Big Water
Blanc, Jacob, Freitas, Frederico, Frank, Zephyr

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IN 1996, financial experts at *Forbes* magazine listed the Paraguayan hinterland border town of Ciudad del Este as the world’s third-largest port, exceeded only by Hong Kong and Miami in terms of commercial activity. Or so goes an apocryphal tale that has been repeated in the Paraguayan press, on the city’s website, and even in some scholarly literature on the Triple Frontier. Although the citation for this story—if it ever existed—is never included, the very fact that such an account could circulate for years about a landlocked border far from the commercial and industrial centers of the continent points to how rapid economic growth transformed the border zone in the last decades of the twentieth and the first decade of the twenty-first centuries. Ciudad del Este lends itself to fantastic accounts: the Arab and Taiwanese merchant communities that settled there or in neighboring Foz do Iguaçu during the 1970s and 1980s have been accused of contraband, money laundering, and even harboring base camps for Al Qaeda, Hamas, and Hezbollah. But the presence of populations that have so captured the imaginations of security experts in the United States and of filmmakers in Hollywood is merely part of a larger economic strategy begun during the Alfredo Stroessner military dictatorship (1954–1989) and later challenged through the development of the Common Market of the Southern Cone.

Globalization, trade liberalization, and deeper integration between the three countries that meet at the confluence of the Paraná and Iguazú Rivers have altered the economic profile of the region through two major developments:
(1) the creation of Ciudad del Este as a free-trade zone from the 1970s onward, designed to hitch Paraguay to the financial ascent of Brazil; and (2) the formation of the Southern Cone Common Market (Mercosur) by founding members Argentina, Brazil, Paraguay, and Uruguay, initiated in the 1991 Treaty of Asunción. For the former, the strategy was a free-trade zone archipelago of spaces of exception created through internal differentials within Brazil and Paraguay and between them. On the other hand, Mercosur sought to break down all internal boundaries by eliminating trade barriers, implementing a common passport, and, in so doing, homogenizing space. Ciudad del Este is now the financial capital of Paraguay; Mercosur is the largest economic union in South America in terms of volume, value of trade, and sheer population (Venezuela attained full membership in 2012 and Bolivia in 2015). The city and the common market both rescale the border zone as an economic spatial fix, a political-economic move where regulatory changes in the legal infrastructure facilitate market expansion. In this chapter, I set Ciudad del Este alongside Mercosur, tracing the historical development of these two financial strategies of integration as a way to understand the complexities of late capitalism.

The connection between the city and the Triple Frontier is perhaps more apparent than that between the common market and the borderland. Brazil, after all, shares other “triple frontiers” with Paraguay (with Bolivia) and with Argentina (with Uruguay). However, a binational integration also lies at the foundation of Mercosur: the Brazilian-Paraguayan Itaipu hydroelectric dam, eight miles north of Ciudad del Este. Just as the European Union grew out of coal and steel agreements between France and West Germany following World War II, Mercosur may be traced through the legal genealogies of treaties to the international legal architecture around the massive hydroelectric project on the Paraná River. As I will show in this chapter, energy infrastructure that took advantage of the unique geology of the Triple Frontier (i.e., the hydroelectric potential of the river at the Guairá Cataracts, the waterfalls with the fastest flowrate of any on the planet) led to a region-fashioning customs union. Founded in the context of the Washington Consensus—and as a way to outflank the pressures of neoliberal globalization—the Common Market of the Southern Cone has roots insistently connected to place and to natural resources. And so, my argument challenges despatialized critiques of capitalism because it incorporates water. The desirability of hydro resources in the Triple Frontier gave rise to the political-economic structures and, as we will see, continues to play an important role in the making of the region.
Thus, Ciudad del Este and Mercosur offer two different models of economic integration—one binational, the other supranational—suggesting new ways we might rethink borderland economics. For decades, Ciudad del Este has functioned as a point of triangulation and arbitrage for shoppers from neighboring countries. At the mid-1990s height of the “reexport” trade, between US$2 and $4 billion moved through the city; the on-the-books Paraguayan gross domestic product (GDP) approximated US$8 billion. This trade has diminished in the past two decades, leading some merchants to leave and others to attempt innovative solutions to recapture past financial glory. Mercosur trades around US$750 billion in imports and exports every year, and as the common market accompanied serious changes from industrialization and liberalization of the Brazilian economy, it also coincided with the economic downturn of the Ciudad del Este reexport economy.

The Triple Frontier is a space for engagement, rather than the site of separation and containment, in keeping with a long-standing body of literature that has contrasted border zones in the Americas. Mikesell distinguished between Anglo-American “frontiers of exclusion” versus Ibero-American “frontiers of inclusion” in 1960. More recently, Weber argued that Latin American frontiers should be thought of as “zones of interaction,” as both place and process. And in even newer work on border thinking, Mbembe has suggested that precolonial sub-Saharan borders were forged specifically with the intention of fostering intersection. But what Ciudad del Este and Mercosur reveal is not just that border zones promote integration and inclusion as economic strategies. They also show how very different types of economic integration overlap and compete with one another. That is to say, the homogenizing impulse of the common market did not instantly supersede the differentiated space of the free-trade zone; the border facilitated them both simultaneously.

In this chapter, I first follow how the Paraguayan government structured Ciudad del Este in order to triangulate wealth from Brazil’s rise through legal architecture and then how this developed from the 1950s to its apex in the 1990s and how the city’s economic model has subsequently suffered. Then the chapter turns to Mercosur, the rise of a new economic model in the region, and how it specifically affected Ciudad del Este–based trade in the Triple Frontier. Not only were the merchants negatively affected by general liberalization, in recent years they attempted to redifferentiate space within Mercosur as a way to revive their profits. By drawing on ethnographic accounts as well as statistics and law, I set the scope and scale of the two integrations against one another to untangle
how border zone economics have worked under capitalist market logics. In the conclusion, I return to questions about the future viability of both integrations as well as the role of hydro-influenced political economics to come.

**CIUDAD DEL ESTE, 2009**

“To tell this story, I have to talk about the history of my family. They are from Taiwan,” said Eduardo Yang as we sat in a small conference room in the nondescript office that served as the headquarters of one of the top fifty companies in terms of revenue, in all of Paraguay. He spoke in a fluent Spanish accented by Portuguese but used English-language terms for business and technology jargon. “The estimates that were there were fifteen thousand Taiwanese in Ciudad del Este at the height, and now it’s down to three thousand.”

Yang was one of the key leaders of Ciudad del Este’s electronics importing associations and the head of a premiere technology import-export firm. We drank tea together in the multistory shopping gallery in the city’s microcentro (downtown) while he reminisced about his family’s early days in the city.

“In 1983, my father came here. He sold the first computer. In that day, a computer cost $5,000 to $7,000. It was a luxury item. He would sell one and make $3,000, but he only sold one every few months. In 1993 he left. The markup went from 100 percent down to 10 percent. He lives in Miami now,” Yang said.

In a tone of careful respect, he explained why he disagreed with his father’s decision to leave Ciudad del Este when the margins on computers dropped. “The computer went from being a luxury item to a necessity, from a diversion to a tool of development. The Yang family had the privilege of living that history,” he said.

And then he turned to recent changes in Ciudad del Este. “In 2004, for every one hundred personal computers in Brazil, seventy-five came from Ciudad del Este. This went to ten out of every hundred today,” Yang said. “But we are okay because the market doubled every year. It went from $4 million to $20 million today. And so 10 percent of $20 million is $2 million.” He wrote the calculations on a sheet of paper to illustrate the point.

Though Yang was still involved in technology resales, he had diversified his business and showed me detailed images of the cattle herds he was now ranching in rural Alto Paraná. And before I left, he gave me a brochure for yet another business: helicopter tours of Iguazú Falls and other tourist attractions in the
area. Yang’s personal and business experience revealed more than the acumen of his family; they marked changes in the history of trade across the border and showed how the economic interplay between Paraguay’s legal architecture and Brazilian consumer demand worked in a context of changing consumption patterns.

From the moment it was founded in 1957 as Puerto Presidente Stroessner, Ciudad del Este has been part of a concerted effort to articulate toward Brazil, a historical turn colloquially referred to as the March to the East (Marcha hacia el este). The city’s name was changed in 1989 when Stroessner was removed from power in a Colorado Party–led coup. Before Puerto Presidente Stroessner, the major cities in Paraguay tended toward neighbor Argentina: Asunción (near Clorinda), established in 1537, and Encarnación (near Formosa), established in 1615. But the first decade of the Colorado Party administration of Puerto Presidente Stroessner saw a flurry of built environment investments in the underdeveloped eastern frontier with Brazil: an international bridge, a highway stretching east toward the Paraná, and a city at the junction of the bridge and the highway (see also Chesterton, chap. 9). In addition to the graft and direct proceeds from government construction contracts that were doled out to reinforce party loyalty, infrastructure opened up land hitherto inaccessible to massive landholding estates.

Colorado and military elites claimed thousands of hectares of Atlantic Forest and resold/leased it to agribusiness interests or developed it themselves into cattle ranching, cotton, and soy. The soy boom brought Bunge, Cargill, and Monsanto to Paraguay as well as many foreign-born agriculturalists, notably the “brasi-guayo” community of Brazil-born, Portuguese-speaking agro-industrialists who are rumored to make up about 10 percent of the total population in Paraguay (five hundred thousand out of five million). Much of the commercial agriculture exits Paraguay on the international highway that runs through Ciudad del Este, crossing over the Friendship Bridge that links Paraguay to Brazil before dispersing throughout the South American giant or traveling on Brazilian highway 277 to the Atlantic port of Paranaguá.

The financial-legal architecture accompanying Paraguay’s eastward development was just as deliberately constructed as the built environment, and it fulfilled its designed intent: to bring wealth to the country and to the Colorado elite by increasing trade with Brazil. Indeed, as figure 10.1 shows, whereas in the first two decades of Puerto Presidente Stroessner’s existence Paraguayan exports to Argentina quadrupled, its exports to Brazil grew exponentially. As
trade with Brazil passed through the city, municipal revenue increased. The dynamic changes in the earlier decades in figure 10.1 are visually obscured by the dramatic growth in the 2000s, but three crucial trends in the years before 1989 illustrate how the Paraguayan economy in general, and the city’s by extension, changed. First, from 1968 to 1970, exports to Brazil jumped by an order of magnitude: in 1968, Paraguay exported US$232 thousand to Brazil. (1969 was an aberrantly low year, with only US$90 thousand in exports to Brazil.) But in 1970, Paraguayan exports to Brazil increased to US$1 million. Second, between 1970 and 1980, Paraguayan exports to Brazil went from US$1 million to US$40 million, growing by yet another order of magnitude. And third, in 1982, Brazil overtook Argentina as the chief destination for Paraguayan exports (US$83.4 million vs. US$59.2 million, respectively).

The first two points coincide with important regulatory changes in Paraguay in the early 1970s, but they have a critical antecedent in the 1950s. In 1956, before Puerto Presidente Stroessner was founded, an agreement signed between Brazil and Paraguay granted the landlocked country duty-free access to the coastal port cities of Paranaguá and Santos. Goods imported into or
exported from the duty-free warehouses (depositos frances) destined for or sourced from Paraguay were exempt from Brazilian tariffs. Paranaguá, because of its location in the south of Brazil, became particularly important to Paraguay. As a landlocked country, Paraguay lay at the mercy of the tariff regimes of its neighbors. Riverine traffic on the Paraná through Argentina was heavily levied by private shipping companies and Argentine customs. With tax-exempt depository warehouses in Brazil, Paraguayan importers and exporters could circumvent Argentina altogether. But it took nearly two decades before trade with Brazil accelerated. Newly cleared land and a growing population of construction and agricultural workers raised demand for imported goods. The Paraguayan government established a tax-exempt free-trade zone (zona franca) in Puerto Presidente Stroessner in 1970, the same year that exports to Brazil reached US$1 million. This was promptly followed by the creation of the Tourism Regimen (régimen de turismo) in 1971, which lowered tariffs to 10 percent for imported goods that were then reexported. To its credit, the Paraguayan government of Stroessner correctly anticipated a population boom in the Triple Frontier. By the end of 1966, the governments of Paraguay and Brazil had agreed on basic details of the massive Itaipu hydroelectric project, which eventually brought thirty thousand construction workers in the 1970s and 1980s with cash ready to spend.

The reexport trade—where goods might be flown in or imported duty-free from Paranaguá into Puerto Presidente Stroessner and then purchased by Brazilian (or Argentine) resellers in order to then be resold in those countries—transformed the small town into a major commercial hub in the continent. The shops of the Paraguayan city, like the one owned by the Yangs, specialized in electronics, household appliances, entertainment systems, and even computers, which were smuggled into Brazil by petty merchants and then resold, thus avoiding high tariffs on electronics, a legacy of Brazil’s earlier experiment with Import-Substitution-Industrialization. Paralleling the higher-end trade in the shopping galleries, which also showcased perfumes and other luxury items, were rickety sidewalk stalls and stands that sold cheaper manufactured goods and household items for local consumption. Precise numbers for the reexport trade are notoriously difficult to find; undercounting the weight on imports/exports, for a bribe, was one way merchants avoided Paraguay’s already low tariffs. Many goods left Paraguay in launches or were carried by hand in large plastic bags by sacoleiros (from the Portuguese for “bag”) across the Paraná, evading customs enforcement entirely. And still others never made it into Paraguay at
all: documents and proofs of entry/exit with no accompanying shipment were merely stamped by customs officials.

To this day, the most reliable treatment of reexport economics remains a 1998 paper researched by Reinaldo Penner, who worked closely with Paraguay Central Bank numbers. Careful to avoid fabulist accounts—he does not reference the apocryphal *Forbes* story about Ciudad del Este, Miami, Hong Kong—Penner, in fact, distinguishes Ciudad del Este from maritime ports by pointing to the reexport trade, dubbing the city a duty-free shopping mall for *sacoleiros*. His focus is on the peak of the trade in the mid-1990s and its decline in the later part of the decade. According to his estimates, at its height in 1995, the reexport trade amounted to US$4–4.4 billion, decreasing to US$2–2.4 billion in 1998.\(^8\) The eastern city was a principal source of foreign exchange in the 1980s and 1990s, with back-linked effects on other industries (e.g., cardboard and plastic container manufacturing for repackaged exports). For those reasons, Penner argues that the reexport trade was not merely a frontier phenomenon (in the manner of the Mexican *maquila*) but rather that it interpolated the entire Paraguayan economy.

In fact, in 1990 the majority of goods imported into Paraguay were then reexported and, from 1993 to 1995 the reexport trade was larger than soy and cotton exports combined. Though newer comprehensive work on the Ciudad del Este economy remains to be done, Yang’s off-the-cuff comment on the computer sales revenue for his company alone—US$2 million in earnings from personal computers in 2009—illustrates why even into the middle of the 2000s, the city was responsible for the majority of the Paraguay government’s tributary income.\(^9\) The merchant families that remain in Ciudad del Este remember the 1980s and 1990s as the heyday of Ciudad del Este’s reexport trade. Yang’s claim that the Taiwanese population had declined mirrors Penner’s estimates on financial movements. But if the merchant community dwindled because of declining fortunes, the city is as important as ever to the Colorado Party. Indeed, the Colorado Party controlled the municipal government from 1957 to the time of this publication.

Demographic changes in Puerto Presidente Stroessner and Foz do Iguaçu attest to the growing fortunes of the reexport trade. Many of the foreign merchants who owned businesses in Puerto Presidente Stroessner established residences in Foz do Iguaçu and ventured daily into Paraguay for work. While many migrants came to the region lured by financial prospects, like Yang’s father, the Syrian Lebanese merchant community has drawn scrutiny in recent
years. Unlike earlier groups from the Levant, the Arab community in the Triple Frontier was predominantly Muslim (mosques were constructed in both Puerto Presidente Stroessner and Foz do Iguaçu). Israeli and U.S. security experts asserted a connection between the suicide bombings of the Israeli embassy in Buenos Aires (1992) and of the Asociación Mutual Israelita Argentina Jewish-Argentine community center (1994) to Hezbollah and to the Muslim community in the Triple Frontier, though the charge of Islamic terrorism in the border zone is vehemently disputed by the government of Brazil and by the merchant community of Ciudad del Este.  

Within the region, however, Ciudad del Este’s reputation for insecurity came from the prominence of black-market and informal trade.

The decision to create an archipelago of differentiated spaces that perforated the two national territories appears to have been the kind of integration favored by authoritarian regimes at a time of heightened rhetoric on national security. Both the Brazilian and the Paraguayan governments, through exercising control over national territory, introduced legal differentials that reframed the economic jurisdictions of specific places. By rescripting the internal space of the Paraguayan national territory into something favorable to Brazilian economic interests, that is, by Brazilianizing Puerto Presidente Stroessner, the government was able to tether the smaller country to the larger one’s economic climb. Taking up Agamben and Schmitt, what we might see in this creation of exceptional space is not the dissolution of national state control over territory but indeed a strengthening of the sovereign power of the state.  

That a binational chain-linked economic integration should be associated with authoritarian regimes suggests that the technique was seen as concentrating, not diffusing, the power of the national executive. Particular individuals had access to the free-trade zones, access over which state actors could exert monopoly power and that could be distributed along clientelist channels. Yet as the military dictatorships in South America gave way to democratic regimes, the kind of economic integration that suited the governments shifted.

**MERCOsur**

For the merchants of Ciudad del Este and the reexport economy, the passage of Mercosur in 1991 unleashed a race against time. Failed attempts at regional economic integration dated to the 1960s, when the Latin American Free Trade
Association (Asociación Latinoamericana de Libre Comercio [ALALC]) was signed by all nine Hispanophone countries in South America, Brazil, and Mexico and then foundered. Mercosur succeeded where others had not because of new cooperation between traditional rivals Argentina and Brazil in the 1980s as both countries transitioned to democratic rule and struggled through Latin America’s “lost economic decade” amid a new era of economic growth beyond the continent via globalization. At its core, the Mercosur Treaty called for a three-dimensional integration. As a free-trade zone, Mercosur eliminated trade restrictions between member countries. Second, from its beginning, the agreement was to be a customs union with a common external tariff (CET, or arancel externo común), implying the cumbersome and ambitious coordination of international trade policy among its members. And third, as a common market, Mercosur entailed the free flow of people, capital, and services within its borders. Thus, detractors on the right and the left have accused Mercosur of being both too protectionist and too neoliberal; neoliberal in its free-trade policies, protectionist in resisting tariff-free globalization.

Importantly, the legal architecture for the rapprochement descended from transboundary water treaties that had unfolded in the region even as ALALC slumped. And here the Triple Frontier played a key role. Treaties have legal genealogies. Two critical antecedents for the 1991 Treaty of Asunción were the 1966 Act of Foz do Iguaçu (Brazil-Paraguay), which formalized the decision to build the massive Itaipu Dam on the Paraná just north of the Argentine border, and the multinational 1969 Plate Basin Treaty (Brasília), which established how Argentina, Bolivia, Brazil, Paraguay, and Uruguay might use shared transboundary water resources. The Plate Basin Treaty, in permitting binational agreements as long as other Plate Basin countries were not harmed in the process, paved the way for the 1979 Corpus-Itaipu Tri-Partite Accord between Argentina, Brazil, and Paraguay. Legal analysts at the time were aware that a new phase of Argentine-Brazilian relations was being ushered in via the agreement to harmonize two massive hydroelectric projects. Perhaps the materiality of water and the upstream-downstream dynamics (where upstream activities on transboundary water affect downstream countries and therefore touch on sovereignty) added impetus where pledges of financial connectedness could not.

The six member countries that make up Mercosur today have a combined population of 305 million. Global trade for member countries was US$581.4 billion in 2015, making it the fifth-largest economy on the planet. And now that Mercosur has signed a free-trade agreement with the Andean Community
(Comunidad Andina [CAN]), which includes Colombia, Ecuador, and Peru, the common market is poised for even greater regional heft. Figure 10.2 situates the volume of trade for Mercosur. In 1995, intragroup trade represented 18.4 percent of the total trade for the union of four countries, or US$33.7 billion of US$183.2 billion. Trade peaked in 2011, just before the inclusion of Venezuela and an economic slump in Brazil, by far the largest economy in Mercosur. Compared to 1995, by 2015, intragroup trade had more than doubled to US$78.8 billion; but total trade more than tripled to US$581.4 billion, a sign that trade outside the union had grown even more rapidly than trade between member countries. And so, even with the addition of Venezuela to the trade pact, intragroup trade shrank to 13.6 percent of the total trade.

The balance of trade within Mercosur represents a more important market for the smaller countries. In 2009, Argentina and Brazil exported 25 percent and 10 percent, respectively, of their total exports to other Mercosur countries.\textsuperscript{15} On the other hand, that same year Paraguay exported 48 percent and Uruguay exported 28 percent of their external sales to other Mercosur countries. Figure 10.2 also shows that, like intragroup trade, trade with the rest of the Americas tripled over the previous two decades but that trade with the rest of the world (including the Americas) grew by a factor of four. The greatest growth in trade, then, was outside of the hemisphere, making Mercosur especially sensitive to prices in Asia and Europe.
But the question remains whether the trade boom, especially with Asian and European markets, came as a result of the Mercosur agreement. Although more than 90 percent of tariff items are in free-trade conditions within the common market, there are still important exemptions (notably regarding sugar and automobiles) and nontariff restrictions that constitute significant barriers to trade, causing some to refer to Mercosur as an incomplete integration. To wit, economic analysts from the region have claimed that one of the greatest (and sole) gains of the treaty, in fact, had to do with the rise in foreign direct investment in individual member countries.\textsuperscript{16} The proposed monetary union is still only a proposal, and surely the challenges of the euro as well as the economic volatilities of Mercosur member countries have given planners reason to pause.

Because the framers established Mercosur as a customs union and not just a free-trade association, they set a bold level of integration as the goal at the outset. The common market was a way to adapt to neoliberal globalization and implement change on terms set by regional political elites, counterbalancing the agendas of transnational corporations and the Global North. But the common market also prioritized political context and quality of government. Mercosur was a move to shore up the region as a way to counteract threats and instability that might lead to the return of authoritarian rule. Former Uruguayan president Julio María Sanguinetti remarked that Mercosur, in addition to the economic alliance, was a “club democrático” (club of democracies).\textsuperscript{17} In fact, during the irregular Paraguayan presidency of Federico Franco (2012–2013), who had come to power after the 2012 regionally denounced impeachment of Fernando Lugo on questionable charges of mismanaged rural violence, Paraguay was temporarily suspended from the union. With Paraguay’s veto blocked, Venezuela was at last promoted to full membership over Paraguay’s historic negative vote, briefly muted.

The issue that most affected Ciudad del Este was the Common External Tariff (CET), which was the essence of the customs union. To this day, only the national congress of Argentina has approved the CET (in 2012); it still awaits passage by other member countries. Once the CET is implemented, all free-trade zones within Mercosur will be subject to the same tariffs as countries outside the union. Two zonas francas were exempted: Manaus in Brazil and Tierra del Fuego in Argentina.\textsuperscript{18} Unlike the free-trade zone in Ciudad del Este, both Manaus and Tierra del Fuego are manufacturing oriented rather than reexport based. Raw materials and industrial components are imported duty-free for assembly within the two zones; the final products receive the appellation “made in Argentina/Brazil” (respectively) before being sold on the national market or
exported. The Colorado Party government of Paraguay lobbied to get Ciudad de Este included, but to no avail. Because the country is landlocked, the differential treatment of the Paraguayan city took on additional resonances; free-trade zones carry a heightened valence.

While waiting for the CET to come into force—a date that has been pushed back multiple times, from 2006 to 2013 to 2020—some of those Triple Frontier merchants who decided not to leave at the sign of financial trouble chose to diversify their investments (as Yang’s family did). Others seemed to take a holding pattern, hoping to eke out a profit while they still could. Ciudad del Este’s merchants attributed part of their misfortunes to the rise of the agreement, or, at the very least, they claimed that Mercosur had not helped them. To try to arrest this, the more powerful merchant associations attempted what had worked in the past, albeit without the same success: they sought to structure a binational integration within a supranational one. Since pleas to add Ciudad del Este to the list of CET-exempt zones fell on unsympathetic ears, the next gambit was a last ditch effort at formalizing the reexport trade as part of a proposed Unified Tariff Regimen (UTR; RTU in Spanish and Portuguese). Eduardo Yang was one of the major proponents of the UTR and used his position to personally lobby the presidents of Brazil and Paraguay to pass it.

While it was still only hypothetical, one Asunción-based Brazilian economic affairs officer explained to me that the UTR would be “restricted to Ciudad del Este only. It will be part of the Brazilian system and is designed to facilitate and link Ciudad del Este to the Brazilian system via taxation.” To resuscitate the commercial vibrancy of Ciudad del Este, the UTR would apply a single discounted tariff of 25 percent on technology imports into Ciudad del Este for merchants who had formally registered their businesses with the governments of Brazil and Paraguay instead of the 45 to 60 percent tariff normally charged by the Brazilian Receita Federal. Then the “microentrepreneurs” (sacoleiros no longer) would purchase these still competitively priced electronics, register those transactions with both customs offices, and resell the goods within Brazil. The scheme faced opposition from the governments of both Paraguay and Brazil in 2009. The Brazilian economic affairs officer said, “[There is] strong resistance in Brazil to the bill’s approval, especially from Brazilian producers because they fear imports from Paraguay. In Paraguay, there’s a dilemma—there’s a new government. The economic thinking at present is very critical of [short-term] models of development represented in Ciudad del Este. Is Ciudad del Este a temporary situation, a temporary difference?” To allay the concerns of Brazilian
producers who felt that the UTR would make their own manufacturing less competitive, microentrepreneurs were limited to R$100,000 of imports a year.

After years of discussion between tax experts and lawyers, the UTR finally passed as one small part of a larger 2009 Brazil-Paraguay Joint Declaration signed by Brazilian president Lula da Silva and Paraguayan president Fernando Lugo that had at its base a new energy arrangement around the shared Itaipu Dam. Once more, regional economic integration followed the path of hydro-politics in the Triple Frontier. Three more years of foot dragging occurred before the actual implementation of the regime. But by August 2015, the Paraguayan press bitterly reported that only R$4.1 million (US$ 1.2 million) worth of transactions had been registered under the UTR, an “infinitesimal” amount given that reexport commerce ranged from US$ 2–3 billion annually. In other words, by all appearances, the UTR was a dud.

Even with the concession of the UTR from the Brazilian government, the misgivings of the leftist Paraguayan government of Fernando Lugo in 2009 seem to have been warranted. Not only was Lugo’s government concerned that the city’s moneymaking venture was temporary, the opposition Colorado Party controlled and redistributed government rent from the reexport trade, providing financial support to rival political client-patron networks. The larger neoliberal economic context and increased Brazilian manufacturing, in addition to the advent of Mercosur, portended the end of the exceptional economic model. Binational integration helped local political-economic elites, but once a supranational integration arose, another set of actors profited from the new developments, showing how governments have competing priorities at the local, national, and regional levels. And given the congress-led impeachments of two standing leftist presidents (Lugo of Paraguay, Dilma Rousseff of Brazil), it remains to be seen whether Mercosur fulfills its mandate of protecting democracy.

**CONCLUSION**

Like the incomplete neoliberal integration of the North American Free Trade Agreement (NAFTA, which permitted U.S. corn subsidies that arguably destabilized the Mexican corn industry), Mercosur was a negotiated integration. The designers of the common market had to contend between idealized free trade and economic analyses from within the region—notably, dependency theory critiques and a demonstrated preference for state-directed economic development.
But the particularity of the prominent role played by hydro natural resources in Mercosur’s negotiated integration offers a curious contrast to NAFTA and the EU. Not only was water management genealogically involved from the start of Mercosur but also shared water resources remain a crucial, explicitly stated priority of the organization. The common market now comprises the five signatories of the Plate Basin Treaty and sits atop yet another water resource—the Guarani aquifer, a large freshwater reserve that lies across the borders of Argentina, Brazil, Paraguay, and Uruguay. As further testament to the ongoing salience of water to the common market, the prominent official “Mercosur: en pocas palabras” (Mercosur: in a few words) web and print primer highlights five basic facts about the union, three of which are environment/ecology related.22 This suggests that on the horizon we might additionally expect an ecologically rooted scale for integration rather than one with just national or supranational contours.

The governments of Brazil and Paraguay, while they had benefitted from the financial leverage provided by the free-trade arrangement in Ciudad del Este, had independent reasons for wanting to see that model phased out. Nevertheless, the criticisms of Mercosur as incomplete demonstrate that the incentives for a full common market lagged behind. In theory, strengthened democracy, liberal economic growth, as well as a new neighborly regionalism were within grasp. However, in practice, the holdouts on certain products and leery reticence toward greater financial dependence on countries in crisis mean that Mercosur has an uncertain future. And though Ciudad del Este (and by extension Paraguay) was often framed as a site of insecurity and illegality, it simply would not exist without the multibillion dollar demand from Brazilian consumers. Notwithstanding the resistance from local merchants, the binational model of exceptional space is steadily being attenuated; arbitrage has proven more vulnerable than industrialization.

In spite of the uncertainty of the two integration strategies, the tri-border region promises only increased importance in twenty-first-century economics, and to better understand why, it helps to place the geographic specificity of the Triple Frontier in the context of anthropogenic climate change and strained natural resources worldwide. Water resource management is more than just the historical subtext for the growth of Ciudad del Este and the legal condition for Mercosur. The heightened value of a reliable hydroelectric dam on the scale of Itaipu, which supplies Brazil with nearly 20 percent of its electricity needs, coincides with the Brazilian government push to regularize the border. A newly built customs and immigration center now sits at the Brazilian edge of the Friendship
Bridge, facilitating a higher degree of control. The latest plan to revive Ciudad del Este once again relies on built environment infrastructure and the geographic situation of the city. Architects have designed a new regional airport with runways equipped for cargo-bearing planes with a vision of turning the Paraguayan city into a continental transport hub. And should the river-based Paraná-Paraguay Hidrovía waterway project be completed, allowing access to the agriculture lands of the continent from Brazil through Bolivia, Paraguay, Argentina, and Uruguay and even linking up to the potential Atlantic-Pacific railway, perhaps Ciudad del Este will recover its reputation as one of the world’s largest ports.

NOTES


7. Personal communication, August 2009.

8. Penner, Movimiento comercial, ii.


11. Giorgio Agamben, State of Exception (Chicago: University of Chicago Press, 2005); Carl Schmitt, Political Theology: Four Chapters on the Concept of Sovereignty
Corpus Hydroelectric Dam, planned to lie just south of the junction of the Paraná and Iguazú Rivers, could have decreased Itaipú’s ability to generate electricity by altering the head, the height of the river at the foot of the dam, thus decreasing Itaipú’s hydroelectric potential. Corpus was never built, but it nevertheless reshaped the landscape of the region.


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