Paraguay: Brazil's dirty little secret

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- International politics [2]
- Democracy and government [3]
- Paraguay [4]
- Latin america [5]
- democracy & power [6]
- institutions & government [7]

Paraguayans’ resentment of their giant neighbour draws on both long memories and modern inequities. A shady new president may fuel not dampen it, says Andrew Nickson.

Itamaratí, Brazil’s famed foreign ministry, has long been successful in projecting a benign image of the country’s engagement with the outside world, most recently stressing its commitment to a "global south" agenda. In contrast to the other "BRIC" states, Brazil has avoided negative attention - let alone condemnation - for ill-treatment of its peripheral regions or neighbours: Russia (in relation to Chechnya), India (over Nepal), and China (over Tibet). Yet this perception of Brazil as a "peaceful giant" on the world stage is wide of the mark. Camila Asano’s extraordinary claims that "The country does not have hostile relations with any of its neighbours" and "it was never a colonizer that dominated other nations" are called into question [11] by Brazil's relationship with its closest neighbour, Paraguay.

In fact, as far back as the mid-19th century, in connivance with Argentina, Brazil sought to carve up Paraguay [12], in order to facilitate river-borne access up the River Paraguay to its fertile Mato Grosso region, the southern gateway to the Amazon. This eventually led to the genocidal [13] Triple Alliance War (1865-70), in which Brazil headed an alliance with Argentina and Uruguay against Paraguay. Brazilian troops put an end to Paraguay’s nascent industrialisation, burning to the ground the La Rosada iron works and sacking the capital city, Asunción. They also carried out acts of unbelievable cruelty, notably setting fire to a hospital full of women and children at Piribebuy, atrocities that are still deeply embedded in the Paraguayan psyche.

The "total war" that decimated the male population of Paraguay was - relatively - one of the bloodiest in world history, reducing [14] the population from 450,000 in 1864 to 153,000 in 1870, a catastrophic loss of 65% in the space of six years. It was only thanks to disputes between the victorious allies that a large part of Paraguay avoided being absorbed into a "greater Brazil". Brazil has never apologised for these acts of genocide nor returned the wealth of "war trophies" plundered from the defeated nation. Despite repeated requests from historians, the Brazilian military archives covering the war are still under lock and key.

Brazilian influence over the prostrate nation soared during the early 20th century, as it regularly intervened in support of one or other pro-Brazilian faction during the heyday of laissez-faire from 1904-32. From the 1940s onwards Brazil cemented its control of Paraguay’s destiny; for example, it financed the first all-weather road east from Asunción to the Brazilian border, and trained a succession of young officers in the ramshackle Paraguayan army.
Among the latter was a Paraguayan of German extraction called Alfredo Stroessner [15], who would go on to rule the country with an iron fist for the longest period in the country’s history (1954-89). Throughout his dictatorial rule, Brazil gave him unswerving support, including flushing out and eliminating armed exile groups operating in the early 1960s from clandestine bases in its territory close to the Paraguayan border. When he was overthrown in February 1989 in a putsch by his own army chief, Andrés Rodríguez, Stroessner was whisked off hours later to exile in Brasilia, where he would spend the rest [16] of his days protected by the Brazilian government.

Two interrelated features of Brazilian control over Paraguay had begun to take shape during Stroessner’s rule, both of which are now the focus of growing opposition in Paraguay to its unequal relationship with its large neighbour: development of the world’s largest single hydro-electric resource, and an associated massive cordon sanitaire of Brazilian commercial soybean farmers [17] that surrounds it inside Paraguay.

The Itaipú effect

The first source of opposition has its roots in June 1965, when Brazilian troops occupied the disputed Guairá Falls, then the largest [18] waterfalls in the world, and in October of the same year summarily expelled the visiting Paraguayan deputy foreign ministry from the area. The Stroessner regime then acquiesced to the joint hydro development of a stretch downstream on the River Paraná, effectively "drowning" the territorial dispute.

The resulting Itaipú hydroelectric plant is the largest in the world, with an installed capacity [19] of 14,000 megawatts (MW). Nominally jointly owned by a binational entity [20], Itaipú Binacional, in practice it is controlled by Brazil thanks to the scandalous terms of the fifty-year Itaipú Treaty, signed in 1993 by the military governments then in power in both countries. Under its terms, Paraguay must sell to Brazil every last megawatt of its half share of the energy produced that it does not consume itself; sales to third countries are prohibited. As a result of the power afforded to it as sole purchaser, for decades Brazil has enforced a rock-bottom sale price of Itaipú energy to its state power company [21], Eletrobras; this has at times even fallen below the cost of production. This produces a massive energy subsidy to the Brazilian industrial sector while at the same time saddling Paraguay with a spiralling, and spurious debt.

The Itaipú Dam created a lake so big that it submerged the Guairá Falls and redrew the map of Latin America. Itaipú is crucial to Brazil, supplying 19% of all its energy needs and 25% of energy usage in its industrial heartland of São Paulo. So by encouraging waves of emigration to the rich virgin forests of eastern Paraguay, the Brazilian government strengthened its control over the massive hydro resource of the River Paraná. In 1965, it had constructed a so-called "Friendship Bridge" over the River Paraná, which linked the border town then called Puerto President Stroessner (it is now Ciudad del Este) and Foz do Iguaçu. Brazilian immigrants, facilitated [22] by this and attracted by the disparity in land prices on each side of the border, settled in a wide arc surrounding the enormous artificial lake created by the building of the Itaipú Dam.

Today, some 300,000 brasiguayos, as they are called, exercise virtual control over large swaths of this eastern border region, producing the bulk of the booming soybean output that has decimated the sub-tropical Atlantic forest cover and polluted the natural environment, in the process catapulting Paraguay into becoming the world’s fourth largest exporter [23] of soybean. One-fifth of the total land area of eastern Paraguay is now covered by soybean, and over 85% of the soybean is produced by commercial farmers of Brazilian origin. Making matters worse, despite producing 46% of total exports, soybean farmers contributed only 2% of total tax revenue in 2012 and are currently fighting hard to stop [24] a proposed 10% tax on agricultural exports.

There is growing opposition in Paraguay to this contemporary and multi-faceted Brazilian "invasion", which in practice is fast reducing Paraguay to the status of a protectorate. After enduring decades of corrupt government officials and their friends, known as the "Barons of Itaipú", who received enormous backhanders from Brazil, this opposition - which builds on historic resentment over the genocidal Triple Alliance War - was first expressed at the governmental level during the presidency [25] of Fernando Lugo (2008-12). After he threatened to take the injustice of the Itaipú Treaty to the
International Court of Justice, Brazil agreed in May 2011 to a tripling of the compensation payments paid to Paraguay from the sale of its share of the energy from Itaipú to Eletrobras.

But this still leaves the price way below the "opportunity cost" of potential sales to Uruguay and Chile, both countries which are keen to, but forbidden from, buying Itaipú energy from Paraguay. Jeffrey Sachs, the head of the Earth Institute at Columbia University and a renowned economist, was contracted by the Paraguayan government to carry out a forensic study of the Itaipú Treaty. His report, published in July 2013, was forthright and confirmed the suspicions of generations of Paraguayans across the political spectrum: that for decades Brazil has been defrauding Paraguay on a huge scale. Sachs concluded that Paraguay had long ago paid off its debt obligations to Itaipú Binacional. The response from Brasilia has been almost inaudible.

The land question

The second, connected source of opposition is the role of Brazilian commercial farmers, in particular the way that they have bought up most of the tierras malhabidas - eight million hectares of virgin forest land illegally distributed to “family and friends” by the Stroessner regime in the 1970s and 1980s under the cynical guise of land reform. Paraguayan resentment has focused on the flouting of laws to halt deforestation, the illegal use of GM crops and the unwillingness to implement a fifty-metre limit on crop-spraying close to local communities. The racist views held by Brazilian farmers towards "the locals" is also a matter of concern. In a February 2012 interview with a Brazilian newspaper, Tranquilino Favero, the richest brasiguayo farmer (who controls 168,000 hectares) provoked an outcry when he praised Stroessner and said that “it is a waste of time using diplomatic means to deal with the Paraguayan] landless. They should be treated like a bad woman, with a stick.”

Radical peasant groups have responded by stepping up land invasions of Brazilian properties to reclaim this land for the poor and landless for whom it was originally intended, symbolically burning Brazilian flags in the process. The insurgent group, Ejército del Pueblo Paraguayo (EPP), has recently switched strategy towards support for the surge in anti-Brazilian feeling, warning brasiguayos not to plant GM crops nor deforest the land they occupy on pain of death.

The edge of law

On 15 August, millionaire Horacio Cartes of the Colorado Party takes office as president of Paraguay. He personifies a third aspect of the ties that bind Paraguay to Brazil, namely the massive trade in contraband goods of all kinds based on the border town of Ciudad del Este. Cartes is the owner of Tabacalera del Este (TABESA), the largest of some twenty cigarette factories close to the Brazilian border.

A lawsuit issued in June 2012 in a Rio de Janeiro court by British American Tobacco states that TABESA is responsible for 42% of the total supply of counterfeit cigarettes to Brazil and for 8% of the total cigarette market in the country. Cartes’s response is simply that what happens to his cigarettes once they leave his factory is none of his business. Yet he has a shady past, to say the least: he was on the run from the Paraguayan courts from 1985-89 after a warrant was issued for his arrest in connection with a massive foreign exchange "cascade" scam when a multiple exchange-rate system was in force. During this time he was protected on the Brazilian side of the border in safe houses owned by Fahd Yamil Georges, a notorious Brazilian narcotics trafficker.

Wikileaks has also revealed that as recently as 6-9 December 2009, the United States authorities convened a multi-agency meeting in Panama (involving DEA-Asunción, DEA-Buenos Aires, the ICE, IRS, SOD/CNTOC [38], DOJ, FRB and OFAC) in order to agree a strategy to clamp down on the illegal activities of Cartes, whom it accused of heading a money-laundering operation out of Ciudad del Este. He owns ranches nearer the Brazilian border that have been used for airlifting Paraguayan marijuana to the lucrative markets of urban Brazil and has been under repeated investigation by Paraguay’s own anti-narcotics agency, SENAD, for alleged involvement in cocaine trafficking through Paraguay, which is a major transit location for Andean production heading for the Atlantic seaboard and beyond.
The official Itamaratí line is that “Brazil respects the sovereignty of other countries and insists on the principle of non-interventionism in other countries’ affairs”. Yet the Brazilian intelligence services have clearly come to some accommodation with Cartes, permitting his meteoric political career. By his own admission he had never even voted before when he joined the Colorado Party on 23 September 2009 - yet less than four years later, on 15 August 2013, he will become president of Paraguay. The exact nature of that agreement remains to be seen. But if, like his many predecessors, he is beholden to Brazil for the presidency that he now occupies, Cartes will be hard pressed to control the rising tide of discontent in Paraguay that is calling for a fundamental change in its relationship with the “irmão mais velho” (big brother) to the east.

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About the author

Andrew Nickson is honorary reader in public management and Latin American studies at the University of Birmingham. His research interests are in local government and decentralisation, the institutional reform of the urban water-supply sector, and the political economy of development in Paraguay. His recent work [47] includes "Change and Continuity in Paraguayan History - 1811, 1911, 2011", in *Paraguay: 200 Years of Independence in the Heart of South America* [44] (2010); “El regimen de Stroessner (1954-1989)”, in *Historia del Paraguay* (2010); *Oscar Creydt: una biografía* [51] (2011); *Las Guerrillas del Alto Parana* [53] (El Lector, 2013); and (as co-editor, with Peter Lambert) *The Paraguay Reader: History, Culture, Politics* [43] (Duke University Press, 2013)

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