

SUMMARY

(1) INTRODUCTION

1. Paraguay has a very open trade and investment regime. Applied MFN tariffs are relatively low (8.5 per cent on average) and there is little recourse to non-tariff measures. The aim of Paraguay's medium-term trade strategy is to boost the role of international trade as an engine for economic growth and to diversify its export base, which remains focused on a few agricultural products and on a small number of markets. Paraguay is also seeking to enhance the business climate so as to attract larger flows of foreign investment and thus foster economic growth and employment.

2. Since the previous Review (April 2005), Paraguay has continued to apply measures to facilitate trade, with the result that customs procedures have been streamlined, mainly by setting up single windows for imports and exports. In parallel, Paraguay has made efforts to build its institutional capacity for foreign trade, for example, by establishing a body responsible for ensuring compliance with commitments to notify technical regulations. In addition, Paraguay has adopted measures to improve enforcement of intellectual property rights, including reform of the Penal Code; this area nevertheless remains one of concern for Paraguay's authorities and its trading partners.

3. Paraguay's trade policy is strongly influenced by its membership of MERCOSUR, under which it has signed preferential agreements with the majority of Latin American countries, as well as with some countries outside the region.

(2) ECONOMIC ENVIRONMENT

4. Paraguay's economy enjoyed sustained growth during most of the period under review (2004-2010), chiefly driven by dynamic performance in agricultural production. GDP increased at an annual average rate of close to 5 per cent between 2004 and 2008, with a

slight contraction, however, in 2009 following a severe drought and the impact of the world economic crisis. In 2010, the economy experienced a notable recovery, sustained by the increase in global prices of raw materials and by the implementation of expansionary fiscal and monetary policies. As a result of economic growth, per capita GDP doubled during the review period, although reducing poverty and inequality are still major challenges for the Government.

5. Paraguay stabilized its public finances during the period under review following the implementation of fiscal reforms, which included improvements to the structure and administration of taxation. The central Government posted a primary surplus throughout the period, which enabled it to increase public spending in order to deal with the economic crisis in 2009. Further progress still has to be made in tax reform, however, and in broadening the tax base, *inter alia*, by introducing personal income tax and eliminating certain tax exemptions.

6. There has been a gradual shift in monetary policy towards the setting of an inflation target, which was 5 per cent for 2010, with a variation of +/-2.5 per cent. Paraguay has a floating exchange rate regime, even though the Central Bank does sometimes intervene in order to mitigate sharp fluctuations in the exchange rate. During the review period, the real effective exchange rate rose by around 20 per cent; this has helped reduce imported inflation, without any apparent adverse impact on exports. Bank interest rates have fallen and private sector credit has shown a notable increase.

7. Paraguay's foreign trade grew rapidly over the period 2004-2010, reaching 98 per cent of GDP, which reflects the high degree of openness of the country's economy. Agricultural products remain the largest export, while imports consist essentially of manufactures. A high percentage of goods imports are re-exported. The traditional deficit in the trade balance is offset by the large amounts earned from royalties and other

business services related to the sale of electricity. Paraguay's leading trading partners are MERCOSUR, the European Union and China. In recent years, MERCOSUR's role has decreased, while China has become the main source of imports.

(3) TRADE AND INVESTMENT REGIME

8. Paraguay's trade regime is to a large extent framed by its participation in MERCOSUR. The development objectives of the present Government, in which trade policy plays a leading role, especially as regards the promotion and diversification of exports and export markets, can be found in the Economic and Social Strategic Plan (2008-2013). These objectives are complemented by the proposals contained in the Social Development Policies (PSD 2020), whose strategic objective is to promote and develop the conditions to permit inclusive, sustained growth.

9. As a member of MERCOSUR, Paraguay has signed framework agreements to formally initiate preferential trade negotiations with various countries outside the region, although in some cases these still have to be ratified. Since 2005, a partial scope agreement between MERCOSUR and India and a free trade agreement with Israel have come into force. Agreements between MERCOSUR and Egypt, on the one hand, and the Southern Africa Customs Union (SACU), on the other, have been signed but have not yet come into effect. Paraguay has not ratified the MERCOSUR Protocol of Montevideo on Trade in Services.

10. Paraguay is open to foreign investment and its legislation guarantees equal treatment for foreign and Paraguayan investors. It also belongs to several international arbitration mechanisms for the settlement of investment-related disputes. Attracting investment plays a key role in Paraguay's development strategy; the Economic and Social Strategic Plan 2008-2013 mentions the need to improve the business environment in order to attract investment. "REDIEX", a new agency for the

promotion of investment and exports, was established in 2005 and involves closer coordination with the private sector.

11. Paraguay has been an active participant in the Doha Development Agenda trade negotiations and since 2005 has co-sponsored proposals in the areas of trade facilitation, intellectual property rights, non-agricultural market access, and agriculture. Paraguay has maintained a solid record of notifications to the WTO over the review period, with only a few outstanding. It has not been a party, either as a complainant or as a defendant, in any WTO dispute settlement procedure, although it has participated as a third party.

(4) TRADE POLICIES BY MEASURE

12. Since the previous Review in 2005, Paraguay has continued to adopt measures to streamline and modernize its trade regime. These efforts have led to the simplification of customs procedures and trade facilitation. After setting up a Single Window for Exports (VUE), in July 2010 Paraguay also introduced a Single Window for Imports (VUI), enabling electronic clearance of all overseas buying and selling operations. Imports are cleared through three channels: green, orange or red. Goods sent to the red channel undergo documentary checks, physical inspection and verification of customs value.

13. During the period under review, Paraguay applied reference values to certain products, mainly textiles and made-up articles, for a limited period. According to the authorities, the purpose of this measure is to prevent unfair trade practices such as false declarations of value and tax evasion. Paraguay makes use of prior authorizations and import prohibitions for health, environmental, security, economic development, balance-of-payments or safeguards reasons, and to protect domestic industry from imports. Since the previous Review, new requirements on registration and prior licensing for imports of clothing, meat

products and poultry offal have been introduced.

14. Paraguay applies MERCOSUR's Common External Tariff (CET) with exceptions concerning 23 per cent of all tariff lines, resulting in an average tariff lower than MERCOSUR's average CET. During the period under review, tariff protection lessened slightly, with the arithmetic average of applied MFN rates in 2010 falling to 8.5 per cent compared to 8.9 per cent in 2004. This reduction was mainly due to the lowering of tariffs on capital goods. The average applied MFN tariff is 10.0 per cent for agricultural products (WTO definition) and 8.3 per cent for non-agricultural products. All rates are *ad valorem*. Paraguay did not make use of temporary or variable levies on imports during the review period. All tariffs are bound at rates ranging from 10 to 35 per cent, giving Paraguay an average bound tariff of 32.4 per cent. There is still a large difference between applied tariffs and bound tariffs and bridging this gap in the context of the current trade negotiations would yield benefits in terms of transparency and predictability. Market access commitments on agricultural products are not subject to tariff quota-based limitations.

15. In addition to tariffs, imports are subject to a valuation fee of 0.5 per cent of the transaction value, a consular fee for endorsing the documents, and duty equivalent to 7 per cent of the consular fee to finance the National Indigenous Institute. Value added tax (VAT) is imposed on imported goods and services alike and applies at a general flat rate of 10 per cent, with a few exceptions. Agricultural products in their natural state are exempt from VAT. The selective consumption tax applies to a group of products, whether imported or domestically produced, essentially tobacco, alcoholic beverages, perfumes, petroleum fuels, etc., at rates which vary between 1 and 38 per cent.

16. One important step forward since the previous Review has been in relation to notification of technical regulations. This has been made possible by creating the National

Information and Notification System (SNIN), which covers technical regulations, standards and conformity assessment procedures. Since November 2006, when Paraguay first notified a draft technical regulation, the Paraguayan authorities have notified the WTO of all the proposed technical regulations deemed to affect trade, even where these are identical to regional or international standards. By November 2010, Paraguay had submitted 32 notifications of draft technical regulations to the WTO. The conformity of imports with these technical regulations is verified at the border.

17. During the period under review, Paraguay greatly increased the number of its notifications of sanitary and phytosanitary measures, although in most cases the notifications concerned measures already adopted and not draft regulations or legislation. In late 2010, the authorities were in the process of establishing an agency to centralize notifications on sanitary and phytosanitary measures and enable the notification of draft measures and the processing of comments and remarks.

18. Paraguay has no special legislation on competition, even though certain laws contain relevant provisions, and, as at December 2010, the National Congress was reviewing a preliminary draft law on the subject. At the regional level, Paraguay has signed MERCOSUR's Competition Protocol (PDC) and its implementing regulations, which have been incorporated into Paraguay's domestic legislation. Paraguay does not in general apply price controls on goods or services, with the exception of electricity rates for low-income households and a maximum selling price for certain types of diesel fuel.

19. Paraguay provides a series of incentives, for the most part fiscal, for investment and production, for which both Paraguayans and foreigners are in general eligible. Some benefits are contingent on the use of domestic capital goods or the involvement of Paraguayan consultants. Official credit programmes are also in place,

some targeting specific sectors. The automotive industry benefits from a special regime that requires an increasing use of national components. Paraguay also has special regimes for exports, such as temporary admission, free zones, in-bond processing (*maquila*), and the raw materials regime. Enterprises under the *maquila* regime pay a flat rate tax of 1 per cent of the national value added or the invoicing, whichever is higher. Enterprises exclusively engaged in export and operating under the free zone regime pay a flat rate tax of 0.5 per cent on gross income from exports; in addition, enterprises in free zones may sell finished goods and services in Paraguayan customs territory in an amount equivalent to a maximum of 10 per cent of the enterprise's gross income from sales, only paying the flat rate free-zone tax.

20. Paraguay is not a signatory to the WTO Plurilateral Agreement on Government Procurement. During the period under review, Paraguay continued to reform its regulatory and institutional framework for government procurement, commenced in 2003, in order to enhance the quality and efficiency of government procurement procedures. Nonetheless, it also used the government procurement system as an economic policy tool to promote domestic production and employment, mainly by giving price preferences for local goods and services.

21. During the period under review, a number of changes to the legal regime governing intellectual property were introduced, for example, an amendment to the Patent Law revising the granting of compulsory licences, publication of patent applications and their substantive examination. Paraguay has continued to make efforts to improve the enforcement of intellectual property rights, *inter alia*, by reforming the Penal Code in order to increase the penalties and by creating an intelligence unit to identify, prevent and prosecute piracy, counterfeiting and tax evasion. Despite these endeavours, enforcement of rights remains a matter of concern for both Paraguay and its trading partners.

(5) SECTORAL POLICIES

22. Agriculture remains a key sector of Paraguay's economy, accounting for 19.3 per cent of GDP and 29.5 per cent of jobs in 2009. Exports of agricultural products represent some 90 per cent of goods exports and consist mainly of soya beans, their by-products, and livestock products. Government domestic support in the agricultural sector is relatively low. Domestic support is targeted at family farms and small-scale producers and essentially consists of technical assistance, research projects and distribution of inputs. In March 2005, Paraguay abolished export taxes on agricultural products.

23. The manufacturing sector's role in the economy is fairly limited, with a 13 per cent share of GDP and 11 per cent of jobs in 2009. There is a low level of value added and little diversification in this sector, although the export of some products has been relatively dynamic in recent years. The major industries are involved in processing agricultural products or producing consumer goods. Paraguay has a number of official programmes in support of the sector, including tax exemptions and investment credits, together with a programme for the automotive industry. There is a draft law on industrial policy whose objective is to attract investment to the manufacturing sector.

24. Paraguay has abundant hydroelectric resources and is a large exporter of electricity. On an annual basis, the Itaipú binational hydroelectric power station, operated jointly with Brazil, is the largest energy producer in the world. The State-owned company ANDE controls all segments of the domestic electricity market. Substantial investment in the power transmission and distribution infrastructure is needed to meet growing demand and eliminate bottlenecks.

25. Paraguay depends on imports to meet its hydrocarbon needs. The State-owned company PETROPAR is the main importer of petroleum based fuels; private firms may also import such products, provided that they have

the necessary legal authorization. The price at which PETROPAR sells certain types of diesel fuel to distributors is fixed by the Government, and this has had a negative impact on the company's financial situation because of the rise in international hydrocarbons prices in recent years. There are fiscal incentives for producing biofuels, provided that domestic raw materials are used; furthermore, diesel fuel must be mixed with biodiesel in the proportions determined by the authorities.

26. Services are the largest sector in Paraguay's economy, accounting for 51.2 per cent of GDP and 53.1 per cent of jobs (2009). Paraguay's commitments under the General Agreement on Trade in Services are limited to certain financial services and tourism. Paraguay did not take part in the negotiations on financial and telecommunications services that followed the Uruguay Round.

27. The banking system was reinforced during the period under review and maintains adequate solvency and capitalization ratios, while financial regulation and supervision have been improved. Banking legislation makes no distinction between domestic and foreign capital, and the latter plays an important role in the sector. The financial spread has lessened, even though it remains relatively wide. Companies established in Paraguay or subsidiaries of foreign companies with separate capital may engage in insurance; subsidiaries of foreign companies may operate under the same conditions as domestically owned companies. Cross-border insurance operations are allowed.

28. The State-owned company COPACO has a de facto monopoly on basic telephony. The mobile telephony market is open to private investment and has gradually absorbed the unsatisfied demand for fixed telephony. In March 2009, international access to the Internet using fibre optics - hitherto a COPACO monopoly - was liberalized. Telecommunications services are provided by means of concessions, licences or authorizations. Foreign companies must be domiciled in Paraguay or appoint a legal representative. In late 2010, a new law on information and communications technology was being prepared, together with regulations on number portability and separate accounting.

29. Being a landlocked country, Paraguay faces some of the highest transport costs in Latin America. Over 70 per cent of the country's external trade goes by river, notably along the Paraguay-Paraná Waterway. The law reserves river and maritime transport of imports and exports for Paraguayan-registered vessels; this restriction does not, however, apply to vessels of countries that are parties to the River Transport Agreement for the Waterway. The private sector may build and operate river ports that compete with public ports, while airports providing commercial services are operated by a State body, although it is planned to grant airport management concessions to the private sector in the near future. Basically, land transport relies on the road network; developing the railway network as part of an inter-oceanic linkage project is a Government priority.