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Paraguay: An Overview

Paraguay is a landlocked country in South America bordered by Argentina, Bolivia, and Brazil. The United States has had close relations with Paraguay for decades, providing assistance to counter corruption and spur trade and economic development. The United States and Paraguay also work together closely on counterterrorism and counternarcotics, among other security matters of interest to some Members of Congress. Recently, U.S.-imposed sanctions against top Paraguayan leaders have caused some bilateral tensions.

Political Environment

Paraguay had a turbulent political history in the 19th and 20th centuries. In the War of the Triple Alliance (1864-1870), Paraguay lost one-quarter of its original territory to its opponents—Argentina, Brazil, and Uruguay—and more than half of its population died. Political instability followed for several decades, including three civil wars in the first half of the 20th century. From 1954 to 1989, General Alfredo Stroessner ruled as an anti-communist military dictator; he ultimately was overthrown by a military coup. A constituent assembly elected in 1991 promulgated a more democratic constitution in 1992 that divides power among the president; a bicameral congress comprising a 45-member Senate and 80-member Chamber of Deputies; and the judiciary, headed by the supreme court. Paraguay has held regular elections since 1993, but the country's citizens continue to face some challenges in exercising their political rights and civil liberties.

The conservative Colorado Party (also known as the Asociación Nacional Republicana—Partido Colorado or ANR-PC) has dominated Paraguay's political system. It held power for much of the 20th century, including under the Stroessner dictatorship, and has won nearly every election held since the democratic transition. The only exception was in 2008, when former Catholic bishop Fernando Lugo—affiliated with the main opposition party, the Partido Liberal Radical Auténtico (PLRA)—won the presidency. The Colorado-led congress impeached Lugo in 2012, removing him from office in a rapid process condemned by neighboring countries. The ANR-PC regained control of the presidency with the 2013 election of business magnate Horacio Cartes (2013-2018), despite allegations Cartes was involved in money laundering and narcotics trafficking. Cartes's attempt to override Paraguay's prohibition against reelection in 2017 failed but sparked protests, resulting in the partial burning of the capitol in Asunción.

President Mario Abdo Benítez (2018-2023) extended the ANR-PC's hold on the presidency, although his term was marked by rising intraparty tensions. The ANR-PC divided into competing factions: Honor Colorado, led by former President Cartes, and the smaller Colorado Añetete

(renamed Fuerza Republicana in 2023), led by President Abdo Benítez. Although Honor Colorado helped defeat two opposition attempts to impeach President Abdo Benítez in 2019 and 2021, the relationship between the two factions became increasingly combative.

Paraguay at a Glance

Population: 7.6 million (2023 est., IMF), 95% of whom identify as *mestizo* (mixed Spanish and Indigenous Guarani descent)

Area: 157,047 sq. miles, slightly smaller than California (CIA)

GDP: \$44.1 billion (2023 est., current prices, IMF)

Per Capita GDP: \$5,843 (2023 est., current prices, IMF)

Top Imports: electrical machinery, mineral fuels, heavy machinery (2023, TDM)

Top Exports: soy beans, beef, electrical energy, cereals (2023, TDM)

Key Trading Partners: Argentina (25.7%); Brazil (25.1%); United States (11.3%) (2023, total trade, TDM)

Sources: International Monetary Fund, "World Economic Outlook Database" (IMF); Central Intelligence Agency, *World Factbook* (CIA); Trade Data Monitor (TDM).

The 2023 general elections resulted in a resounding victory for the ANR-PC, with the party capturing the presidency, majorities in the Chamber of Deputies and Senate, and 15 of 17 state governorships. Paraguay elected Santiago Peña, a former finance minister under Cartes and Honor Colorado's presidential nominee, to a five-year presidential term. Peña obtained 43% of the vote, comfortably defeating Efraín Alegre, the candidate representing the PLRA-led opposition alliance, Concertación Nacional, and Paraguayo Cubas, of the far-right party Partido Cruzada Nacional. International observers commended Paraguay for the election's transparency but noted some irregularities.

Following Peña's victory, authorities arrested Cubas and charged him with several crimes, including disturbing the peace, after his allegations of electoral fraud sparked violent protests in Asunción. As of February 2024, Cubas is awaiting trial under house arrest.

Since his inauguration in August 2023, Peña has largely continued his predecessor's policies. His administration has pursued market-oriented economic policies, supported reforms to increase transparency in the civil service and the public pension system, and increased funding for school lunch programs. A key priority of Peña's administration in 2024 is renegotiating the financial terms of the binational Itaipú hydroelectric dam with Brazil.

Economic and Social Conditions

Paraguay's economy is driven largely by agricultural exports—primarily soybeans and beef—and electricity generated by the Itaipú Dam. Its dependence on commodities exports and informal labor, which exceeds 60% of the workforce, has perpetuated social and economic inequities, according to some analysts.

Although affected by the COVID-19 pandemic, Paraguay's economy suffered less serious impacts than those of several other Latin American nations. According to the International Monetary Fund (IMF), the economy contracted by less than 1% in 2020 and grew by 4% in 2021. Reduced agricultural production due to a severe drought stalled the post-pandemic recovery in 2022, when GDP grew by 0.1%. However, the IMF estimates the economy grew 4.5% in 2023, with strong agricultural and electricity exports, lower-than-expected inflation, and stable macroeconomic conditions.

Paraguay had been gradually reducing poverty in the years leading up to the pandemic. According to the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), poverty decreased from 24% of the population in 2016 to 19.4% in 2019, followed by an uptick to 22.3% in 2020 and a decrease to 21.1% in 2022. ECLAC found that income inequality increased in 2022 and is above the Latin American average.

Security Concerns

Porous borders and ineffective law enforcement have contributed to rising insecurity, drug trafficking, and money laundering, especially in Paraguay's northern states and the tri-border area (TBA) with Argentina and Brazil. Paraguay is a transit country for illegal drugs, especially Andean cocaine, destined for neighboring countries and Europe. According to the United Nations, Paraguay is one of the largest marijuana producers in South America. Paraguay also has experienced violence and kidnappings since 2008 from the Paraguayan People's Army, a small domestic armed group, and its offshoot organizations.

U.S. officials have expressed concerns that Hezbollah, an Iran-backed Lebanese Shia militia and U.S.-designated Foreign Terrorist Organization, is engaged in drug trafficking and money laundering activity in the TBA to support its operations. The State Department notes that although Paraguay has made progress implementing anti-money laundering and terrorism financing laws passed in 2019, prosecutions are rare, in part due to corruption in the political and judicial sectors.

In February 2022, the Paraguayan National Anti-Drug Secretariat, assisted by the U.S. Drug Enforcement Administration and other international anti-crime agencies, conducted its largest antidrug and money laundering operation to date. Paraguayan authorities seized more than \$100 million of assets and arrested some two dozen suspects. In May 2022, Marcelo Pecci, a top Paraguayan prosecutor involved in the operation—as well as other narcotics trafficking, money laundering, and corruption cases—was assassinated while traveling in Colombia. Colombian authorities maintain that criminal organizations in Paraguay, Colombia, and Brazil conspired to carry out the assassination.

U.S.-Paraguay Relations

U.S.-Paraguayan cooperation focuses on improving governance, combatting transnational crime and terrorism, and expanding trade and investment. In November 2023, Under Secretary of State for Economic Growth, Energy, and Environment José Fernández traveled to Paraguay for talks focused on deepening trade and investment ties, cybersecurity cooperation, environmental concerns, and support for Taiwan. (Paraguay is the only country in South America that maintains formal diplomatic relations with Taiwan and not the People's Republic of China).

Sanctions. In 2022, the Biden Administration imposed visa sanctions on former President Cartes and then-Vice President Hugo Velázquez for alleged corruption, pursuant to Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2022 (P.L. 117-103, Division K). The State Department asserts that Cartes “obstructed a major international investigation into transnational crime,” undermining the stability of Paraguay's democratic institutions and the “security of the United States against transnational crime and terrorism.” In January 2023, the U.S. Treasury Department levied additional asset blocking sanctions against Cartes and Velázquez pursuant to Executive Order 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act (22 U.S.C. §2656 note). Velázquez withdrew his candidacy ahead of the 2023 elections; Cartes, however, was elected—and remains—the leader of the ruling ANR-PC.

Foreign Assistance. The Biden Administration allocated an estimated \$4.3 million in bilateral foreign assistance to Paraguay in FY2022 and an estimated \$3.9 million in FY2023. For FY2024, the Biden Administration requested \$4.5 million in bilateral assistance for Paraguay. That total included \$4 million in Development Assistance, primarily to support government transparency and accountability, and \$500,000 for International Military Education and Training.

Paraguay typically receives additional aid through global and regional U.S. foreign assistance accounts. In recent years, this has included security assistance to combat transnational crime and terrorism and humanitarian assistance to respond to the COVID-19 pandemic and assist the roughly 5,200 Venezuelan migrants and refugees residing in the country. In FY2022, total U.S. assistance obligations from all agencies amounted to \$25.5 million.

Trade and Investment. In September 2023, the United States and Paraguay held a second meeting under the auspices of a 2017 Trade and Investment Framework Agreement. Participants reportedly discussed regulatory practices, trade facilitation, anti-corruption efforts, intellectual property, and sustainable agriculture, among other areas of cooperation. U.S.-Paraguay merchandise trade exceeded \$3 billion in 2023. The United States exported nearly \$2.8 billion of goods to Paraguay, led by machinery, and imported \$259 million of goods from Paraguay, led by agricultural products. As of 2022, the stock of U.S. foreign direct investment in Paraguay was \$187 million.

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