator countries. A comparative analysis of FDI trends across these nations gives more perspective on this.

[14] Foreign Direct Investment 2021. CEPAL. https://repositorio.cepal.org/server/api/core/bitstreams/8b6ca18b-6a03-425f-a67b-d569ebaea6b5/content
[15] PARAGUAY INVESTMENT GUIDE 2019-2020. REDIEX. https://www.mre.gov.py/embapar-francia/application/files/8816/2561/2321/Guia-de-Inversiones-Paraguay-Ingles.pdf
[16] Paraguay: connectivity indicators and social development", Project Documents (LC/TS.2023/171), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023
[17] Ibid
[18] United Nations Development Programme (2020). Engaging private sector in NDC implementation - Assessment of private sector investment potential in the energy sector - Paraguay, UNDP, New York
[19] Foreign Direct Investment in Latin America and the Caribbean 2023. UNECLAC. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content

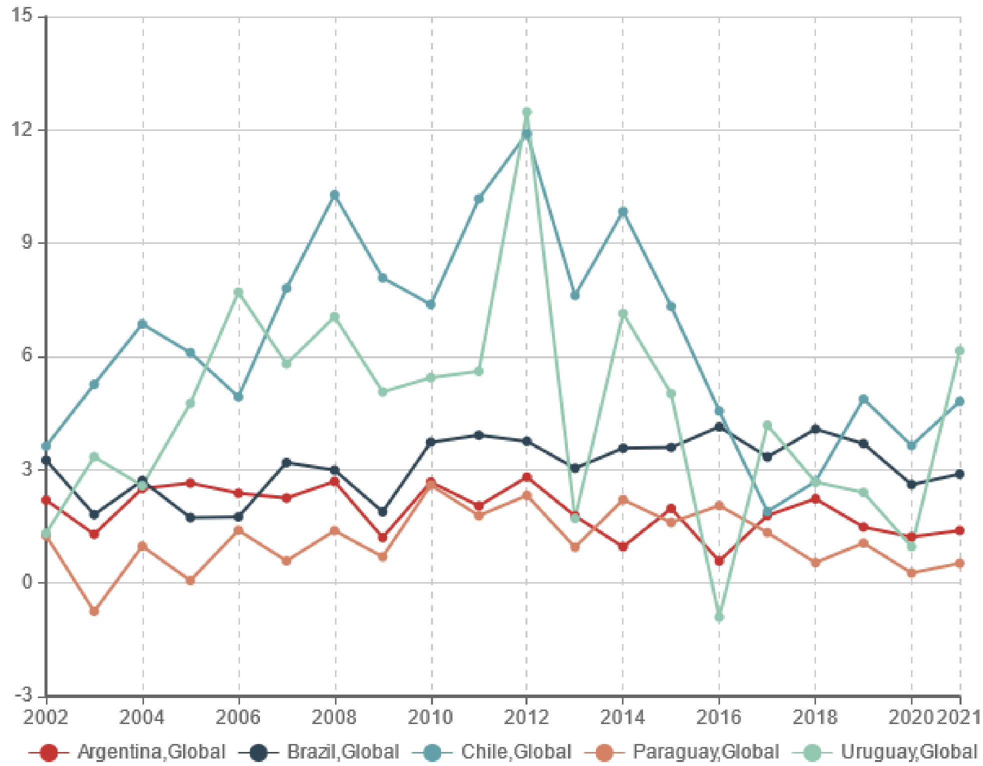


Fig.3: Foreign direct investment, net inflows, as a proportion of GDP (%) across Argentina, Brazil, Chile, Paraguay and Uruguay[20].

The above figure illustrates FDI as proportion of GDP for Paraguay, Argentina, Brazil, Chile and Uruguay over a 20-year period. The FDI to GDP ratio has been low for Paraguay compared to other countries in the region.

Country	2005–2009[a]	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Absolute difference 2020–2019[b]	Relative difference 2020–2019[b] *(Percentages)*
South America	**68 302**	**129 761**	**171 492**	**182 615**	**139 669**	**141 334**	**123 042**	**112 535**	**111 712**	**120 949**	**113 380**	**67 565**	**-45 815**	**-40.4**
Argentina	6 204	11 333	10 840	15 324	9 822	5 065	11 759	3 260	11 517	11 717	6 663	4 019	-2 644	-39.7
Bolivia (Plurinational State of)	259	643	859	1 060	1 750	657	555	335	712	302	-217	-1 097	-881	-406.6
Brazil	32 331	82 390	102 427	92 568	75 211	87 714	64 738	74 295	68 885	78 163	69 174	44 661	-25 513	-35.4
Chile	12 170	16 020	25 565	31 368	22 210	23 558	20 879	12 329	6 128	7 760	12 587	8 528	-4 059	-32.2
Colombia	8 894	6 430	14 647	15 040	16 210	16 169	11 724	13 848	13 837	11 535	14 313	8 100	-6 214	-43.4
Ecuador	465	166	646	567	727	772	1 323	756	625	1 388	974	1 190	216	22.1
Paraguay	137	462	581	697	245	412	308	425	576	458	522	568	46	8.8
Peru	4 978	8 455	7 682	13 622	9 826	3 930	8 314	6 739	6 860	6 967	8 055	982	-7 074	-87.8
Uruguay	1 461	2 289	2 504	6 394	987	4 085	2 673	-520	2 640	1 773	1 307	614	-693	-53.0

Fig.4: Latin America and the Caribbean: foreign direct investment (FDI) inflows, by recipient country and subregion, 2005–2020 (Millions of dollars).[21]

[20] Source: CEPALSTAT11

[21] Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Balance of Payments and International Investment Position Manual: Sixth Edition (BPM6), Washington, D.C., 2009; and official figures and estimates as of 27 July 2021.

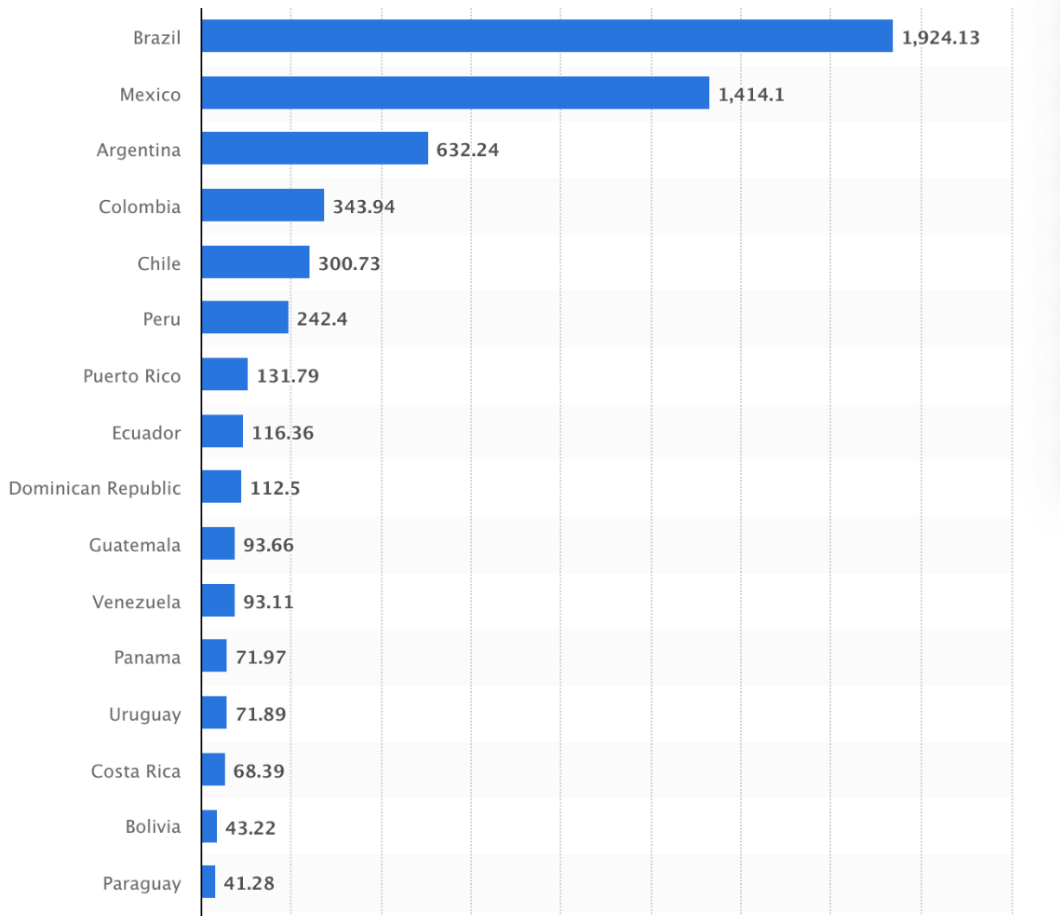


Fig.5: Gross domestic product (GDP) in Latin America and the Caribbean in 2022, by country (in billion U.S. dollars).[22]

Brazil:

Brazil has historically been a significant recipient of FDI in Latin America due to its large market size and natural resources. However, FDI inflows have fluctuated over the years due to various economic and political factors.

In the years leading up to the mid-2010s, Brazil saw substantial FDI inflows across various sectors, especially in industries like oil and gas, automotive, and manufacturing. However, after reaching peak levels around 2011-2013, FDI inflows started to decline. By the late 2010s and early 2020s, Brazil faced economic challenges, including political instability, corruption scandals, and slow economic growth. These factors contributed to a decline in FDI inflows. The COVID-19 pandemic also had an impact, causing further disruptions in FDI flows in 2020.[23]

Historically, FDI in Brazil has been prominent in sectors like energy, infrastructure, agribusiness, and manufacturing. Additionally, technology and innovation-related investments have gained momentum in

[22] Source: Statista Research Department, Nov 14, 2023
[23] Foreign Direct Investment in Latin America and the Caribbean 2023. UN ECLAC. https://repositorio.cepal.org/items/57c40f34-af3c-4b2f-ab55-71cffe554cfe

recent years, especially in areas like fintech and e-commerce. However, FDI inflows in Brazil might vary regionally. States like São Paulo and Rio de Janeiro traditionally attract a significant portion of FDI due to their economic prominence and infrastructure.[24]

The Brazilian government has implemented reforms and initiatives aimed at attracting more FDI. Efforts to privatize state-owned enterprises and improve the business environment have been ongoing to stimulate FDI inflows. But Brazil faces challenges related to bureaucratic hurdles, complex tax systems, infrastructure deficiencies, and ongoing political uncertainties. These factors can impact investor confidence and the attractiveness of Brazil as an investment destination.[25]

Chile:

Chile has experienced relatively stable and consistent FDI inflows over the years. Its economic stability, sound institutions, and investor-friendly policies have been significant factors attracting foreign investors. FDI inflows in Chile have been diverse, spanning various sectors such as mining, energy, telecommunications, and finance. The mining sector, especially copper mining, has traditionally been a major recipient of FDI due to Chile's significant copper reserves.[26]

Chile has seen increased FDI interest in renewable energy projects, particularly in solar and wind energy. The country's favorable conditions for renewable energy development have attracted investments in this sector.[27]

The Chilean government has continuously implemented economic reforms to attract FDI. These include trade agreements, tax incentives, and policies aimed at reducing bureaucratic barriers for foreign investors. Chile has been fostering a growing startup ecosystem, especially in Santiago, attracting FDI in technology and innovation sectors. Programs like Startup Chile have encouraged foreign investors to support startups in the country.[28]

Despite its attractiveness, Chile faces challenges such as regulatory complexities, bureaucratic hurdles, and occasional social and political unrest, which can affect investor confidence and the ease of doing business.

Current Trends: Chile received the third-largest FDI in Latin America, amounting to US$ 20.865 billion in 2022, reflecting a remarkable 31% increase from the previous year.[29] The majority of these inflows were attributed to reinvested earnings (52%) and were particularly prominent in the mining and renewable energy sectors.[30] The country's current FDI performance indicates a strong investor interest, making it a leading destination for foreign investments.

---

[24] 2022 Investment Climate Statements: Brazil. U.S. Department of State. 2022. https://www.state.gov/reports/2022-investment-climate-statements/brazil/
[25] POLICY-BASED COMPETITION FOR FDI: THE CASE OF BRAZIL. OECD 2002. https://www.oecd.org/regional/regional-policy/2489894.pdf
[26] 2023 Investment Climate Statements: Chile. U.S. Department of State. https://www.state.gov/reports/2023-investment-climate-statements/chile/
[27] Ibid
[28] Chilean Government launches new plan to stimulate investment in Chile. InvestChile. 2022. https://www.investchile.gob.cl/chilean-government-launches-new-plan-to-stimulate-investment-in-chile/
[29] Foreign Direct Investment in Latin America and the Caribbean 2023. UNECLAC. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content
[30] Ibid

Argentina:

Argentina's Foreign Direct Investment (FDI) trends since 2010 have been somewhat erratic, marked by periods of fluctuations influenced by various economic and political factors. There were years of substantial increases followed by declines in FDI inflows, resulting from shifts in government policies, economic uncertainties, and global market conditions.[31]

Changes in government policies, especially concerning foreign investments, currency controls, and trade regulations, significantly influenced FDI trends. Policy uncertainties and changes in rules governing foreign investments also affected investor confidence.[32]

Historically, FDI in Argentina has been attracted to sectors like energy, agriculture, manufacturing, and natural resources. These sectors, including oil, gas, and agricultural land, have been the primary recipients of foreign investments. However, Argentina faces economic challenges such as high inflation, fiscal deficits, and currency devaluations, which have impacted FDI inflows. Economic instability and uncertainties affected the country's attractiveness to foreign investors.[33]

Efforts to attract FDI in infrastructure development and energy projects, particularly renewable energy (wind and solar), have been made to diversify FDI inflows. Despite challenges, Argentina presents opportunities for investors due to its natural resources, skilled workforce, and potential for growth if structural reforms improve the business environment.[34]

Current Trends:

Argentina witnessed a substantial increase in FDI, doubling to US$ 15.408 billion in 2022, representing a 123.2% growth compared to 2021.[35] Intercompany loans constituted the largest share of FDI (57%), followed by reinvested earnings (37%). Noteworthy investments were observed in lithium extraction, exploration, and the Vaca Muerta unconventional oil and gas formation, re-emphasizing the country's appeal to investors in natural resources.[36]

Uruguay:

Uruguay has experienced a relatively consistent increase in FDI inflows over the past decade. The country has managed to attract foreign investments across various sectors, contributing to its economic growth. While historically reliant on sectors like agriculture and real estate, Uruguay has worked on diversifying its

---

[31] Foreign direct investment flows: an analysis for Argentina, Brazil, Chile and Mexico based on the Grubel-Lloyd index. CEPAL Review. August 2021. https://repositorio.cepal.org/server/api/core/bitstreams/2cc27ea1-6db1-4ac9-8a1a-842f38333bd3/content

[32] Ibid

[33] 2023 Investment Climate Statements: Argentina. U.S. Department of State. https://www.state.gov/reports/2023-investment-climate-statements/argentina/

[34] Foreign Direct Investment in Latin America and the Caribbean. UN ECLAC. 2023. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content

[35] Foreign Direct Investment in Latin America and the Caribbean 2023. UNECLAC. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content

[36] World Investment Report 2023. UNCTAD. https://unctad.org/publication/world-investment-report-2023

FDI portfolio.[37] It has seen increased interest and investments in sectors such as renewable energy, technology, tourism, and logistics.[38]

Investments in infrastructure, particularly in ports, logistics, and telecommunications, have been pivotal. These projects have aimed to enhance connectivity and support the country's economic expansion.[39] Uruguay has made strides in attracting investments in renewable energy projects, especially wind and solar power. This aligns with the country's commitment to sustainability and reducing its reliance on non-renewable energy sources.[40]

Efforts to improve the ease of doing business and create a favorable investment climate have positively impacted FDI. Uruguay's stable political environment and supportive government policies have been appealing to investors.[41]

FDI inflows have often been concentrated in certain regions, particularly in the capital, Montevideo, creating regional disparities. Efforts have been made to encourage investments in other areas for more balanced growth.[42]

Despite consistent growth in FDI, challenges persist. Uruguay faces hurdles related to bureaucracy, labor costs, and regulatory frameworks that could potentially hinder the attraction of higher FDI volumes.[43]

The country has aimed to position itself as a technology hub in the region, fostering innovation and attracting investments in the IT sector.[44]

Current Trends: Uruguay recorded record FDI investments, reaching US$ 9.325 billion in 2022, nearly tripling the figures from 2021 (an increase of 155%). Intercompany loans played a pivotal role, constituting 52% of the total FDI, followed by reinvested earnings (37%). Investment projects in renewable energies, like Enertrag's green hydrogen project, showcased Uruguay's appeal to investors in sustainable technologies.[45]

---

[37] Foreign Direct Investment in Latin America and the Caribbean. UN ECLAC. 2013. https://repositorio.cepal.org/server/api/core/bitstreams/8b6ca18b-6a03-425f-a67b-d569ebaea6b5/content
[38] FOREIGN DIRECT INVESTMENT REPORT 2023. Uruguay Investment, Export and Brand Promotion Agency 2023. https://www.uruguayxxi.gub.uy/es/centro-informacion/articulo/inversion-extranjera-directa-ied/?download=en
[39] OECD/ECLAC (2014), Multi-dimensional Review of Uruguay: Volume 1. Initial Assessment, OECD Development Pathways, OECD Publishing. http://dx.doi.org/10.1787/9789264209459-en
[40] Uruguay - Country Commercial Guide. International Trade Administration. 2022. https://www.trade.gov/country-commercial-guides/uruguay-renewable-energy-equipment
[41] 2023 Investment Climate Statements: Uruguay. U.S. Department of State. https://www.state.gov/reports/2023-investment-climate-statements/uruguay/
[42] Foreign Direct Investment in Latin America and the Caribbean. UN ECLAC. 2021. https://repositorio.cepal.org/server/api/core/bitstreams/46b412b1-e939-4b20-8c2f-dade9809865b/content
[43] Ibid
[44] Foreign Direct Investment in Latin America and the Caribbean 2023. UNECLAC. https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content
[45] Ibid.

3. Fiscal Incentives

This section provides an overview of fiscal incentives provided by Paraguay as enshrined in the country's laws and policies, followed by its comparison with the fiscal incentives provided by Argentina, Brazil, Chile and Uruguay. As compared to non-fiscal incentives, countries find it easier to tailor fiscal incentives to meet specific policy goals. Also, private companies are familiar with fiscal incentives, they know how these incentives work and are used to them[46].

3.1. Fiscal Incentives in Domestic Laws and Policies

Paraguay has an attractive set of fiscal incentives applicable to foreign investors. The fiscal incentives which have more general applicability are provided in 'Law on Investment Incentives (Law 60/90)' and the 'Investment Guarantee Regime (Law 5542/2015)'.[47]

There are additional laws and policies which are applicable to specific types of businesses/ business areas/ zones, like the 'Free Zones Regime (Law 523/95)', 'Maquila Regime (Law 1064/97)', 'SMEs Certificate (National SMEs Registry Law 4457/12)' and the project "Commercial Integration Through Postal Shipping for MiPyMEs Exporta Facil".[48]

Table-1 sets out the fiscal incentives enshrined under different domestic laws and policies of Paraguay, including the specific conditions for their applicability to different types of businesses.

Table-1: Fiscal Incentives for Foreign Investors enshrined in Domestic Laws and Policies of Paraguay[49]

Incentive	Conditions	Applicable Sectors/ Business Area	Corresponding Domestic Law/ Policy	Relevant Objective of the Law/ Policy
General Applicability				
1) 0% Tariff for import of capital goods	For machinery and equipment that are not manufactured in Paraguay	Industry, Agriculture, Services, Mining and Quarrying	**Law on Investment Incentives (Law 60/90)**, passed in 1990	Increasing capital investments from both domestic and foreign sources
2) 0% Value Added Tax (VAT) on capital goods	For capital goods that are not manufactured in Paraguay when it comes to imports and that are manufactured in Paraguay when it			

[46] United Nations Conference on Trade and Development. World Investment Report 2023. World Investment Report, 2023. https://unctad.org/system/files/official-document/wir2023_en.pdf.
[47] Based on multiple promotional documents shared by REDIEX regarding the laws and incentives applicable to foreign investors
[48] Ibid.
[49] Ibid.

	comes to local purchases			
3) Tax exemption applied to remittances and interest payments	For investments higher than USD 5 million.			
4) Tax exemption on remittances of dividends and profits for investments	For investments higher than USD 5 million for 10 years and that do not come from a territory with low or no taxation or are not a tax credit in the investing country			
5) Invariability of income tax rate	• Term of up to 10 years for investments of less than US$50 million; • 15-year term for investments between US$50-100 million; • 20-year term to investments of US$100 million and more	All	**Investment Guarantee Regime (Law 5542/2015)** (Note: Company is obliged to Submit a declaration on the investments made in a year and pay an annual canon equivalent to 1% (one percent) of the investment.)	The protection of capital investment in the creation of industries or other productive activities
6) Free transfer of capital remittances and liquid profits with no time limit	• Capital remittances (2 years from start-up)			
7) Tax invariability for the purchase of existing companies or part of their shares are transferred				
8) Special export regime: a percentage of foreign currency abroad can be maintained, when necessary, to pay legally authorized obligations or to comply with the remittance of profits.				
9) Exemption from the additional rate of 5% of income tax for the distribution of profits.	Additional benefits for industries with a high social content			
10) Decrease in the tax rate applied to the remittance of profits abroad by 1% for				

every 100 direct jobs generated up to a maximum of 50% of the total value of the applicable rate.				
Special Applicability based on Zones/ Type of Business				
i. Free Zones Regime • 0% VAT • 0% on import of raw material or merchandise • 0% tax on services and businesses between users of Free Zones • 0.5% of the invoice value on export to third countries • Tax incentives under Law 60/90	Applicable for Free Zones only	All	**Free Zones Regime (Law 523/95)**	To promote the attraction of productive investment
ii. Maquila Companies: • 1% single tax on the value added in national territory or on the value of the invoice issued by order and account of the foreign company, whichever is higher. (Single Maquila Tax) • Suspension of import duties and taxes on raw materials, supplies and capital goods. • Exemption from customs, port and airport fees. • Exemption from taxes levied on the remittance of money related to the maquila company. • Recovery of the fiscal credit (VAT) corresponding to the acquisition of goods and services applied directly or indirectly to maquila operations. • Exemption from departmental or municipal taxes. (pure maquila)	Applicable to industrial maquila companies		**Maquila Regime (Law 1064/97)**	Promotes the establishment and regulates the operations of industrial maquila companies
iii. SMEs Certificate • The MIE (Micro-enterprises), are	Micro, Small, and Medium-sized enterprises	Artisanal, Industrial, Agro-	**SMEs Certificate (National SMEs**	To provide a regulatory framework that

exempt from payments rates and the SM (Small) and ME (Medium) have preferential tariffs for certificates and records issued in the Ministry of Industry and Commerce (MIC). MIC, Resolution No. 874/19 • Exemption of professional fees for the registration of up to 3 trademarks, paying only Fees and Electronic Publication Expenses. • Sector specific benefits provided Ministry of Public Health and Social Welfare (MSPBS)[50][51]		industrial, Agricultural, Forestry, Commercial or Service	**Registry Law 4457/12)**	allows the promotion and development of micro, small, and medium-sized enterprises
iv. Postal Shipping Scheme for MSMEs • Tax exemption for customs and airport services. • Reduction of export costs through shipment by differentiated EMS courier.	Micro, Small, and Medium-sized enterprises		**Project "Commercial Integration Through Postal Shipping for Mipymes Exporta Facil"**	Encourage the use of the postal infrastructure as government tools. Formalization and internationalization of MSMEs, through simplified export, using postal logistics, through a web system.

[50] National Food and Nutrition Institute INAN, Resolution No. 154/15 of the Ministry of Public Health and Social Welfare (MSPBS): MIE (Microenterprises), have a 50% discount on procedures for: RE – Establishment Registry (For 3 years), and RSPA – Sanitary Registry of Food Products (For 5 years). And through Resolution S.G. No. 640/19, the extension of the tariff reduction benefits to meat and dairy products has been made possible.

[51] DNVS, Resolution No. 278/2021 of the Ministry of Public Health and Social Welfare (MSPBS): MIE (Micro-enterprises), have a 50% discount on all procedures, establishing a differentiated tariff for the aforementioned items.

Tax Rates and Penalties:

Paraguay has a strategically attractive 10-10-10 regime to attract foreign investors. Under this regime, rate of corporate tax, income tax and value added tax is 10% each.[52] Corporate income tax also covers the income generated by assets, rights, and obligations, as well as the acts of their disposition. There are no local income taxes in Paraguay[53].

There is a special VAT rate of 5% for the sale of real estate, lease of real estate for housing exclusively as well as sale and import of specific agricultural, horticultural, and fruit products, livestock products, products from the family basket (rice, noodles, vegetable oil, mate, milk, eggs, flour, and iodized salt) and products registered as medicines for human use with the Ministry of Public Health and Social Welfare[54].

The Law No. 6380 / De Modernization and Simplification of the National Tributary System, issued in September 2019 also establishes a tax on non-resident income. This tax is imposed on income, profits or benefits obtained by individuals, corporations and other nonresident entities in Paraguay from the provision of services or investments. The tax rate is 15% and is imposed on the taxpayer's Paraguayan-source net income by applying presumptive bases of 30%, 50%, 70% and 100%. This tax also applies to transfers of Paraguayan shares, even if a transfer is between two nonresidents[55].

A taxpayer is obliged to have tax audit by external auditors if the annual gross income exceeds PYG 6 billion. Penalty on the late payment of income tax varies between 4% (minimum) to 14% (maximum), with an additional interest at 0.116% per day. Tax fraud entails a punishment equivalent to 1-3 times of defaulted value of tax. Penalty on the infringement of tax law varies from the equivalent of USD 10 to USD 250. There is also fine of 50% of pending tax in the event of omission of payment[56].

3.2. Comparison with other countries in Latin America

As illustrated in Table-2, Paraguay’s corporate income, personal income and common indirect tax rates are significantly lower compared to other countries in the region. This gives us a hint that non-fiscal factors might be the primary reason for the low FDI inflow into Paraguay.[57]

[52] UNWTO. “Tourism Doing Business Investing in Paraguay.” Accessed October 2, 2023. https://www.unwto.org/investment/tourism-doing-business-investing-in-paraguay
[53] “Paraguay - Corporate - Taxes on Corporate Income.” Accessed October 30, 2023. https://taxsummaries.pwc.com/paraguay/corporate/taxes-on-corporate-income.
[54] “Paraguay - Corporate - Other Taxes.” Accessed October 30, 2023. https://taxsummaries.pwc.com/paraguay/corporate/other-taxes.
[55] “New Tax Reform Law Enacted in Paraguay.” Accessed October 30, 2023. https://taxnews.ey.com/news/2019-1823-new-tax-reform-law-enacted-in-paraguay.
[56] “Paraguay - Corporate - Tax Administration.” Accessed December 5, 2023. https://taxsummaries.pwc.com/paraguay/corporate/tax-administration.
[57] According to a promotional document provided by REDIEX. Source: FDI Intelligence, Ministry of Finance, Paraguay

Table-2: Comparison of Paraguay's Tax Regime with other countries in Latin America[58]					
Taxes	**Paraguay**	**Argentina**	**Uruguay**	**Brazil**	**Chile**
Maximum Rate for Corporate Income Tax	10%	30%	25%	34%	10%
Maximum Rate for Personal Income Tax	10%	35%	36%	28%	27%
Common Indirect Tax rate (e.g., VAT)	10%	21%	22%	17%	19%
Total referential of taxes and social contributions (according to World Bank)	**35%**	**106%**	**42%**	**65%**	**84%**

It may also be observed in Table-3 that according to World Bank's Doing Business 2020 report, the time required for paying taxes in Paraguay was more than twice of OECD high-income countries and higher than the regional average as well. On the 'Paying Taxes Score', Paraguay fell behind Chile and Uruguay. However, Paraguay was ahead of Argentina.[59] So, despite an attractive tax regime, inefficiency in tax administration processes was pushing Paraguay behind its competitors. However, the Doing Business 2020 report was based on the data collected till 2019 and therefore it does not capture the impact of reforms which were undertaken by the government around that time. The Paraguayan government had introduced National Electronic Invoicing System (SIFEN) which was in a voluntary stage in 2019 and in the month of September in the same year, it had introduced broader tax reforms through the Law 6380/2019 on Fiscal Reform[60].

Table-3: Comparison of Paraguay's tax regime and reporting burden with OECD's high-income countries and the regional average[61] (Source: World Bank's Doing Business 2020 report)			
Indicator	**Paraguay**	**Latin America & Caribbean**	**OECD high income**
Payments (number per year)	**19**	**28.2**	**10.3**
Time (hours per year)	**378**	**317.1**	**158.8**
Total tax and contribution rate (% of profit)	**35.0**	**47.0**	**39.9**
Post-filing index (0-100)	**46.6**	**47.5**	**86.7**

[58] Ibid.
[59] World Bank. "Doing Business 2020–Sustaining the Pace of Reforms - Economy Profile- Paraguay". Accessed October 31, 2023. https://www.worldbank.org/en/news/feature/2019/10/24/doing-business-2020-sustaining-the-pace-of-reforms
[60] "Paraguay - Corporate - Significant Developments." Accessed January 26, 2024. https://taxsummaries.pwc.com/paraguay/corporate/significant-developments.

[61] Ibid.

Table-4 provides a comparison of the different fiscal incentives provided by the five countries (Paraguay, Argentina, Brazil, Chile and Uruguay). It is observed that Uruguay has provided very detailed fiscal incentives for several sectors, as compared to other countries. The fiscal incentives provided for Free Trade Zones are similar across countries and hence might not give a competitive advantage to Paraguay over the other countries. While the incentive's provided by Paraguay, Chile and Uruguay are at the federal level, Argentina and Brazil also provide additional incentives at sub-national levels (provincial/state or municipality) thus making their fiscal incentive structure relatively more complex. In most cases, the fiscal incentives are applicable to both foreign and domestic investors.

Table- 4: Comparison of Fiscal Incentives for investors as enshrined in laws and policies at the federal/national level in Paraguay, Argentina, Brazil, Chile and Uruguay

The fiscal incentives have been categorized as follows: 'VAT', 'CIT', 'Customs Duties', 'Excise Tax', 'Accelerated Depreciation' and 'Others'

Category of Fiscal Incentives	PARAGUAY	ARGENTINA	BRAZIL	CHILE	URUGUAY
Source	Investment promotion documents provided by REDIEX	Doing Business in Argentina- an Investor's Guide (2022); World Free Zones Organization's Argentina Free Zones Atlas	World Bank Group's Investment Policy and Regulatory Review – Brazil (2022); Deloitte Law 11196/05 – "Lei do Bem" (2021)	InvestChile Investor's Guide (2022)	Uruguay XXI Investor's Guide (2022)
General or Multi-Sectoral					
General/Multi-sectoral Fiscal Incentives	**CIT** • Invariability of income tax rate (Term up to 10 years for investments less than US$50 million; 15-year term for	• Provincial-level incentives are separately available	**VAT** • Incentives on State Value Added Tax for medicines and food products included in the "basic monthly food basket"	**OTHERS** • A Chilean company's capital can be entirely foreign. • Bonus for productive	**VAT** • Exemption of VAT and Excise Tax on the import of goods • VAT refund on the local acquisition of the goods

	investments between $50-100 million; 20-year term to investments of $100 million and more) • Tax invariability for the purchase of existing companies or part of their shares are transferred OTHERS • Free transfer of capital remittances (2 years from start-up) and liquid profits with no time limit • Special export regime: a percentage of foreign currency abroad can be maintained, when necessary, to pay legally authorized obligations or to comply with the remittance of profits. ---------------------------- **Additional benefits for industries with a high social content:** CIT • Exemption from the additional rate of 5% of income tax for the distribution of profits. OTHERS		**ACCELERATED DEPRECIATION** • Accelerated depreciation on some activities listed in the Income Tax Regulations, including: Equipment for research and development and technological innovation; Equipment for rural activities; Vehicles, wagons and locomotives designated to fixed assets OTHERS • Incentives related to the Real Estate Property Tax (IPTU) depending on municipality (Brazil has more than 5,500 municipalities) **Note:** additional incentives are available at the state and municipal level	investments equivalent to 20% of the investment (Applies to small and medium-size investors whose annual sales do not exceed UF 40,000)	OTHERS • Exemption of Wealth Tax [Applicable Beneficiaries for the above exemptions: Taxpayers of CIT who carry out industrial (including manufacturing and extractive) or agricultural activities; Taxpayers of the Tax on the Sale of Agricultural Goods (IMEBA) who carry out agricultural activities aimed at obtaining primary vegetable or animal products. Applicable Type of Investments for the above exemptions: Movable property intended to be part of the production cycle: industrial machinery and premises, agricultural machinery and utility vehicles (chassis for trucks, trucks, tow tractors, trailers, and skidders); Equipment for electronic data processing and movable goods necessary for its operation. Software is excluded.] ---------------------------- **Tax Exemption on Imported Goods:** **VAT/ CUSTOMS DUTIES**

	• Decrease in the tax rate applied to the remittance of profits abroad by 1% for every 100 direct jobs generated up to a maximum of 50% of the total value of the applicable rate. ---------------------------- **Applicable to Industry, Agriculture, Services, Mining and Quarrying:** **VAT** • 0% Value Added Tax (VAT) on capital goods: For capital goods that are not manufactured in Paraguay when it comes to imports and that are manufactured in Paraguay when it comes to local purchases **CUSTOMS DUTIES** • 0% Tariff for import of capital goods (For machinery and equipment that are not manufactured in Paraguay) **OTHERS** • Tax exemption applied to remittances and				• If an imported good originates from a country that has a trade agreement with Chile, it may be exempt from ad valorem tariff or be eligible for a percentage reduction. **Note:** There are additional “Specific investment incentives” which are applicable to CIT taxpayers and cooperatives whose investment projects are declared promoted by the Executive Power which are regulated by regulated by various Decrees: No. 092/998, No. 455/007, No. 002/012, No. 143/018, and No. 268/020

	interest payments (For investments higher than USD 5 million) • Tax exemption on remittances of dividends and profits for investments (For investments higher than USD 5 million for 10 years and that do not come from a territory with low or no taxation or are not a tax credit in the investing country)				
Specific to Type of Business/ Zone/ Region					
Free Trade Zones	VAT • 0% VAT CUSTOMS DUTIES • 0% on import of raw material or merchandise • 0.5% of the invoice value on export to third countries OTHERS • 0% tax on services and businesses between users of Free Zones • Tax incentives under Law 60/90	CUSTOMS DUTIES • Goods entering free zones are exempt from duties on importation for consumption, apart from charges paid for services actually provided (Article 24 of Law No. 24.331). OTHERS • They are also exempt from national taxes on basic utilities (telecommunications, gas, electricity, mains water, sewerage and drainage) provided within the zones (Article 26 of Law	VAT • Presumed credit of State Value Added Tax (ICMS); CIT • 75% reduction in CIT for a 10-year period for companies located within the jurisdiction of the Development Agency of Amazonas (SUDAM). The amount of tax reduction shall not be distributed to shareholders and will constitute capital reserve that	VAT • VAT exemption on sales to other Free Trade Zones and abroad CIT • CIT exemption on annual profits from businesses in Free Trade Zones or Bonded Warehouses CUSTOMS DUTIES • No duty on Imports **Note:** Benefits similar to those of the Free Trade Zone are also	VAT/ CIT/ CUSTOMS DUTIES • Total exemption from national taxes, with the exception of Special Social Security Contributions. Therefore, exemption from CIT, Wealth Tax, Tax on the Control of Public Limited Companies (ICOSA), VAT, Excise Tax and even the distributions paid to their partners or shareholders will be exempted from IRPF or IRNR, respectively (as long

		No. 24.331). **Note:** • Goods transferred from free zones to third countries are eligible for the refund of taxes actually paid only when the taxes in question are refundable to exporters domiciled in general customs territory (Article 30 of Law No. 24.331). • Free zone users are not entitled to the benefits and tax incentives under the regional or sectoral industrial pro-motion regimes available in national territory (Article 32 of Law 24.331).	can only be used for purposes of loss absorption or increase of capital. **EXCISE TAX** • Exemption from federal excise tax if local purchases of raw materials and upon sale of manufactured products **OTHERS** • Exemptions from contributions to social integration programs and social security on imports (PIS/COFINS) • Reduced rates of PIS/COFINS and presumed credit of 5.6% upon resale of products and acquisition of raw materials.	applicable to the provinces of Tocopilla, Isla Navarino and Tierra del Fuego.	as all their activities are exempted from CIT). **OTHERS** • Exemption on income from the exploitation of intellectual property rights and other intangible goods of similar nature will be applicable provided that said assets are protected and registered under Uruguayan law (Laws No. 9,739 and No. 17,164). Such exemption may be total, partial or null, depending on the relation between direct expenses or costs, except for those contracted with related entities abroad, increased by 30% over the total direct expenses and costs incurred to develop them.
Export Companies/ Maquila	(for Maquila Companies) **VAT** • 1% single tax on the value added in national territory or on the value of the invoice issued by	**VAT** • Early refund of the input VAT attributable to either the capital assets or the infrastructure project included in	• Partially or fully refund the remaining tax residue from the production of exported goods. ----------------------------	**VAT** • Exporters are exempt from VAT on foreign sales. They are entitled to recover the VAT on goods	**VAT** • No VAT on export sales and refunding the VAT included in purchases of goods and services which make

	order and account of the foreign company, whichever is higher. (Single Maquila Tax) • Recovery of the fiscal credit (VAT) corresponding to the acquisition of goods and services applied directly or indirectly to maquila operations. CUSTOMS DUTIES • Suspension of import duties and taxes on raw materials, supplies and capital goods. • Exemption from customs, port and airport fees. OTHERS • Exemption from taxes levied on the remittance of money related to the maquila company. • Exemption from departmental or municipal taxes. (pure maquila)	the investment project ACCELERATED DEPRECIATION • Application of an accelerated depreciation of specific assets, subject to certain conditions	**For Software/IT Companies having export commitment equal to or greater than 50% of its annual gross revenue from the sale of goods and services:** CUSTOMS DUTIES/ EXCISE TAX/ OTHERS • Suspension of the requirement to pay PIS/COFINS, PIS/ COFINS-Import and Federal Excise Tax (IPI) in specific situations and according to defined conditions	purchased or services used for their exports.	up the cost of such income. OTHERS • Sector-specific fiscal incentives are also applicable
Micro, Small and Medium Enterprises	OTHERS • The MIE (Micro-enterprises), are exempt from payments rates and the SM (Small) and	VAT • Pay the VAT balance on the due date in the second month right after the original VAT due date.	**Project of Employee's Nourishment (PAT) for companies having workers who receive less than five minimum salaries:**	**"Transparent Pro-SME Regime":** CIT • SMEs are exempt from corporate income tax and	CIT • Companies categorized as micro or small companies which submit investment projects for a total of

	ME (Medium) have preferential tariffs for certificates and records issued in the Ministry of Industry and Commerce (MIC). MIC, Resolution No. 874/19 • Exemption of professional fees for the registration of up to 3 trademarks, paying only Fees and Electronic Publication Expenses. **Note:** Sector-specific benefits provided Ministry of Public Health and Social Welfare (MSPBS)	**CIT** • Micro and small-sized enterprises may compute 100 % of the credit and debit tax effectively paid as a tax credit against income tax. Medium-sized enterprises related to the manufacturing industry may offset 60 % of such payments. **OTHERS** Further tax benefits are provided for those "MiPyME" Companies making productive investments and/or developing the manufacturing industry.	• Exemption of social contributions of the value of nourishment provided and fiscal incentives OR • **CIT**- Deduction of up to 4% in the 15% rate of the income tax.	owners are levied with final taxes OR • "General Pro-SME Regime": MSMEs whose average gross sales for the last three years do not exceed UF 75,000 are taxed at 25% of their net taxable income, and a tax credit of 100% can be offset against final taxes. This regime has a ceiling of 35% of the income described in number 1 and 2 of Article 20 of the Income Tax Act except for agricultural real estate, and income from joint ventures and rights, shares or units in investment funds.	UI 3,500,000, will have an additional 10% CIT benefit and an additional fiscal year to the exemption term obtained. **Note:** Some sector-specific incentives are also applicable
Research and Development	-Not Applicable-	**OTHERS** • Tax Credit Certificate of 10% or ARS 5 million- up to the lowest- of certain eligible expenditures in R&D or technological innovation.	**EXCISE TAX** • 50% reduction in the IPI (Federal Excise Tax) on the purchase of machinery and equipment for RD&I **ACCELERATED DEPRECIATION**	**CIT** 35% of First Category Tax Credit on the amount invested in R & D and the remaining 65% of the amount invested may be	**OTHERS** • Tax credit of 35% of the eligible expenses and 45% of the eligible expenses if the project is developed jointly with technology centres or universities accredited by the

		Certificates creditable against federal taxes.	• Financial benefit from the full depreciation of the acquisition of machinery and equipment and the accelerated amortization of intangible assets used for R&D OTHERS • Recovery of 20.4% to 27.5% (34% in the case of patents) of RD&I expenses with the exclusion of 60% to 80% (100% in the case of patents) from the IRPJ CSSL computation • Reduction to zero of the WHT (15%) levied on remittances abroad as trademarks and patents	considered as a necessary expense to produce the income, independent of the company's turn. Total equivalent tax benefit amounts to 52.55%[62]	National Agency for Research and Innovation (ANII). The tax credit will be granted through credit certificates issued by the Tax Authority (DGI) which shall not exceed UI 9,000,000 per year per company.
Capital Assets and Infrastructure Projects	- Not Applicable -	Tax benefits consist mainly of either: **VAT** 1. Option of early refund of the input VAT attributable to either the capital assets or the	- Not Applicable -	**VAT** • VAT exemption on the import of capital goods, provided that they are fixed assets for mining, industrial, forestry or other	• Fiscal incentives are sector-specific

[62] "CORFO - CorporaciÃ³n de Fomento de la ProducciÃ³n." *CORFO*, https://www.corfo.cl. Accessed 5 Dec. 2023.

		infrastructure project included in the investment project OR **ACCELERATED DEPRECIATION** 2. Application of an accelerated depreciation of specific assets, subject to certain conditions **Note:** Applicable to all sectors, excluding vehicles and civil engineering projects		projects that require an investment of at least US$5 million	
Remote Areas	- Not Applicable -	- Not Applicable -	- Not Applicable -	**CIT** • Tax credit between 10% and 40% of the amount invested in fixed physical assets in the region, such as buildings, machinery and equipment directly related to producing goods or providing services and other assets. Tax credit deducted from CIT **OTHERS** • Labor Cost Bonus-payment to the employer equivalent to 17%	- Not Applicable -

				of the taxable remuneration of employees that permanently reside and work in the select regions	
Ports and Airports	- Not Applicable -	- Not Applicable -	(Ports Only) **Exemption of Federal Tax on specifically listed fixed assets if imported or acquired in local market. Assets must be used for activities such as the loading, discharge, storage and handling of cargo in the port areas. Federal taxes exempted include:** CUSTOMS DUTIES • Exemption of Import Tax (II), limited to the goods that do not have a similar good in Brazil; EXCISE TAX • Exemption of Federal Excise Tax (IPI); OTHERS • Exemption of Social Contributions (PIS/COFINS).	- Not Applicable -	VAT • Circulation of goods in such areas is VAT exempt, while they shall be considered exempt assets in terms of the Wealth Tax. CIT • CIT and the IRNR exemptions on income from activities carried out in port customs areas with goods of foreign origin declared in transit or deposited in such areas, when such goods do not originate in the national customs territory, nor are they destined to such territory. CUSTOMS DUTIES • During their stay at the port customs area, goods shall be exempt from all import or import-related taxes and surcharges. **Note:**

					• When sales are made to the national customs territory, the exemption will also be applicable to the extent that such operations do not exceed in the fiscal year 5% of the total amount of sales of goods deposited in the premises during said period. • When the goods enter the national customs territory, they shall be considered as imports and taxes and tariffs shall be applicable to them.
Sector-Specific Incentives					
Sectors with special fiscal incentives	1. Automotive Industry 2. Biofuels 3. Forestry and Floriculture 4. Meat and Meat Products 5. Pharmaceutical Chemical 6. Services and Creative Industries	1. Extractive Industries 2. Training Institutions 3. Modern Biotechnology	1. Hardware and Automation Goods Industry 2. IT Industry 3. Automotive Industry	- information not found-	1. Biofuels 2. Biotechnology 3. Call Centres 4. Shared Services Centre 5. Construction: Projects of Large Economic Dimension 6. Forestry 7. Energy Generation 8. Hydrocarbons 9. Green hydrogen 10. Communication 11. Graphic Industry 12. Shipbuilding 13. Tourism Industry 14. External Financial Intermediation

					15. Agricultural Machinery 16. Maritime or Air Navigation 17. Industrial Solid Waste 18. Software 19. Vehicles or Auto Parts 20. Electric Vehicles 21. Vehicles and Cargo Transportation Equipment 22. Social Housing

3.3. Opportunities and Challenges for Paraguay

In developing countries, fiscal incentives can help attract efficiency-seeking FDI by giving investors the option for lowering production costs[63]. Hence, on one hand Paraguay's 10-10-10 tax regime could be beneficial to attract investors[64]. On the other hand, low tax rates mean lower public revenue for the government. In this regard, OECD recommends to increase tax revenue by reducing tax evasion, and improving the overall tax administration including introduction of taxpayer registries and audit strategies[65]. Fiscal incentives can act as key attraction for footloose, export-oriented investors[66]. Paraguay can assess the quality of the incoming FDI and see to what extent it is actually contributing to the country's sustainable development. OECD's FDI Qualities Policy Toolkit can act as a good reference for carrying out this exercise[67].

Instead of horizontally applying a low tax rate, Paraguay can attract FDI by designing and providing fiscal incentives tailored to each of the priority sectors. Uruguay is a good example for this, as seen in Table-4. Such incentives can be complex and hence governments often try to provide simplified fiscal incentive regime because it is easier for them to manage it from liquidity perspective and also because it does not require upfront expenditure. However, in the eyes of foreign investors, simple and horizontal fiscal incentive regimes may not always be very effective in addressing the challenges faced by them in certain sectors.[68] The 2023 World Investment Report published by UNCTAD finds that one of the major challenges in attracting foreign investment to support energy transition in developing countries and especially LDCs was that they largely rely on fiscal incentive mechanisms which are generic and not designed specifically to support the energy transition. Advanced economies often use more complex and targeted mechanisms (e.g. feed-in tariffs and auctions) instead of simple profit-based tax incentives, for promoting investments in the renewables and energy infrastructure sectors[69].

Paraguay has six free trade zones, two of which are located in the city of Ciudad del Este which is located in the Tri-Border Area of Paraguay, Brazil and Argentina. The city, however, has been in negative light due to incidents of illicit trade movement, laundering, smuggling of drugs, humans and weapons and is sometimes referred to as "largest illicit economy in the Western Hemisphere"[70]. After noticing similar developments in other countries, the OECD has developed recommendations to enhance transparency in FTZs which includes enforcement checks of operators to support investigations of violations of applicable

---

[63] World Bank. *Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications*. The World Bank, 2017. https://doi.org/10.1596/978-1-4648-1175-3.

[64] "Tourism Doing Business Investing in Paraguay." Accessed December 5, 2023. https://www.unwto.org/investment/tourism-doing-business-investing-in-paraguay

[65] OECD. *Multi-Dimensional Review of Paraguay: Volume I. Initial Assessment*. OECD Development Pathways. OECD, 2018. https://doi.org/10.1787/9789264301900-en.

[66] UNCTAD. *Tax Incentives and Foreign Direct Investment: A Global Survey*. 2000. https://unctad.org/system/files/official-document/iteipcmisc3_en.pdf

[67] OECD. *FDI Qualities Policy Toolkit*. Paris: Organisation for Economic Co-operation and Development, 2022. https://www.oecd-ilibrary.org/finance-and-investment/fdi-qualities-policy-toolkit_7ba74100-en.

[68] Interview with a Senior Economic Affairs Officer at UNCTAD who is directly involved in the capacity building of Investment Promotion Agencies for sustainable development, November 2023.

[69] United Nations Conference on Trade and Development. World Investment Report 2023. World Investment Report, 2023. https://unctad.org/system/files/official-document/wir2023_en.pdf.

[70] Lauren. "Free Trade Zones: A Pandora's Box for Illicit Money." *Global Financial Integrity* (blog), October 7, 2019. https://gfintegrity.org/free-trade-zones-a-pandoras-box-for-illicit-money/.

laws and regulations[71]. Also, it may be observed in Table-4 that Free Trade Zones do not provide a unique attraction to Paraguay because other competitor countries also have such free zones and similar tax benefits for investors.

[71] OECD. OECD Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones. Accessed December 5, 2023. https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0454.

4. Non-Fiscal Incentives

4.1. Non-Fiscal Incentives in Domestic Laws and Policies

Having explored Paraguay's challenges and opportunities with regards to fiscal incentives, this section sets out an analysis of Paraguay's non-fiscal investor incentives, as set out in its domestic laws and policies. Specifically, we use the term "non-fiscal incentive" to refer to incentives that go beyond the realm of traditional tax reductions.

Table 5 below outlines Paraguay's principal non-fiscal incentives, providing a nuanced understanding of the measures devised to stimulate and fortify the investment landscape. From the surge in Public-Private Partnership (PPP) projects, fostering diverse initiatives such as infrastructure expansions and toll roads, to the establishment of Free Trade Zones (FTZs) and Industrial Parks, Paraguay employs a multifaceted approach.

In the realm of PPP projects, Paraguay has witnessed a commendable rise in initiatives post-2018, backed by a robust regulatory framework (Law 5102 and Decree 4183), competitive bidding mechanisms, and risk mitigation strategies. However, challenges persist, necessitating a focus on capacity building, robust risk management processes, and enhanced monitoring and evaluation.

FTZs in Paraguay present a mixed landscape with advantages like streamlined customs processes, real state infrastructure support, and competitive energy costs, juxtaposed with challenges such as infrastructure limitations and restrictions on local sales.

Paraguay's Industrial Parks, while offering comparative advantages like a young workforce and proximity to the key markets, grapple with issues like institutional communication gaps and insufficient incentives for sustainability initiatives.

As we navigate through Paraguay's non-fiscal incentives, a comprehensive understanding of the positive and negative facets emerges, laying the groundwork for informed investment decisions and strategic policy enhancements.

Table-5: Non fiscal Incentives for Foreign Investors enshrined in Domestic Laws and Policies of Paraguay[72]

Incentive	Conditions	Applicable Sectors/ Business Area	Corresponding Domestic Law/ Policy	Relevant objective of the Law/ Policy
1) Free Zones Regime • Issuance of certificates of origin for products manufactured in the Free Zones that meet the MERCOSUR origin requirements (ROM). • Customs Administration (DNA), installed in the Concessionaire to Streamline	Applicable for Free Zones only.	All	**Free Zones Regime (Law 523/95)**	To promote the attraction of productive investment.

[72] Investment promotion documents shared by REDIEX.

transit, introduction, import and export procedures. • Availability of real estate infrastructure for all activities. • High availability of quality electrical energy at a competitive cost. • Low operating cost to manufacture and sell to customers in Paraguay or neighboring countries. • Products introduced in the free zone does not loose origin (Law No. 523/95, Art. 20 and Decree No. 7068/2006). • Insurance policy for customs guarantees does not require to be contracted.				
2) Industrial Parks • Visibility and promotion aimed at potential investors, through the REDIEX and Commercial Attachés abroad. • Digital presence of the Park in the Institutional Technology Platform. • Mention in the Investment Forums as a promotional strategy.	Applicable to all industrial parks located within the national territory.	All	**Industrial Parks Regime (Law 4903)**	To expand industrial activity and contribute to the economic and social progress.
3) Public-private Participation Projects • Obtain infrastructure services over the entire life of the assets. • Pay according to the quality and quantity of services offered. • Monitor and regulate services through Key Performance Indicators. • These objectives are achieved through the transfer of significant responsibilities and risks to the private sector and through significant	-Works are privately financed (contractor or third parties) in exchange for payments from users/the State. - Minimum investment amount: 12,500 minimum monthly salaries (approx. USD 4 million). - The private sector assumes	- Waterways, dredging, signaling and maintenance of navigability of the Paraguay River and other navigable rivers. -International airports -Construction, rehabilitation and maintenance of national roads and highways.	**Regime of public-private participation projects (Law 5102/2013 as amended by Law 5567/2016)**	Promote, through public-private participation, investments in public infrastructure and in the provision of the services for which they are intended or which are complementary to them, as well as in the production of goods and in the provision of services that are proper to the

control over the project by the State. • The contractor (public sector) pays for availability and for a quality service that is contractually accepted and defined. • The infrastructure remains in the hands of the State once the contract is completed. • There is risk management and distribution between the parties (public sector and private sector). • The initiator has an advantage of 3% to 10% in the project bidding score. • The amount invested a justified in feasibility studies is refunded to the initiator in case they are not awarded the project. • The State can contribute up to 10% of the initial investment. • The private sector proposes the project (at the pre-feasibility level).	long-term obligations (maximum 30 years, extendable for another 10 years). - Design, construction, financing, maintenance and operation are integrated into a single contract. - Projects do not require legislative approval (National Congress). - The annual limit of payments assumed with contracts under this modality may not exceed 2% of the GDP (Difference between public initiative and private initiative).	-Construction, extension and operation of railroad service. -Construction and maintenance of national and international bridges -Provision of drinking water, sanitation and effluent treatment services. -Generation, transmission, distribution and commercialization of electric power. -Road infrastructure of the capital of the Republic and its metropolitan area. -Social infrastructure: hospitals, health centers, and educational centers. -Urban improvement, equipment and development in which the contracting administrations participate. -Cement production and marketing		purpose of public agencies, entities, companies and societies in which the State is a party.

		- Aqueducts, polyducts, oil pipelines, pipelines, gas pipelines, etc. -Production of goods and rendering of services that are proper to the purpose of companies and companies in which the State is a party. - Telecommunications services -Production, refining and commercialization of hydrocarbons, fuels and lubricants.		

4.2. Comparison with other countries in Latin America

4.2.1. Free Trade Zones:

This section provides an analysis of Free Trade Zones (FTZs) in Argentina, Brazil, Argentina, Uruguay and Paraguay. Free Trade Zones are designated areas within a country that are subject to specific regulatory and economic incentives, aiming to attract foreign investment, boost international trade, and stimulate economic growth. We will now delve into the unique characteristics of each country's FTZs and their pivotal roles in global trade and investment. Table-6 provides a deeper understanding of the complexities and advantages that shape the economic landscape of South America.

Table-6: Comparison of Free Trade Zones among Chile, Argentina, Brazil, Uruguay and Paraguay

Country	Paraguay[73]	Uruguay[74]	Chile[75]	Argentina[76]	Brazil[77]
Exports	**Certificates of origin:** Products manufactured in Paraguay's Free Trade Zones are eligible for certificates of origin, meeting MERCOSUR requirements. This enhances the export capabilities of businesses	**Diverse export activities:** Uruguay's Free Trade Zones facilitate diverse export activities, particularly in key sectors like cellulose, grains, and pharmaceuticals. **Major market access:** Major	**Market access:** Chile's Free Trade Zones facilitate market access, allowing goods to be sold within the extension zones, the rest of Chile, and abroad. This promotes regional trade and attracts foreign markets.	**Cost-effective storage:** Argentina's free trade zones offer low-cost storage facilities with no time limitations on storage duration.	**Export Opportunities:** Brazil's free trade zones play a crucial role in the country's economy, offering significant opportunities for business investment.

[73] "Paraguay: Investment Guide 2019-2020." REDIEX, 2021. Also, Orsatti, Alvaro, and Juan Manuel Rodríguez. "ZONAS FRANCAS EN EL CONO SUR DE AMERICA LATINA Brasil, Argentina, Chile, Paraguay y Uruguay." OIT-ACTRAV, 2019. And, Free Zones Regime (Law 523/95), REDIEX. https://www.rediex.gov.py/wp-content/uploads/2023/07/REGIMEN-ZONA-FRANCA_ING.pdf.

[74] Legal Team Uruguay. "What Are The Benefits Of Free Trade Zones in Uruguay?" BIZLATINHUB, 2022. https://www.bizlatinhub.com/benefits-free-trade-zones-uruguay/. Also, "¿Qué Oportunidades y Desafíos Tiene El Modelo de Zonas Francas En Uruguay?" El País, 2021. https://doi.org/https://www.elpais.com.uy/negocios/noticias/que-oportunidades-y-desafios-tiene-el-modelo-de-zonas-francas-en-uruguay. And, Exportaciones de bienes con zonas francas, Uruguay XXI, 2023.

[75] Cavada Herrera, Juan Pablo. "Comparación de Regímenes Tributarios de Zonas Francas: Chile y Perú." Biblioteca del Congreso Nacional de Chile/BCN, 2022. And, Portugal, Alberto. "Chile: Evaluación de Las Zonas Franca." World Bank, 2017.

[76] Scatizza, Alfredo Martín. "Zonas Francas: Una Aproximación al Régimen, Beneficios y Desafíos Que Plantea Sobre Su Modernización." Indicadores Actividad Económica (IAE), 2021.

[77] "5 Things to Know about Free Trade Zone in Brazil in 2023." Tetra Consultants, 2023. https://www.tetraconsultants.com/blog/5-things-to-know-about-free-trade-zone-in-brazil-in-2023/. And, "Home Regulatory Report The Federal Government Enacted the New Regulatory Framework for the Brazilian Export Processing Zones (EPZs), Simplifying the Special Regime Requirements for Companies Operating at Those Free Trade Areas. The Federal Government Enacted the New Regulatory Framework for the Brazilian Export Processing Zones (EPZs), Simplifying the Special Regime Requirements for Companies Operating at Those Free Trade Areas." ApexBrasil, 2022. https://portal.apexbrasil.com.br/regulatory_report/the-federal-government-enacted-the-new-regulatory-framework-for-the-brazilian-export-processing-zones-epzs-simplifying-the-special-regime-requirements-for-companies-operating-at-those-free-trade-ar/.

	operating in these zones. **<u>Preservation of origin:</u>** According to Law No. 523/95 and associated decrees, products introduced in the Free Trade Zones maintain their original designation of origin. This legal provision ensures stability and clarity for business engaged in cross-border transactions.	markets, including China and the European Union, account for over 60% of total exports from the zones.	**<u>Presumption of customs extraterritoriality:</u>** The legal framework creates a presumption of customs extraterritoriality, treating goods within the zones as if they were outside the national territory. This exempts them from certain duties.	**<u>Customs benefits:</u>** No payment of import duties or statistics on imports and free entry of goods into Free Trade Zones, except for restricted items.	**<u>Economic recovery and growth:</u>** In 2020, these zones accounted for nearly 20% of Brazil's exports, contributing to economic recovery. **<u>Focus on specific industries:</u>** Brazil's free trade zones are designed to promote the development of specific industries like manufacturing, technology, and logistics.
Infrastructure	**<u>Real state facilities:</u>** Beyond basic infrastructure, Paraguay's FTZs provide advanced real estate facilities, including warehouses and administrative buildings, reducing setup costs for businesses. **<u>Logistical support:</u>** Well-developed logistics infrastructure contributes to efficient transportation and distribution processes within the FTZs.	**<u>Basic infrastructure provision:</u>** Government authorization and provision of basic infrastructure, including warehouses, offices, and minimal urban development. **<u>Specialized zones:</u>** The availability of eleven specialized Free Trade Zones allows investors to choose locations that align with their specific business needs.	**<u>Well-developed infrastructure and services:</u>** Chile's Free Trade Zones, including ZOFRI, boast well-developed infrastructure and services, including facilities for warehousing, logistics, and administrative support. **<u>Strategic location:</u> <u>Strategically</u>** located near ports and airports, facilitating efficient import and export activities.	**<u>Port and airport accessibility:</u>** The strategic location of free trade zones provides accessibility to ports and airports, facilitating efficient import and export activities. **<u>Transportation network:</u>** Well-connected transportation networks contribute to the overall infrastructure of these zones.	**<u>Infrastructure development:</u>** The Brazilian government actively invests in infrastructure to support the growth of free trade zones, including improvements in transportation, energy, and communication.

	<u>Quality electrical energy:</u> High availability of quality electrical energy at a competitive cost is a critical factor for industrial and manufacturing activities within the Free Trade Zones.				
Services	**<u>Customs administration efficiency:</u>** The presence of the customs administration (DNA) within the Concessionaire enhances the efficiency of import and export procedures, streamlining custom processes. **<u>Administrative simplification:</u>** The simplified administrative processes within the FTZs contribute to a business-friendly environment, attracting companies seeking operational ease. **<u>Low operating cost:</u>** Paraguay's Free Trade Zones boast a low operating cost for manufacturing	**<u>Employment generation:</u>** Significant contribution to employment, with over 15.000 people employed in 2018. **<u>Access to necessary facilities:</u> <u>Government</u>** ensures investors have necessary facilities for their operations.	**<u>Board of arbitration:</u>** The establishment of a Board of Arbitration helps resolve disputes between users and administrators, providing a structured mechanisms for conflict resolution within the Free Trade Zones. **<u>Administrative framework:</u>** The legal framework in Chile includes an administrative framework to facilitate Free Trade Zone operations.	**<u>Free provision of services:</u>** Services, including banking, insurance, financial services, freight and telecommunications, are provided free of charge.	**<u>Focus on technology and innovation:</u>** There is a growing emphasis on technology and innovation within Brazil's free trade zones, with companies engaging in research and development. **<u>Government support:</u>** The Brazilian government provides various support services for businesses operating in free trade zones, including assistance with registration, access to financing programs, training and education initiatives, and infrastructure development.

	and selling to customers in Paraguay or neighboring countries, making it an attractive option for businesses seeking cost-effective operations.				
Regulations and Legal Framework	**Flexibility in legal framework:** The legal environments flexibility accommodates a diverse range of commercial, industrial, and service activities, catering to the specific needs of business. **No requirements for insurance policy:** The fact that a custom guarantees insurance policy is not required to be contracted further simplifies administrative processes for businesses operating in the Free Trade Zones.	**Stability and longevity:** The Free Trade Zone regime in Uruguay has a successful track record spanning over 30 years. **Customization and optimization:** The existence of specialized zones allows investors to customize and optimize operations based on their specific requirements.	**Presumption of customs extraterritoriality:** The legal framework creates a presumption of customs extraterritoriality, treating goods within the zones as if they were outside the national territory.	**Simplified import operations:** Import operations, including temporary admission for active improvement, entry into storage and drawback, are simplified, reducing bureaucratic processes.	**Legislative framework:** The legal framework for free trade zones in Brazil is established by Law No. 8387, providing customs incentives. **Stable regulatory body:** The superintendence of the Manaus Free Trade Zone (SUFRAMA) plays a key role in managing, supervising, and promoting investment in the Manaus Free Trade Zone.
Challenges and limitations	**Infrastructure challenges:** Some FTZs may face infrastructure limitations, potentially impacting operational efficiency for businesses	**Competition:** There is ongoing competition with other countries offering similar free trade zones models, necessitating continuous innovation to	**Restrictions on industries:** Certain industries, such as steel, hydrocarbons, gas extraction, tourism, and advanced technology, are explicitly excluded	**Restrictions of retail sales:** Limitations on retail sales from Free Trade Zones unless there is special authorization from the	**High retentions on services:** Brazil's high retentions on services received from outside the country can pose challenges for

	operating in those zones. **Limitation on local sales:** The restriction on local sales (limited to 10% of production) may affect businesses targeting the local market, influencing their market strategies. **Caution in product origin:** While products manufactured within the Free Trade Zones maintain their original designation of origin, caution is needed as they are not considered made in Paraguayan territory. This may be a disadvantage for businesses seeking to label their products as "Made in Paraguay". **Feasibility analysis requirement:** Businesses considering industrial projects within FTZs need to conduct thorough feasibility analyses, taking into account specific conditions and regulations.	maintain attractiveness. **Potential sector concentration:** There's a potential concentration in specific sectors like cellulose plants, posing risks associated with the volatility of those sectors.	from the benefits of the free trade zones. **Complex customs procedures:** The complexity of customs procedures, including restrictions on the introduction of national inputs, poses challenges in purchasing national goods within the free trade zones.	Executive Power. **Need for law revision:** Highlighted need to revise the law regulating Free Trade Zones in Argentina to eliminate limitations affecting exports to the national territory.	companies providing services from free trade zones. **Limitations on foreign Personnel:** The regulatory framework imposes limitations on the percentage of foreign personnel that companies within these zones can employ.

In examining the landscape of Free Trade Zones across South American countries, Paraguay emerges with distinctive advantages and areas that warrant attention:

Strengths:

- **Strategic location:** Paraguay has a strategically central location in South America, providing logistical advantages for efficient trade connections. Compared to Argentina and Uruguay, Paraguay stands out for its central location in the region, facilitating access to various markets.
- **Attractive operational costs:** Paraguay excels in lower operating costs, including energy and labor expenses. Compared to Chile and Uruguay, where costs may be higher, Paraguay presents a significant advantage in terms of cost efficiency for businesses.
- **Flexibility in Business activities:** The flexible legal environment in Paraguay allows for a variety of commercial, industrial, and service activities. Compared to Chile and Brazil, where legal rigidity may be more pronounced, Paraguay offers a more flexible framework, which can be attractive to businesses.

Areas for Improvement:

- **Infrastructure development:** Paraguay faces infrastructure challenges that, when compared to Uruguay and Chile, are more pronounced. Uruguay, with a more advanced infrastructure, has established Free Trade Zones with well-equipped facilities. Chile, known for its robust infrastructure, provides a higher benchmark in this regard. Argentina, with its diverse zones, also boasts more developed infrastructure compared to Paraguay. Brazil, being a larger economy, has invested significantly in infrastructure within its Free Trade Zones.
- **Number and Diversity of Free Trade Zones:** Paraguay, while making strides, currently has a limited number of Free Trade Zones compared to its counterparts. Uruguay, with eleven operational zones, and Chile, hosting numerous zones, present a more diversified landscape. Argentina, with varied zones, also surpasses Paraguay in terms of quantity. Brazil, as a continental-sized economy, naturally offers a broader array of Free Trade Zones, highlighting an area where Paraguay can enhance its competitive edge.
- **Oversight Mechanisms:** In the context of oversight, Paraguay is evolving but can benefit from a closer look at the mechanisms established by its counterparts. Uruguay, with a mix of private and state-managed zones, stands out for its effective oversight, facilitated through the General Agency of Commerce. Chile, with a mature and transparent regulatory framework, provides a model for effective supervision. Argentina, with its experienced oversight structures in Free Trade Zones, offer valuable insights. Brazil, due to its economic scale, has intricate oversight mechanisms in place.
- **Customs and Administrative procedures:** Paraguay encounters challenges in streamlining customs and administrative procedures within its Free Trade Zones. Uruguay, with a well-stablished framework, excels in facilitating smooth entry and exit of goods, minimizing bureaucratic hurdles. Chile, with its efficiency in customs processes, sets a high standard. Argentina, too, exhibits a more streamlined approach. Brazil, given its economic scale, has well-organized customs procedures.

While acknowledging Paraguay's progress, a specific comparison underscores the need for targeted improvements. Addressing infrastructure gaps, expanding the number and types of zones, refining oversight mechanisms, and streamlining customs and administrative procedures would significantly bolster Paraguay's standing within the regional context. Drawing insights from the experiences of Uruguay, Chile, Argentina, and Brazil can provide actionable strategies for Paraguay to enhance its attractiveness for foreign investments and business operations.

4.2.2. Industrial Parks

In exploring the industrial landscapes of Chile, Uruguay, Brazil, Argentina, and Paraguay, a comprehensive analysis reveals the distinct features and dynamics that define each nation's approach to industrial development. This section delves into the nuances of industrial parks, which are designated areas specifically designed to house industrial operations and promote economic activities. Industrial parks often offer shared infrastructure, services, and incentives to attract businesses, fostering a concentrated hub of industrial and manufacturing activities.

This exploration sheds light on the initiatives, challenges, and opportunities presents in these key South American economies. From regulatory frameworks to geographical advantages, each country's industrial strategy is dissected to offer investors valuable insights into the unique conditions shaping the industrial landscape. By comparing and contrasting these approaches, stakeholders gain a deeper understanding of the competitive forces at play, ultimately informing strategic investment decisions in the dynamic realm of South American industrialization.

Table-7: Comparison of Industrial Parks among Chile, Argentina, Brazil, Uruguay and Paraguay

Country	Paraguay[78]	Uruguay[79]	Chile[80]	Argentina[81]	Brazil[82]
Infrastructure	**Infrastructure and common services:** Industrial parks ensure optimal conditions for industry operations with shared infrastructure like roads, lighting, access, sewage systems, and basic services, reducing costs for businesses. **Logistical advantages:**	**Diverse sectors:** Industrial parks host a variety of sectors, from food to technology, making them attractive to investors with diverse interests. **Developed infrastructure:** Some parks, like the Ruta 5 industrial Park, have advanced infrastructure, including direct	**Strategic location:** The strategic location of industrial parks, such as the La Negra Industrial Park, in key regions facilitates access to national and international markets, promoting efficiency. **Foreign investment interest:** The interest expressed by Chinese mining company Tsingshan	**Adequate infrastructure:** Industrial parks have suitable infrastructure, including essential services, electrical distribution networks, and physical and industrial security. This reduces operational costs and provides a conducive	**Strategic location and market access:** Brazil's industrial parks, particularly concentrated in states like São Paulo, Rio de Janeiro, and Minas Gerais, offer strategic locations with access to large consumer markets. For foreign investors, this

78 Expert group meeting report. "Development of Sustainable Industrial Parks in Latin America & Caribbean." United Nations Industrial Development Organizations (UNIDO), 2017. Also, "Nuevos Incentivos Para La Creación de Parques Industriales." FERRERE Abogados. Nuevos incentivos para la creación de Parques Industriales, 2013; https://www.ferrere.com/es/novedades/nuevos-incentivos-para-la-creacion-de-parques-industriales/

79 "Report on Industrial Parks in Uruguay." Uruguay XXI: Promoción de Inversiones, exportaciones e imagen país, 2023.

80 Expert group meeting report. "Development of Sustainable Industrial Parks in Latin America & Caribbean." United Nations Industrial Development Organizations (UNIDO), 2017. And, Larraín, Clemente, Consuelo Araneda, and Fernando Espinoza. "Análisis y Propuestas Sobre La Reconversión de Áreas Industriales Urbanas En Chile." Puntos de Referencia, Centro de Estudios Públicos, 2022. Also, Pizzoleo, Javiera. "Tsingshan Busca Instalar El Primer Parque Industrial En Chile." Reporte minero&energético, 2022. https://doi.org/https://www.reporteminero.cl/noticia/noticias/2022/10/tsingshan-busca-instalar-primer-parque-industrial-chile. And, Valero Sommaruga, Benjamín Patricio. "DESARROLLO DE CRITERIOS E INDICADORES PARA EVALUAR LA IMPLEMENTACIÓN DE NORMAS DE ESTANDARIZACIÓN EN PARQUES INDUSTRIALES," 2016.

81 Expert group meeting report. "Development of Sustainable Industrial Parks in Latin America & Caribbean." United Nations Industrial Development Organizations (UNIDO), 2017. Also, "Parques Industriales, Motores Para El Desarrollo Económico y El Crecimiento de Las Ciudades." +COMUNIDAD, 2023. https://doi.org/https://www.mascomunidad.org.ar/parques-industriales-motores-para-el-desarrollo-economico-y-el-crecimiento-de-las-ciudades/. Also, Parlascino, Darío. "Parques Industriales: 10 Beneficios Para Una Revolución Productiva En Argentina." PERFIL, 2023. https://doi.org/https://www.perfil.com/noticias/opinion/parques-industriales-10-beneficios-para-una-revolucion-productiva-en-argentina.phtml. And, Rappallini, Martín. "Los Parques Industriales Marcan El Rumbo de La Producción." infobae, 2022. https://doi.org/https://www.infobae.com/economia/2022/08/30/los-parques-industriales-marcan-el-rumbo-de-la-produccion/. And, "Programa Nacional Para El Desarrollo de Parques Industriales Informe y Estado de Situación 2015 - 2019." Directorate of Regional Development - Ministry of Productive Development of Argentina, 2020.

82 "Brasil: Los Parques Industriales Del Gigante de América Latina." Conexión parques, 2019. https://conexionparques.com.ar/brasil-los-parques-industriales-del-gigante-de-america-latina/. Also, Ceglia, Domenico. "Critical Elements for Eco-Retrofitting a Conventional Industrial Park: Social Barriers to Be Overcome." ELSEVIER, 2017. https://doi.org/https://www.sciencedirect.com/science/article/abs/pii/S0301479716308660. And, Taiar, Estevão. "New Plan Could Renew Industrial Park by 10%, Brazil's VP Says." International Valor, 2023. https://doi.org/https://valorinternational.globo.com/economy/news/2023/11/17/new-plan-could-renew-industrial-park-by-10percent-brazils-vp-says.ghtml.

	Paraguay's strategic location within South America offers advantages, making it an appealing hub for international trade. **Market access:** The central positioning provides easy access to key markets like Argentina or Brazil, enhancing the efficiency of industrial operations.	access to main roads, railway connections, and pre-installed basic services. **Technology development initiatives:** The presence of organizations like the Technology Foundation within the Ruta 5 Industrial Park reinforces the focus on research, innovation, and technology, appealing to investors interested in these aspects.	in establishing an ecological-industrial park for lithium battery production and electric vehicle in Antofagasta reflects the attractiveness of Chile as a destination for foreign investment in sustainable projects. Connectivity: Chile boasts a robust transportation infrastructure that enhances connectivity in industrial parks, contributing to efficient distribution.	environment for efficient production. **Geographic diversity:** Argentina's industrial parks are distributed across the country, offering geographic diversity for businesses. **Access to transportation:** Proximity to key transportation routes and logistical hubs enhances the accessibility of industrial parks in Argentina.	can provide a gateway to the broader South American market. **Investments in infrastructure:** The Brazilian government actively invests in infrastructure, including transportation, energy, and communication, to support industrial park growth.
Services	**Cost effective environment: Paraguay offers lower operating costs, including energy labor. This positions the country as an attractive destination for companies looking to establish operations in industrial parks.**	**Facilitated permits:** Installation in industrial parks can streamline the process of obtaining permits and approvals, providing investors with greater security and speed in project implementation. **Collaboration and cooperation:** Proximity of companies in the same park can foster	**Government support:** The Chilean government provides support to businesses industrial parks through incentive programs and services to facilitate foreign investment. **Shared services:** Some industrial parks offer shared services, such as storage facilities, which can reduce operating costs for businesses.	**Access to financing: Companies in industrial:** Companies in industrial parks can access low-interest loans for the purchase of capital goods. This facilitated access to financing can be appealing to foreign investors seeking investment opportunities with financial support.	**Industrial growth and technological development:** Brazil, as the largest economy in Latin America, boasts a diversified industry and a strong presence in the industrial park sector. The presence of technology parks and the focus on areas such as information and communication technologies,

		collaboration, subcontracting, and joint project development, generating synergies beneficial for investors. **<u>Cost reduction:</u>** Shared operational and maintenance services, as well as joint purchases of inputs, can lead to economies of scale and cost reduction for companies. **<u>Sustainable development:</u>** Some parks, such as the Technological and Industrial Park of Cerro, show a commitment to sustainable development by leveraging existing constructions and promoting eco-friendly practices. **<u>Government support:</u>** Access to infrastructure development, financial support, and training initiatives provided by the government for businesses		**<u>Public-private collaboration:</u>** Collaboration between the public and private sectors stands out as a key strategy. Coordination between different government entities and the private sector can be beneficial for the successful implementation of industrial projects. **<u>Government assistance:</u>** The Argentine government provides assistance and incentives to businesses in industrial parks, fostering economic development **<u>Technological services:</u>** Some industrial parks offer technological services, creating an environment conducive to innovation.	biotechnology, alternative energies, nanotechnology, and new materials offer opportunities for foreign investors interested in cutting-edge sectors. **<u>Government support:</u>** The Brazilian government provides various support services, including registration assistance, access to financing programs, and infrastructure development.

		operating in industrial parks.			
Regulations and Legal Framework	**<u>Flexible legal environment:</u>** Paraguay's legal framework allows a variety of commercial, industrial, and service activities within industrial parks, adapting to the specific needs of businesses. **<u>Environmental incentives:</u>** the legislation requires detailed environmental considerations from investors, including waste treatment, environmental impact assessments, fostering sustainability. **<u>Open to various investors:</u>** The law allows participation from both public and private capital, enabling partnerships and cooperation between public and private sectors.	**<u>Streamlined regulatory environment:</u>** Uruguay offers a regulatory framework within industrial parks that facilitates various commercial, industrial, and service activities, streamlining processes for businesses. **<u>Adaptability to business requirements:</u>** The legal structure is designed to be adaptable, allowing industrial parks to cater to specific business needs effectively.	**<u>Transparent legal environment:</u>** Chile offers a transparent legal environment that favors foreign investment in industrial parks, with clear and stable regulations. **<u>Flexibility in activities:</u>** The legal framework allows diverse commercial and industrial activities in the parks, providing flexibility for businesses. **<u>Government incentives:</u>** The implementation of a new legal framework in Luján de Cuyo, allowing both concession and sale of lands in the Municipal Industrial Park, demonstrates an effort to attract new investments. Municipal investments funded by the National Program for the Development of Industrial Parks support this initiative. **<u>Environmental standards:</u>** Chilean companies exhibit high environmental	**<u>Legal certainty:</u>** Legal certainty in property acquisition within industrial parks instills confidence in foreign investors. The protection of investment and the assurance that the property will maintain or increase its value are crucial aspects for investment decisions. Comprehensive legislation: Legislation supports various types of industrial activities, ensuring a comprehensive framework for businesses.	**<u>Established legal framework:</u>** Brazil's legal framework for industrial parks is established by Law No. 8367, providing custom incentives. Regulatory body: The superintendenc e of the Manaus free trade zones (SUFRAMA) oversees and promotes investment in industrial parks. **<u>Bilateral trade agreements:</u>** The agreements between Brazil and China, such as the establishment of the China-Brazil Industrial Park of Agricultural Sciences, demonstrate a commitment to fostering economic cooperation. Foreign investors, especially those from China, may see

			standards, as evidenced by their involvement in over 131 cleaner production agreements, involving more than 7.000 companies. This commitment aligns with global trends towards environmentally responsible practices. Interest in certification: There is acknowledgment of the importance of having a certification or recognition system that rewards industrial parks meeting sustainability criteria. This indicates a potential for the development of a common model for promoting sustainable industrial parks.		this collaboration as an opportunity to benefit from enhanced trade relations and joint ventures.
Challenges and limitations	**Infrastructure challenges:** Some industrial parks may face challenges related to infrastructure, potentially affecting operational efficiency. **Limited local sales:** There may be restrictions on the percentage of production allowed for local sales, impacting businesses	**Sector concentration risks:** Potential concentration in specific industries within industrial parks may expose the economy to risks associated with the volatility of those sectors. **Adaptation for Global Export:** Exporting Uruguay's industrial park model internationally requires	**Limited Eco-Industrial development:** The limited development of eco-industrial parks in Chile poses a challenge for investors seeking sustainable and environmentally friendly opportunities. **Limited recognition for sustainable parks:** The absence of a clear certification system for sustainable	**Issues in Registration and Data updates:** There are problems in the National Registry of Industrial Parks (RENPI), such as lack of coverage and data quality. This can create uncertainty for foreign investors seeking accurate data before making investment decisions.	**Environmental and waste management challenges:** The lack of effective waste management in many Brazilian industrial parks, as highlighted in the case of the Maracanú Industrial Park, can pose environmental challenges. Foreign investors may view this as a concern, especially if

	targeting the local market. **Feasibility analysis required:** Businesses considering industrial projects in Paraguay must carefully analyze feasibility, considering specific conditions and regulations. **Limited information on sustainable benefits:** There is a perception of limited information among stakeholders about the economic and environmental benefits of sustainability measures, which could affect the adoption of more sustainable practices	adaptation to diverse legal and regulatory contexts, posing negotiation and implementation challenges. **Environmental challenges:** While sustainable development is emphasized in some parks, there may be environmental challenges associated with certain industries, such as waste management and carbon footprint. **Dependence on government approvals:** While permit facilitation is highlighted, dependence on government approvals can be a challenge, especially with changes in government policies.	industrial parks may hinder the recognition and promotion of environmentally responsible practices.	**Lack of updates in financial benefits:** The lack of updates in the amounts allocated to non-repayable contributions (ANR) and financial benefits since 2014 can be discouraging for foreign investors, as the amounts do not reflect cost increases and inflation. **Denial of ANR** request due to lack of funds can be a hurdle for foreign investors seeking access to these benefits for their industrial projects. **Total ANR quota not updated:** The lack of updates in the total ANR quota since 2012 may limit opportunities for foreign investors, as the existing limit may not be sufficient for larger or more extensive projects.	they seek to operate sustainably or face stricter regulatory constraints in their home countries. **Recent deindustrialization:** Despite Brazil's industrial history, the country has experienced deindustrialization in recent years, with a significant decline in the industry's share of GDP. This stagnation or decline in industrial growth could raise doubts about the long-term sustainability of investments in industrial parks. **Concentration in specific regions:** While the concentration of industrial parks in states like São Paulo is an advantage, it also poses a risk of over-reliance on specific regions. Foreign investors may face challenges

				Absence of credits since 2017: The absence of concessional-rate credit approvals since 2017 may be a concern for foreign investors seeking government-backed financing options.	if they prefer diversification and broader geographic coverage. **Limited adoption of green technologies:** There are challenges in waste management and the transformation of industrial parks into eco-industrial parks. Foreign investors with a strong focus on sustainability may find the current environmental practices in some parks less appealing

Paraguay’s challenges and opportunities

Strengths:

Paraguay exhibits several strengths in the realm of industrial parks, independent of fiscal incentives, that contribute to its attractiveness for foreign investors. One key advantage lies in its strategic geographical location, with proximity to major South American markets such as Brazil and Argentina. This strategic positioning enhances logistical efficiency and facilitates access to a broad consumer base.

The availability of young and skilled labor is another noteworthy strength. Paraguay’s workforce contributes to the competitiveness of industries established within its borders. Paraguay’s workforce contributes to the competitiveness of industries established within its borders. Furthermore, the country’s membership in MERCOSUR strengthens its economic ties with neighboring nations, fostering a collaborative environment for international businesses.

The establishment of industrial parks in Paraguay benefits from a flexible regulatory framework that allows for both public and private sector participation. This adaptability enables diverse investment models, fostering collaboration between the public and private sectors.

Areas for improvement:

In contrast to Chile, Paraguay can enhance its communication and promotional strategies to ensure broader awareness of its industrial park laws and benefits. Chile's well-established industrial parks and robust infrastructure make it a strong competitor. Specifically, Chile has demonstrated success in promoting sustainable practices within its industrial parks. For instance, Chile has implemented initiatives to reduce environmental impact, incorporate green technologies, and ensure adherence to high environmental standards. Paraguay could learn from these specific strategies to further develop its own industrial parks.

It's crucial to note that while stronger sustainability practices are a positive aspect, they alone may not be the sole factor influencing increased Foreign Direct Investment (FDI). Other critical factors, such as regulatory clarity, economic stability, and the overall business environment, play significant roles in attracting FDI.

Uruguay's challenges in promoting industrial parks underscore the importance of effective communication, a lesson Paraguay can leverage. Brazil's emphasis on clean energy investments highlights an area where Paraguay, with its significant hydroelectric capacity, can align policies to attract environmentally conscious investors.

Argentina's comprehensive industrial policies pose both opportunities and challenges. Paraguay can learn from Argentina's focus on clean energy while being cautious about potential localization policies. Strengthening regulatory processes and regional collaboration, as observed in all five countries, is an overarching theme for Paraguay's improvement.

4.2.3. Public-Private Partnership Projects

The Economist Intelligence Unit (EIU) conducts the Infrascope report annually, in collaboration with the Multilateral Investment Fund (FOMIN), a member of the Inter-American Development Bank (IBD) Group. The report assesses the capacity of Latin American and Caribbean countries to attract private investment in infrastructure through Public-Private Partnerships (PPPs). Utilizing 23 indicators grouped into various indices, the assessment covers regulatory and institutional frameworks, project experiences and success (maturity), investment climate, and financial facilities. The latest edition, launched in 2021-2022, sheds light on diverse PPP landscapes across the region.

Paraguay emerging with new legislation, stands out for institutional improvements, emphasizing the need for focused attention on risk management and project selection. It's essential to recognize that PPPs contribute to creating an investment-friendly environment, but the involvement of FDI depends on various factors, including the country's policies, economic conditions, and attractiveness to foreign investors. The link between PPPs and FDI is nuanced, and regional collaboration can foster shared best practices for strengthening PPP frameworks.

Mid-tier countries, such as Argentina, grapple with uncertainties, signaling a need for enhanced PPP agencies and preparation support. While PPPs are a valuable tool for infrastructure development, their effectiveness in attracting FDI is influenced by the broader economic context and policies in place. Understanding the multifaceted nature of PPPs and their impact on investment climate provides a comprehensive view of each country's infrastructure development strategy.[83]

Infrascope 2021/22 Overall Score
(neutral weights)

Rank		Score /100
1	Brazil	76.3
2	Chile	75.3
3	Uruguay	66.8
4	Colombia	66.4
5	Peru	63.4
6	Panama	61.1
7	Costa Rica	60.7
8	El Salvador	58.1
9	Guatemala	57.2
10	Dominican Republic	57.1
11	Mexico	56.9
12	Jamaica	54.8
13	Honduras	54.6
14	Paraguay	53.4
15	Ecuador	48.7
16	Argentina	48.0
	AVERAGE	47.3
17	Nicaragua	44.2
18	Guyana	42.1
19	Bahamas	37.0
20	Haiti	27.5
21	Trinidad and Tobago	25.3
22	Bolivia	23.8
23	Belize	21.8
24	Barbados	18.0
25	Venezuela	17.4
26	Suriname	13.9

MATURE (80 to 100) DEVELOPED (60 to <80)
EMERGING (30 to <60) NASCENT (0 to <30)

Score 0-100 where 100=best. Rank out of 26 countries across LAC, 1=best, = before the rank indicates a tie.

Fig.6: Ability of Latin American and Caribbean countries to mobilize private investment in infrastructure through PPPs[84]

[83] Vassallo, José Manuel, Asociación Público-Privada en América Latina. Afrontando el reto de conectar y mejorar las ciudades. Banco de desarrollo de América Latina, CAF (2018).
[84] Source: Infrascope 2021-2022

Table-8: Comparison of Public-Private Partnership projects between Chile, Argentina, Brazil, Uruguay and Paraguay[85]					
Country	**Paraguay**	**Uruguay**	**Chile**	**Argentina**	**Brazil**
Infrastructure	Private investment in infrastructure PPPs was limited in Paraguay before 2018, with only one PPP project (the Ruta 7 project in 1998). However, in 2018 and 2019 alone, the value of infrastructure PPPs represented 38% of the country's total infrastructure spending on average. Current PPPs include two transport projects: the Ruta 2 and Ruta 7 Expansion and the Corredor Bioceanico toll road. The public sector is also active in PPP projects, with planned investments of US$1.2bn in 2021 to reduce the wastewater infrastructure gap in urban areas.	Uruguay's history of private participation in infrastructure projects dates back to the early 1990s, with the value of infrastructure PPPs averaging 23% of total infrastructure spending between 2012 and 2019. Recent projects have been primarily in the solar and gas-fired power sectors. The Central Railway PPP project signed by 2019, a 276-km railway totaling investments of over US$3bn, is hailed as the largest private infrastructure investment in Uruguay's history.	Chile has a history of private participation in infrastructure projects dating back to 1991, with the value of infrastructure PPPs averaging 12% of total infrastructure spending between 2010 and 2019. The market has historically been concentrated, but recent improvements show a more diversified landscape. Social unrest prior to the COVID-19 outbreak affected political and popular support for toll roads, leading the government to focus on hospital infrastructure PPPs in its 2018-22 plan.	Argentina has a history of private participation in infrastructure projects dating back to before 1990. The PPP law, Law 27328, was enacted in late 2016, providing a legal framework for PPP projects. However, recent administrations have shown varying levels of interest in the PPP model.	Brazil boasts one of the most active PPP markets in Latin America, representing over 40% of the region's investment in infrastructure PPPs between 2011 and 2020. The country has a well-established history of private participation in infrastructure projects, spanning various sectors, with energy projects taking the lead, accounting for approximately 77% of total investment in infrastructure PPPs.
Services	Paraguay's first PPP-specific regulation was Law 5102 in	Uruguay is actively rethinking the use of PPPs,	Chile's PPP regulatory framework, including	Argentina's PPP framework allows for contract transfer,	The Brazilian PPP framework is structured around efficient

[85] Economist Impact. 2022. Evaluating the environment for public-private partnerships in Latin America and the Caribbean: The 2021/22 Infrascope. New York, NY.

	2013, promoting investment in public infrastructure and services and regulating PPP contracts. This law was further clarified by Decree 4183 of 2020, significantly expanding the PPP regulatory framework. The legislation defines the jurisdiction of different government institutions and stakeholders involved in PPPs, including the Unit for Public Private Participation Projects (UPPPP) and the General Directorate of Public Investment.	especially in the roads sector. The administration in place since 2020 plans to replace the PPP model with Construction, Rehabilitation, and Maintenance (CREMA) contracts for the country's planned US$1.9bn investments in the road sector for the next five years. Uruguay plans to use CREMA contracts with two-year construction periods followed by ten years of maintenance obligations.	Supreme Decree No. 900 of 1996, Law. 20,410 and Law No. 21,044 of 2017, establishes comprehensive and transparent rules for PPP contracts. The General Directorate of Concessions of Public Works (DGCOP), an independent PPP unit, facilitates policy coordination and execution. The DGCOP's board of directors is composed of respected technocrats, ensuring effective PPP governance.	full compensation in case of early termination, and dispute resolution through arbitration. The country has a comprehensive project selection process, including needs assessments, prioritization rules, cost-benefit analysis, and value-for-money assessments.	project selection and preparation, managed by the Investment Partnership Program (PPI) The program has successfully centralized the structuring and implementation of priority projects, ensuring a well-equipped and well-funded PPP agency. Brazil has made efforts to increase transparency by publishing documents in both English and Portuguese, encouraging foreign investor participation.
Regulations and legal framework	Paraguay ranks second in the Regulations and Institutions category with Decree 4183. The legislation provides strong regulatory guidance around competitive bidding, fairness, openness of contract changes, and online manuals for formulating	Uruguay implemented PPPs following the passage of the Public-Private Partnership Law (Law 18876) in 2011. The law and subsequent decrees allow PPP contracts in various sectors, including transport, prisons, schools, healthcare, social housing, waste management, and	Chile's regulatory framework features transparent rules for contract awarding, renegotiation, termination, risk allocation, dispute resolution, and compensation. The DGCOP oversees PPP processes,	Law 27328 created a new PPP framework with significant flexibility in contract parameters. Decree 808 in 2017 established a PPP unit tasked with PPP development. The financial Law No. 27431 of 2018 allowed the creation of financial trust funds for PPP	Brazil's PPP legal framework consists of two main laws: the 1995 Concessions Law (No. 8987) and the 2004 PPP Law (No. 11.079). The recent introduction of the new Procurement Law (No. 14.133 of 2021) has modified both laws,

	and evaluating infrastructure PPPs. The decree introduces mechanisms such as “competitive dialogue”, a “preparatory phase” for projects, a definition of “financial closure”, and a mechanism for “variable term” contracts.	energy infrastructure. Sectoral ministries act as contracting authorities, and a PPP unit within the Ministry of Economy and Finance conducts financial risk and cost-benefit analyses.	proposing a five-year PPP project pipeline to Congress annually. Dispute resolution mechanisms, enhanced by Law No. 20,410 of 2010, have proven effective during the COVID-19 crisis, demonstrating Chile’s commitment to resolving PPP-related disputes.	projects, changing the form of the government’s financial obligations.	introducing a new procurement modality called “competitive dialogue”. The legal framework includes environmental and social provisions, requiring environmental impact studies and community consultations for infrastructure projects.
Economic impact	Despite strengths in the new PPP legislation, Paraguay’s performance across the Infrascope’s other categories tracks with the regional average, reflecting the country’s limited experience with PPPs. Key areas of focus for further development include implementing processes for risk identification, allocation, and management, instituting mechanisms for ex-post monitoring and evaluation of operational projects.	Uruguay is actively reconsidering the use of PPPs, particularly in the roads sector, indicating a shift toward CREMA contracts. The government’s commitment to respecting prior agreements and its positive image of following through on commitments provide confidence to future private investors.	Chile provides a conducive environment for PPPs with a strong regulatory framework, robust local capital markets, and effective dispute resolution mechanisms. The country’s resilience during the COVID-19 crisis showcases the strength of its PPP processes. Law No. 20,410 of 2010, which improved dispute resolution procedures, played a crucial role in resolving disputes with airport concessionaires.	Argentina’s efforts to strengthen the institutional and legal framework for PPPs aim to attract direct foreign investment. The country’s capital market plays a crucial role in financing, with a focus on project bonds and investment funds. Regulatory measures, such as CNV Resolution 764, promote adherence to international standards for bond issuance.	Brazil’s PPP environment exhibits strengths such as an adequately staffed PPP-dedicated agency, efficient project selection, and preparation processes. The national government has undertaken initiatives like “Infra Week” to accelerate investment in infrastructure, raising significant private investments in transport infrastructure PPP. The federal government expects substantial investments in the next few years, particularly in

					the transport and energy sectors.
Sustainability and environment	To improve its institutional foundation, Paraguay could benefit from expanding the technical capacity of its new national PPP agency, enhancing the project preparation process through formalizing methodologies and environmental impact assessments, requiring consultations with effected communities, and incorporating climate and social equitability considerations into PPP selection procedures.	Uruguay demonstrates a commitment to pragmatic aspects of PPP projects, excelling in risk management and contract monitoring compared to other regions. The country conducts ex-post evaluations on service performance and publishes operational updates, benefiting from access to affordable and highly portable capital and strong financial auditing and reporting standards.	Chile's PPP regulatory framework addresses environmental and social considerations. The framework requires environmental impact studies and community consultations for infrastructure projects. The country's strong local capital markets offer long-term financing for concessions with low risks related to regulatory or government actions.	Argentina demonstrates strong capabilities in project selection, considering environmental, community, and social aspects. The Capital Markets Law (2018) and CNV Resolution 764 (2018) encourage green, social, and sustainability bond issuance.	Brazil has made notable strides in considering environmental and social sustainability in PPP projects. The legal framework requires environmental impact studies, community consultations, and preferences for projects promoting resource conservation and reduced environmental impact. The mandatory regular monitoring and reporting on the quality of services contribute to transparency in environmental and social aspects.
Challenges and limitations	While the new PPP legislation in Paraguay has strengths, it has not been in place long enough to support systemic change around PPP capacity. Areas of focus include implementing processes for risk identification, allocation, and management, instituting	The PPP modality has faced criticism, with the incumbent administration considering it "moderately successful" but economically "very expensive". PPP projects have experienced delays, leading to preference for CREMA contracts with more limited	While Chile's PPP regime has improved, there are areas for enhancement. The project planning, selection, and execution process lack specific goals for social inclusion, gender, employment generation, and support for micro, small, and medium-sized	Despite an ambitious pipeline of around 60 projects, economic challenges have hindered private investor participation. Political uncertainty, while short-term projects may have a better outlook.	Brazil faces challenges in infrastructure PPP development, including appropriate risk allocation, coordination between different agencies, legal certainty of PPP contracts, and export evaluation of environmental and social impacts. The

	mechanisms for ex-post monitoring and evaluation of operational projects, and expanding the technical capacity of the national PPP agency. The project preparation process would be strengthened by formalizing methodologies, environmental impact assessments, consultations with affected communities, and incorporating climate and social equitability considerations into PPP selection procedures.	duration and scope. Uruguay's weak areas include project preparation and sustainability, suggesting a need for stronger preparation facilities and institutionalized avenues for tracking project operations and outcomes.	enterprises (MSMEs). Ex-post project evaluation does not adequately assess risk, cost-benefit, value for money, or environmental impact, and progress towards the Sustainable Development Goals (SDGs). The government's infrastructure fund, created in 2018, has not financed any projects yet. The main challenge comes from the political environment, with a constitutional assembly inaugurated in 2021 potentially leading to changes that could impact the traditionally attractive business environment for PPPs.		enactment of the new Procurement Law represents progress, but full implementation is crucial. Regulatory clarity, especially at the federal level, and improved contracting institutions across states are areas for potential improvement. Judicial disputes and issues related to compensation mechanisms for early termination add to the challenges.

Paraguay has emerged as a promising player in the field of Public-Private Partnerships and infrastructure. However, to solidify its position and improve in comparison with other countries in the region, there are key aspects that Paraguay could address.

Strengths of Paraguay:

- **Strong Regulatory framework:** Paraguay has established a robust regulatory framework for PPPs, standing out with the introduction of the innovative Decree 4183 in 2020. This approach could serve as a model for other countries looking to strengthen their regulatory frameworks.

- **Focus on bidding competitiveness and transparency:** Paraguay excels in providing strong regulatory guidance on competitive bidding and transparency in contractual changes. The creation of online manuals and guidelines demonstrates a solid commitment to best practices.
- **Commitment to sustainable development:** Paraguay has integrated environmental and social considerations into its legislation, demonstrating a commitment to sustainable development. Consulting with affected communities and considering climate and social equity factors can further strengthen this position.
- **Innovative approach with flexible mechanisms:** The introduction of mechanisms such as “competitive dialogue” and “variable term” contracts reveals an innovative and flexible approach to PPPs in Paraguay. These approaches could inspire other countries to adopt more adaptable strategies.

In summary, Paraguay has a solid foundation for the successful development of PPPs, but continuous improvement, experience accumulation, and adaptation to emerging challenges will be key to maintaining and enhancing its position compared to other countries in the region.

Areas for Improvement:

- **Limited experience in PPPs:** Although Paraguay has made significant strides in implementing PPPs, its experience remains relatively limited compared to countries like Brazil and Chile. Accumulated experience over time provides valuable insights into long-term project management, an area where Paraguay can benefit from Brazil’s example, which has developed an active PPP market since the last century.
- **Capacity for risk identification and management:** Paraguay could strengthen its processes for risk identification and management, drawing lessons from countries like Uruguay, which excels in pragmatic risk management and contractual monitoring. Implementing mechanisms such as lenders’ step-in rights, effective in other countries, could enhance investor confidence in Paraguay.
- **Ex-post monitoring and evaluation of operational projects:** Institutionalizing pathways for standardized monitoring of operations and project outcomes, a practice evident in Uruguay, can bolster Paraguay’s ability to learn from past experiences and improve the preparation of future projects.
- **Capacity building for PPPs at the subnational level:** Unlike Brazil, which has developed infrastructure plans at the state and municipal levels, Paraguay could benefit from greater coordination between government levels to ensure coherence in the planning and execution of subnational PPP projects.

5. Other Factors Affecting FDI:

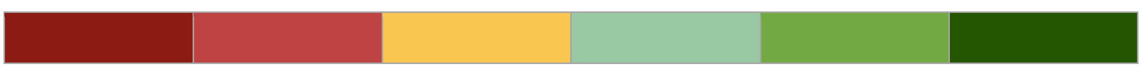
It is a well-known fact that investors account for a country's fiscal and non-fiscal indicators before making an investment in a country. However, it is a lesser-known fact stated by the United Nations Conference on Trade and Development (UNCTAD) and in fact one of the strongest contenders for the existence of this section which suggests that investors evaluate a country's overall holistic picture before even considering its fiscal and non-fiscal factors. These factors range from a multitude of range from education, health to a country's political and macroeconomic stability.

Several pivotal determinants of foreign investment have been selected for this research, encompassing elements such as ease of doing business, digitalization, labor costs, corruption, infrastructure, private property, institutionality, macroeconomic and political stability. However, it's important to note that these factors, while significant, do not cover the entirety of factors that influence trade and investment. Unfortunately, due to time constraints and the limited scope of this research, a detailed analysis of these additional factors is not feasible.

The basis of selecting the chosen factors was to cater to the focus areas for REDIEX, the Vice Ministry of Investments and Exports for Paraguay.

This section offers a concise overview of all these factors using a comparative analysis with other Latin American Economies and highlights areas where Paraguay is performing exceptionally well along with areas which require improvement in comparison to competitors. Due to lack of availability of data, Brazil has been replaced with Peru for the comparative analysis of some factors across countries.

The below mentioned heat map gives us a holistic perspective of factors influencing trade and investment in Latin America. The table works in a traffic light system where a range of red areas correspond to very low/poor indicators as opposed to a range of green areas which indicate a very high/good indicators. Please refer to the below mentioned ledger for a clear understanding.



Heat Map Scale: Very Low to Very High

Table-9: Comparative table of other factors affecting FDI, across Paraguay, Uruguay, Chile, Argentina and Peru

S. No.	Category	Paraguay	Uruguay	Chile	Argentina	Peru	Indices/Sources Used
1	Trading across Borders	65.1	58.4	80.6	67.1	71.3	World Bank EOD Business: Simple Avg Ranking
2	Getting Credit	40	60	55	50	75	World Bank EOD Business
3	Getting Electricity	70.4	82.1	85.7	70	74.5	World Bank EOD Business

4	**Paying Taxes**	64.1	70.3	75.3	49.3	65.8	World Bank EOD Business
5	**Starting a Business**	76	89.6	91.4	80.4	82.1	World Bank EOD Business
6	**Dealing with Construction Permits**	71.1	57.5	75.9	56.4	72.5	World Bank EOD Business
7	**Enforcing Contracts**	61.6	56.3	64.7	57.5	59.1	World Bank EOD Business
8	**Digitalization**			66.23	50.22	52.06	STATISTA Digital Competitiveness
9	**Corruption**	15.09	91.98	80.66	36.32	22.17	Worldwide Control of Corruption (0<100)
10	**Private Property**	86	29	38	95	87	Property Rights Index Global Rank
11	**Political Stability**	0	1	0.1	0	-0.4	World Bank: Political Stability Estimate

The above-mentioned table has been curated with a multitude of reports and sources and gives us a clear idea that Paying taxes and Political stability are two areas where Paraguay is doing okay. In terms of enforcing contracts, dealing with construction permits and enforcing contracts Paraguay is doing better than other competing regional areas. This suggests a good justice system and trust in the law.

However, there are several areas which require improvement for example in Trading across Borders, Getting Credit and Electricity, Paraguay is being outperformed by its regional competitors. There are also areas where Paraguay's performance is critical and needs a significant change for example corruption and starting a business — which is relatively easier in competing economies.

This table also helps us understand the strengths and weaknesses of Paraguay's competitor economies and currently Chile ranks high in almost all indicators owing to its experiment with InvestChile which we will discuss later in the paper. We also see Peru performing relatively well. However, while Argentina's performance has slipped in certain crucial areas Uruguay is picking up and has performed well in several crucial indicators like Getting Credit, Getting Electricity, Paying Taxes, Starting a Business, Corruption and Political Stability.

Let us analyze this further in detail with the context of relevant policy implications across these countries and understand what it means for Paraguay.

5.1. Ease of Doing Business

The Ease of Doing Business Index scores countries based on how conducive the regulatory environment is to business operations and the strength of property rights protections.

While Paraguay's position has deteriorated as per the World Bank, it is crucial to note that this study can serve as a reference for the past but not for the present due to several policy changes that have been implemented since. Although the publication year is 2020, it refers to the conditions existing at the beginning of 2019.

However, understanding prevalent trends in competing economies in the region is important, and this study provides a strong basis for that. Therefore, it has been included in this study.

Business Reforms in Paraguay

This section has been strongly influenced from the Economy Profile Paraguay research on Doing Business 2020 by the World Bank Group which highlights key focus areas as follows.[86]

5.1.1. Trading across Borders in Paraguay and Comparator Economies

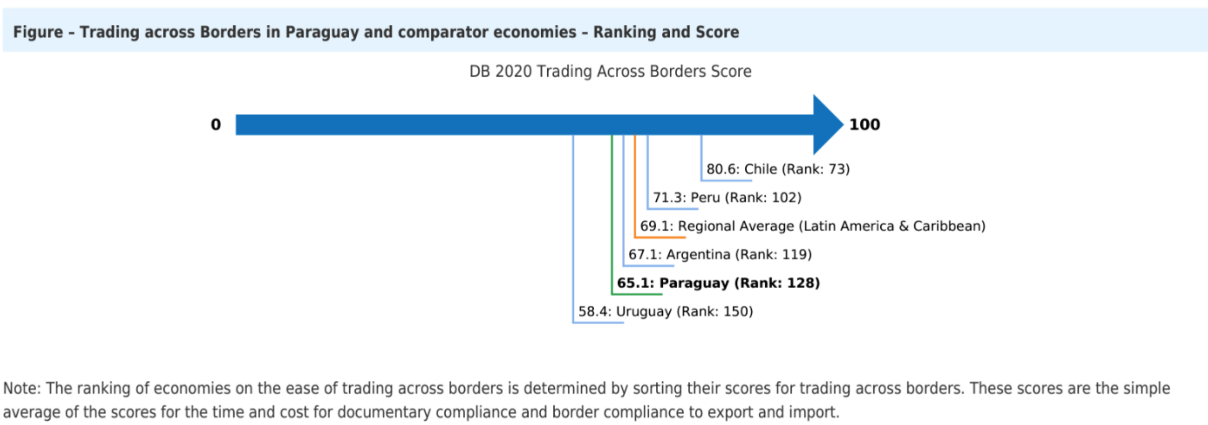


Fig.7: Trading across Borders in Paraguay and comparator economies
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In terms of trade, Paraguay has implemented a series of subsequent good policy reforms that made it easier to do business in Paraguay. For instance, in 2010 Paraguay reduced the time required for trading across borders by implementing an electronic single-window system for exports and improving the risk-based inspection system. In 2017, Paraguay introduced a single window for exporting, which reduced the time required of border and documentary compliance. In 2019, Paraguay also reduced the time needed to import by introducing an electronic signature for import customs clearance. While these are all well needed reforms for Paraguay, other regional economies still score higher than Paraguay which is at 65.1 on 100, with Argentina at 67.1, Peru at 71.3, Chile at 80.6. However, it is noteworthy that Uruguay, Paraguay’s closet competitor ranks lower here with an 88.4 rank on 100. Paraguay has since made important improvements

[86] Economy Profile: Paraguay. Doing Business 2020. World Bank Group. https://archive.doingbusiness.org/content/dam/doingBusiness/country/p/paraguay/PRY.pdf

in foreign trade processes in recent years, which are not reflected in this 2020 Report but can be witnessed in its FDI trends and

5.1.2. Getting Credit in Paraguay and Comparator Economies

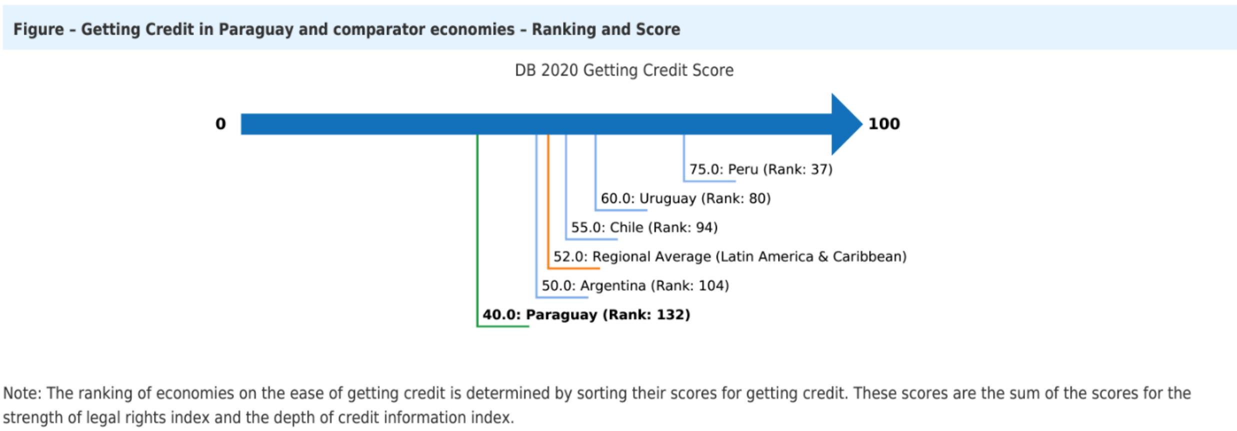


Fig.8: Getting Credit in Paraguay and comparator economies – Ranking and Score.
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In 2012 Paraguay improved its credit information system by establishing an online platform for financial institutions to exchange information with the public credit registry. In 2017, Paraguay reduced access to credit information by limiting the distribution of historical data on borrowers. This measure resulted in Paraguay's access to credit situation falls significantly lower in comparison to other leading regional economies. In fact, Paraguay has the lowest score of 40 out of 100 when the regional average is 52.0, and other economies like Chile, and Uruguay falls at 55 and 60 respectively with Peru ranking highest with 75 on 100 scores making access to credit for a business easiest there.

5.1.3. Getting Electricity in Paraguay and Comparator Economies

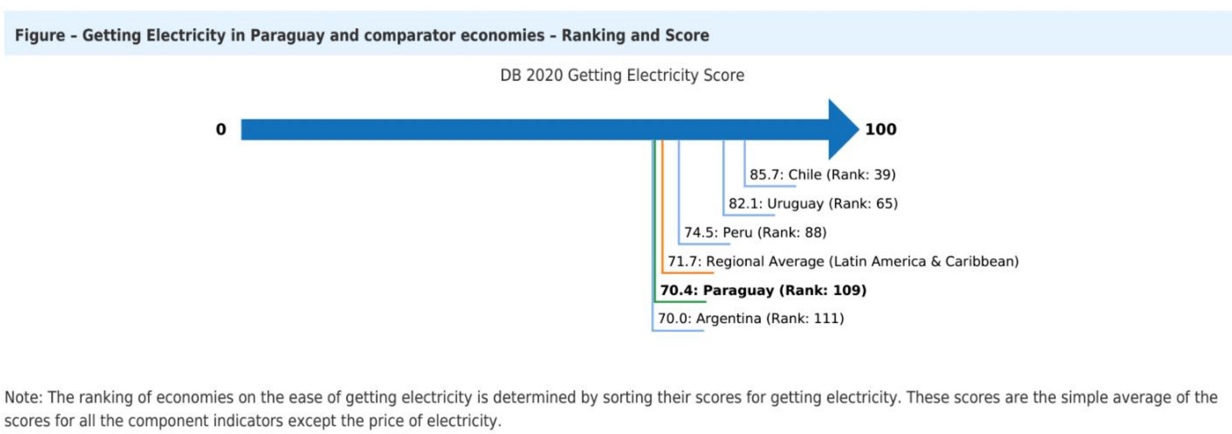


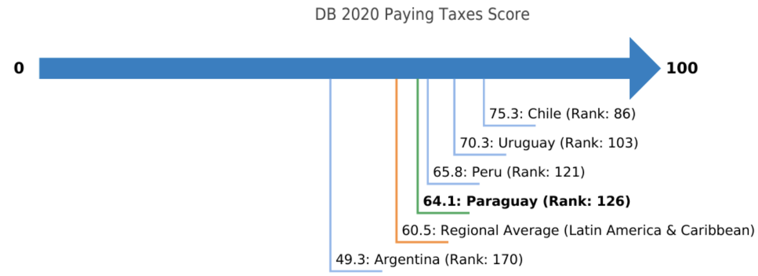
Fig.9: Getting Electricity in Paraguay and comparator economies – Ranking and Score
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In terms of Getting Electricity in Paraguay and comparator economies – Ranking and Score from 0-100 Paraguay ranks 70.4 Paraguay whereas the Regional Average for Latin America & Caribbean is 71.7, and other economies like Uruguay score significantly higher at 82.1, Argentina ranks 70.0, Peru ranks 74.5 and

Chile has the highest ranking in the region at 85.7. Paraguay ranks among the lowest countries in the region here which suggests that despite being the largest exporter of electricity in the region, it is not able to utilize the resource for boosting its economic growth in the way other economies are able to. However, in 2019, Paraguay increased the reliability of its power supply by rolling out a Supervisory Control and Data Acquisition (SCADA) automatic energy management system for the monitoring of outages.

5.1.4. Paying Taxes in Paraguay and Comparator Economies

Figure – Paying Taxes in Paraguay and comparator economies – Ranking and Score



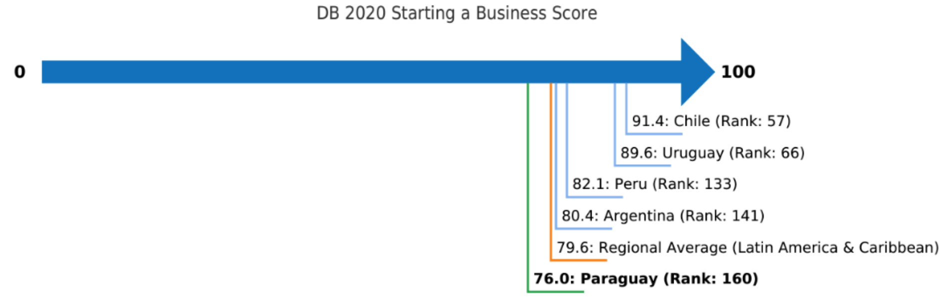
Note: The ranking of economies on the ease of paying taxes is determined by sorting their scores for paying taxes. These scores are the simple average of the scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax and contribution rate. The threshold is defined as the total tax and contribution rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including Doing Business 2015, which is 26.1%. All economies with a total tax and contribution rate below this threshold receive the same score as the economy at the threshold.

Fig.10: Paying Taxes in Paraguay and comparator economies – Ranking and Score
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In 2012 Paraguay made paying taxes more burdensome for companies by introducing new tax declarations that must be filed monthly. This called for a policy reform in 2014, where Paraguay made paying taxes easier for companies by making electronic filing and payment mandatory for corporate income and value added taxes. While Paraguay is not doing significantly bad in this rank by standing above the regional average of 60.5 with a 64.1 rank out of 100, it is not doing significantly better either. The competing economies in the region score above Paraguay with Peru at 65.8, Uruguay at 70.3 and Chile at 75.3. This suggests that more policy reforms are needed.

5.1.5. Starting a Business in Paraguay and Comparator Economies

Figure – Starting a Business in Paraguay and comparator economies – Ranking and Score



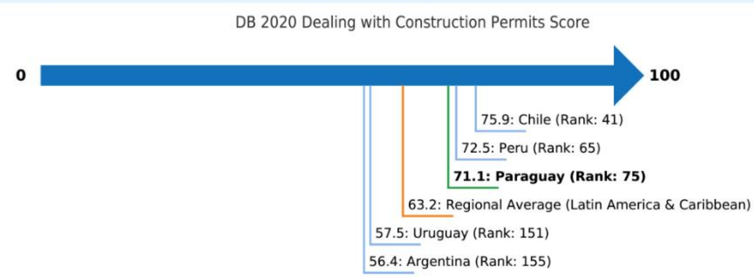
Note: The ranking of economies on the ease of starting a business is determined by sorting their scores for starting a business. These scores are the simple average of the scores for each of the component indicators.

Fig.11: Starting a Business in Paraguay and comparator economies – Ranking and Score
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

Paraguay scores 76.0 compared to the regional average of 79.6 on a scale of 0-100 on the Starting a Business Score which is well below other competing economies in the region including Argentina with a score of 80.4, Peru with 82.1, Uruguay with 89.6 and Chile with 91.4. This could be attributed to the 2008 policy where Paraguay reduced the time required for starting a business by creating a one-stop shop and linking multiple agencies to it.

5.1.6. Dealing with Construction Permits in Paraguay and Comparator Economies

Figure – Dealing with Construction Permits in Paraguay and comparator economies – Ranking and Score



Note: The ranking of economies on the ease of dealing with construction permits is determined by sorting their scores for dealing with construction permits. These scores are the simple average of the scores for each of the component indicators.

Fig.12: Dealing with Construction Permits in Paraguay and comparator economies – Ranking and Score
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In terms of Dealing with Construction Permits in Paraguay and comparator economies score from 0-100 Paraguay scores 71.1, higher than the Regional Average for Latin America & Caribbean which is 63.2, and other economies like Uruguay scores 57.5, Argentina scores 56.4, and Chile and Peru score 75.9 and 72.5 respectively. Paraguay scores subsequently better than other economics here and even more than the regional average as it provides international businesses incentives to set up business in the country. For instance, in 2012 Paraguay made dealing with construction permits easier by implementing a risk-based approval system and a single window for obtaining construction permits and in 2011 it created a new administrative structure and a better tracking system in the municipality of Asunción.

5.1.7. Enforcing Contracts in Paraguay and Comparator Economies

Fig.13: Enforcing Contracts in Paraguay and comparator economies – Ranking and Score
Source: Economy Profile of Paraguay, Doing Business 2020 Indicators, World Bank Group

In 2020, Paraguay made enforcing contracts easier by introducing an electronic case management system for judges and lawyers. This particular policy reform has made it easier to do business in Paraguay pushing it's score to the second highest at 61.6 out of 100, with Chile at the highest at 64.7 which is not significantly higher than Paraguay. Paraguay is doing better than the regional average in this aspect with the regional average at 53.5 and other competing economies like Uruguay at 56.3, Argentina at 57.5, Peru at 59.1 and Chile at 64.7 respectively out of 100.

In conclusion, we can say that Paraguay's progress in various business aspects is evident, but there's room for improvement. Trading, credit access, and electricity accessibility show promise but lag behind regional leaders. Tax payments and business startup processes are improving, but enforcing contracts presents a noteworthy achievement. While strides have been made, continued reforms can elevate Paraguay's investment climate, making it more competitive regionally and attracting more investors.

5.2. E-Government/ Digitalization

Analysis of E-Commerce and Digitalization Measures in Paraguay

A robust e-government and digitalization strategy not only signify modernization but also showcase a commitment to facilitating business and investment, making a country more attractive to potential investors and traders. Transparent digital platforms facilitate international trade by simplifying customs procedures, reducing processing times, and ensuring smoother logistics. They ensure smoother interactions with government agencies, fostering trust and reliability as well as supports easy access to vital information about regulations, procedures, and market trends. This access empowers investors with crucial data, enabling informed decision-making and reducing uncertainty.

An effective e-government framework signifies a commitment to modernization and streamlining processes. This portrayal of a conducive business environment encourages foreign investors seeking stable and technologically advanced landscapes for their investments. Further, digital platforms significantly reduce transaction costs and operational expenses by simplifying procedures and minimizing paperwork. This cost-effectiveness is attractive to investors seeking efficient and economical operations.

For technology-driven companies or those reliant on digital infrastructure, a country's digital readiness is a fundamental consideration. A strong e-government setup attracts tech-savvy investors looking for supportive technological ecosystems.

It is, therefore, important to have a close look at this factor for Paraguay.

5.2.1. Positive Trends

Paraguay has demonstrated continuous progress in fostering an inclusive digital economy and society. Efforts have been dedicated to enhancing digital accessibility across the nation. Over the past decade, there has been a notable increase in internet users, active mobile broadband, and fixed broadband subscriptions. While Paraguay's E-Government Development Index rose from 0.47 in 2008 to 0.53 in 2018, it remains below the averages for Latin America and the Caribbean (0.65) and the Organization for Economic Co-operation and Development (OECD) countries (0.82).[87] This index evaluates the willingness and capacity of national administrations to employ Information and Communications Technology (ICT) for public service delivery.

Although Paraguay lags behind the Latin America and the Caribbean average in various digital innovation metrics, including Research and Development (R&D) expenditures and the share of ICT service imports, there has been a stagnant high-technology export rate at approximately 9.7% between 2008 and 2018, surpassing the regional average of 8.6%. Additionally, the UNCTAD B2C E-commerce Index witnessed an increase from 43.8 in 2015 to 50.5 in 2019, slightly below the Latin America and the Caribbean average of 51.5.

[87] OECD, Economic Commission for Latin America and the Caribbean, CAF Development Bank of Latin America and European Commission. Latin American Economic Outlook 2020: Digital Transformation for Building Back Better. https://www.oecd-ilibrary.org/sites/d84fe151-en/index.html?itemId=/content/component/d84fe151-en

5.2.2. National Strategies and Initiatives

Paraguay's strategic roadmap for digital advancement is outlined in the National Development Plan: Paraguay 2030 and the National Digital Agenda (OCED Public Governance Reviews)[88]. These documents delineate three key areas for digital transformation: ensuring digital inclusion and ICT utilization, advancing digital government, and fostering innovation. These strategies align closely with overarching national goals, including poverty reduction, social development, inclusive economic growth, and deeper integration into the global economy.

The establishment of the Ministry of Information and Communication Technologies (MITIC) underscores the government's commitment. MITIC focuses on transparency, citizen participation, user rights protection, and cybersecurity. Noteworthy is the proactive response to the COVID-19 pandemic, leveraging digital tools for healthcare services and information dissemination.[89]

There is also presence of comprehensive legislation, such as the Law on Digital Signature and the Law on Electronic Commerce, which aim to create a secure and conducive environment for online businesses. These laws likely establish guidelines for digital transactions, ensuring legal clarity and fostering trust among e-commerce participants.

While Paraguay faces challenges in fixed telephony and broadband access, the implementation of the National Telecommunications Plan 2016-2020 significantly contributed to Paraguay's digital landscape, enhancing connectivity and digital inclusion.[90]

Further, the adoption of a computerized risk management system, an authorized economic operator program, and the express consignment procedure all indicate a commitment to efficient, paperless customs processes. The digitalization of customs documents, coupled with the introduction of electronic transmission of air manifests, signifies a move toward streamlined and environmentally conscious trade operations.[91]

5.2.3. International Cooperation

Paraguay actively collaborates with international organizations like the Inter-American Development Bank and the European Union. These collaborations aim to enhance digital infrastructure, reduce poverty through digital payment systems, and foster innovative research. Participation in the Better than Cash Alliance along with Colombia, Mexico, Peru and other countries around the world, as well as the Open Government Partnership signifies the country's commitment to reducing the digital divide through global cooperation.

Furthermore, through the EU-Mercosur Association Agreement, Paraguay collaborates with Mercosur countries to enhance cooperation in the digital economy and innovative research. The country's engagement in the Open Government Partnership, alongside more than 70 other nations, focuses on promoting digitalization. These international collaborations augment Paraguay's efforts, ensuring a holistic approach to digital transformation, encompassing both national initiatives and global partnerships.

---

[88] OECD (2018), OECD Public Governance Reviews: Paraguay: Pursuing National Development through Integrated Public Governance, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264301856-en

[89] Latin American Economic Outlook 2020: Digital Transformation for Building Back Better. OCED iLibrary. https://www.oecd-ilibrary.org/sites/d84fe151-en/index.html?itemId=/content/component/d84fe151-en

[90] WT/TPR/M/360 TRADE POLICY REVIEW – PARAGUAY - MINUTES OF THE MEETING 29/11/2017. https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=240507

[91] Ibid

5.2.4. Challenges and Areas for Improvement

Despite progress, Paraguay faces challenges in digital innovation metrics, including research and development expenditures. Addressing these gaps could boost the country's competitive edge. Additionally, while efforts have been made to increase digital access, the government might consider targeted initiatives to reach marginalized communities and bridge the digital divide comprehensively. For instance, the distribution of Internet use in Chile and Uruguay is as equal as the distribution of access to basic public services, such as sewerage and electricity. Which is not the case for Paraguay.

Enhancing investments in research and development, encouraging private sector partnerships for innovation, strengthening digital education and skills training, and formulating targeted strategies to ensure digital inclusion for all citizens is essential for Paraguay. Collaboration with international partners could continue, focusing on knowledge exchange and capacity building.

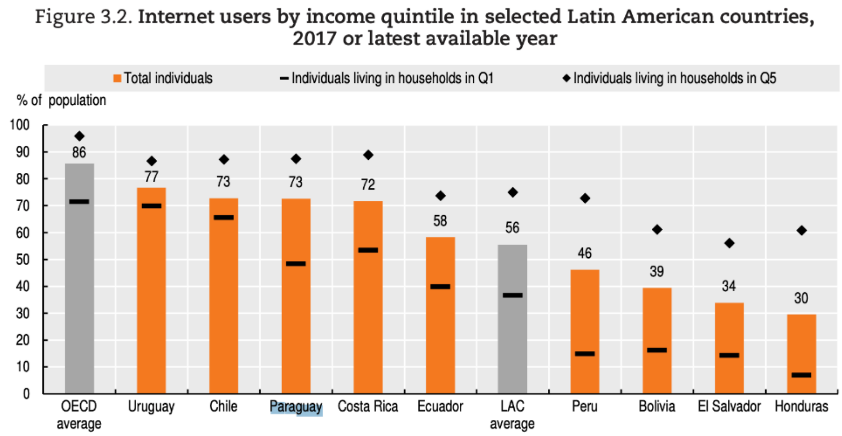


Fig. 14: Internet users in Latin American countries[92]

[92] Source: Latin American Economic Outlook 2020 © OECD/United Nations/Caf/European Union 2020

5.3. Corruption

Addressing corruption is critical to building investor confidence and ensuring a level playing field for all businesses[87]. However, Corruption remains a challenge in Paraguay, affecting transparency and the ease of doing business.

Causes

A 2004 USAID report did a detailed historical analysis of Corruption in Paraguay and outlined several observations and causes for corruption in the country.[93]

Corruption has been deeply ingrained in the fabric of Paraguayan politics and society for more than five decades. The autocratic Stroessner regime, which concluded in 1989, institutionalized corruption as a pervasive norm, leaving behind a legacy of severely weakened control institutions.

The lack of robust oversight and control mechanisms overseeing the allocation and utilization of public resources, as well as the conduct of public officials, posed a significant challenge to democratic governance in the country. The Colorado Party (PC) maintained political dominance in Paraguay for over 50 years, with the Liberal Party playing a more symbolic than substantive role in democratic governance. Through an established arrangement, the Liberals accepted Colorados' domination in exchange for a few government positions, leading to a captured public administration marked by patronage, nepotism, cronyism, conflict of interest, and embezzlement.

Limited political competition further reinforced the existing status quo, offering few disincentives or consequences for corrupt practices. Combined with factors like low wages and sluggish economic growth, this impunity amplified the appeal of corrupt opportunities across all economic strata in Paraguay.

A deficient anticorruption control system and a court system with minimal public trust widened the margin of discretion and minimized the risks associated with corrupt conduct, creating a favorable environment for corruption to thrive.

The Paraguayan government exhibited characteristics of a bloated and disorganized bureaucratic structure, lacking a career civil service system where merit plays a role in recruitment and promotion. Political favors determined government appointments, and officials at all levels received inadequate remuneration. The absence of established norms and excessive bureaucratic procedures granted government employees considerable discretion in carrying out their duties, with minimal risk of dismissal for any cause, thereby fostering low-risk opportunities for corrupt behavior.

Essential transparency was largely absent in the Paraguayan government, as there is no enabling law to implement the constitutional right for citizens to access information about government operations.

Inconsistent standards for establishing and disseminating government information made it challenging for citizens, the media, and government auditors to monitor resource utilization. Paraguay developed a culture that appeared to tolerate and accept corruption without significant societal consequences.

Being identified as corrupt is not widely perceived as a lasting or severe shame, contributing to a culture of impunity. While large-scale corruption captures public attention, the continuous stream of media reports on government corruption generated frustration among the population, who often feel powerless to respond.

---

[93] An Assessment of Corruption in Paraguay. Americas Accountability Anti-Corruption Project. 2004. https://pdf.usaid.gov/pdf_docs/PNADC661.pdf

The prevalence of poverty adds to the challenge, as individuals without economic prospects may view engaging in corrupt behavior as their only opportunity, particularly due to exceptionally low wages in the public sector, the country's largest employer, coupled with the near certainty of impunity.

Comparative Perspective

When we look at it from a comparative perspective in Latin America one can see that *Control of Corruption* efforts as per World Bank's Worldwide Governance Indicators through the intervals of 2012,2017 and 2022 have been highest in Chile and Uruguay on a percentile ranking scale of 0-100. The lowest rated countries in this regard are unfortunately Peru and Paraguay outlining the need for serious efforts needed to mitigate corruption.[94]

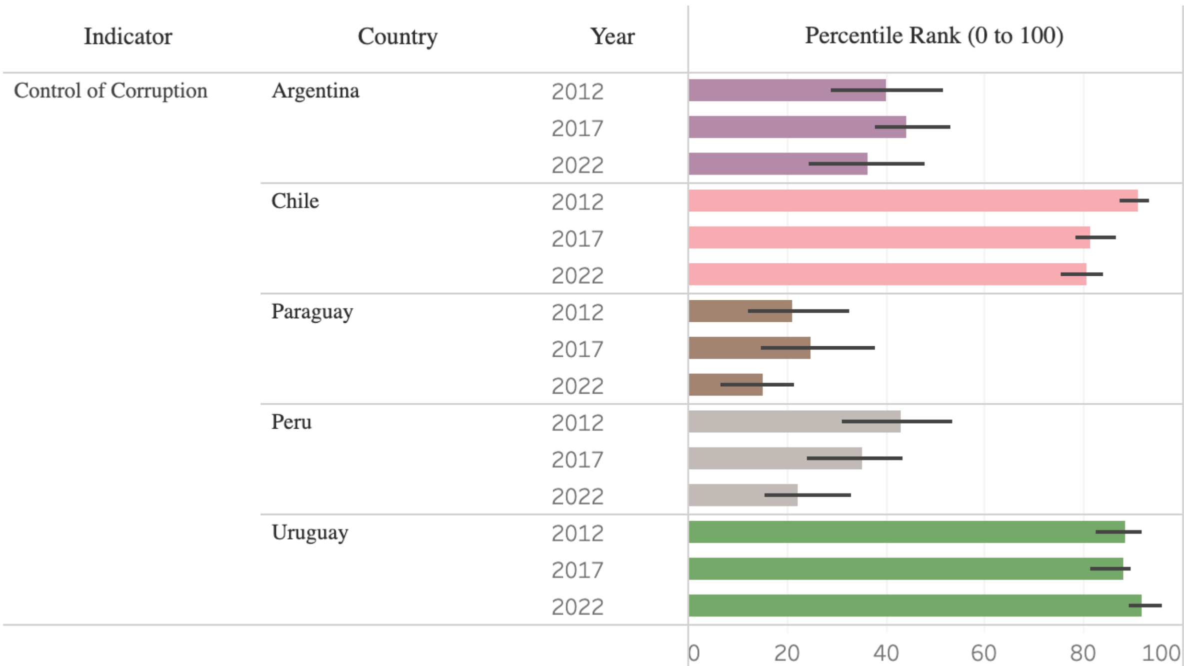


Fig.15: Control of Corruption across Argentina, Chile, Paraguay, Peru and Uruguay during 2012, 2017 & 2022
Source: Worldwide Governance Index, World Bank Data 2022

Another interesting indicator on Corruption is from Transparency International which gives out the Corruption Perceptions Index (CPI) and is the most widely used global corruption ranking in the world. It measures how corrupt each country's public sector is perceived to be, according to experts and businesspeople and is calculated by institutions of repute like the World Bank and World Economic Forum (WEF) from 13 different corruption surveys and assessments. The data sources used to compile the CPI specifically cover the following manifestations of public sector corruption:

1. Bribery
2. Diversion of public funds
3. Officials using their public office for private gain without facing consequences
4. Ability of governments to contain corruption in the public sector
5. Excessive red tape in the public sector which may increase opportunities for corruption
6. Nepotistic appointments in the civil service

[94] Worldwide Governance Index, World Bank Data 2022. https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access

7. Laws ensuring that public officials must disclose their finances and potential conflicts of interest
8. Legal protection for people who report cases of bribery and corruption
9. State capture by narrow vested interests
10. Access to information on public affairs/government activities

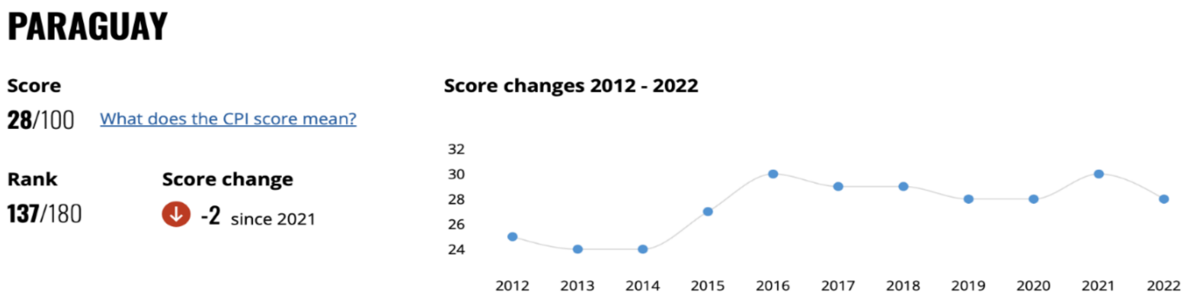


Fig.16: Corruption Perceptions Index – Paraguay (2022)

We can see that Corruption in Paraguay was on a declining trend from 2015 to 2016. Its ranking in Transparency International's 2015 Corruption Perceptions Index improved by 20 places above its ranking in 2014, and in the index ranking for 2016, Paraguay is tied with Honduras in the position of 123 out of 176. However, a rise in corruption can be seen again for Paraguay from 2022 as we see a declining score by two points since 2021 at 28 for Paraguay.[95]

Equally when looking at the performance of other competing economies in Latin America it seems like Peru and Argentina have similar Corruption Perceptions Index scores and are not performing exceedingly well in tackling the problem of Corruption.

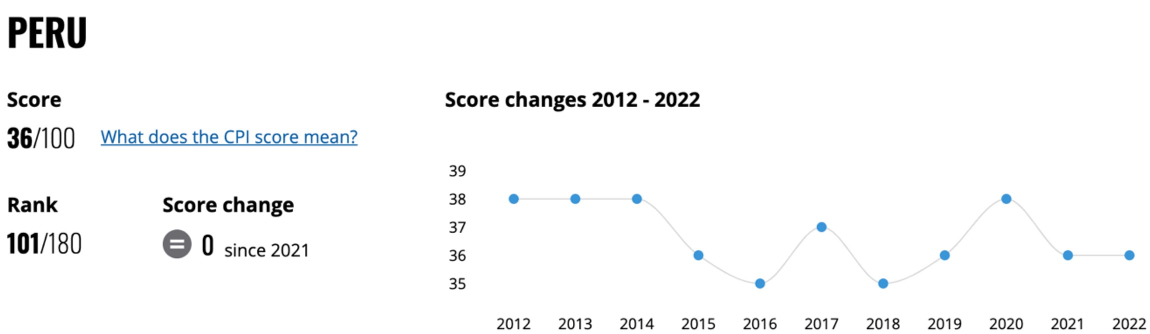


Fig.17: Corruption Perceptions Index – Peru (2022)

[95] Corruption Perception Index 2022. Transparency International. Paraguay https://www.transparency.org/en/cpi/2022/index/pry

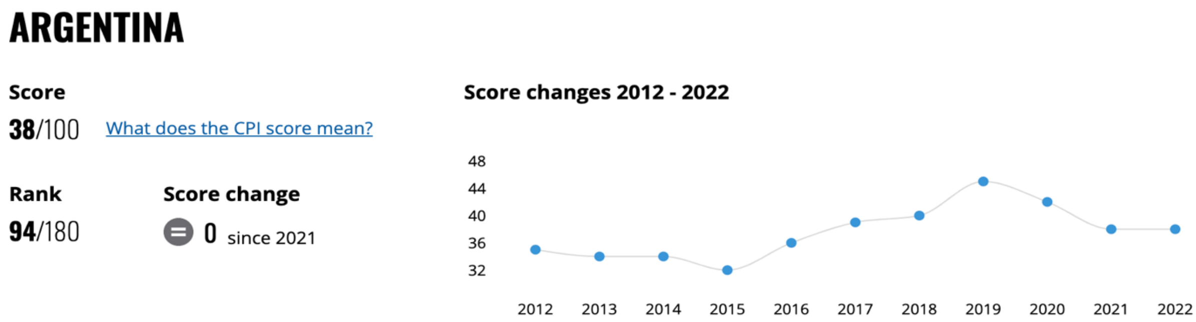


Fig.18: Corruption Perceptions Index – Argentina (2022)

The performance of Chile and Uruguay, however, is exceptional with a stable Corruption Perception Index (CPI) and a relatively high score. What is especially noteworthy is Uruguay's performance turning even better than that of Chile with a score 74/100 on CPI.[96]

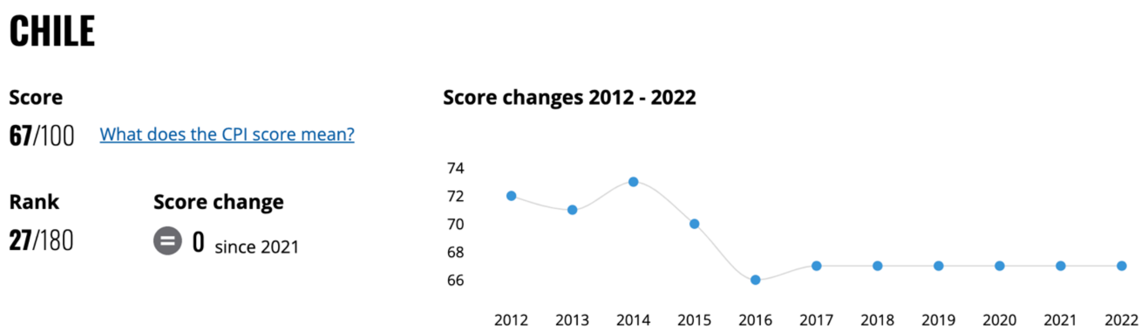


Fig.19: Corruption Perceptions Index – Chile (2022)

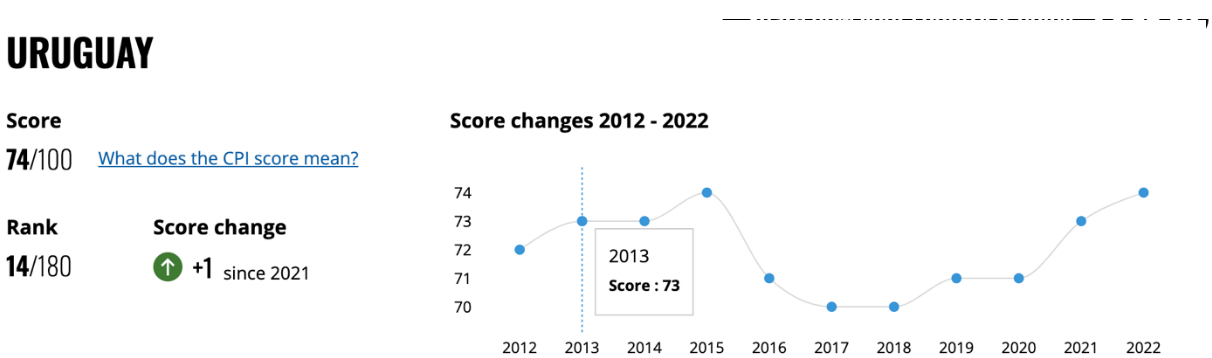


Fig.20: Corruption Perceptions Index – Uruguay (2022)

Paraguay recognizes these challenges and is actively working to address them. Starting from the National Plan of Corruption Prevention in 2016 developed in collaboration with the United Nations Office on Drugs and Crime (UNODC), within the framework of the National Integrated Programme and supported by United

[96] Corruption Perception Index 2022. Transparency International. Uruguay. https://www.transparency.org/en/cpi/2022/index/ury

States Agency for International Development [97] to the National Judiciary Integrity Week to the recent "Stamp of Integrity" in 2022 initiative that integrates a set of actions to fight corruption and fraud that the country has been carrying out over the past few years, with a focus on fighting corruption in public management[98]

With reference to the Program Empresa Pró-Etica (Pro-Ethics Company Program), carried out by Comptroller General of Brazil (CGU) in Brazil, the Paraguayan government developed a program of incentives for companies in the public and private sectors, based on standards of business integrity, so that adherence to Stamp of Integrity can represent a turning point, and bring about positive impacts on increasing the transparency and profitability of approved companies. According to the minister of SENAC, Mr. René Fernández, the stamp intends to especially support private companies that provide services to the public sector, by making them aware of the importance of their role in preventing corruption and the positive financial impacts that result from it.

However, there is broad agreement that improvement of the anti-corruption system requires much better, more transparent and readily accessible information. Better and more available information is vital to the establishment of any credible corruption control system. The state of internal controls within the Government of Paraguay needs to be worked on significantly. The components of the Government of Paraguay (GOP)'s anti-corruption system require vastly improved coordination.[99]

While there clearly is political will to address corruption, there has been mixed progress. Positive will is demonstrated by a number of key accomplishments. However, certain unaddressed areas raise issues concerning the strength and depth of the President's and the country's will to reverse the flow of corruption. While corruption is a serious problem, the reality does not appear to support the very low rankings Paraguay receives in international corruption perception indices. Compared with other countries, Paraguay has taken a number of more meaningful initial steps that have produced tangible results. The problem appears to be that the indices are based on local perceptions rather than more tangible factors.[100]

The government's commitment to administrative reforms, anti-corruption measures, legal transparency, infrastructure development, education, and sustainability however, reflects its determination to create and environment conductive to foreign investment. But there are many more miles to go on this endeavor for Paraguay. In aligning with current priorities and challenges, the following recommendations are proposed by USAID for a comprehensive anti-corruption strategy in Paraguay:[101]

1. Enhance Transparency in Governance:

Implement measures to improve transparency across Paraguayan governance. This includes the establishment of mechanisms for providing reliable, credible information that is easily accessible to the public. Utilize technology and open data initiatives to foster transparency in government operations, budgets, and decision-making processes.

---

[97] United Nations Office on Drugs and Crime, accessed via: https://www.unodc.org/lpo-brazil/en/frontpage/2016/05/01-counting-on-unodc-initiative--paraguay-presents-the-national-plan-of-corruption-prevention.html#:~:text=The%20National%20Plan%20of%20Corruption%20Prevention%20was%20developed%20in%20collaboration,International%20Development%20(USAID)%2C%20implemented

[98] "Paraguay launches "Stamp of Integrity", inspired by Brazilian anti-corruption experience" Government of Brazil. May 5 2022. https://www.gov.br/abc/en/subjects/news/paraguay-launches-201cstamp-of-integrity201d-inspired-by-brazilian-anti-corruption-experience

[99] An assessment of corruption in Paraguay. Americas' Accountability Anti-Corruption Project. 2004. https://pdf.usaid.gov/pdf_docs/PNADC661.pdf

[100] Ibid

[101] Ibid

2. Strengthen Internal Controls:

Develop and implement a robust system of internal controls within government institutions. Ensure that these controls are comprehensive, well-structured, and effectively implemented to prevent and detect corruption. Regular assessments and audits should be conducted to identify vulnerabilities and enhance the efficiency of internal control mechanisms.

3. Combat Impunity:

Implement measures to reduce impunity and ensure that those engaged in corrupt practices face tangible consequences. Strengthen the judicial system, law enforcement agencies, and anti-corruption bodies to effectively investigate and prosecute cases of corruption. Establish clear and swift legal procedures to expedite the resolution of corruption-related cases.

4. Incentivize Integrity:

Reform existing incentive structures to reduce tolerance for corruption and reward integrity. Develop policies and practices that actively discourage corrupt behavior and encourage ethical conduct. This includes creating a culture of accountability within public institutions and fostering an environment where integrity is recognized and valued.

5. Empower Civil Society:

Promote and support the capacity of civil society organizations to demand greater accountability from the government. Facilitate the engagement of citizens in monitoring and oversight activities. Foster partnerships between the government and civil society to encourage collaborative efforts in the fight against corruption. Provide resources and training to enhance the effectiveness of civil society initiatives.

These recommendations should be integrated into a long-term anti-corruption strategy, emphasizing collaboration among various stakeholders, including government agencies, civil society, and international partners. Successful implementation of these measures would not only contribute to the reduction of corruption but also position Paraguay as a more competitive candidate for international development resources. The ongoing commitment to policy dialogue and the execution of a comprehensive anti-corruption plan will be pivotal for achieving sustainable change and fostering a culture of integrity within the country.

5.4. Private Property Protection

The right to private property stands as a fundamental pillar within the legal and economic framework of any nation, playing a crucial role in socio-economic development and legal stability. In this context, we will explore the legal provisions and practices related to the right to private property in five Latin American countries: Paraguay, Uruguay, Argentina, Brazil and Chile. Each country presents a unique combination of regulations, challenges, and approaches to ensure the protection and effective enforcement of property rights.

Throughout this comparative analysis, we will examine the legal frameworks governing private property in these countries, assess the effectiveness of property rights enforcement, analyze transparency and the rule of law in property context, explore dispute resolution mechanisms, and consider political stability as an influential factor in safeguarding these fundamental rights.

This in-depth examination of the legal environments and practices related to private property will provide a comprehensive insight into the current situation in each country, highlighting both similarities and differences that contribute to a global understanding of the protection and enforcement of property rights in the Latin American region.

Table-9: Comparison of Private Property Protection among Chile, Argentina, Brazil, Uruguay and Paraguay					
Country	**Paraguay**[102]	**Uruguay**[103]	**Chile**[104]	**Argentina**[105]	**Brazil**[106]
Legal Framework	**Role of the Public Ministry:** The legal framework in Paraguay designates a significant role to the Public Ministry in safeguarding property rights. As the representative of society, the Public Ministry is empowered to intervene in cases of property	**Restrictions on property rights:** In Uruguay, property rights are subject to legal restrictions, defined broadly to balance individual rights with societal needs. These encompass regulations on construction, street numbering, and agricultural practices. **Expropriation:** Expropriation in	**Restrictions on property rights:** In Chile, property rights are constitutionally recognized (Article 78 of the proposed new constitution). However, these rights are subject to restrictions outlined in the constitution and laws. The constitution specifies that property rights apply to all types of assets, except those declared not appropriable by	**Constitutional Foundation:** Argentina's Constitution (Article 17) explicitly declares the inviolability of property rights, emphasizing that no citizen can be deprived of their property except through a legal judgment. This constitutional provision establishes a	**Foreigner's rights and restrictions:** Foreigners can acquire real estate without the need for local partners. Specific rules apply to areas like maritime territory, islands, rural land, and border areas for national security reasons.

102 Ruiz Diaz, Juan Pablo Rolón. "Legitimidad de La Intervención Del Ministerio Público En Los Hechos Puni- Bles de 'Invasión de Inmueble Ajeno' ." Investigación en Ciencias Jurídicas y Sociales, 2015. https://doi.org/https://ojs.ministeriopublico.gov.py/index.php/rjmp/article/download/72/311?inline=1. Also, "Senado Aprueba Extender a 10 Años de Cárcel La Pena Por Invasión a La Propiedad Privada." MARKETDATA, 2021. https://doi.org/https://marketdata.com.py/noticias/senado-aprueba-extender-a-10-anos-de-carcel-la-pena-por-invasion-a-la-propiedad-privada-57055/. And, International Property Rights Index, 2023. https://www.internationalpropertyrightsindex.org,https://www.theglobaleconomy.com/Paraguay/herit_property_rights/

103 Lacalle Pou, Luis. "Derechos de Propiedad: Uruguay Es El País Mejor Posicionado de La Región." Comercio y Justicia, 2023. https://doi.org/https://comercioyjusticia.info/economia/derechos-de-propiedad-uruguay-es-el-pais-mejor-posicionado-de-la-region/. Also, López Quijano, Fernando. "LA PROPIEDAD Y SUS LIMITACIONES EN EL DERECHO URUGUAYO," 2008. And, And, International Property Rights Index, 2023. https://www.internationalpropertyrightsindex.org,https://www.theglobaleconomy.com/Paraguay/herit_property_rights/

104 Ruiz-Tagle, Pablo. "Property in Chile and Its Dilemmas." Revista de Derecho (Valparaíso), 2018. https://doi.org/https://www.scielo.cl/scielo.php?script=sci_arttext&pid=S0718-68512018000200199. Also, Moreno Soza, Victor Hugo. "La Evolución Del Derecho de Propiedad a Lo Largo de La Historia Constitucional Chilena." Universidad de Chile, 2022. https://uchile.cl/noticias/191543/el-derecho-de-propiedad-a-lo-largo-de-la-historia-constitucional. Also, Madariaga Basualto, Rodrigo Andrés. "Derecho de Propiedad En La Nueva Constitución: ¿Fortalecer o Limitar?" Diaro Constitucional, 2022. https://doi.org/https://www.diarioconstitucional.cl/entrevistas/derecho-de-propiedad-en-la-nueva-constitucion-fortalecer-o-limitar/. And, International Property Rights Index, 2023. https://www.internationalpropertyrightsindex.org,https://www.theglobaleconomy.com/Paraguay/herit_property_rights/

105 Sanchez, Fernando. "LA PROPIEDAD PRIVADA ES UN DERECHO CONSTITUCIONAL INVIOLABLE." Rural de Neuquen, 2020. https://doi.org/https://ruraldeneuquen.com.ar/la-propiedad-privada-es-un-derecho-constitucional-inviolable/. Also, Desojo, Emanuel. "Breve Historia Del Derecho de Propiedad En Argentina." Palabras del Derecho, 2022. https://doi.org/https://palabrasdelderecho.com.ar/articulo/3999/Breve-historia-del-derecho-de-propiedad-en-Argentina,-y-su-funcion-social. And, International Property Rights Index, 2023. https://www.internationalpropertyrightsindex.org,https://www.theglobaleconomy.com/Paraguay/herit_property_rights/

106 Investment Guide to Brasil 2019. Also, Calmon Nogueira da Gama, Guilherme, and Patrícia Silva Cardoso. "Overview of Property Protection in Brazil (in the Light of the World Bank's Doing Business Report)." Regent's university London, 2018. https://doi.org/https://openreviewmbf.org/2017/12/22/overview-of-property-protection-in-brazil-in-the-light-of-the-world-banks-doing-business-report/. And, International Property Rights Index,2023. https://www.internationalpropertyrightsindex.org, https://www.theglobaleconomy.com/Paraguay/herit_property_rights/

	invasion, employing measures such as legal actions and requesting judicial safeguards to ensure the reparation of damages. **Exception in civil actions:** While the Public Ministry may not directly instigate eviction proceedings, an exception arises in cases where the invasion affects not only individual property rights but also societal or collective interests. This exception allows the Public Ministry to initiate civil actions, representing the state in eviction proceedings.	Uruguay is a public law institute outlined by specific legal procedures and just compensation. It aligns with article 32 of the constitution, emphasizing public interest, necessity, or utility. **Constitutional provisions (Article 32):** Uruguay's Constitution, in Article 32, establishes property as an inviolable right. Expropriation is permissible only in cases of necessity or public utility, ensuring just and prior compensation.	nature or by law. Restrictions may be imposed for reasons of public interest, necessity, or utility. These restrictions encompass aspects such as the use of natural resources like water and other goods declared common to all people. **Expropriation:** The proposed new constitution in Chile guarantees the right to property, and any expropriation must be authorized by law, justified by public interest or general utility declared by the legislator. The property owner has the right to be compensated for the fair value of the expropriated property. This represents a change from the current constitution, which refers to the "indemnization for the patrimonial damage effectively caused". The concept of "just price" is introduced in the new constitution, and its determination is based on legal and jurisprudential principles, with references to the normal, common, and market value of the property.	robust foundation for the protection of property rights in the country. **Criminalization of property violations:** The Argentine legal system, as reflected in the Penal Code (Article 181), criminalizes various forms of property violations, including violent dispossession, destruction or alteration of property boundaries, and disturbances of possession. This legal framework reinforces the constitutional protection of property rights. **Recent challenges: Despite** constitutional and legal safeguards, recent incidents, as highlighted by the Sociedad Rural del Neuquén, indicate challenges in enforcing property rights, with some cases involving	**Registration process:** All properties must be registered at a *Cartório de Registros Imoniliários* in the property's jurisdiction. The registration includes comprehensive information such as transaction history and physical identification, and its publicly accessible. Legal support: While not obligatory, legal support from an attorney and involvement of a real estate agent registered at CRECI (the professional organization for property managers and brokers) is advisable. Land acquisition limitations: Restrictions apply to the size of rural properties foreigners can acquire. For corporations with foreign capital, approval from the National Defense Council is mandatory for

				violence. Addressing these challenges requires a comprehensive approach that ensures equal protection for properties of all sizes and purposes.	land acquisition in critical security areas.
Enforcement of Property Rights	**Procedural steps by the public ministry**: The enforcement of property rights in Paraguay involves a series of procedural steps led by the Public Ministry. This includes on-site investigations, evidence gathering, imputation, and accusation. The Public Ministry is authorized to implement both personal and real precautionary measures to ensure the protection of the affected property. **Police assistance and flagrancy:** In cases of flagrant property crimes, the	Legal and Political Subindex (IPRI): Uruguay's IPRI score of 6347 reflects is leadership in Latin America. Judicial independence (7.73), Rule of Law (6.464), Political Stability (7.143), and control of Corruption (8.231) contribute to a strong legal and political framework. Physical Property Rights Subindex: While slightly decreased to 5.998, strengths include high scores in the perception of property rights protection (6.808) and property registration process (6.173). Access to financing presents a challenge (5.013). Intellectual Property Rights Subindex: Uruguay's score	**Judicial protection:** Chile, both in the current and proposed constitutions, emphasizes the importance ensures that every person, whether natural or legal, has the right to property and provides avenues for legal recourse in case of disputes. The judicial system plays a crucial role in safeguarding property rights, allowing property owners to challenge any act of expropriation or infringement on their rights before independent courts.	**Government response to violations: Immediate** attention from both the national and provincial governments is essential to address property rights violations. This includes allocating resources and deploying necessary measures to safeguard property, demonstrating a commitment to upholding constitutional mandates. **Protection for small and large properties: Ensuring** equal protection for small and large properties is crucial. Government interventions should not discriminate based on the	**Size limitations: Foreign** individuals face restrictions on the size of rural properties they can acquire, limited to 50 MEIs. Foreign companies can acquire properties up to 100 MEIs. **Approval requirements:** INCRA authorization is necessary for estates between 3 to 50 MEIs, while larger properties require approval from the National Congress. Limits exist on the total area owned by foreigners in a municipality and by foreigners of the same nationality.

	Public Ministry is empowered to take immediate action. Article 315 of the Criminal Procedure Code explicitly authorizes the Public Ministry to prevent the consequences of the crime with the assistance of the National Police, allowing for the clearance of the affected property.	increases to 5.651, with notable strengths in the perception of Intellectual Property Protection (6.219) and Trademark Protection (5.902). Challenges persist in patent Protection, with data unavailable for Copyright Protection.		size or purpose of the property, recognizing that every form of private property deserves equal and impartial protection. **<u>Public discourse and legal respect:</u>** Public discourse and official pronouncements should consistently uphold the legal framework and the protection that the state must provide to private property. Any deviation from legal principles undermines the rule of law and jeopardizes the peaceful coexistence envisioned by the Constitution.	
Transparency and Rule of Law	**<u>Property rights index:</u>** Paraguay exhibits an improving Property Rights Index, indicating a conducive environment for property protection. The legal and political subindex, coupled with the physical	**<u>Legal framework and transparency: Uruguay</u>** maintains transparency in property-related legal frameworks to ensure clarity and fairness in transactions. **<u>Control of Corruption:</u>** With a score of 8.231, Uruguay's	**<u>Legal clarity:</u>** The proposed constitution in Chile aims to maintain legal clarity regarding property rights. While introducing the concept of "just price" in expropriation cases, it relies on established legal doctrines and jurisprudence to avoid ambiguity. This legal clarity is	**<u>Stability in legal interpretations:</u>** Ensuring stability in legal interpretations and applications is vital for maintaining transparency. Clear and consistent legal standards contribute to a predictable	**<u>Doing business report:</u>** Brazil's property protection is evaluated by the World Bank's Doing Business Report. This report assesses the legal environment, registration processes, and protection mechanisms, providing insights into

	and intellectual property rights subindex, reflects reasonable levels of perception and protection. **<u>Key factors: Transparency</u>** and the rule of law play a vital role in property-related matters. Independence of the judiciary, the overall rule of law, and control of corruption contribute significantly to maintaining transparency and fostering confidence in the legal system.	commitment to control corruption positively impacts property rights enforcement.	essential to ensure that property owners understand their rights and the conditions under which those rights may be restricted or expropriated. **<u>International Treaties:</u>** Chile, as a signatory to various international treaties and agreements, is committed to respecting property rights. The proposed constitution underscores the importance of adhering to international obligations, providing an additional layer of transparency and accountability in enforcement of property rights.	environment for property owners, reducing uncertainty and potential conflicts. **<u>Efficiency in Judicial processes:</u>** The efficiency of judicial processes, particularly in property-related cases, is essential. Delays and inefficiencies can undermine the effectiveness of property rights protection. Implementing measures to streamline legal proceedings enhances the rule of law. **<u>Public communication on property rights: Transparent</u>** communication from government authorities about property rights is crucial. This includes disseminating information about legal provisions, dispute resolution mechanisms, and the	strengths and weaknesses. Rule of law state: The Brazilian Constitution recognizes property rights as fundamental and emphasizes the social function of property. The Rule-of-law state ensures effective protection mechanisms for property owners against state and individual interference.

				consequences of property violations to promote awareness and compliance.	
Dispute resolution mechanisms	**<u>Ministry-Led Resolution:</u>** **<u>Dispute</u>** resolution mechanisms in Paraguay are facilitated by the Public Ministry and the judicial system. Imputation and accusation, supported by precautionary measures, offer legal avenues for addressing property-related conflicts. **<u>Human Rights consideration:</u>** The protocols in place prioritize the respect of human rights, ensuring that dispute resolution is conducted fairly and justly. The legal framework guarantees a balance between protecting property rights and upholding fundamental human rights.	**<u>Legal procedures for disputes resolution:</u>** **<u>Uruguay</u>** provides well-defined legal avenues for property-related dispute resolution through its judicial system. **<u>IPRI Judicial independence score:</u>** A high score of 7.73 in Judicial Independence reflects the robustness of the legal system, contributing to effective property dispute resolution.	**<u>Legal recourse:</u>** In Chile, property owners have the right to challenge any act of expropriation or violation of property rights through the legal system. The proposed constitution ensures that such legal recourse is available and encourages the resolution of disputes through independent and impartial judicial processes. **<u>Arbitration for international investors:</u>** For international investors, Chile's adherence to international treaties, especially in the protection of foreign investments, provides a framework for dispute resolution. In cases where disputes arise, international arbitration mechanisms may come into play, allowing for a resolution that aligns with international legal standards.	**<u>Accessibility of legal remedies:</u>** **<u>Property</u>** owners should have accessible legal remedies in case of disputes. This involves ensuring that legal mechanisms for dispute resolution are clear, affordable, and readily available to all citizens. Mediation and alternative dispute resolution: Encouraging mediation and alternative dispute resolution methods can expedite property-related conflicts. Implementing mechanisms that facilitate amicable resolutions reduces the burden on the judicial system and promotes a culture of negotiation.	**<u>Legal certainty:</u>** **<u>Brazil's</u>** legal framework and property registration aim to provide legal certainty for property owners. Access to the judicial system allows for the resolution of disputes related to property rights. **<u>International standards:</u>** **<u>Brazil's</u>** adherence to international standards, reflected in the Doing Business Report, contributes to a predictable and fair dispute resolution environment.

Political Stability	**<u>Regional integration:</u>** Paraguay's political stability is underscored by its membership in regional integration agreements such as MERCOSUR and PROSUR. These agreements contribute to regional stability and cooperation, fostering an environment conducive to the protection of property rights. **<u>Global rankings:</u>** Paraguay's position in the Latin America & Caribbean region and its global ranking (86th) reflect a stable political environment. Political stability is a key factor in creating an atmosphere where property rights are respected and protected.	**<u>Political Stability (IPRI):</u>** With a score of 7.143, Uruguay's stable political environment enhance the security and predictability of property rights enforcement.	**<u>Protection against abuse:</u>** The proposed constitution in Chile seeks to strike a balance between the exercise of property rights and the protection of public interests. By introducing the concept of "just price" in expropriation cases, it aims to prevent potential abuses of the expropriation power by the state. This contributes to overall political stability by ensuring that property rights are respected while allowing for necessary actions in the public interest. **<u>International reputation:</u>** Chile's commitment to respecting international treaties, including those related to property rights, contributes to its political stability. Adherence to these agreements enhances Chile's reputation on the international stage, fostering stability and confidence among foreign investors and trading partners.	**<u>Government commitment to property rights:</u>** The commitment of the government to property rights, as evidenced by its response to violations and public statements, is a key indicator of political stability. A consistent and principled approach contributes to a stable environment for property owners. Policy measures for housing crisis: Addressing the housing crisis requires thoughtful policy measures that balance the need for housing with the protection of property rights. Political stability is enhanced when policies demonstrate a comprehensive understanding of both issues.	**<u>Democracy and property rights:</u>** Established in 1988, Brazil's democratic regime recognizes and protects property rights as essential for individual and social well-being. Political stability is crucial for maintaining and enhancing property rights. **<u>International recognition: Brazil's</u>** commitment to democratic values is recognized by international bodies like the World Bank, IMF, and others. Political stability is integral to ensuring a transparent and stable environment for citizens and foreign investors.

Areas for Improvement:

In assessing the property rights frameworks of Paraguay alongside Argentina, Uruguay, Chile, and Brazil, there emerge key areas where Paraguay could consider improvements to fortify its standing in property rights protection.

Clearer and more detailed legal framework: Paraguay could benefit from a thorough review of its legal framework concerning property rights. This involves identifying gaps or ambiguities in existing laws and implementing more specific and clear provisions to address various aspects of property protection. For instance, adopting more detailed legal provisions regarding property acquisition, transmission, and protection is recommended, following the examples of Uruguay and Chile in terms of precision and comprehensiveness of their legal frameworks.

More efficient compliance processes: Streamlining and expediting compliance processes related to property rights in Paraguay is crucial. This entails optimizing administrative and judicial procedures for dispute resolution, as well as implementing measures to reduce bureaucracy and waiting times. Digitizing property registration processes and introducing more agile and accessible dispute resolution systems for citizens are suggested.

Enhanced administrative transparency: Paraguay should explore ways to enhance transparency in public administration concerning property rights. This includes increasing the accessibility and clarity of information regarding legal procedures and requirements, as well as strengthening oversight detailed information on property rights and associated administrative processes, following the transparency model observed in Uruguay and Chile, is recommended.

Ensuring long-term political stability: It is essential for Paraguay to implement measures to ensure long-term political stability, which will bolster investor confidence in property rights in the country. This involves initiatives to strengthen democratic institutions, promote the rule of law, and improve governance overall. Implementing institutional and policy reforms that promote accountability, transparency, and long-term political stability, drawing on successful practices observed in Uruguay and Chile is suggested.

Strengths:

Paraguay boasts a relatively robust legal framework for property rights, with regulations aimed at protecting and ensuring these rights for both national and foreign owners. Political stability in Paraguay, while having faced challenges in the past, has solidified in recent years, contributing to an environment conducive to investment and property protection.

In terms of transparency and the rule of law, Paraguay has implemented measures to enhance clarity and efficiency in property-related processes. Efforts to improve transparency in property records and streamline bureaucratic procedures indicate a commitment to enhancing administrative practices.

The country has established dispute resolution mechanisms that effectively address property conflicts, providing legal avenues for dispute resolution. Additionally, there is openness to regional collaboration, which could facilitate the exchange of best practices and experiences in property rights.

These strengths position Paraguay as an attractive destination for investors, especially when compared to some identified challenges in other countries in the region. However, there is always room for continuous improvement and optimization of these elements to further enhance confidence and the country's appeal in terms of property rights.

5.5. Logistical Infrastructure

Logistical infrastructure forms the backbone of efficient trade and economic activity, facilitating the movement of goods and services within and across borders. It encompasses transportation networks, including roads, railways, ports, and airports, as well as storage facilities and customs procedures. In this analysis, we explore the state of logistical infrastructure in Paraguay, Uruguay, Chile, Argentina, and Brazil, based on the information provided. By examining factors such as infrastructure investment, regulatory frameworks, and technological advancements, we seek to assess the strengths, weaknesses, and areas for improvement in each country's logistical infrastructure. Understanding these dynamics is crucial for enhancing trade competitiveness, fostering economic growth, and attracting investment in the region.

Table-10: Comparison of Logistical Infrastructure among Chile, Argentina, Brazil, Uruguay and Paraguay

Element[107]	Paraguay	Argentina	Brazil	Uruguay	Chile
Commercial integration	Lagging behind in commercial integration compared to Asia and Europe. Limited progress despite regional trade agreements.	Facing challenges in commercial integration, lagging behind compared to Asia and Europe. Some progress due to trade agreements.	Making significant progress in commercial integration due to trade agreements and economic alliances with various countries.	Lagging behind in commercial integration compared to Asia and Europe. Reliance on regional trade agreements for limited progress.	Making significant progress in commercial integration due to extensive trade agreements with various countries and regions.
Logistic challenges	Faces scarcity of quality logistic services, hindering smooth trade operations. Inefficient customs procedures contribute to delays.	Inefficient customs procedures and high transportation costs contribute to logistic challenges. Infrastructure investment is needed.	Challenges with customs procedures and high transportation costs. Investment in infrastructure and technology is necessary for improvement.	Similar challenges with scarcity of quality logistic services. Customs procedures are a bottleneck, affecting trade efficiency.	Despite modern infrastructure, customs procedures need further streamlining. High logistics costs impact competitiveness.
Infrastructure investments	Low levels of public investment in infrastructure, particularly in transportation and	Facing challenges with low public investment in	Significant investment in infrastructure projects, including transportation,	Relatively low public investment in infrastructur	Significant investment in infrastructure, including transportation

[107] Fay, Marianne, Luis Alberto Andres, Charles Fox, Ulf Narloch, Stephane Straub, and Michael Slawson. "Rethinking Infrastructure in Latin America and the Caribbean: Spending Better to Achieve More." The World Bank, 2017. https://doi.org/10.1787/8c93ff6e-en

	water sectors. Limited progress in infrastructure development.	infrastructure. Need for substantial investment to improve infrastructure quality and coverage.	energy, and technology sectors. Infrastructure development remains a priority for economic growth.	e, affecting the quality and coverage of essential services. Infrastructure development remains a priority.	and technology sectors. Focus on modernizing and expanding infrastructure networks.
Sustainable transport	Need for increased investment in sustainable transport options beyond road networks. Focus on improving public transportation systems.	Similar emphasis on sustainable transport options, including public transportation and electrification. Investment needed in alternative modes of transport.	Need for diversification of transportation modes beyond roads. Investment in public transportation and alternative fuels is crucial.	Similar need for increased investment in sustainable transport beyond road networks. Emphasis on enhancing public transportation option.	Focus on expanding public transportation systems and electrification to reduce emissions and congestion.
Telecommunications	Limited access to broadband and mobile networks. Need for increased investment in telecommunications infrastructure.	Similar challenges with broadband coverage and connectivity. Investment needed to expand coverage and improve internet speeds.	Limited access to broadband and mobile networks in remote areas. Investment in telecommunications infrastructure needed to bridge the digital divide.	Limited access to high-speed internet and mobile networks. Efforts underway to expand coverage and improve connectivity.	Extensive broadband coverage but need for further expansion and improvement. Investment in 5G technology to enhance connectivity.
Water sector	Limited access to safe drinking water and sanitation services, particularly in rural areas. Investment needed to improve infrastructure and ensure equitable access.	Similar challenges with water and sanitation services. Investment needed to upgrade infrastructure and ensure universal access.	Challenges with access to safe drinking water and sanitation, particularly in rural areas. Investment needed to improve infrastructure and address inequalities.	Similar challenges with access to safe drinking water and sanitation services. Investment required to upgrade infrastructure and address inequalities.	Relatively good access to safe drinking water and sanitation services. Focus on improving infrastructure and expanding coverage to underserved areas.

Irrigation and flood defenses	Limited investment in irrigation and flood defense systems. Vulnerability to climate change impacts and water scarcity.	Similar need for investment in irrigation and flood defense systems. Vulnerability to climate change and extreme weather events.	Limited investment in irrigation and flood defense systems. Vulnerability to climate change impacts and water scarcity.	Similar challenges with limited investment in irrigation and flood defense systems. Vulnerability to climate change and extreme weather events.	Investment needed to improve irrigation systems and flood defenses. Focus on sustainable water management practices.

When comparing the countries based on the provided information, it is evident that they all face similar challenges regarding commercial integration, infrastructure, sustainable transportation, telecommunications, and the water sector. However, there are significant differences in the level of progress and focus areas of each country[108].

Paraguay and Uruguay: Both countries face similar challenges in terms of infrastructure and access to basic services such as clean water and sanitation. However, Uruguay has made significant strides in expanding its telecommunications infrastructure, while Paraguay still faces limitations in this aspect.

Chile: Stands out for its progress in commercial integration and investment in infrastructure, especially in the transportation sector. Chile has also made advances in expanding telecommunications network and promoting sustainable water management practices[109].

Argentina: Faces challenges similar to Paraguay and Uruguay in terms of infrastructure access to basic services. However, Argentina has made significant investments in transportation and telecommunications infrastructure to improve national and international connectivity.

Brazil: As the largest country with the most diversified economy in the region, Brazil has been able to make significant investments in infrastructure across all sectors. Brazil has made progress in commercial integration, transportation infrastructure, and telecommunications, although it still faces challenges in providing basic services such as clean water and sanitation in remote areas.

Strengths:

Paraguay boasts a strategic geographical location within South America, offering access to both the Atlantic and Pacific Oceans. This positions the country as a potential regional transportation and logistics hub. Investors have opportunities to participate in infrastructure projects that can enhance connectivity, trade, and economic development. Despite facing challenges, Paraguay has the potential for significant growth in logistical infrastructure, leveraging its advantageous position in the continent.

---

[108] OECD. "Latin American Economic Outlook 2023: Investing in Sustainable Development." Paris: OECD, 2023.

[109] Knowler, Greg. "El Cambio de Abastecimiento Provoca Un Aumento En La Inversión En Logística En América Del Sur." *Cello Square*, October 11, 2023. https://doi.org/https://www.cello-square.com/mx-es/marketupdates/view-1201.do.

Areas for improvement:

Paraguay's logistical infrastructure reveals areas where improvements could enhance its regional competitiveness, especially when compared to neighboring countries like Uruguay, Chile, Argentina, and Brazil.[110]

One notable aspect is the need for further development and modernization of transportation networks, including roads, railways, and waterways. Uruguay and Chile stand out for their significant investments in these areas, fostering smoother connectivity and efficient freight movement.

Customs and border processes play a crucial role in facilitating trade, and Paraguay could benefit from adopting streamlined practices observed in Argentina and Brazil. This would reduce bureaucratic hurdles, ensuring faster clearance and more efficient cross-border transportation.

Another area for enhancement is port infrastructure. Drawing insights from the advanced port facilities in Uruguay and Chile, Paraguay can improve its capacity to handle larger cargo volumes and accommodate diverse shipping needs.

Technological integration is key to efficient logistical operations. Argentina and Brazil showcase advanced technologies, and Paraguay could learn from their examples to modernize its logistical systems, enhancing tracking, monitoring, and overall efficiency.

Intermodal connectivity, which involves creating transportation hubs that seamlessly link different modes of transport, is another aspect for improvement. Uruguay and Chile provide models for integrated transportation solutions that Paraguay could consider implementing.

Increasing investment in logistical infrastructure is essential for sustainable development. Argentina and Brazil have undertaken significant investments in this regard. Paraguay could explore similar strategies to attract private and public funds for infrastructure projects.

Combining these insights, Paraguay can strategically position itself as a regional transportation and logistics hub by prioritizing the development of transportation networks, streamlining customs processes, enhancing port infrastructure, embracing technological advancements, and fostering intermodal connectivity. In doing so, Paraguay can leverage the successes and best practices observed in its neighboring countries for a more competitive logistical landscape in the region.

[110] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC). 2021. Economic Survey of Latin America and the Caribbean

5.6. Institutionality

There is a pivotal role of institutional frameworks in influencing FDI decisions. Institutional variables emerge as significant factors impacting investment choices. According to a report by the Inter-American Development Bank, Paraguay's institutional quality significantly affects its attractiveness to investors and Paraguay is 25% less likely to be chosen for FDI compared to countries with superior institutional perceptions.[96]

As Paraguay's institutional quality falls behind countries like Costa Rica, Peru, Panama, and Guatemala. This comparison underscores the need for Paraguay to enhance its institutional environment to compete effectively for investors' attention. Moderate improvements in institutional quality could potentially elevate Paraguay's competitiveness and attract a higher volume of FDI.

There is an urgent need for Paraguay to address these institutional challenges with reforms that enhance institutional quality, governance, and regulatory frameworks. Strengthening these areas can significantly bolster Paraguay's appeal to international investors as, thereby fostering economic growth and sustainability. By addressing institutional challenges, Paraguay can potentially transform its economic landscape and emerge as a more compelling destination for foreign investments.

Background

Institutionality: Reforms for Sustainable Growth

In 2003, the government of President Nicanor Duarte Frutos initiated a comprehensive program of economic reforms to address the longstanding issues plaguing Paraguay's economic landscape.[111] Facing years of economic stagnation, periodic crises, and structural challenges, the administration aimed to set the country on a path of sustainable growth. This ambitious reform agenda, supported by a Fund arrangement, encompassed fiscal and structural measures, targeting key areas to enhance the overall institutional framework.

Fiscal Sustainability and Governance Enhancement:

The strategy prioritized restoring fiscal sustainability, improving public sector efficiency, and combating corruption. A balanced fiscal package was adopted, focusing on increasing tax revenues, implementing spending restraint, and correcting financial issues in specific public enterprises. Reforms extended to the public employees' pension plan, demonstrating a commitment to addressing financial challenges within government systems.

Strengthening the Banking Sector:

Acknowledging the weaknesses in Paraguay's banking system due to a series of crises, the reform efforts aimed to strengthen the sector. Initiatives included improving governance, enhancing transparency, and addressing issues of inefficiency. The goal was to create a resilient banking environment crucial for economic stability and growth.

Macroeconomic Management and Structural Challenges:

The broader structural problems, such as political instability, governance issues, a weak banking system, and low productivity, were tackled head-on. The government's multifaceted approach aimed to improve the overall macroeconomic management, boost productivity, and create a more conducive environment for sustainable development.

---

[111] Paraguay : corruption, reform, and the financial system / Jeffrey Franks . . . [et al] — [Washington, D.C. : International Monetary Fund, 2005]

Positive Economic Indicators:

The implementation of reforms contributed to positive economic indicators. Despite a sharp recession in 2002, Paraguay experienced recovery in 2003 and 2004, with GDP growth reaching 2.6% in 2003 and almost 3% in 2004.[112] The easing of regional crises and increased political stability further enhanced economic and political perceptions.

Political Commitment and Challenges:

President Duarte Frutos exhibited strong commitment to crucial political and economic reforms, despite facing challenges such as a fragile government support in Congress and resistance from vested interests. The political will to address governance problems and enhance transparency marked a significant shift.

Monetary Policy and Financial System Improvements:

Monetary policy adjustments were made, transitioning to a flexible exchange rate regime. The Central Bank of Paraguay implemented measures to manage domestic money supply growth, contributing to the improvement of the financial system. Despite weaknesses persisting, the financial sector showed signs of improvement, with recovering deposits and declining nonperforming loan ratios.

Continued Structural Reforms:

Structural reform remained a priority, with ongoing efforts in areas such as public sector pension system reform, civil service reform planning, and transparency and governance enhancements. The government's commitment to sustained reform is evident through legislative changes, including the approval of the Fiscal Adjustment Law and the new customs code.

The outlined reforms underscore Paraguay's commitment to institutional strengthening and sustainable growth. While challenges persist, the positive economic trajectory and ongoing reform initiatives create an optimistic outlook for Paraguay's economic future. But there is a need to delve deeper into specific aspects, examining the impact of these reforms on corruption, financial systems, and the long-term economic equilibrium.

---

[112] Ibid

5.7. Macroeconomic Stability

Macroeconomic stability encompasses various indicators that collectively reflect the health and resilience of a country's economy. Some key markers that contribute to a country’s macroeconomic stability include inflation rate, fiscal policy, monetary policy, exchange rate, external debt, trade balance, and foreign reserves.

In the three-part report, various indicators such as the inflation rate, fiscal and non-fiscal policies, trade balance, growth, and employment rates have been analyzed in the context of Paraguay. Additional indicators such as Political Stability, Labor Market, and Employment Rates are covered in this section's analysis under 'other factors.' However, a more comprehensive examination of Paraguay's overall macroeconomic stability compared to other competing countries in Latin America will be conducted in this section.

Paraguay

For Paraguay, maintaining macroeconomic stability is pivotal for fostering better trade performance and attracting enhanced investments. Some of the key elements of ensuring stability and resilience for Paraguay involve:

Achieving Fiscal Discipline

Paraguay is committed to fiscal responsibility, aiming for a deficit of 1.5% of the Gross Domestic Product (GDP) by 2024 as per the Fiscal Responsibility Law.[113] Although the 2023 budget allows a deficit of 2.3% of GDP, efforts are in place to gradually decrease public debt from its peak in 2022. The fiscal targets for 2023 have been revised to accommodate economic shifts while maintaining the long-term goal of deficit reduction.[114]

Monetary Policy and Inflation Control

The country's monetary policy, focusing on bringing inflation down to 4%, remains stringent. With the current policy rate at 8.5%, gradual reductions are envisioned in the latter half of 2023, contingent upon inflation convergence and anchored inflation expectations. Flexibility in exchange rates serves as a buffer against economic shocks, allowing adjustments in monetary policy to stabilize inflation expectations.[115]

Structural Reforms for Long-Term Stability

Several structural reforms are underway, pivotal for sustained economic stability. These encompass[116]:

a) Pension System Reform:

Recognizing the importance of the "Caja Fiscal," Paraguay is initiating a comprehensive review by a high-level commission, aiming to propose deep structural reforms. This not only ensures stakeholder consensus but also fosters policy continuity beyond governmental transitions.

---

[113] Paraguay: First Review Under the Policy Coordination Instrument and Request for Modification of Targets—Press Release and Staff Report. International Monetary Fund. Western Hemisphere Dept. 13 Jun 2023. https://www.elibrary.imf.org/view/journals/002/2023/207/article-A001-en.xml

[114] Paraguay: First Review Under the Policy Coordination Instrument and Request for Modification of Targets—Press Release and Staff Report. International Monetary Fund. Western Hemisphere Dept. 13 Jun 2023. https://www.elibrary.imf.org/view/journals/002/2023/207/article-A001-en.xml

[115] Ibid.

[116] Ibid.

b) Revenue Mobilization:

The implementation of an Integrated National Electronic Billing System (SIFEN) signifies a significant stride in revenue mobilization. The objective is to incorporate more taxpayers into this system, contributing to streamlined revenue collection.

c) Public Enterprises and Governance:

Efforts to consolidate the supervision and management of public enterprises are ongoing, with plans to establish a common regulatory framework and enhance corporate governance. The Corporate Governance Law and the creation of a supervisory agency for pension funds aim to address institutional weaknesses.

Enhancing Fiscal Governance

In addition to the structural reforms, Paraguay is focused on reinforcing fiscal governance through legislative initiatives. Proposed laws like the Fiscal Responsibility Law 2.0 and the Fiscal Safeguards Law during election periods aim to establish rules for maintaining stability and sustainability in public finances, even during politically sensitive times.[117]

Addressing Unrecorded Expenditures

Addressing unrecorded expenditure commitments is vital for fiscal control. Efforts to resolve these claims, totaling a substantial percentage of GDP, indicate a commitment to transparency and accountability in financial management.

This concerted effort in fiscal discipline, monetary policy management, structural reforms, governance enhancement, and addressing fiscal anomalies sets the stage for Paraguay's macroeconomic stability. It not only encourages trade by instilling investor confidence but also lays a robust foundation for sustained economic growth in the long term.

Chile

Chile's macroeconomic policy framework, characterized by inflation targeting and a structural balance target in fiscal policy, has shown favorable outcomes in maintaining inflation within the target band and fostering market confidence. But challenges in implementation, particularly in accurately gauging and responding to economic shocks, persist[118]. The transparent communication and engagement of expert committees enhance credibility, but future political consensus on the specific mechanisms remains uncertain.

Inflation Targeting[119]

Chile's adoption of inflation targeting began around 1990, with price stability outlined as a primary mandate in the central bank's 1989 charter. Over time, the central bank evolved to a full-fledged inflation-targeting framework. This framework includes a continuous inflation target band of 2–4%, a specified policy horizon, and transparent communication of inflation forecasts and policy rationale.

[117] Paraguay: First Review Under the Policy Coordination Instrument and Request for Modification of Targets—Press Release and Staff Report. International Monetary Fund. Western Hemisphere Dept. 13 Jun 2023. https://www.elibrary.imf.org/view/journals/002/2023/207/article-A001-en.xml

[118] Steven Phillips and Marco A. Espinosa-Vega. Chile's Macroeconomic Policy Framework. International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589063259/ch03.xml

[119] Pablo Garcia-Silva. Design, Measurement, and Communication: Chile’s Experience with Inflation Targeting. International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589061323/ch009.xml

Monetary Policy and Inflation

The Chilian central bank employs the nominal overnight interest rate as its policy instrument. This shift from targeting the Unidad de Fomento to nominal interest rates occurred in 2001.[120] The bank's inflation forecasts currently guide monetary policy decisions, focusing on Consumer Price Index (CPI) inflation.

Chile's inflation rate has generally remained within the target band of 2–4%, with fluctuations often linked to external factors such as oil price increases or imported deflation.[121] Inflation expectations, gauged through surveys and interest rate differentials, have largely aligned with the inflation target.

Floating Exchange Rate Regime

Chile shifted to a floating exchange rate in 1999, discontinuing its exchange rate band.[122] The central bank intervenes in the foreign exchange market only during exceptional circumstances, aiming to prevent sharp, short-term shifts in the peso's value that could impact monetary policy control.

Fiscal Policy and Structural Balance

The government's fiscal policy targets the structural balance of the central government, with adjustments made for cyclical effects and variations in copper export prices.[123] This commitment aims to maintain fiscal discipline, avoid procyclical policies, and enhance transparency and accountability in fiscal management.

The policy framework faces challenges in distinguishing between temporary and permanent shocks in real-time, especially concerning estimating output gaps and copper price variations. Expert committees determine copper price gaps and estimate potential output to refine fiscal policy implementation.[124]

Chile's sound fiscal policy and commitment to the structural balance rule have bolstered market confidence, reflected in international bond spreads and credit ratings.[125] The rule allows automatic stabilizers to operate while maintaining fiscal discipline, garnering positive assessments from international commentators.

The structural balance rule, a flagship policy under President Lagos' administration, has strong government commitment.[126] There's a broader political consensus supporting fiscal discipline, although the future endorsement of specific mechanisms by subsequent administrations remains uncertain.

---

[120] Chile: Selected Issues. International Monetary Fund. https://www.elibrary.imf.org/downloadpdf/journals/002/2003/312/002.2003.issue-312-en.xml

[121] Steven Phillips and Marco A. Espinosa-Vega. Chile's Macroeconomic Policy Framework. International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589063259/ch03.xml

[122] Chile: Selected Issues. International Monetary Fund. https://www.elibrary.imf.org/downloadpdf/journals/002/2003/312/002.2003.issue-312-en.xml

[123] Steven Phillips and Marco A. Espinosa-Vega. Chile's Macroeconomic Policy Framework. International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589063259/ch03.xml

[124] Steven Phillips and Marco A. Espinosa-Vega. Chile's Macroeconomic Policy Framework. International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589063259/ch03.xml

[125] IMF Country Report No. 22/283. Chile. International Monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2022/English/1CHLEA2022003.ashx

[126] Mario Marcel. The Structural Balance Rule in Chile: Ten Years, Ten Lessons. 2013. Inter-American Development Bank. https://publications.iadb.org/publications/english/viewer/The-Structural-Balance-Rule-in-Chile-Ten-Years-Ten-Lessons.pdf

Argentina

Argentina's macroeconomic stability has been consistently challenged by a combination of factors—persistent high inflation expectations tied to peso depreciation, fiscal constraints, concerns about debt sustainability, and difficulties in implementing and maintaining credible monetary policies.[127] Political and structural limitations have also hampered comprehensive reforms necessary for sustained stability. Overcoming these challenges in Argentina require holistic and sustained efforts in fiscal consolidation, credible monetary policy, and structural reforms aimed at addressing long-standing weaknesses in the economy as per the IMF.

Inflation Dynamics:

The public's inflation expectations in Argentina have consistently remained above 20% since 2010, contributing to inflation inertia.[128] These high expectations are closely tied to peso depreciation, with significant pass-through effects on prices due to the de facto use of the U.S. dollar in the economy.[129]

Inflation rates have closely followed peso depreciation in Argentina, indicating a substantial impact on consumer prices.[130] Further high levels of wage indexation have contributed to severe inflationary pressures, solidifying the persistence of inflation.

Factors Contributing to Inflation:

1. Inflation Expectations: Major drivers of inflation, accounting for slightly less than half of the inflation rate over a 15-month period.[131]
2. Peso Depreciation and Wage Growth: Both factors contributed significantly to inflation, with each accounting for slightly less than a quarter.[132]
3. Regulated Price Increases: Increases in regulated prices added to inflationary pressures, accounting for nearly a tenth of the inflation rate.[133]

Challenges with Inflation Targeting:

Efforts to anchor inflation expectations through targeting has seen some success in reducing inflation in the country, but this reduction was more attributed to exchange rate appreciation due to capital inflows rather than the direct success of the targeting strategy.

Setting a target of single-digit inflation by 2021 was seen as overly ambitious, especially considering historical inflation trends and the lack of credibility in the central bank's policies.[134]

---

[127] IMF Country Report No. 23/312. Aregntina. International monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2023/English/1ARGEA2023002.ashx

[128] IMF Country Report No. 23/312. Aregntina. International monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2023/English/1ARGEA2023002.ashx

[129] Ibid

[130] Argentina: Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement-Press Release and Staff Report. IMF. 22 December 2021.

[131] OECD Economic Surveys: Argentina. OECD 2019. https://www.oecd.org/economy/surveys/Argentina-2019-OECD-economic-survey-overview.pdf

[132] Ibid

[133] Ibid

[134] IMF Country Report No. 23/312. Aregntina. International monetary Fund.

https://www.imf.org/-/media/Files/Publications/CR/2023/English/1ARGEA2023002.ashx

Fiscal Challenges:

The 2018 Fund-supported program aimed at rapid fiscal adjustment, facing the dilemma of balancing short-term growth against confidence effects.[135] But the fiscal measures were generally of low quality, and did not adequately address longstanding weaknesses in Argentina's public finances[136].

Therefore, despite meeting fiscal balance targets, financing needs and domestic currency-denominated debt continued to rise.

Monetary Policy Challenges:

Argentina's public debt was considered sustainable but not with high probability, partly due to the high share of foreign currency-denominated external debt and a weak export base. [137]

Argentina experimented with different monetary regimes but faced challenges in establishing credibility due to fears of fiscal dominance.[138] Inconsistent implementation of monetary policies and communication strategies undermined the achievement of inflation goals.

Uruguay

This analysis suggests that while Uruguay has strengths in governance and stability, addressing structural issues related to investment, labor market efficiency, education, and productivity is crucial for sustained and inclusive growth.[139] Diversification away from commodity dependence and strategic reforms aligned with Uruguay's development stage are vital for future economic resilience.

Uruguay has demonstrated a commendable degree of macroeconomic stability over recent years, marked by a combination of strengths and challenges across various economic indicators.

Persistent Inflation:

Uruguay has faced an upward bias in inflation, remaining relatively high regardless of economic cycles. Wage indexation and ties to the Mercosur market, notably Argentina, contribute to this trend.[140]

Exchange Rate Dynamics:

Post the commodity price boom, Uruguay experienced a reversal in nominal exchange rates. However, the real exchange rate remained high, impacting the country's competitiveness due to inflation differentials with trade partners.[141]

---

[135] IMF Country Report No. 23/312. Aregntina. International monetary Fund.

https://www.imf.org/-/media/Files/Publications/CR/2023/English/1ARGEA2023002.ashx

[136] Ibid
[137] Ibid
[138] OECD Economic Surveys Argentina. 2013. OECD. https://www.oecd.org/economy/surveys/Argentina-2019-OECD-economic-survey-overview.pdf
[139] IMF Country Report No. 22/16. Uruguay. International Monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2022/English/1URYEA2022001.ashx
[140] Che Natasha. Dissecting Economic Growth in Uruguay. 2021 IMF Working Paper. International Monetary Fund.

https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpiea2021002-print-pdf.ashx

[141] IMF Country Report No. 22/16. Uruguay. International Monetary Fund.

Dependency on Mercosur markets, particularly Argentina, exposes Uruguay to fluctuations in demand. External shocks, such as commodity price fluctuations, affect inflation and real exchange rates.[142]

Uruguay witnessed a decline in investment rates post the boom period, affecting the country's capital accumulation. Private sector credit remained relatively low, indicating challenges in financing and structural issues.[143]

Labor Market Efficiency:

While Uruguay fares well in labor welfare indicators, enhancing labor market efficiency and flexibility is crucial, especially considering the challenges posed by low population growth and an aging demographic.[144]

Education indicators show parity in education quantity but lag behind in quality. The quality of the education system and skill development need attention for sustained growth.[145]

The Total Factor Productivity (TFP) growth in Uruguay remains lower compared to high-growth peers, indicating challenges in enhancing productivity levels. [146] Moreover, despite infrastructure not being at a low level, investment in infrastructure has been limited, impacting the quality of transport infrastructure and export costs.[147]

Uruguay exhibits strengths in public governance and regulatory quality, although improvements in law enforcement and infrastructure are necessary. Uruguay preserved macroeconomic stability despite severe regional shocks. However, challenges persist in managing public debt levels, real exchange rate volatility, and inflation.

---

https://www.imf.org/-/media/Files/Publications/CR/2022/English/1URYEA2022001.ashx

[142] Dissecting Economic Growth in Uruguay. Che Natasha. IMF Working Paper. January 2021

[143] IMF Country Report No. 22/16. Uruguay. International Monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2022/English/1URYEA2022001.ashx

[144] Multi-dimensional Review of Uruguay. 2014. United Nations Economic Commission for Latin America and the Caribbean. https://repositorio.cepal.org/bitstream/handle/11362/37080/3309895M961_en.pdf

[145] Ibid

[146] IMF Country Report No. 22/16. Uruguay. International Monetary Fund. https://www.imf.org/-/media/Files/Publications/CR/2022/English/1URYEA2022001.ashx

[147] Multi-dimensional Review of Uruguay. 2014. United Nations Economic Commission for Latin America and the Caribbean. https://repositorio.cepal.org/bitstream/handle/11362/37080/3309895M961_en.pdf

5.8. Political Stability

Current Scenario

Paraguay has experienced a relatively stable political environment that influences its trade policies and agreements. The country has a democratic system with periodic elections, ensuring a peaceful transfer of power.[126]

In terms of trade, Paraguay has pursued a strategy of engaging in various trade agreements and fostering diplomatic relations to expand its export markets and enhance economic cooperation. The political landscape has largely supported these efforts, emphasizing international trade as a means of boosting the economy.[127]

The government has actively pursued bilateral and multilateral trade agreements, aiming to diversify its export destinations and improve market access for its goods. Paraguay is part of Mercosur, a regional trade bloc comprising several South American countries. This membership allows Paraguay to benefit from preferential trade agreements within the region.[128]

Political stability, coupled with a commitment to trade liberalization, has been pivotal in negotiating and maintaining trade agreements. However, internal political factors and occasional shifts in leadership have influenced the country's trade policies, emphasizing the importance of maintaining consistency in trade strategies to ensure continuity and investor confidence.[129]

Comparative Perspective

According to the Worldwide Governance Index given by World Bank Data 2022 in terms of percentile Rank where 0 corresponds to lowest rank and 100 corresponds to highest rank. Paraguay ranks in a mid-50s range where the political stability is neither too strong, nor too weak. Other regional competitors like Uruguay are performing exceptionally well in this regard with a very strong performance on their Political Stability and Absence of Violence/Terrorism indicators. The next best performing country in the region is Chile.

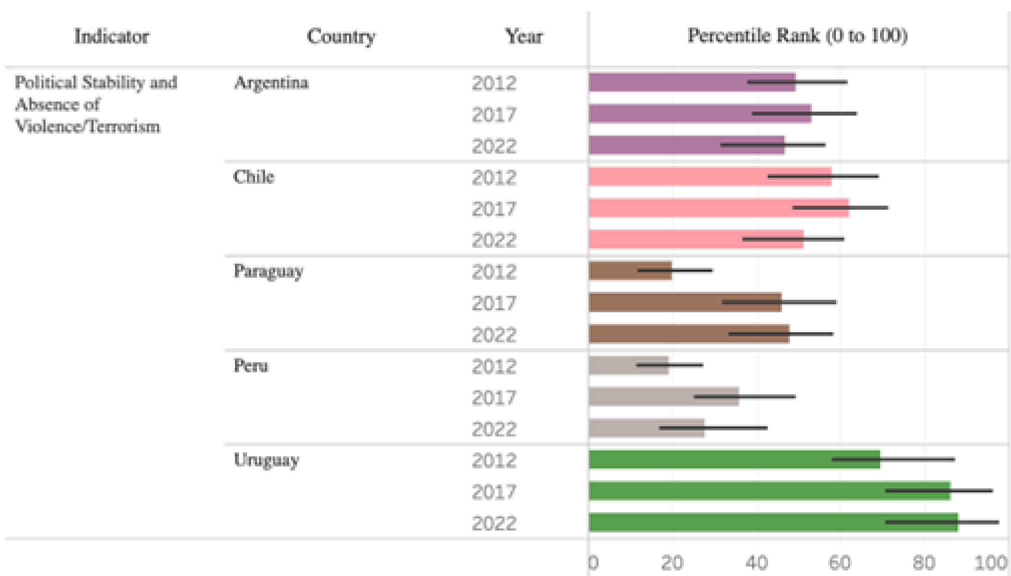


Fig.21: Political Stability and Absence of Violence/ Terrorism, across Argentina, Chile, Paraguay, Peru and Uruguay during 2012, 2017 & 2022
Source: Worldwide Governance Index, World Bank Data 2022

However, when it comes to Government effectiveness, the performance of Chile has traditionally surpassed that of Uruguay as seen from the year 2012 and 2017. But since 2022, Uruguay has considerably improved its performance in government effectiveness. Whereas we see Paraguay lagging in terms of its regional competitors.

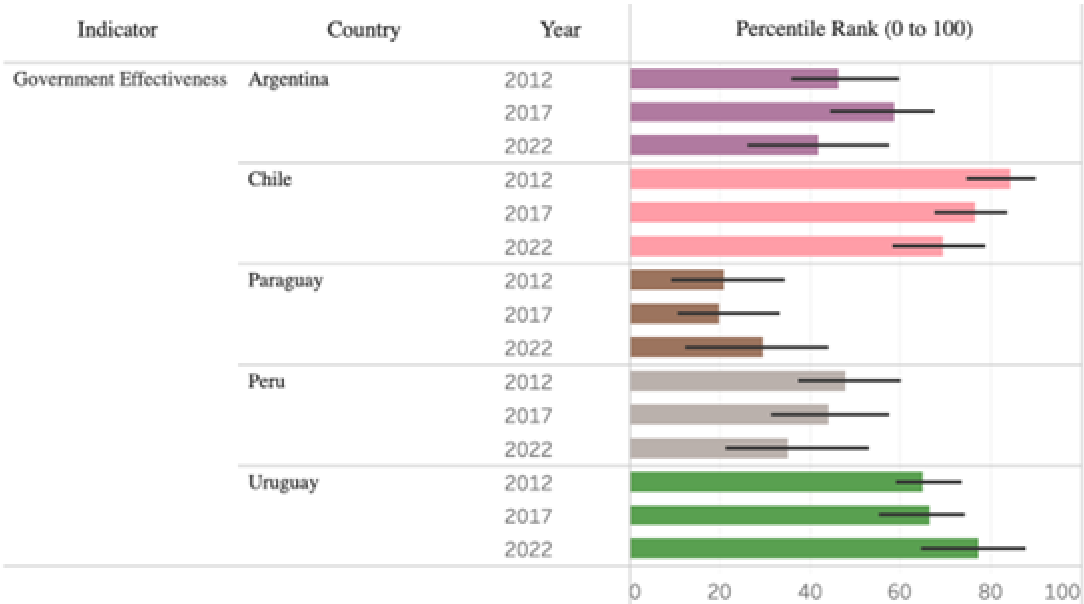


Fig.22: Government Effectiveness across Argentina, Chile, Paraguay, Peru and Uruguay during 2012, 2017 & 2022
Source: Worldwide Governance Index, World Bank Data 2022

Similarly, when looking at Rule of Law in Latin America, Chile and Uruguay are the best performing countries, whereas Peru and Paraguay rank at the bottom in terms of its regional competitors.

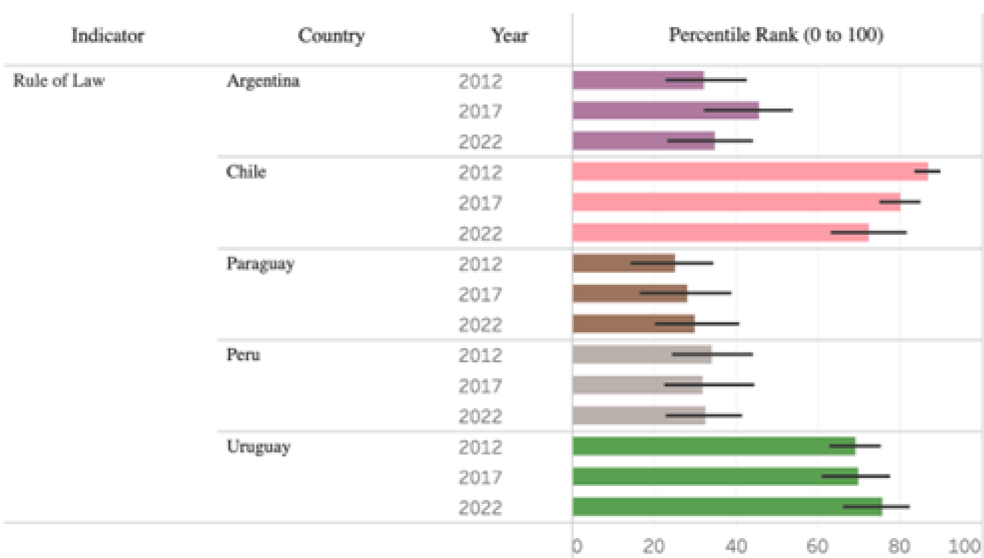


Fig.23: Rule of Law across Argentina, Chile, Paraguay, Peru and Uruguay during 2012, 2017 & 2022
Source: Worldwide Governance Index, World Bank Data 2022

While this does not indicate that there is impending violence, riots or disturbance in the country, it does give us a realistic picture of how other competing markets in Latin America are perceived in terms of Absence of violence, Government Effectiveness and Rule of Law — all three of which contribute to the overall perception of political stability in a country.

Similarly in terms of the BTI Transformation Index Paraguay ranks at 41/137 in terms of its status index whereas Peru 31/137, Argentina is 27/137, Chile is at 9/137, and Uruguay is at a 5/137.[148]

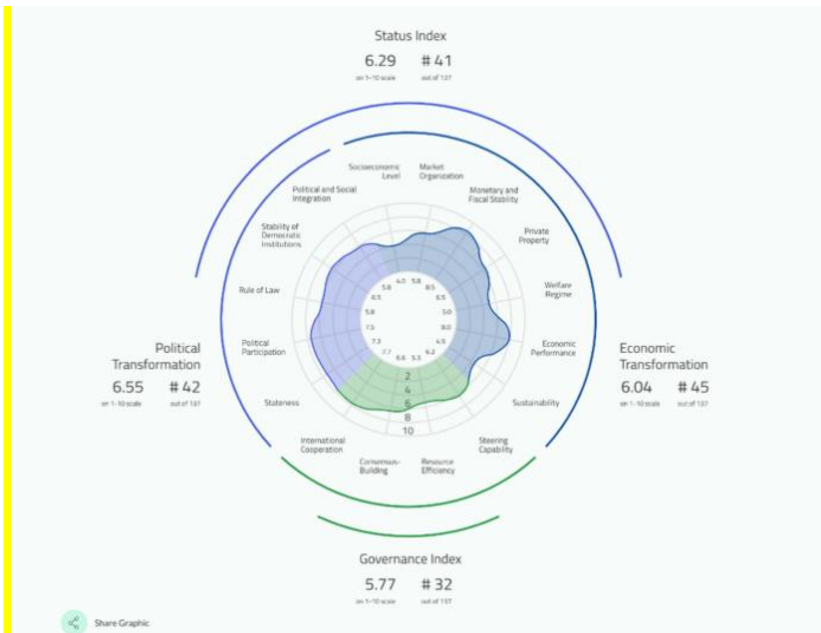


Fig.24: Paraguay Country Report 2022, BIT Transformation Index[130]

While political stability in a country can be shaped by various other indicators that reflect the strength, consistency, and reliability of its governance system, Paraguay, exhibits a mixed situation across various indicators of political stability[131]:

The country has a democratic system with regular elections, although challenges related to institutional effectiveness and transparency persist. There have been periodic elections, but concerns about fairness, transparency, and the consolidation of power within certain political circles have been raised. Similarly social tensions exist, stemming from issues like land rights, inequality, and historical divisions. Indigenous rights and land disputes have occasionally led to social unrest.[149]

However, Paraguay continues to work on strengthening its democratic institutions, addressing corruption, promoting social cohesion, and ensuring human rights protections. The country faces ongoing challenges in balancing these various factors to enhance overall political stability.

[148] BTI Transformation Index 2023. https://bti-project.org/en/reports/regional-dashboard/LAC?&cb=00000
[149] Ibid

5.9. Labor Costs

Labor costs play a significant role in shaping the competitiveness and economic landscape of any country. They encompass various elements such as wages, social security contributions, and labor regulations, all of which impact businesses' operating expenses and workers' standard of living. In this analysis, we delve into the labor cost dynamics across Paraguay, Uruguay, Chile, Argentina, and Brazil, drawing insights from the information provided. By examining factors such as minimum wage levels, labor market flexibility, and social security schemes, we aim to understand how these countries compare in terms of labor costs and the implications for businesses, workers, and overall economic development.

Table-11: Comparison of Labor Costs among Chile, Argentina, Brazil, Uruguay and Paraguay

Element[150]	Paraguay	Argentina	Brazil	Uruguay	Chile
NWC (non-wage labor cost)	48% of total labor cost	70% of total labor cost	75% of total labor cost	51% of total labor cost	39% of total labor cost
Mandatory Contributions (Employers)	20% of employee's salary	28% of employee's salary	29% of employee's salary	23% of employee's salary	37% of employee's salary
Mandatory Contributions (Employees)	10% of employee's salary	20% of employee's salary	23% of employee's salary	19.6% of employee's salary	19% of employee's salary
Minimum cost of salaried labor (MCSL)	52% of total labor cost	72% of total labor cost	80% of total labor cost	45% of total labor cost	34% of total labor cost
EPR Index (Individual dismissal)	Probability of individual dismissal: 3.5%	Probability of individual dismissal: 4.9%	Probability of individual dismissal: 3.8%	Probability of individual dismissal: 4.2%	Probability of individual dismissal: 4.8%
GDP per capita (USD)	$6,983	$10,210	$9,593	$17,934	$15,831
Unemployment Rate	5.2%	11.9%	14.6%	8.1%	10.3%
Inflation (last year)	3.5%	50.2%	7.5%	7.2%	3.5%
GDP Growth (last year)	-0.5%	-9.9%	0.3%	2.3%	1.9%

The analysis of labor costs across Latin America and the Caribbean (LAC), based on the provided information from the document "Measuring the Cost of Salaried Labor in Latin America and the Caribbean," offers valuable insights into the economic dynamics of the region. This comparative study delves into various components of labor costs, including non-salary expenses, social security contributions, worker protections, legal frameworks, and minimum wage standards. By quantifying these costs and contextualizing them within the broader economic landscape of the region, this study contributes to a nuanced understanding of the challenges and opportunities associated with formal employment in LAC.

Areas of improvement:

[150] Akaimo, Monica, Mariano Bosch, Melany Gualavisí, and Juan Miguel Villa. "Measuring the Cost of Salaried Labor in Latin America and the Caribbean." Inter-American Development Bank (IDB-9, 2017.

Non-wage labor cost (NWC): Paraguay's NWC is lower than that of Argentina and Brazil, indicating a potential cost advantage for businesses. However, compared to Chile and Uruguay, Paraguay could improve by reducing its NWC further to enhance its competitiveness.

Mandatory Contributions: Paraguay's employer and employee mandatory contributions are lower than those of Argentina and Brazil, suggesting a favorable labor cost structure. However, compared to Chile and Uruguay, Paraguay might need to streamline its contribution system to attract more investment and improve labor market participation.

Minimum cost of salaried labor (MCSL): While Paraguay's MCSL is lower than that of Argentina and Brazil, it is higher than Uruguay's and Chile's. Paraguay could focus on minimizing regulatory burdens and administrative costs to make hiring and retaining employees more affordable, aligning itself with the lower costs observed in Uruguay and Chile.

EPR Index (Individual dismissal): Paraguay's EPR index for individual dismissal is relatively lower than that of Argentina and Chile, indicating a more flexible labor market. However, compared to Uruguay and Brazil, Paraguay could still work on improving labor regulations to strike a balance between labor market flexibility and worker protection.

GDP per capita (USD): Paraguay's GDP per capita is lower than that of Uruguay and Chile but comparable to Brazil's and higher than Argentina's. To enhance economic development, Paraguay could focus on diversifying its economy, investing in education and infrastructure, and fostering innovation and entrepreneurship, taking cues from the economic policies and initiatives of Uruguay and Chile.

In summary, Paraguay could improve by focusing on reducing non-wage labor costs, streamlining mandatory contributions, enhancing labor market flexibility, and implementing policies to foster economic growth and development, drawing insights from various aspects where other countries excel.

Strengths[151]:

Non-wage labor cost (NWC): Paraguay has a non-wage labor cost (NWC) of 48%, which is lower than that of Argentina and Brazil, potentially enhancing its attractiveness for foreign investment and business competitiveness.

Mandatory Contributions: Both employer and employee mandatory contributions in Paraguay are comparatively lower than in Argentina and Brazil, which could benefit the financial viability of businesses and labor competitiveness.

Minimum cost of salaried labor (MCSL): Although the minimum cost of salaried labor in Paraguay is higher than in Chile and Uruguay, it remains significantly lower than in Argentina and Brazil, potentially facilitating employee hiring and retention.

EPR Index (Individual dismissal): The EPR index for individual dismissal in Paraguay is lower than in Argentina and Chile, suggesting a potentially more favorable labor regulatory environment for employers in terms of labor flexibility.

GDP per capita (USD): While Paraguay's GDP per capita is lower than that of Uruguay and Chile, it is comparable to Brazil's and exceeds Argentina's, indicating some economic stability and growth potential.

[151] Ibid.; Vazquez, David. "El Desarrollo de La Institucionalidad Del Trabajo, Empleo y Seguridad Social En El Paraguay (1870-2013)." OIT, 2019.

In summary, Paraguay demonstrates strengths in terms of competitive labor costs, a relatively flexible labor regulatory environment, and a reasonable economic position compared to other countries in the region.

5.10. Legal Security

The concept of legal security is paramount for economic development, political stability, and social well-being in any country. In the context of Latin America, legal security encompasses a range of elements from judicial independence and the rule of law to perceptions of corruption and access to justice. In this comparative analysis, various aspects related to legal security in Paraguay, Uruguay, Chile, Argentina, and Brazil will be examined. Each country presents a unique set of characteristics in terms of judicial independence, adherence to international treaties, effectiveness of the legal system, and business environment. By comparing these elements, both strengths and areas for improvement in the legal security of each country can be identified, thus providing a comprehensive overview of the situation in the region.

Table-12: Comparison of Legal Security among Chile, Argentina, Brazil, Uruguay and Paraguay

Element	Paraguay	Argentina	Brazil	Uruguay	Chile
Judicial independence	Moderate independence; ongoing efforts to strengthen judiciary.	Moderate independence; judiciary faces challenges.	Moderate independence; judiciary subject to political influence.	High degree of independence; robust judicial system.	High level of independence; strong judicial institutions.
Rule of law	Improvements needed in contract enforcement and legal predictability.	Challenges in contract enforcement and protection of individual rights.	Mixed record; challenges in contract enforcement and protection of individual rights.	Strong adherence to the rule of law; effective contract enforcement.	Strong rule of law; predictable legal framework.
Access to justice	Limited access for marginalized populations; affordability issues.	Challenges in accessibility and affordability; limited legal aid programs.	Challenges in accessibility and affordability; limited legal aid programs.	High accessibility; affordable legal services; effective legal aid programs.	High accessibility; affordable legal services; comprehensive legal aid programs.
Treaty compliance	Varied compliance with international treaties; room for improvement.	Varied compliance with international treaties; room for improvement.	Varied compliance with international treaties; ongoing efforts to strengthen legal framework.	High compliance with international treaties; commitment to human rights convention.	High compliance with international treaties; strong commitment to investment protection agreements.
Legal reform efforts	Ongoing legal reform initiatives; focus on strengthening	Ongoing legal reform efforts; focus on addressing	Ongoing legal reform initiatives; emphasis on	Comprehensive legal reform efforts; emphasis on enhancing legal framework.	Continuous legal reform agenda; commitment to

	legal institutions.	institutional weaknesses.	improving efficiency and transparency.		modernizing legal system.
Administrative transparency	Paraguay demonstrates a commendable level of administrative transparency, but challenges remain. Government processes and procedures are generally transparent, promoting accountability and trust in public institutions. However, instances of corruption and bureaucratic red tape persist, hindering administrative efficiency and transparency.	Argentina's level of administrative transparency may vary across government agencies and jurisdictions. While efforts have been made to enhance transparency and accountability, challenges persist, including bureaucratic inefficiencies and instances of corruption. Access to public information may be limited in certain areas, undermining public trust in government institutions.	Brazil's administrative transparency varies across government agencies and levels of governance. While efforts have been made to promote open government practices, challenges remain, including bureaucratic red tape and corruption. Access to public information may be constrained in certain regions, limiting transparency and accountability in governance processes.	Uruguay maintains a high level of administrative transparency, characterized by open government practices and accessible public information. Government agencies operate with accountability and integrity, fostering public trust and confidence. Administrative processes are streamlined and efficient, minimizing opportunities for corruption and misconduct.	Chile is renowned for its meticulous administrative transparency, setting a benchmark for open government practices in the region. Government institutions operate with transparency and accountability, providing accessible public information and ensuring fair and equitable treatment for citizens. Administrative processes are efficient and streamlined, minimizing bureaucratic hurdles and promoting public trust in governance.
Dispute resolution	Paraguay has made strides in improving dispute resolution mechanisms, but challenges persist. Court proceedings can be protracted, leading to delays in resolving property-related disputes. The	Argentina's dispute resolution mechanisms may encounter delays and inefficiencies, particularly in regions with overburdened judicial systems. Court proceedings can be prolonged, contributing to backlog issues and uncertainty	Brazil's dispute resolution mechanisms vary in efficiency across regions. While the country has a well-established judicial system, court proceedings can be lengthy, resulting in delays in resolving	Uruguay's dispute resolution mechanisms are highly efficient and reliable. The country's judiciary operates swiftly, ensuring timely resolution of property disputes. Alternative dispute resolution methods, such as	Chile boasts a streamlined and efficient dispute resolution framework. Courts operate with transparency and expediency, enabling swift resolution of property-related conflicts. Alternative dispute resolution mechanisms,

	legal system faces capacity constraints and backlog issues, impacting the efficiency of dispute resolution processes.	in property disputes. Alternative dispute resolution methods are available but may not be widely utilized.	property-related conflicts. Alternative dispute resolution methods, such as mediation and conciliation, are available but may not be widely adopted.	arbitration, are widely used and contribute to a secure legal environment for property transactions.	including mediation and arbitration, provide additional avenues for resolving disputes, enhancing legal security.
Political stability	Paraguay enjoys relative political stability, but periodic challenges and disruptions may impact legal security. The country has experienced episodes of political instability in the past, contributing to uncertainties in the legal environment. Efforts to strengthen democratic institutions and uphold the rule of law are ongoing, contributing to overall stability.	Argentina's political landscape may be characterized by periodic fluctuations and uncertainties, impacting legal security. While the country has a democratic system of governance, political polarization and economic challenges have contributed to volatility in the past. Efforts to strengthen democratic institutions and promote political stability are ongoing.	Brazil maintains a generally stable political climate, but challenges such as corruption and political polarization may affect legal security. The country has experienced periods of political turbulence, impacting investor confidence and legal certainty. Efforts to address governance issues and strengthen democratic institutions are underway, aiming to enhance political stability and legal security.	Uruguay boasts enduring political stability, underpinned by strong democratic institutions and a commitment to the rule of law. The country has a long-standing tradition of democratic governance, fostering an environment of political continuity and legal security.	Chile benefits from enduring political stability, supported by a robust democratic system and effective governance structures. The country has a history of peaceful transitions of power and a commitment to upholding democratic principles, ensuring stability and legal security.

Areas for improvement:

Paraguay's legal security framework requires attention to enhance its standing, especially when benchmarked against neighboring countries such as Uruguay, Chile, Argentina, and Brazil.

One area for improvement is the legal clarity and precision surrounding property rights. While Paraguay has a commendable legal foundation, it can benefit from a more detailed and clarified framework akin to the precision observed in Uruguay and Chile.

Efficiency in enforcing legal mechanisms, particularly in property-related disputes, is another focus area. Streamlining processes, drawing insights from the effectiveness observed in Uruguay, Chile, and Brazil, could contribute to swifter dispute resolution in Paraguay.

Administrative processes, despite a commendable level of transparency, could see improvements. Lessons from the meticulous administrative transparency in Uruguay and Chile could further elevate Paraguay's adherence to the rule of law.

Ensuring enduring political stability is crucial for sustained legal security. Paraguay could explore measures to fortify political stability, drawing inspiration from the enduring political environments observed in Uruguay and Chile. A stable political landscape enhances investor confidence in legal security in Paraguay.

In summary, aligning legal frameworks and enforcement mechanisms with best practices from neighboring countries can contribute to strengthening legal security in Paraguay.

Strengths:

Paraguay demonstrates several strengths in its legal security framework. The country has established a commendable legal foundation for property rights, providing a solid basis for legal security. Additionally, Paraguay exhibits effective enforcement mechanisms, contributing to the resolution of property-related disputes.

The country maintains a commendable level of transparency in its administrative processes, fostering an environment of rule of law. Furthermore, Paraguay enjoys a generally stable political climate, which is crucial for ensuring enduring legal security.

In summary, Paraguay's legal security strengths lie in its foundational legal framework, efficient enforcement mechanisms, transparent administrative processes, and overall political stability.

6. International Agreements related to FDI

6.1. Overview

6.1.1. International Investment Agreements

Paraguay is a party to twenty-three 'in force' Bilateral Investment Treaties (BITs) which connect it with fourteen countries in Europe (Switzerland, United Kingdom, France, Portugal, Italy, Czechia, Spain, Austria, Germany, Romania, Hungary, Netherlands, Belgium-Luxembourg Economic Union), two countries in Asia (Republic of Korea, Taiwan Province of China) and two countries in the Middle East (Qatar, United Arab Emirates). Remaining investment agreements are with countries within Latin America (Cuba, El Salvador, Costa Rica, Venezuela, Chile, Peru).[152]

It is interesting to note that there is no BIT with major economies like the United States of America, China, India, Japan, Russia or any Scandinavian country. There is also no BIT with any nation in the African continent. Paraguay is also a member state of the International Centre for Settlement of Investment Disputes (ICSID) since 1983.[153]

6.1.2. International Trade Agreements

Paraguay is a member of WTO since 1995 and a member of GATT since 1994[154]. It is also a party to other international trade related agreements like TRIPS and TRIMS since 1994[155]. Paraguay is a member of the South American regional trade bloc MERCOSUR with Brazil, Argentina and Uruguay.[156]

In addition to the bilateral investment agreements, there are fourteen 'in-force' Treaties with Investment Provisions (TIPs). For twelve TIPs, Paraguay is a party because it is a member of the MERCOSUR trade bloc. These include treaties with Canada, India, Mexico and Egypt.[157] Paraguay-United States Trade and Investment Framework Agreement (TIFA) is currently under development.[158]

6.1.3. International Tax Agreements

Paraguay has Double Taxation Avoidance Agreements (DTAs) with 8 countries. It has not signed Tax Information Exchange Agreements (TIEAs) with any country.[159]

---

[152] "Paraguay | International Investment Agreements Navigator | UNCTAD Investment Policy Hub." Accessed October 31, 2023. https://investmentpolicy.unctad.org/international-investment-agreements/countries/164/paraguay.
[153] "Database of ICSID Member States | ICSID." Accessed October 31, 2023. https://icsid.worldbank.org/about/member-states/database-of-member-states.
[154] "WTO | Paraguay - Member Information." Accessed October 31, 2023. https://www.wto.org/english/thewto_e/countries_e/paraguay_e.htm.
[155] Ibid. Footnote 48.
[156] MERCOSUR. "MERCOSUR Countries." Accessed October 31, 2023. https://www.mercosur.int/en/about-mercosur/mercosur-countries/.
[157] Ibid. Footnote 48.
[158] United States Trade Representative. "Paraguay and the United States Hold the Second Meeting of the Trade and Investment Council." Accessed October 31, 2023. http://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/september/paraguay-and-united-states-hold-second-meeting-trade-and-investment-council.
[159] "Treaties." Accessed November 26, 2023. https://www.ciat.org/treaties/?lang=en.

6.2. Comparison with other countries in Latin America

It might be also worthy to compare the framework of international agreements related to investment and taxation across the five countries. Table-13 illustrates that Paraguay is a signatory to major international Investment Related Instruments (IRIs) just like the other four countries. Chile has the highest number of Treaties with Investment Provisions (TIPs) which can be attributed to its large framework of Free Trade Agreements.

Table-13: Framework of Multilateral and Bilateral Agreements related to Investments and/or Taxation in Paraguay, Argentina, Brazil, Chile and Uruguay.[160] [161]

Agreements		Paraguay	Argentina	Brazil	Chile	Uruguay
Investment Related Instruments (IRIs)	WTO General Agreement on Trade in Services	Yes	Yes	Yes	Yes	Yes
	WTO Agreement on Trade-Related Investment Measures (TRIMs)	Yes	Yes	Yes	Yes	Yes
	WTO Agreement on Trade-Related Aspects of Intellectual Property Rights	Yes	Yes	Yes	Yes	Yes
	Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention)	Yes	Yes	Yes	Yes	Yes
	International Centre for Settlement of Investment Disputes (ICSID) Convention	Yes	Yes	No	Yes	Yes
	Total IRIs	20 IRIs	20 IRIs	19 IRIs	27 IRIs	20 IRIs
Treaties with Investment Provisions (TIPs)		Yes (14 in force + 5 signed)	Yes (15 in force + 4 signed)	Yes (16 in force + 4 signed)	Yes (32 in force + 5 signed)	Yes (17 in force + 3 signed)
Bilateral Investment Treaties (BITs)		Yes (23 in force + 1 signed)	Yes (48 in force + 6 signed)	Yes (2 in force + 26 signed)	Yes (34 in force + 13 signed)	Yes (31 in force + 1 signed)
Double Taxation Avoidance Agreements (DTAs)		Yes (8 DTAs)	Yes (21 DTAs)	Yes (35 DTAs)	Yes (33 DTAs)	Yes (23 DTAs)
Tax Information Exchange Agreements (TIEAs)		No	Yes	Yes	Yes	Yes

160 "International Investment Agreements Navigator | UNCTAD Investment Policy Hub." Accessed November 27, 2023. https://investmentpolicy.unctad.org/international-investment-agreements.

161 "Treaties." Accessed November 26, 2023. https://www.ciat.org/treaties/?lang=en.

		(29 TIEAs)	(4 TIEAs)	(4 TIEAs)	(15 TIEAs)

While Bilateral Investment Treaties (BITs) can commit developing countries to provide national treatment or most favored nation treatment to foreign investors, Double Taxation Avoidance Agreements (DTAs) provide foreign investors with security and stability regarding taxation along with relief from double taxation. Research has shown that for middle income countries, DTAs are effective in attracting FDI[162]. It may be noted that while Brazil and Chile have more than thirty DTAs, and Argentina and Uruguay have more than twenty, Paraguay has only eight DTAs.

Looking into the issue of DTAs further can reveal more insights. Table-14 shows the key countries which are the source of FDI inflows for Paraguay, Argentina, Brazil, Chile and Uruguay and the status of DTAs signed with them by the five countries. Paraguay has DTAs only with two of its key FDI contributors and both of them are from Latin America. On the other hand, all of its four competitors have DTAs signed with half or more than half of their key FDI contributor countries.

Table-14: Double Taxation Agreements with major FDI origin countries across Paraguay, Argentina, Brazil, Chile and Uruguay[163]

	Paraguay[164]	Argentina	Brazil	Chile	Uruguay
FDI Inflows - Major Countries of Origin[165] (Countries with DTAs are marked in Green)	1. Spain 2. United States 3. Holland 4. United Kingdom 5. Brazil 6. Colombia **7. Uruguay** **8. Chile** 9. Mexico 10. Venezuela	**1. Spain** 2. Panama 3. Venezuela 4. Bermuda **5. Chile** 6. Samoa **7. Mexico** **8. Germany**	**1. Netherlands** 2. United States **3. France** **4. Spain** **5. Chile** 6. Hong Kong, China 7. United Kingdom **8. Norway**	**1. Italy** **2. Canada** **3. Belgium** **4. Netherlands** **5. United Kingdom**	1. Brazil 2. Argentina **3. Singapore** **4. Luxembourg** **5. Spain** 6. Bermuda

162 Neumayer, Eric. "Do Double Taxation Treaties Increase Foreign Direct Investment to Developing Countries?" In The Effect of Treaties on Foreign Direct Investment, by Karl P. Sauvant and Lisa E. Sachs, 659–84, 1st ed. Oxford University Press, New York, 2009. https://doi.org/10.1093/acprof:oso/9780195388534.003.0023.
163 "Treaties." Accessed November 26, 2023. https://www.ciat.org/treaties/?lang=en.
164 In addition to the countries listed in the report on FDI in LAC published by ECLAC (see next footnote), more countries were added to the list for Paraguay, based on the information in 'Country Profile' document shared by REDIEX.
165 Economic Commission for Latin America and the Caribbean (ECLAC). "Foreign Direct Investment in Latin America and the Caribbean Rose by 55.2% in 2022, Reaching a Historic High." Text. Accessed November 27, 2023. https://www.cepal.org/en/pressreleases/foreign-direct-investment-latin-america-and-caribbean-rose-552-2022-reaching-historic.

6.3. Comparison of bilateral agreement models

Bilateral agreements play a crucial role in shaping the economic, political, and social interactions between countries. In Latin America, nations such as Paraguay, Uruguay, Chile, Argentina, and Brazil engage in various forms of bilateral agreements to enhance cooperation, trade, and mutual development. However, the nature and scope of these agreements can vary significantly, reflecting the diverse priorities, economic structures, and geopolitical considerations of each nation.

This comparative analysis aims to examine the different models of bilateral agreements among Paraguay, Uruguay, Chile, Argentina, and Brazil. By delving into key aspects such as economic priorities, trade relations, participation in regional blocs, and other relevant agreements, we seek to elucidate the distinct approaches adopted by each country in fostering bilateral cooperation. Additionally, we will explore specific elements present in the agreements of some countries but absent in others, shedding light on the nuanced dynamics of bilateral relations within the region.

Understanding these variations in bilateral agreements is essential for policymakers, businesses, and stakeholders seeking to navigate the complex landscape of Latin American diplomacy and trade. By uncovering similarities, differences, and unique characteristics, this analysis aims to contribute to a deeper comprehension of the multifaceted relationships shaping the region's socio-economic landscape.

Table-15: Comparison of Bilateral Agreements Models among Chile, Argentina, Brazil, Uruguay and Paraguay[166]

Aspect	Paraguay	Argentina	Brazil	Uruguay	Chile
Primary economy	Agriculture, livestock, manufacturing.	Agriculture, manufacturing industry.	Agriculture, industry, services.	Agriculture, services, manufacturing.	Services, mining, agriculture.
Trade relations with other countries	Significant trade with Argentina and Brazil.	Solid trade relations with Uruguay and Brazil, but historically tense with Chile.	Solid trade relations with all mentioned countries.	Strong trade relations with Argentina and Brazil.	Close trade relations with all mentioned countries.
Major trade agreements	ACE (Economic Complementation Agreement) with Brazil.	ACE (Economic Complementation Agreement) with Brazil.	ACE (Economic Complementation Agreement) with Argentina.	FTA (Free Trade Agreement) with Chile.	FTA (Free Trade Agreement) with multiple countries.
Participation in regional blocs	Member of the Southern Common Market (MERCOSUR).	Member of the Southern Common Market (MERCOSUR).	Member of the Southern Common Market (MERCOSUR).	Member of the Southern Common Market (MERCOSUR).	Not a member of any regional bloc.
Other notable regional agreements	Asunción Treaty (Founding Agreement of MERCOSUR).	Ouro Preto Protocol (Establishment of Mercosur).	Asunción Treaty (Founding Agreement of MERCOSUR).	Ouro Preto Protocol (Establishment of Mercosur).	Asunción Treaty (Founding

[166] The following information has been obtained by analyzing different bilateral agreements, which can be viewed on: "International Investment Agreements Navigator | UNCTAD Investment Policy Hub." Accessed January 31, 2024. https://investmentpolicy.unctad.org/international-investment-agreements.

					Agreement of MERCOSUR)
Focus on other aspects	Cooperation in energy, infrastructure, and transportation	Cooperation in security and defense, energy, and transportation.	Cooperation in defense, science and technology, and energy.	Cooperation in education, culture, and technology.	Cooperation in science, technology, and environment.
Most favored nation clause	Yes	Yes	Yes	Yes	Yes
Emphasis on Agricultural products	Yes (Agriculture, livestock)	No	No	No	No
Emphasis on services sector	No	No	Yes	Yes	No
Emphasis on mining sector	No	No	No	No	No
Emphasis on manufacturing sector	No	Yes	No	No	Yes
Emphasis on industry and services	No	No	Yes	No	No
Protection of investments	Focus on protecting agricultural and manufacturing investments	Emphasis on protecting investments in manufacturing industry.	Emphasis on protecting investments in industry and services.	Emphasis on protecting investments in services sector.	Emphasis on protecting investments in mining sector.
Access to markets and tariffs	Likely focus on gaining access for agricultural and livestock products.	Focus on reducing tariffs for manufacturing and agricultural products.	Focus on gaining market access for a wide range of products and services.	Likely focus on reducing barriers for service exports.	Focus on gaining preferential access for mining and agricultural products.
Intellectual property protection	Emphasis on protecting IP related to agriculture and technology.	Emphasis on protecting IP rights in manufacturing and technology sectors.	Emphasis on protecting IP rights in industry, technology, and innovation sectors.	Focus on protecting IP rights in the services sector.	Emphasis on robust IP protection across various industries.
Labor and environmental standards	Focus on ensuring minimum labor and environmental standards in agricultural and manufacturing sectors.	Focus on promoting fair labor conditions and environmental sustainability.	Focus on ensuring adherence to labor and environmental regulations in industry and services.	Focus on promoting fair labor practices and sustainability in service industries.	Focus on ensuring high labor and environmental standards across sectors.
Regulatory cooperation	Emphasis on regulatory	Emphasis on regulatory	Emphasis on regulatory	Focus on regulatory	Emphasis on regulatory

	harmonization in agriculture and manufacturing.	cooperation in security and defense.	alignment in defense, technology, and energy sectors.	cooperation in education and technology sectors.	alignment in science, technology, and environment.
Movement of people	Focus on facilitating labor mobility in agriculture and manufacturing.	Focus on facilitating mobility of workers in manufacturing and construction sectors.	Focus on facilitating mobility of professionals in industry, technology, and services.	Focus on facilitating movement of professionals and academics in service sectors.	Focus on facilitating movement of skilled workers in mining and technology sectors.

Each country in the comparison - Paraguay, Uruguay, Chile, Argentina, and Brazil - exhibits unique characteristics and priorities in its bilateral agreement models.

Paraguay focuses on agriculture and manufacturing in its agreements, reflecting its economic structure. Uruguay emphasizes services, while Chile showcases a diversified approach with a focus on services and mining. Argentina stands out for its emphasis on manufacturing and energy, while Brazil's approach is multifaceted, covering agriculture, industry, and services.

Investment protection varies based on economic sectors. Paraguay prioritizes agriculture and manufacturing, Uruguay focuses on services, Chile on mining, Argentina on manufacturing and energy, and Brazil across various industries.

Market access and tariff reduction strategies are tailored to each country's export strengths. Paraguay seeks access for agricultural products, Uruguay for services, Chile for mining and agriculture, Argentina for manufactured goods, and Brazil for a wide range of products and services.

Intellectual property protection aligns with each country's strengths, with a focus on technology and agriculture for Paraguay and Uruguay, innovation for Chile, and manufacturing and technology for Argentina.

Labor and environmental standards are addressed differently, reflecting social and environmental considerations. Paraguay and Uruguay ensure minimum standards, while Chile prioritizes sustainability. Argentina and Brazil focus on labor rights, environmental conservation, and regulatory alignment across sectors.

Regulatory cooperation aims to streamline trade and investment processes. Paraguay focuses on agriculture and manufacturing, Uruguay on education and technology, Chile on energy and telecommunications, Argentina on manufacturing and energy, and Brazil on agriculture, industry, and services.

Regarding movement of people, Paraguay facilitates labor mobility in agriculture and manufacturing, Uruguay prioritizes professionals in services, Chile skilled workers in technology, Argentina workers across sectors, and Brazil professionals across a wide range of sectors.

In summary, these differences reflect the unique economic, social, and strategic considerations of each country, shaping their bilateral agreement models and approaches to promoting trade, investment, and economic development.

6.4. Opportunities for Paraguay

Paraguay can sign Double Taxation Agreements with advanced economies and its key FDI contributor countries. Analysis of historical FDI data shows that for developing countries, signing DTAs with an advanced economy can lead to a 6% increase in FDI stock and about 29% increase in FDI inflow[167].

[167] Neumayer, Eric. "Do Double Taxation Treaties Increase Foreign Direct Investment to Developing Countries?" In The Effect of Treaties on Foreign Direct Investment, by Karl P. Sauvant and Lisa E. Sachs, 659–84, 1st ed. Oxford University Press, New York, 2009. https://doi.org/10.1093/acprof:oso/9780195388534.003.0023.

7. Conclusion

In this project, the authors have compared various fiscal and non-fiscal incentives provided by Paraguay to attract FDI with respect to the incentives offered by other countries in the region (Argentina, Brazil, Chile and Uruguay). Paraguay has an attractive set of fiscal incentives applicable to foreign investors. However, it faces various challenges like the efficiency of its tax administration (which recently introduced domestic laws by Paraguayan government aim to address), informality and smuggling in free trade zones and the lack of double taxation agreements with its key FDI contributor countries. These challenges push Paraguay behind its competitors in the region. Uruguay stands apart with very detailed sector-specific fiscal incentives. In addition to thinking about attracting investment, Paraguay may also begin to consider the quality and type of investment it seeks to attract, and the sustainability angle of its investment promotion approach.

Just like its neighbors, Paraguay is a party to key international investment related instruments, however, the remaining four countries have signed several double taxation agreements with their respective key FDI contributor countries.

While analyzing non-fiscal incentives, Paraguay emerges as a notable player, with free trade zones in Ciudad del Este. Argentina maintains well-established free trade zones, but potential bureaucratic hurdles and regulatory changes may present obstacles for prospective investors. Uruguay places emphasis on technology parks within its free trade zone framework, promoting innovation and knowledge-driven industries. Brazil, with its vast economic landscape, showcases a diverse range of free trade zones. Meanwhile, Chile strategically utilizes free trade zones to attract foreign investment, prioritizing export-oriented industries.

Paraguay actively promotes industrial park development, offering legal incentives and infrastructure support to attract foreign investors. Argentina, with a significant number of industrial parks, faces challenges related to administrative inefficiencies and a need for regulatory clarity, potentially impacting investor confidence. Uruguay stands out for its regionalized approach, encouraging collaboration and sustainable practices among businesses within industrial parks. Brazil features a widespread network of industrial parks, contributing significantly to its economic development. Chile strategically positions industrial parks to leverage its geographical advantages and stimulate economic growth.

Paraguay is also making progress in implementing PPP projects, particularly in infrastructure, presenting opportunities for private sector involvement. Argentina encounters challenges in PPP project execution, including issues related to legal frameworks and financial viability. Uruguay actively encourages PPPs, leveraging private investments to develop key infrastructure projects. Brazil has a robust history of PPP projects, particularly in transportation and utilities, showcasing a collaborative approach between the public and private sectors. Chile effectively employs PPPs to enhance infrastructure, ensuring a stable and attractive environment for foreign investors.

Paraguay emerges as an attractive destination for investors, particularly in industrial development, with a focus on sustainable practices and legal incentives. Argentina and Uruguay show promise but may benefit from addressing bureaucratic hurdles and enhancing regulatory clarity. Brazil stands out for its extensive and diverse opportunities in free trade zones, industrial parks, and PPP projects. Chile strategically leverages geographical advantages and robust frameworks to attract foreign investment across various economic sectors.

8. Policy Recommendations

Paraguay can consider the following actions to attract more FDI into the country:

A. **Design fiscal incentives tailored to the priority sectors** to effectively help foreign investors address the challenges they face while establishing businesses in these sectors.
B. **Sign Double Taxation Agreements** with key FDI contributor countries as well as other advanced economies.
C. **Improve the efficiency of tax administration** by focusing on reducing the time required to comply with tax procedures.
D. **Assess the quality of the incoming FDI** and see to what extent it is actually contributing to the country's sustainable development. OECD's FDI Qualities Policy Toolkit can act as a good reference for carrying out this exercise
E. **Enhance communication and awareness**: Implement comprehensive communication strategies to raise awareness about the benefits and incentives offered by Paraguay's industrial parks and free trade zones. And, foster collaboration between government institutions, industry associations, and private enterprises to ensure effective dissemination of information.
F. **Streamline regulatory processes:** Address bureaucratic hurdles by streamlining and simplifying regulatory processes for investors looking to establish operations in industrial parks and free trade zones. And provide clear and concise guidelines to facilitate a smoother experience for both domestic and foreign investors.
G. **Strengthen regional collaboration:** Encourage regional collaboration among industrial park business to promote shared resources, knowledge exchange, and sustainable practices. And, establish platforms for dialogue between public and private stakeholders to address common challenges and foster a collaborative ecosystem.
H. **Incentivize sustainable practices**: Introduce additional incentives for businesses adopting sustainable practices within industrial parks, aligning with global environmental standards. And, enhance awareness and understanding of the economic and environmental benefits associated with sustainable industrial operations.
I. **Diversify Public-Private Partnership Projects:** Expand the scope of PPP projects beyond infrastructure to include initiatives that support technology transfer, research and development, and innovation. And, develop a clear framework for PPP projects, addressing legal and financial aspects to attract private sector participation.
J. **Facilitate Cross-Border trade:** Strengthen cross-border trade facilitation, particularly in regions like Ciudad del Este, by investing in infrastructure and technology to streamline customs processes. And, explore opportunities for bilateral agreements with neighboring countries to further ease trade barriers.
K. **Continued infrastructure investment:** Continue investing in critical infrastructure projects through PPPs, focusing on transportation, utilities, and logistics to enhance connectivity and attractiveness for investors.
L. **Regular evaluation and adjustment:** Establish a mechanism for periodic evaluation of policies related to industrial parks, free trades, and PPP projects. Also, it would be necessary to make adjustments based on feedback from investors and evolving economic conditions to ensure the relevance and effectiveness of policies.
M. **Global marketing campaign:** Launch a targeted international marketing campaign to showcase Paraguay's advantages as an investment destination, emphasizing the benefits of industrial parks, free trade zones, and PPP projects. Could It be a good idea to highlight the country's strategic geographical location and its membership in MERCOSUR as key selling points.

N. **Capacity building and training:** Invest in capacity building and training programs for local businesses, ensuring they can effectively integrate into industrial parks and free trade zones. Collaboration with educational institutions to tailor programs that align with the evolving needs of industries, could be a viable option as well.