

An Opportunity for Paraguay: The Challenges for Fernando Lugo

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Fernando Lugo's triumph in the Paraguayan presidential elections is historic, not only because it is the first time in the world that an ex-bishop has won a presidential election, but also because it marks the end of the Colorado Party's hegemony, after more than sixty years in power. After his victory, Lugo ratified his decision to renegotiate with Brazil the unjust contract of the Itaipú hydro-electrical plant and his willingness to increase taxes on the prosperous soy bean producers and improve the unequal distribution of the land. However, it will not be easy. Paraguay inherits serious development problems, while there is widespread lack of confidence in democracy and a corrupt and outdated political class. Furthermore, Lugo can count on little support in parliament and the predictable resistance of the Colorado Party which still controls a powerful system of client relationships.

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The victory of Fernando Lugo, a former Catholic bishop, in the presidential election on 20 April 2008 marks a turning point in the tortured political history of land-locked Paraguay, one of the poorest and most unequal countries in Latin America. Lugo first appeared on the political scene in early 2006 yet two years later he won a convincing

victory with 41% of the votes cast in a 68% turnout. This was in spite of a vicious smear campaign by the ruling Partido Colorado (PC), which used the mother of Cecilia Cubas, the daughter of a former president who was murdered by kidnappers in 2005 to appear on TV spots accusing Lugo of involvement in her daughter's death. The PC also tried to link Lugo to the Colombian FARC, which is alleged by the US government to have a support network in the same Department of San Pedro, where he had served as bishop. Blanca Ovelar, the defeated PC candidate, who scored 31% of the vote, was magnanimous in defeat and quick to accept the result, thereby defusing tensions in Paraguay's volatile political atmosphere. Lino Oviedo, a maverick former army chief who was only recently released from jail where he was serving a sentence for an attempted coup in 1996, scored 22%. And in a striking demonstration of the changing political mood in the region, Pedro Fadul, founder and head of the modernising pro-business party, Partido Patria Querida, and with strong links to the Conservative sectors of the Catholic Church, saw his vote slump from 21% in the 2003 presidential election to only 2% this time round.

This was the first time anywhere in the world that a former bishop had been elected to the presidency of a country. But the election result was historic for other, more domestic, reasons. Amazingly, it was the first time since 1887, when the country's two traditional parties, the PC and the Partido Liberal were created, that a political party in Paraguay had relinquished power to another through a peaceful election rather than taking power through a military coup. It also put an end to the 61-year rule of the PC – the longest time in office of any political party in the world. The PC had controlled Paraguay continuously since 13 January 1947. This period of rule spanned the dictatorial regime of Alfredo Stroessner (1954-89) and a dismal democratisation process thereafter which saw three bouts of military instability (in April 1996, March 1999 and May 2000), the assassination of a vice-president, Luís Argaña (in 1999), and the indictment of two former presidents, Juan Carlos Wasmosy (1993-98) and Raúl González Macchi (1998-99) on corruption charges. Similar charges could well follow when the current incumbent, President Nicanor Duarte Frutos (2003-2008) leaves office on 15 August.

■ History and National Identity in Paraguay

Paraguay was first invaded by the Spanish in the 1530s, but remained a backwater for most of the colonial period because of the absence of proven natural resources of any significance for international trade. This had two important consequences, both of

which set the country's history apart from the rest of Latin America to the present day. First, the relative isolation from the global economy has preserved traditional political and cultural values far longer than elsewhere. Second, the small scale of Spanish immigration led to rapid inter-breeding and the predominance of the pre-Columbian Guaraní language and cultural values among the mestizo population. As a result, Paraguay is the only country in Latin America where an indigenous language remains a vibrant and genuine national language on a par with Spanish in spite of a total lack of recognition by the State, the judicial system and the public administration.

A strong sense of national identity therefore characterised the local population prior to and after Independence in 1811. This, together with the perceived threat from Argentina that sought to incorporate Paraguay within its own territory, led to the conscious pursuit of a centralized development strategy by the post-Independence leaders of the country. But defeat in the War of the Triple Alliance (1865-70) against the combined forces of Argentina, Brazil and Uruguay was to scar the collective historical memory to the present day. Paraguay suffered terrible losses, now estimated at 65% of the pre-war population. The post-war leaders of the defeated nation sold off much of the land to foreign buyers and ushered in a highly unequal system of land tenure that remains surprisingly little changed to the present day.

Development proceeded at a snail's pace throughout most of the 20th century, a period also characterised by political turbulence and authoritarian régimes. Paraguayan victory in the Chaco War (1932-35) against Bolivia led to growing military involvement in the political life of the country. This culminated in the longest authoritarian régime in the history of the country, that of Alfredo Stroessner (1954-89). The transition to democracy since 1989 has been hampered by continuing military interference in politics.

To this day the Triple Alliance War and its aftermath is indelibly imprinted on the national psyche and marks a clear dividing line within the political culture of the country. On the one hand there are those who regard the then leader of the country, Francisco Solano López and his Irish mistress Elisa Lynch as solely responsible for the war and its devastating impact on the country's development, as well as initiating the 'authoritarian tradition' that has stymied the rooting of a democratic politics. On the other hand are those who regard López as the personification of a small and valiant nation in its heroic struggle against outside forces bent on the extermination of the proud Guaraní race. These diametrically opposing views remain central to any under-

standing of the contemporary political culture of Paraguay. They colour, even determine, personal attitudes towards the military, immigration, foreign investment, privatisation, and reform of the State.

■ The Partido Colorado and its Legacy

Throughout its 61-year rule, the PC, with its extensive national network of *seccionales* (party branches) proved to be an effective electoral machine for maintaining elite power and entrenching social injustice through a combination of rampant corruption, control of a bloated state bureaucracy, and a nationalist rhetoric that builds on Paraguay's involvement in two of the three post-independence wars in Latin America (see box). By comparison, Paraguay's main opposition party, the *Partido Liberal Radical Auténtico* (PLRA), the successor to the *Partido Liberal*, proved ineffectual in building an alliance against the Stroessner dictatorship. Since 1989 it failed to break the hegemony of the PC, with personal rivalries between its leaders drowning out the introduction of any programmatic content into its political discourse. In fact, until Lugo appeared on the scene it was in a slow but secular decline.

Under the legacy of PC rule Paraguay remained one of the most underdeveloped and least industrialised countries in Latin America, with a per capita income of only \$1,170 in 2004 (World Bank, 2005). During the thirty-five year dictatorship of Alfredo Stroessner (1954-89) it became a by-word for corruption, smuggling and the gross violation of human rights. When the transition to democracy began with his overthrow in 1989, indicators of access to primary health care and basic education were among the lowest in the Americas. Despite the promulgation of a new democratic constitution in 1992 and the introduction of free elections, the legacy of the past weighed heavily against efforts for improved governance. Under a succession of venal and inept Colorado presidents – Andrés Rodríguez (1989-93), Juan Carlos Wasmosy (1993-98) and Luís González Macchi (1999-2003) - corruption escalated, earning Paraguay the reputation of 129th place out of 133 countries on the 2003 Corruption Perception Index of Transparency International. Powerful elite groups that had emerged during the dictatorship jostled to retain their power in the new democratic environment, often through buying congressional votes. Three bouts of military instability (in April 1996, March 1999 and May 2000) provided additional obstacles to the institutionalisation of democracy. As ill-gotten fortunes were rapidly amassed through the narcotics trade, counterfeiting, and through the flagrant misuse of foreign aid inflows, indices

of inequality of income and of rural landholding worsened. By 2005 Paraguay had become the third most unequal country in Latin America, after Brazil and Guatemala.

Nor did PC rule bring major economic transformation. Instead, the economy continued to depend heavily on agriculture, cattle-ranching and forestry. With few proven mineral or petroleum resources and faced with the rampant smuggling of goods from Argentina and Brazil, the industrial sector remained small. During the construction of the Itaipú hydroelectric project with Brazil in the late 1970s and early 1980s the economic growth rate did reach 9 per cent per year. However during the next twenty years it barely kept pace with the increase in population as the economy was buffeted by a combination of declining world prices for cotton, periodic drought and floods and domestic political instability. Paraguay was severely affected by the Argentine crisis in 2001 and in 2002 suffered the worst recession in the past 20 years, with the GDP falling by 2.3 per cent.

■ Economic Growth, Growing Inequality

Ironically the presidency of Nicanor Duarte Frutos (2003-2008) coincided with a period of gradual but sustained improvement in the growth rate, reaching a provisional 6.8% in 2007, the highest since the boom years of the 1980s. This was largely the result of rapid expansion of soybean and meat production for export in response to soaring world prices. The area under soybean cultivation grew rapidly and productivity rose following mechanisation and the introduction of modern methods of crop rotation. Paraguay now ranks as the fifth largest soybean producer and the fourth largest exporter of soybeans in the world. Meat exports have also increased rapidly as Paraguay has diversified its markets away from Mercosur to over 65 countries by 2007. In contrast, the production and export of cotton, which is grown exclusively by small farmers, has declined sharply. The value of exports for the first quarter of 2008 reached a new record of \$945m, a massive 91% increase over the same period of 2007 (\$495m) and the highest quarterly figure ever recorded since records began. The rise was mainly attributed to higher world prices – 123% for girasol, 76% for soya oil and wheat, 61% for maize and 52% for soybean.

However this faster economic growth was built on one of the most unequal structures of land tenure in the Americas and so its benefits were captured by a small elite of soybean farmers, cattle-ranchers, corrupt politicians and urban professionals. As a result, democratisation was accompanied by growing inequality and poverty. According to the official statistical body, Dirección General de Estadística, Encuestas y Cen-

sos (DGEEC), by 2007 35.6% of the 6.2m population was living in poverty and the share of those living in extreme poverty had actually increased from 15.5% in 2005 to 19.4% in 2007. Yet this was at a time when the value of exports actually trebled in just three years - from around \$1bn in 2005 to \$3bn in 2007. Growing resentment at the failure of the 'transition' to deliver improvements in living standards was evidenced in the annual public opinion surveys by Latinobarómetro. Paraguayans consistently expressed the lowest commitment to democracy in Latin America and by 2005 it was the only country where support for authoritarianism rivalled that for democracy. As young, poor rural Paraguayans failed to see the fruits of this growth, from 2002 there was a sudden explosion in migration to Europe. By 2007 there were an estimated 100,000 Paraguayans living in Spain, of whom only 11,000 were legal immigrants.

It is unsurprising that the pressure for political change has been spearheaded by a rural social movement that emerged during the 1980s precisely to protest against the growing land shortage for poor farmers. At first it demanded expropriation of large landholding that had been awarded illegally to army generals and political acolytes during the Stroessner regime under the guise of 'land reform'. Comprising two main organisations, the *Mesa Coordinadora Nacional de Organizaciones Campesinas* (MCNOC) and the *Federación Nacional Campesina* (FNC), the movement became radicalised from the mid-1990s as Brazilian farmers, spurred by the disparity in land prices between the two countries, bought up large tracts of land for mechanised soybean production. It is estimated that over one hundred rural protestors have been killed by the security forces or hired gunmen over the decade 1995-2005. Meanwhile soybean production soared, reaching a record 6.5m tonnes in 2006/2007, converting Paraguay into the fifth largest producer and fourth largest soybean exporter in the world. But the economic benefits of this agricultural boom, which also includes maize, wheat, sunflower and rapeseed, have bypassed the vast majority of rural households, who still cultivate small 10-20 hectare plots, without secure land titles, nor technical assistance and credit from the state. As the spread of mechanised farming literally engulfs these small communities, the irresponsible use of pesticides for GM crops (still nominally banned) is causing the deaths of small children in rural areas, with five cases documented since 2002. Despite repeated requests from the peasant farmer organisations to the authorities, the Ministry of Health has refused to investigate the matter.

Given this economic and political background, such was the utter disillusionment with traditional politicians that when an ex-bishop, Fernando Lugo, led a March 2006 march and rally in Asunción to protest at alleged violations of the constitution by

President Duarte Frutos, he was immediately catapulted to the national political arena. Born in 1951, Lugo is the nephew of Epifanio Méndez Fleitas, the leading Colorado opponent to the dictatorship of Alfredo Stroessner, during which time Lugo's three brothers were forced into exile. In his youth he worked as a teacher in a rural school that was so remote that he was able to escape the usual rule that teachers had to be members of the PC. He became a priest in 1977 and worked as a missionary with indigenous people in Ecuador (1977-82). From 1982 he studied in the Vatican and in 1992 was appointed head of the Divine Word order in Paraguay. In 1994 he was ordained Bishop of San Pedro, a poverty-stricken region in the north of the country where he hosted the Fifth Latin American Congress of Basic Ecclesial Communities in 1996. Here Lugo earned a well deserved 'pro-poor' reputation for his support for invasions of large landholdings by landless families. He resigned the post in 2005 in order to devote himself to political activity. After months of speculation, on 25 December 2006 Lugo announced that he would stand in the 2008 presidential elections as a consensus candidate for the fractured opposition. Days earlier, he had resigned from the priesthood, a decision that provoked the ire of the Vatican, which accused him of disobedience and which remained bitterly opposed to his candidature. Within days of his decision, opinion polls placed him well ahead of all potential presidential candidates from the PC and the PLRA, a position that he maintained throughout the presidential campaign. In a July 2008 pact the PLRA even agreed to support Lugo's candidacy in exchange for the vice-presidential post, a tacit admission of their own weakness and a decision that provoked the ire of the two other opposition parties – the *Partido Patria Querida* (PPQ), a reformist party founded in 2002 by businessman Pedro Fadul that lacks any rural power base and the *Partido Unión Nacional de Ciudadanos Éticos* (PUNACE), led by the charismatic former army chief, Lino Oviedo, who was released from imprisonment in September 2007 by outgoing PC President Duarte in an attempt to split the vote for Lugo. Prospects for a united opposition ended when Fadul and Oviedo each reiterated their intention to stand for the presidency. Instead, the Lugo-PLRA ticket, known as the Alianza Patriótica para el Cambio (APC), attracted a myriad of small left-wing parties, strong in militancy but electorally weak in Paraguay's patronage-based political culture.

■ Lugo Presidency

Fernando Lugo assumes the presidency on 15 August for the five-year term 2008-2013. He represents a potentially serious challenge to the status quo of Paraguay's traditional non-programmatic political culture, which is supported by powerful vested interests that arose during the Stroessner dictatorship and that have consolidated their privileges in the subsequent democratic transition. Lugo has committed himself to

addressing the enormous inequality of income distribution, saying, "There are too many differences between the small group of 500 families who live with a first-world standard of living while the great majority live in a poverty that borders on misery." This involves targetted poverty reduction programmes, support for small farmers through land reform, and combating endemic corruption. However, to date his programme remains imprecise, with little on the specifics of reform. He has said that a rural cadastre will be carried out urgently to determine ownership prior to land reform and that Paraguay's decrepit public health system will be declared 'an emergency'.

Although influenced by liberation theology, Lugo has been at great pains to present himself as a 'centre-left' candidate and to downplay the image as a radical with any natural affinity to the broad populist movement sweeping the rest of Latin America. He has been careful to distance himself from President Chávez of Venezuela and President Morales of Bolivia although he has applauded the greater sovereignty over their country's natural resources that each has promoted. While praising the social dimension of the Bolivarian Revolution in Venezuela, Lugo said that approach was also "linked to a strong dose of statism, totally at the service of one person," and that it displayed "a lack of pluralism," which "is dangerous for a real democracy." In an interesting pointer as to where his sympathies may lie, Lugo said that President Bachelet's government in Chile has not ceased to be socialist just because it signed a free trade agreement with the United States. However, Lugo is likely to establish diplomatic relations with the PR of China, thereby ending Paraguay's position as the only country in South America to recognise Taiwan.

Relations with Brazil will present the biggest foreign policy challenge of all. From the moment that he set out on his presidential bid, Lugo promised to renegotiate the terms of Paraguay's involvement in two mega binational hydro-electric projects – Itaipú with Brazil and Yacyretá with Argentina. The Itaipú hydro-project, jointly owned by Paraguay and Brazil, is the largest in the world with an installed capacity of 14,000 MW, generating around 90 million MWh in 2007. Under the terms of the Itaipú Treaty, signed in secret in 1973 between the military dictatorships that ruled in both countries at the time, Paraguay must 'cede' the unused portion of its 50% energy share to Brazil. Sales to third part countries are prohibited under the 50-year treaty, which expires in 2023. Paraguay currently uses only 7 million MWh per year and must cede its remaining 38 million MWh to the Brazilian state electricity corporation, Eletrobrás at cost price. As 'compensation', Paraguay receives only \$2.7 per MWh,

equivalent to a miserly \$103 million per year. This compares with a wholesale price inside Brazil of around \$60 per MWh for sales of Itaipú energy by Eletrobrás to Brazilian electricity distribution companies and a price of around \$100m per MWh paid by Argentine electricity companies to Brazil for purchases during its 2007 energy shortage. The sale price of Paraguayan energy from Itaipú is clearly derisory and totally delinked from the soaring world price. The current scandalous arrangement is of enormous economic benefit to Brazil.

The gigantic Itaipú hydro-electric scheme is crucial for the Brazilian economy, providing 21% of all its electricity consumption in 2006. For over three decades the Brazilian government has adroitly paid off the Paraguayan political and economic elite in order to maintain this lucrative arrangement. Despite the legal obligation for 'alternating directorships', ever since the project came on stream in the mid-1980s the finance and technical directorships of the bi-national hydro company, Itaipú Binacional, have remained exclusively in Brazilian hands and the Paraguayan National Audit Office has not been allowed to examine the company accounts. Lugo has repeatedly denounced 'Brazilian colonialism' and has vowed to take the matter to the International Court of Justice if its neighbour refuses to renegotiate the grossly unequal terms of the treaty. This is the first time that a Paraguayan politician has ever made such a threat and his move has set off alarm bells in Brasilia. Lugo has also criticised Argentina over the 3,200MW bi-national Yacretá hydro-electric plant, under which a similar inequitable arrangement exists for the sale of Paraguay's energy share.

As the election campaign progressed, it became apparent that his focus on Itaipú had captured the mood of the population at large. Ovelar, Oviedo and Fadul, all of whom had criticised Lugo for raising the issue, were forced to reposition themselves behind the call for renegotiation. A national consensus has now clearly emerged inside Paraguay on the issue of renegotiation. But Itaipú remains high on the Brazilian geo-political agenda and the response of its government has been intransigent in the extreme. Prior to the election, foreign minister Celso Amorim said that no renegotiation could take place before 2023, when the 50-year treaty expires even though it was signed between two illegitimate military governments back in 1973. And in a surprising diplomatic snub, in his congratulatory message to Lugo, President Lula da Silva took the opportunity to remind him publicly that renegotiation of the treaty was out of the question. Nevertheless, Lugo now has a very broad mandate of support on the issue and, in the face of Brazilian intransigence, is likely to contract international experts to present its case to the International Court of Justice.

Relations with Brazil over Itaipú are also linked to the vexed question of land reform. Paraguay is now the world's fourth largest soybean exporter and most of this is produced by Brazilian immigrants who have bought up enormous tracts of land in the eastern part of the country from the 1970s onwards. Much of this land is close to the enormous Lake Itaipú, which was created by the dam for the hydro plant, and which is so large that it has changed the map of Latin America. Paying no direct taxes, using non-minimum wage labour and deforesting fertile virgin land at will, these *brasiguayos* have begun to exercise their powerful economic muscle while showing scant regard for environmental protection. On several occasions from the late-1990s, they successfully blocked major highways with thousands of tractors in order to halt legislation that would bring soy growers under the tax net. Claudia Ruser, head of the powerful soybean growers association, has been an outspoken critic of Lugo, accusing him of fomenting invasions of private property by land-hungry peasant families, whose communities are increasingly becoming isolated islands of poverty surrounded by enormous soy plantations. After his victory, she warned that relations with his government will be "very difficult". Gabriel Torres, a Moody's analyst hit the nail on the head in a 20 April assessment for Latin Finance's Daily Brief, saying "Paraguay has almost no taxes for exports, and there are practically no taxes for the agricultural sector." At a time when a trebling of world soy prices over the past eighteen months has driven the area under cultivation to a new record in 2007/2008 and trebled the value of the country's total exports in the space of three years (2005-2007), Lugo will have a strong mandate to begin taxing what is now the richest economic group in the country. But the sense of fiscal responsibility among the *brasiguayos*, whose blinkered attitudes are akin to white farmers in southern Africa, remains limited and they are likely to dig in their heels and appeal to Brazil for help.

The political challenge facing Lugo is enormous. Although the final results are not yet out, it is clear that he will face a very conservative congress starting on 1 July, in a three-way split, with the PC only just retaining its position as the largest party, followed by the PLRA, his ally in the APC, which made very significant gains, and PUNACE taking most of the remaining seats. But the left-wing movement that backed his presidential bid will have minimal representation in Congress, basically because his own *Movimiento Popular Tekojoja* (MPT) and the *Partido - Movimiento al Socialismo* (MAS) could not agree on fielding joint candidates. Provisional figures suggest that the number of PC deputies in the 80 member lower house fell from 37 in 2003 to 31, with the number of PLRA deputies possibly reaching 28. In the upper house the number of PLRA senators may even exceed that of the PC. There will only be two left-win-

gers in the 45-member Senate. As a result, the APC will not have an absolute majority in Congress, which retains extensive powers under Paraguay's 'weak president' system, which was so designed by the 1992 Constitution in reaction to the excesses of the executive under the Stroessner dictatorship (1954-89). It has already opened negotiations with PUNACE, offering it the presidency of the Senate in exchange for their support.

On a more positive note, Lugo will benefit from the bitter recriminations inside the divided Colorado camp, following its electoral defeat. Out-going president, Nicanor Duarte Frutos is widely blamed for having imposed Blanca Ovelar as his candidate to succeed him against the wishes of party activists. Although Duarte engineered his place as head of the party list for the upper house, his presence as senator for the 2008-2013 term will do much to split the PC in congress, something that will be greatly to the advantage of the APC when pushing through reform legislation. Luis Castiglioni, the defeated candidate in the December 2007 PC primary, said that his Vanguardia Colorada faction will not recognise the leadership of Duarte. It will operate as a separate block in congress but is likely to adopt a robust opposition to Lugo's reform programme as Castiglioni projects himself as candidate for party leader in elections scheduled for 2010.

Given the very poor showing of his left-wing backers, Lugo will be dependent on support from the PLRA in order to push through reforms. But many powerful groups inside the PLRA are deeply opposed to the introduction of income taxation and land reform, both of which are central to Lugo's reform programme. Although receiving pressures through PLRA leader and his own vice-president, Federico Franco, that ministerial posts should go to PLRA members, Lugo has said that he will appoint his cabinet on the basis of merit not political favours. His finance minister will be the highly respected independent, Dionisio Borda, who served in that post for the first two years of Duarte's presidency, during which he engineered a successful fiscal reform programme to extract the country from near default on external debt obligations. But Borda's strenuous efforts at that time to introduce personal income tax and VAT on soybean production failed precisely because of Congressional opposition led by the PLRA. On top of all this, assuming that Lugo can press through reform legislation, his government will face an enormous challenge in rooting out corruption to make way for the delivery of new social programmes, given the control that the PC still exercises over the Supreme Court as well as large sectors of the public administration, especially in rural areas.

Despite the many challenges ahead, Paraguay is finally embarking on the '*alternancia*' stage of its democratic process, which had been postponed for nearly twenty years since the Stroessner dictatorship ended in 1989. Underlying currents of structural reform are welling to the surface, including a new pride and self-confidence in the country's Guaraní language and cultural identity. There is a new mood of hope and optimism in a country where emigration was on the increase and most people had come to despise politicians. It is no surprise that Lugo should be the catalyst for this change – the fact that he was not a 'politician' was one of his strongest electoral appeals. This non-partisan image will stand him in good stead as he attempts to conjure up the congressional majorities needed to push forward urgently-needed reforms. But as he dons the presidential sash on 15 August next he will be increasingly assessed, not as a 'Man of God' but as a mere 'politician'. He remains a complete novice in a political system dominated for six decades by the PC. After the bitter internal recriminations die down over their loss of power, they will make every effort to scupper his reform plans. 