

## **BUSINESS IN PARAGUAY LEGAL ASPECTS**

### **INVESTMENT CLIMATE**

Paraguay is a country located in the heart of the South American Continent, and in the center of the fastest growing trading block in the world, MERCOSUR. With established state and legal institutions and consisted of a fascinating young population, a trainable asset that will soon become a productive and moving force of this society, Paraguay offers numerous business opportunities. In addition, the membership in MERCOSUR and the new regulations, such as Maquila Law, together with the lowest costs of energy in the continent and favorable taxation, create the opportunities for investors to combine low cost production with an access to a market of a substantial size.

The political, economical and legal system of Paraguay, which brief description will be presented bellow, offers a stable and favorable framework for taking a full advantage of vast opportunities for commercial activity in this country. The premises of economic system of Paraguay, around which the legal system is built, are free trade market economy, free currency exchange system and respect of private property.

The main pillar of government economic policy is a strict monetary stabilization program designed to contain inflation and maintain the value of the local currency, the Guaraní. This policy has been implemented and carried out without price controls or other similar government restrictions.

Foreign and domestic investments have equal treatment before the law in Paraguay. Investment is welcome in all business sectors in Paraguay and is encouraged through tax exemption. Registration and the approval of the investment is needed only for obtaining tax exemption benefits.

Free repatriation of investment profits as well as the binding effect of international arbitration and other measures to protect foreign investments are guaranteed by the law. Respect and recognition of private property is guaranteed by the Constitution.

Paraguay has recently experienced throughout tax reform. The reform has simplified the taxation system, lowering taxes and replacing a great number of outdated and complicated taxes, which caused high administrative costs. The important tax incentives for foreign and local investors were also instituted at this time.

Paraguay has also recently adopted modern banking laws, aimed at the strengthening of the financial system, as well as important legislation regarding the stock exchange and securities markets.

Intellectual rights such as copyright, trademark, patents, industrial models and drawings are protected by Paraguayan law. The Congress has recently passed a new Trademark Law, and the new Patent Law is in the legislative procedure, modernizing and bringing the legal regulation up to date with the international standards.

Another important aspect related to investing and doing business in Paraguay is regional integration. Since 1995, a free trade zone and common market has been established between Paraguay, Uruguay, Argentina and Brazil named MERCOSUR. This arrangement opens a large market for Paraguayan goods and has as its main objective the total elimination of all custom duties and restrictions within MERCOSUR. Recently, Chile and Bolivia have signed agreements which will lead to their integration into MERCOSUR. MERCOSUR represents the total of 220 million inhabitants and covers the surface bigger than the whole European continent and it is currently the fastest growing trading area, experiencing the growth of 400% in trade between 1990 and 1997. Located in the heart of MERCOSUR, Paraguay offers excellent opportunities for permeating this enormous market.

The priority of Paraguayan government at the moment is state reform and restructuring. The process of privatization has started with the law passed in 1991, followed by the privatization of the state owned airline. Recently, the state has entered a more rapid stage of transformation, both in the sphere of privatization and administration reform. In October, 2000 the Congress has approved the State Reform Law, providing for the drastic change in the state structure, reducing the bureaucratic apparatus and increasing the efficiency of the state, as well as for the fast track procedure allowing the Executive to approve the privatization or capitalization of state owned telephone, water and railway companies. It is expected that in a year time these companies will undergo the transformation. The state reform, which is aided by the loan and expertise of the World Bank, has been so far assessed as successful and in accordance with the projected plans.

#### **POLITICAL AND LEGAL SYSTEM**

The Constitution of 1992 establishes Paraguay as a Republic based on the representative, democratic and participative form of government, separation of powers principle, judicial independence and respect for civil rights. The Constitution provides for the division of the government into three classic branches: Executive, Legislative, and Judicial.

- The Executive branch is headed by the President, who is with the Vice President elected in direct, national elections held every five years. The President nominates the members of the cabinet.
- The Legislative Branch has two chambers: the Senate and the Chamber of Deputies. Deputies of both chambers are elected in direct, national elections at the same time as the President and with the same term in the office.
- The Judicial Branch consists of Trial Courts, Appellate Courts and the Supreme Court, as the highest court in the country. The Supreme Court is vested with the power of supervision and administration of the judiciary, constitutional review of the laws and it could also serve as the last instance court.

The Constitution establishes the balance of powers between the governmental branches through the system of checks and balances. The Legislative branch, for example, may control the Executive and Judicial branches through an impeachment procedure. The Supreme Court may declare the laws unconstitutional. The President has the right to veto laws passed by Congress.

The legal system of Paraguay is, similar to the most Latin American countries, the Civil Law system. An important characteristic of this system is codification of the laws, which are compiled in Codes. Hence, most Paraguayan laws will be found in Codes, such as the Civil Code (which encompasses commercial activities as well), Labor Code, Rural Code, Customs Code, Criminal Code, and others.

## **INVESTMENT LAWS**

Law 117/91, regulating investments, is of importance for foreign investors as it guarantees equal treatment and same rights to foreign as to national investors.

This law guarantees a foreign investor a series of rights, such as the respect of private property, the free exchange of capital and repatriation of profits, and a regime of free trade. The law also provides for the enforceability of foreign and national arbitral awards as well as for the possibility to obtain investment insurance in the country or overseas.

Law 117 regulates the establishment of joint ventures, or associations of foreign companies with Paraguayan enterprises, both in private and public sectors.

In addition, what is important for settlement of disputes arising in regard to investment, Paraguay is since 1982 a member of the International Center for the Settlement of Investment Disputes, developed by the World Bank and located in Washington D.C.

## **LEGAL ENTITIES FOR DOING BUSINESS IN PARAGUAY**

There are different legal entities through which the foreign company may undertake commercial activity in Paraguay.

### ***Branch or representation***

The foreign company may operate in Paraguay through a branch or other type of representation. The requirement for the registration of a branch, needed for its operation, is the submission of certain duly notified and legalized documents, such as documents relating to the certification of a legal existence of the parent company and the formation of a branch, and power of attorney granted by parent company to a person in charge of the formation of the branch.

### ***Corporation***

Investors can establish a corporation. Corporations (sociedades anónimas) are legal entities liable for their obligations only to the extent of their assets. Participation of shareholders is represented by shares. Corporation is the most open form of an enterprise, providing for the flexibility in management and ownership structure within certain guidelines provided for in the Civil Code.

Corporation can be formed by at least two shareholders. Its capital has to be fully subscribed and issued and the corporation registered in Public Registry before the commencement of the activity. Corporation must have bylaws which regulate its formation, management and liquidation. Bylaws may establish different kinds of shares with different rights. Paraguayan law also allows issuing of debentures (or bonds).

Shareholders meet either at ordinary meetings that must be convened once a year or at extraordinary meetings. Daily management of corporation is exercised by one or more directors, which must be elected at the ordinary shareholders meetings or be designated in incorporation documents. Directors can be Paraguayan or foreign citizens with legal residence in the country. Directors do not need to be shareholders, and may be reelected.

The administration, management and the legality of the activities of the corporation is supervised by one or more syndics, which are elected at ordinary general meetings. They must be capable of performing duties assigned in the bylaws and must be domiciled in Paraguay.

Directors and administrators are not liable for company obligations except in case of nonperformance of their duties, mismanagement or personal violation of law or corporate bylaws. In those cases, they will be jointly liable to the corporation and to third parties (save for directors who opposed the illegal decisions).

Five percent of net profits of corporation must be set aside annually with purpose of creating reserve fund of not less than 20% of subscribed capital. Dividends may only be paid to shareholders out of corporation net profits.

***Limited liability company***

Finally, the foreign investor may undertake commercial activity through a limited liability company (Sociedad de Responsabilidad Limitada ) with exception of banks, financial companies, insurance companies, or savings and loans companies which cannot be formed in the form of limited liability companies. The capital of the limited liability company is also divided in shares and the liability is limited to the assets of the company. The difference between the corporation and limited liability company is that the later is a smaller, more closed and easier to control entity in regard to management and ownership.

Limited liability company can be established by at least two persons but there cannot be more than twenty five shareholders. The company has to be registered in the Public Registry. The capital must be subscribed completely and at least 50% must be paid in cash. There is no minimum capital required. Bearer shares are not admitted.

If a partner wishes to transfer shares, he must notify the other partners of his intention allowing them 15 days for a response. If there are more than 5 partners, the transfer must be approved by  $\frac{3}{4}$  of the partners. If there are 5 partners or less, the approval must be unanimous.

Limited liability companies are managed by one or more administrators, who may or may not be partners. They have the same rights and obligations as the corporation managers.

**TAXATION**

In recent years, the Paraguayan taxation system experienced a substantial reform which has eliminated export taxes, levies on foreign exchange submissions and most stamp taxes. A consumption based value added tax is now the largest source of tax revenue. The reduction and simplification of taxation system has substantially decreased administrative costs leading to an overall increase in tax revenues. Taxes in Paraguay are favorably low. They equal to less than 10% of GDP. There is a flat rate of 30% of corporate income tax, 10% rate of value added tax and 5% tax on profits remitted to non-residents. Paraguay does not have personal income tax.

***Brief Overview of Paraguayan Tax System:***

- *Income tax*: flat rate of 30% imposed only on the income generated by enterprises engaged in commercial and industrial activities. Non-profit organizations, and mutual fund societies are exempted from this tax. Paraguay does not have personal income tax.
- *Small business turnover tax* (Tributo Unico): income from the commercial or industrial activities or services which are not considered personal services are subject to this tax. One person enterprises domiciled in the country whose income is not greater than 37.000.000 Gs (approximately. US\$ 16.000) are also subject to this tax. The rate is between 1% and 4% depending on the category taxed.
- *Value Added Tax (IVA)*: Following activities are taxed: transfer of goods, services and import of goods. In addition, individuals providing personal services whose gross income is greater than US\$ 9.000 (updated annually) are also subject to this tax. Individuals and firms deduct any value added tax paid to suppliers of goods and services to determine their net liability in any month. The tax rate is 10%.
- *Excise tax*: Tax on domestic sale and import of specific products, such as tobacco and tobacco products, carbonated and alcoholic beverages, petroleum, etc. Tax rate for tobacco is 7% or 8% (depending on quality, characteristics, etc.); for alcoholic beverages from 8% to 10%, for petroleum products 50%
- *Documents tax*: credit transactions by financial institutions, domestic transfers of funds through instruments such as money orders and letters of credit, foreign transfer of funds, etc. are subject to this tax. Rates vary from 1% to 1.74 %.
- *Property Tax*: this is an annual tax on real estate in the territory of Paraguay owned by nationals or foreigners. General tax rate is 1%.

### ***Tax Incentives***

Law 60/90 establishes important tax incentives. The services that benefit from the tax exemptions laid down by this law are: constructions, transport, storage and warehouses, scientific investigations, health, radio, television, media, urban and rural telecommunications, hotels and other tourist accommodations and shopping centers.

The law provides for:

- Exemption from 95% of income tax for five years, which under certain circumstances can be extended for additional five years.

- Exemption from taxes levied on remittance of overseas dividends and profits.
- Exemption from fiscal and municipal taxes on the establishment, documentation and registration of corporations and firms.
- Exemption from all taxes levied on capital increases provided for in articles of incorporation or bylaws, capital contributions in the form of movable goods, real-estate, etc. and on the issue, purchase and sale of bonds debentures, and other securities.
- Exemption from all taxes on customs duties on the import of capital goods and of Value Added Tax on import of capital goods for initial installation.
- Exemption from taxes on items such as loans and credits.
- Total exemption from taxes on Acts and Documents

To obtain the benefits of law 60/90, a feasibility study must be first presented for approval to Investment Office. The project then has to be approved by a joint resolution of the Ministry of Finance and the Ministry of Industry and Commerce, granting the respective fiscal benefits. The entire procedure usually takes approximately 45 days.

Law 60/90 also establishes the leasing of capital goods as one of the forms of investment, which allows the import into the country of capital goods under the rules of temporary admission for the period of the lease agreement. Upon the expiration of the agreement, if not extended, the leased goods may either be re-exported or nationalized.

## **STATE REFORM**

In October this year the Congress has enacted Law 1615/00 on State Reform providing for the administrative reform as well as for divesting the state of some state controlled enterprises through privatization. Thus, the reform envisioned by the Law encompasses two types of state entities. The first are the central administration agencies, under the auspices of the Executive power, i.e. the ministries and other corresponding bodies. The Law provides for their modernization and reorganization on the basic principles which are to be fully developed by the Law on state reorganization which proposal has to be submitted by the Executive to the Congress within 270 days.

The second state entities which transformation in the form of privatization is provided for in the Law are the following state controlled enterprises: Telecommunications, Water Utilities and Railway. The Law also stipulates that other state enterprises may be designated by the law to undergo the same transformation, thus opening the possibility for privatization of Electric Transmission and Distribution, Cement Company, Petroleum Distribution Company, Ports and Airports and Postal System.

The reform of these state enterprises will go through three stages: reorganization, transformation into one or more corporations and finally whole or partial sale of the stock or capitalization by the emission and sale of new stock. The Law confers the implementing role for this process on the Executive, thus enabling the fastest procedure. The Law also establishes deadlines by which the first two stages are to be completed. The sale will take place in the form of national or international public bid, thus guaranteeing full transparency.

In addition there are corresponding laws in existence, namely the Law 642/95 on telecommunications and the new Law 1614/00 regulating water, discussed below, that provide for a Regulatory Agency that will be entrusted with the regulation of water and telecommunication, and their concessions. The same system is envisioned to be applied for deregulation of the supply of electricity.

## **MAQUILA LAW**

In July 2000 the government has issued the decree number 9585 implementing the Maquila Law 1064/97.

Under the Maquila Law the foreign manufacturer or service provider can establish a twin plant in Paraguay or contract a local company for producing in the form of transformation, elaboration, repair or assembling of goods from imported parts or raw materials for the purpose of exporting the final product. The imported parts or raw materials are allowed into the country on the temporary basis, free of all taxation and duties, under the condition that the final product is exported from the country. Also the equipment to be used in the local plant can be brought into the country free of all duties for the duration of the approved maquila period. In addition, the maquila contract and the activities in relation to the contract have a very favorable tax treatment as they are subject only to 1% income tax calculated on the bases of the products' added value in Paraguay. There is an exemption from all other taxes levied by the central, local or municipal governments.

In addition, if the final product satisfies the MERCOSUR rules of origin, than the product will be exempted from custom duties and restrictions of the MERCOSUR member States.



## **TRADEMARK LAW**

Trademark law is regulated by the Law 1294/98, which adopts the international standards. Paraguay is also a member of the following international treaties: the Paris Convention, Bern Convention, the Inter-American Trademark Convention and GATT – TRIPPS.

According to the Law the request for the registry of the mark is filed before the correspondent Office of Industrial Property Department, which is a part of the Ministry of Industry and Commerce. Trademark grants the proprietor the right on the exclusive use, as well as the judicial action in case of the infringement of the rights. In addition the proprietor can oppose the registration and use of another mark that can create confusion between the products.

The trademark is valid for 10 years and it can be indefinitely prolonged for equal periods. The renewal has to be requested within the last year of the trademark period and following the same formalities needed for its registration. There is also a grace period for renewal of 6 months after the date of the expiry of the trademark period.

The Trademark Section, after accepting the trademark application, will publish it, allowing 60 days for the presentation of any objections to the application. If there are no objections, the Trademark Section will continue with the registration proceedings. If there is an objection the case will be transferred to another department for conducting the adequate procedure.

The trademark proprietor can license the trademark. The license contract has to be registered at the Intellectual Property Department to ensure its effect against the third parties. The licensee can use the mark for the duration of the contract and with the obligation to indicate that service or goods are licensed. The trademark proprietor can also transfer the trademark.

The use of the trademark is obligatory. Any interested person may demand the cancellation of the registration, especially if the mark has not been used within the 5 years of its registration, or the use has been disrupted for 5 consecutive years or when its use has undergone substantial alteration from its original distinctive character.

The law also grant the right on priority which can be invoked within the period of 6 months, established by the Paris Convention. The applicant needs to state the date and the country of trademark registration in the request.

## **TELECOMMUNICATIONS**

The regime of telecommunications is regulated by a recent Law 642/95, implementing the constitutional principles and international treaties. This modern law establishes a Regulatory Agency in charge of technical and administrative regulation of telecommunications. It also regulates concession, licensing and permits.

The Constitution stipulates that emission and dissemination of the electromagnetic communication signals is under the State control. Law 642/95 elaborates this constitutional provision. The law establishes National Commission of Telecommunications (CONATEL), as an autonomous and financially independent public law entity in charge of administrative and technical regulation and administration of telecommunications, all in accordance with the law and governmental policy.

According to the law radio, television, cable and similar services are open to free competition, with the requisite of obtaining permission and license from CONATEL for undertaking the activity in this field.

The law also distinguishes between following services: 1) the so called value added services, which are services that use as a support the basic services (and that is basic telecommunication services, i.e. local, long distance and international services) and add a certain characteristic or facility to a basic service, e.g. fax, cellular phones etc; 2) private services, which are services established by individuals for the satisfaction of their personal needs within the national territory; 3) radio amateurs, practicing this activity for exclusively personal and non lucrative ends; 4) services of small coverage or community radios, which are services transmitting cultural, educative, informative or artistic programs with non lucrative ends; and 5) services reserved for the State, such as meteorology, flight control, river traffic control and similar.

The law distinguishes between concessions and licenses. Concession is an act by which the State grants a person a right to provide a public service for a determined period of time. Concessions are granted by a contract approved by the Congress. License is an act by which the State grants a right for establishment and use of telecommunication services which do not require concessions. Licenses are issued by CONATEL. The same as concessions, licenses are not transferable, unless the transfer is approved by CONATEL.

## **CONCESSIONS**

The Congress has recently enacted the Law 1618/00 on concessions of public works and services. The law establishes the legal framework for obtaining a concession through contract with either of the three central governmental powers, or “departamentos”, which in Paraguay is equivalent to a county or province; or municipalities.

The law defines public service as the service provided to the public in regular and continuous manner for the satisfaction of some general interest and by a public entity. Excluded from the law are the public services of telecommunications and supply of electrical energy and water. Public works are those that have to be undertaken by the State for the benefit of the community.

The authorization for offering a particular public service or works for concession has to be obtained through a law or a by an ordinance enacted by a “departamento” or by a municipality. The concession can be granted only through a public bid which could be open to nationals and non nationals. The law provides the legal framework for conducting the public bid, with the purpose of ensuring the transparency of the process.

The object of concession is providing the service or construction, improvement, repair or maintenance of a certain object and its administration and use. The respective rights and obligation of the parties are established in the contract. The maximum duration of concession is 30 years. Two years before the end of concession period the competent State body has to decide whether to reassume the public service or to extend the concession through the public bid. The same grantee can be granted a new concession only through the public bid.

The Congress has also enacted Law 1614/00 of general framework that regulates the service rates for the supply of drinking water and sanitary sewage system which will come into force 90 days upon the constitution of the Regulatory Agency provided for in the Law. This Law will enable for concession of these services in a similar way as the above discussed Law 1618/00.

## **NATURAL RESOURCES**

According to the Law on Energy, the administration and distribution of electricity is conducted by a state owned enterprise. The prices of electricity are fixed by this enterprise, however, the industries can negotiate the prices. There is a bill pending in front of the Congress with the purpose of deregulating the administration and distribution of electricity. It is expected that the electricity distribution will be deregulated in the future and the price will be subject to the free market determination.

There are two major bi-national hydropower plants in Paraguay, Itaipu (Paraguay – Brazil), which is the largest dam in the world and Yacyreta

(Paraguay – Argentina). Thanks to these two sources Paraguay has the lowest cost of electricity in the continent and one of the lowest in the world. Paraguay is also one of the biggest exporters of electricity in South America.

According to the Constitution hydro carbonates and all minerals in natural state, apart from rocks and sand substances are state property. However, the State can grant concessions to private, public or mixed entities, nationals or foreigners for their exploration and exploitation for a limited period of time.

The concession of gas and petroleum is regulated by the Law 779/95. Permission for the research is granted by the Ministry of Public Works and Communications in duration of one year and possible extension for one more year. Exploration concession is obtained by the contract with the Government for the duration of four years and possible extension for additional two years. Both the permission for the research and the concession for exploration require a guarantee deposit, the first of US\$75.000 and the latter of US\$ 0.20 per hectare. Exploitation concession is also granted by the contract for the duration of twenty years, and renewable for additional ten years. During the exploitation concession the grantee is obliged to pay the fee for the ground and the royalties.

Concession of mineral resources is regulated by an antique law from 1914, with later modifications. The issue of the necessity for the revision of the law is before the Congress. According to the practice that began in 1996 with the company “Yamana”, the company interested in concession can conclude a contract with the Government, establishing the guaranties and benefits and rights and duties of the parties which will then be enacted by the Congress as the law. In this way the Law from 1914 is overruled by this later law, and also the constitutional mandate to regulate concessions by the law is fulfilled.

#### **REPRESENTATION, AGENCY AND DISTRIBUTORSHIP**

Law 194/93 regulates the termination and modification of the contractual relationship between the foreign manufacturer and domestic representative, distributor or agent. The law is at the moment under constitutional review.

According to this law the foreign company that is part of agency, distribution or representation contract may cancel, revoke, amend or refuse to renew the contract on the base of statutory listed just cause. The just cause being: noncompliance with contract clauses; fraud or breach of trust; inability or negligence; continued reduction of sales or distribution of products; any act attributable to the representative, agency or distributor that affects or prejudices marketing, sale, or distribution of the products; conflict of interest due to representation, agency or distribution of products or services that may be in competition with products or services contemplated by the relationship.

The foreign company may also cancel, revoke, amend or refuse to renew representation without cause, but in that case it will have the obligation to pay a compensation.

Prior to termination due to any of the above mentioned causes, the foreign company shall require the representative to cure the cause invoked, within the term of 120 days.

Law 194 also provides for the exclusive jurisdiction of the Paraguayan tribunals. Although it has been adopted in 1993, the law has been invoked for the first time in a very recent case, which raised the issue of its constitutionality. The matter is currently being deliberated by the Supreme Court.

#### **LABOR LAW AND SOCIAL SECURITY**

Labor relations and social security are regulated by Labor Code, enacted in 1993. In addition, there is also a Labor Procedure Code, regulating a special labor dispute procedures. The Labor and Labor Procedure Codes apply to employees which are in a position of dependence and sub-ordinance. Directors, managers and other employees with high remuneration for their position and independence in their functions are not governed by the Labor Code.

The wages of the employees are freely determined, but cannot be lower than a minimum wage determined by the government. The wages can be paid for a unit of time (month, week, day), for a unit of work or on the base of a sales' percentage.

The employee also has a right on a annual bonus, which must be paid before December 31, of each year. The bonus is either one twelfth of the annual salary or 25 daily wages for a manual worker.

Working hours are limited to 8 hours a day and 48 per week, or 7 hours and 42 hours per week for night work. The working day must be divided into two sections, with a half an hour break for lunch at the time established by the employer.

Employees have a right on one free day a week, which is usually Sunday. They also have a right to redistribute the working hours through weekdays in order to leave work Saturday at noon.

Employees have the right on paid vacation, which duration depends on the length of employment and ranges from 12 days for up to 5 years of employment, up to 30 days for 10 or more years of employment.

For the unilateral termination of the employment by the employer the Labor Code distinguishes between the unilateral termination on the base of one of just causes established by the Labor Code, and termination without a cause. The importance of the difference is that in the latter case, the employee has a right on indemnity.

Paraguayan law also provides for the job security for the employees employed for longer than 10 years. In this case the labor relation may be terminated only if the employer proves the existence of the just cause or if the employee fulfills the conditions for retirement.

Paraguay has a mandatory social security system, conducted through a governmental agency Instituto de Previsión Social (IPS). The contributions for the social security are: 9,5% of the salary, paid by the employee and 16,5% paid by the employers.

#### **IMMIGRATION LAWS AND VISITOR'S VISAS**

Law 978/96 regulates immigration, foreigners, permanent and temporary residence, etc. in Paraguay, and its objective is to promote a capable and skillful labor force, as well as the immigration of foreign capital, farmers and qualified workers in general. The law regulates the admission, entrance and exit of all foreigners in Paraguay, except for diplomatic officers, members of international organizations and their families.

Law 978 establishes a list of cases in which foreigners will not be allowed to enter the country such as persons infected with a highly contagious and dangerous disease, persons with mental diseases; former convicts (more than two years in prison); people who are related with prostitution, and people who have no profession, skill, etc. in general.

Two categories are established for foreigners: residents and non-residents. All foreigners that establish domicile in Paraguay, permanently or temporarily, exercising a legal activity are considered residents. Non-residents are those who enter the country with no intention of establishing a domicile, such as tourist and in transit passengers.

Residents are divided into two categories: permanent and temporary. Permanent residents are those foreigners which have the intention of establishing themselves on a definitive basis, in order to sustain any type of legal activity, which authorities consider as useful for Paraguay (e.g. job generation, increasing the number of exported goods, incorporation of new technologies, etc.). Permanent residents who obtain government accreditation will have the same rights as nationals, subject to limitations established by the Constitution and other laws (e.g. voting for municipal elections, but not for presidential elections). Permanent residents are allowed to stay in the country for an indefinite duration. However,

they will lose their status if they are absent for more than three years from the country (not applicable if they have a special permit from the authorities).

Temporary residents are all foreigners who have the intention to maintain domicile in Paraguay only for a limited time and that is period of time needed for the fulfillment of their activities. Law 978 establishes that the following will be considered temporary residents: scientists, researchers, professors, etc. hired by public or private businesses to carry on certain activities; managers, directors, businessmen transferred to the local offices to carry on specific activities; students; political refugees; foreigners who come to carry on religious activities to Paraguay, etc. Temporary residents may only practice the activity for which they entered the country. While their temporary residence permit is valid, the foreigners established in this category may leave and enter the country as many times as they wish. A temporary residence permit is granted for a year, and is renewable.

## **MERCOSUR**

The Southern Common Market, or MERCOSUR is a large regional market formed by Argentina, Brazil, Uruguay, and Paraguay. MERCOSUR was created with the signing of the Treaty of Asunción, on March 26, 1991, and it has acquired international legal status since the ratification of the Ouro Preto Protocol by all four participating countries in 1996.

MERCOSUR has as a principal benefit regional free trade, that is the advantage of delivering products to consumers in all four member countries without paying custom duties (there are limited exceptions). MERCOSUR is a free trade area similar to NAFTA since its member countries operate with a common foreign trade policy when dealing with the rest of the world.

All four member countries of Mercosur add up to:

- 12 million sq. kilometers of land area (59% of South America)
- 220 million inhabitants (44% of the population of South America)
- GDP U\$S 1.3 trillion in 1997
- Exports: U\$S 70 billion a year
- Imports: U\$S 75 billion a year

### ***Advantages for Paraguay***

MERCOSUR offers its member countries a better chance of protecting the common interests of the region. For Paraguay, MERCOSUR represents an advantage with regards to production, since Paraguay can contribute with natural resources, human resources, and advantageous location for the creation of factories and assembly plants. Other advantages are the increase in direct

investments, simplification of norms and procedures, increase of productive efficiency, and easier access to the world market.