

In the money meat - The Tri Border Area in South America

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DRAFT - Working in Progress

Analysts estimate that up to half of all automobiles in Paraguay were stolen in Brazil (Hanratty, 1990). And surely, they came from the TBA. The Tri-Border Area (TBA) is composed by Foz do Iguaçu, Brazil; Ciudad del Este, Paraguay and Puerto Iguassu, Argentina. Although considered as one single region, the three cities are governed by different institutions, and thus have different regulations, different economies and different recent histories. Consequently, they are very different cities within one single region.

Between the 70s and 80s, with the construction of Itaipu Dam, population exploded. Chinese, Taiwanese and Arab migration grew Paraguay's population and facilitated the trade between Asia and South America. Paraguay has consolidated itself as the gateway for Chinese goods in Brazil. The lack of market regulation and basic government enforcement in Paraguay also brought criminal activities to the region: drugs and guns dealing, human and animals trafficking, mafias, and others.

Local researchers argue that the informal economy by itself surpasses the official numbers used to present the size of the local economy. This paper will focus on the disparities between Paraguay and Brazil due to different institutional arrangements, and how these differences are materialized in the social context currently.

Introduction – WORKING IN PROGRESS

The Tri-Border Area (TBA) is composed by three cities from three different countries. Paraguay, Argentina and Brazil are separated by rivers, but strongly connected with physical and natural assets and strong social aspects. Iguassu Falls connects Brazil and Argentina, Itaipu Dam connects Brazil and Paraguay, and Ciudad del Este feeds the system, and moves the economy.

Fig. 1: The Tri-Border Area - Source: Google Maps

Brazil and Argentina are separated by the Iguassu River and share one of world's most beautiful waterfalls in the world. Iguassu Falls receive more than 1.5 millions tourists every year from all over to other to contemplate its beauty. The Fall has 365 falls and has the world records in water flow. The Tancredo Neves International Bridge connect Foz do Iguassu (Brasil), with Puerto Iguassu (Argentina). Despite the Mercosul agreements the Argentinian government heavily controls the border. Puerto Iguassu, in Argentina has only 43.000 inhabitants and it does not have a major importance on Argentina's context, though it has a minor role in the region's economy due to the Falls.

The division between Brazil and Paraguay is also materialized in the waters. The Parana River is one of the most gigantic rivers in South America. Although the cities are divided by the river, they are connected by the Friendship Bridge and the Itaipu Dam, the biggest electricity generation facility in the world is supplying 79% of Paraguay's and 14% of Brazil's total electricity demand.

Ciudad del Este is the second major city of Paraguay, has 340.000 residents, and is the third largest free trade zone in the world, after Miami and Hong Kong. It is the main gateway for Chinese good for the entire Brazil and also to other Latin American countries. Intense informal economy, illegalities and criminal activities are common in the Paraguayan side of the border.

Although most of the region's assets are shared, Foz do Iguassu is the one that get most of the benefits, as it is the only city of the three that has direct access to Iguassu Falls, Itaipu and Ciudad del Este. The main airport of the region is also in the Brazilian side of the border, and the main hotels as well. Foz do Iguassu is highly benefited by Itaipu, which does huge amount of investments in order to support local universities, urban projects and community assistances. It has 264.000 residents.

Combined with all these features, the region also has a global population that goes beyond Brazilians, Argentineans and Paraguayans. People from Taiwan, China and Middle East reside in all the three countries, creating a global region with a broad range of different cultures, religions and interests.

Besides the high rates of population from Asia and the Middle East, the migration flows between Brazil and Paraguay also play an important role in integrating these regions. According to Souchaud (Fig. 2), the ethnic integration between the countries goes far beyond the TBA.

Fig. 2: Paraguayan population in Brazil - Left; Brazilian population in Paraguay - Right
- Source: Souchaud et al (2007)

Although the region has similar geography, culture, and colonial history, the current development gap is gigantic. The main reason for this difference is the institutional decisions and arrangements that took place in the history of Paraguay.

Literature – WORKING IN PROGRESS

In the 1950s, when Taiwan opposed Mao's regime, Paraguay recognized Taiwan's sovereignty. With that, thousands of Taiwanese had an easy migration path to Latin America. After the end of Mao's regime, In the 1980s, when China began to implement economic liberalization reforms, the China and Taiwan reconnected. Consequentially population also started to spread, and as Ciudad del Este was a destination for Cantonese (Pinheiro-Machado, 2012)

During the 1970s, the Paraguayan government signed Law 550. This Law opened Paraguay to foreign investors by providing tax-breaks, duty-free capital import, and additional incentives for companies that invested in priority areas (Hanratty, 1990).

With the construction of the Friendship Bridge and the Treaty of Itaipu Dam being signed Paraguay and Brazil in the 1960s, economic opportunities strongly emerged in the region, and the urban environment started to grow fast.

Itaipu Dam was built on early 80's between Brazil and Paraguay. The construction of it was a groundbreaking for the region, creating thousands of new jobs, and opening a development path for both of the countries through a renewable and clean energy source. During the peak of the construction, the site had 40.000 workers. The project was so big that it really urbanized the entire region. Demands for hotels, restaurants, banks and commercial areas suddenly happened, and everything boomed.

The combination of this factors can explain how Paraguay arrived in its currently

situation. By having a population directly connected with China, the trade would already become natural. The potentials for these trades increased significantly with the development of the region through the construction of Itaipu and all the tourism demand that the region have.

These factors would not be able to attract buyers from all Brazil without Law 550. The Law opened the path for the informal economy to rise. Chinese good flooded the entire world, but to arrive in Brazilian cities, Ciudad del Este was the gateway. Analysts estimates show that the underground economic activities from Paraguay surpluses the total GDP from Paraguay (Rabossi, 2004).

According to Pinheiro-Machado:

In the 1980s and 90s, this border trade provided employment opportunities for hundreds of thousands of people in Brazil during the restructuring of the Brazilian democracy and, subsequently, the economic opening of the country. ... "Made in China" markets multiplied throughout the country, at which time vendors began to make weekly trips to get the latest items that were arriving in the country. Commonplace goods, electronics, cosmetics, ornaments, replicas etc. were available for the first time at affordable prices for different social groups, especially the middle and lower classes. ... The rise of "Made in China" goods caused a great change in low-budget Brazilian markets. Until then, street vendors in the large cities sold odds and ends, crafts, fruit and fish. The genesis of these markets is rooted in the rural exodus of freed slaves, tenant farmers and other underprivileged groups in the country.

Currently, the Tri-Border Area has around 700.000 residents between the three different countries. And the connection between cities is very strong. Jobs are international, resources are international, and as the failure of national economic policies shank Paraguayan currency, U.S. Dollars are the most used currency for trade.

By analyzing Ciudad del Este's informal economy through De Soto's research, we can fit the city in every word of the book. Informal markets composed by street vending, itinerant vending, fairgrounds, informal housing, informal security, informal transportation. It all happens in Ciudad Del Este, with political and police support. Informality is this case connected with criminality, corruption and several stakeholders'

interests that are beyond our research purpose here.

Body – WORKING IN PROGRESS

Ciudad del Este has consolidated as an economic trade center for the whole Latin America. The city plays an incredible role in the region's economy and already became even a third tourist attraction for the visitants of Iguassu Falls and Itaipu Dam.

Consistent movements of people happen every single day around the border. A proof of this integration is the amount of different temples and religions that can be found both in Paraguay and Brazil. Both of the cities have Islamic temples, Buddhist temples, Catholic churches, etc.

The Paraguayan city also do provides informal jobs for thousands of Brazilians that cross the bridge daily to work on the other side of the border. These workers do not work on the streets though. Brazilians usually are the ones with more skills in the work force. They are the most educated, working with management for the big stores, or as salesman making sales for other Brazilians from the entire country. But that does not mean that Brazilians workers are formal employees. Even some of the big stores and shops informally hire workers. Formal jobs are rare.

While most of the Brazilians are working in comfortable air-conditioned environments, Paraguayans are on the streets. They are both in the informal economy, but the Paraguayans are the face of it. The streets are filled with street vendors, itinerant vendors, and vans carrying people from one side to the other. All managed by native Paraguayan men.

Paraguayan women, in the other hand, are the *honey pot* for the shops. Their native beauty is combined with western fashion styles, strong makeup, European perfumes and short dresses. Their goal is to smile and attract consumers. Sell, sell, and sell!

Although the workforce is highly composed by Brazilians and Paraguayans, the owners are foreigners. Remember about the immigration? The biggest shopping centers and most of the smaller stores in Paraguay are owned by Chinese, Lebanese, Turkish, Korean and Indians: Casa China, Monalisa, Nissei, Mina India, Casa Americana are some of the examples.

Some of these owners do not even speak Portuguese or Spanish. This makes

the integration between the different ethnicities very strong in the entire region. While their children are studying the local language, they struggle to learn. Consequentially owners depend on their neighbors to succeed in the market trade. These strong connections are extended to cultural customs and religious habits for example.

Be a heavy and strong informal can help with jobs and can surely support economic activities, but there are some negative effects as well. Lack of government enforcement also happens in Paraguay's interior, and the fertility of the land makes

Paraguay the second biggest producer of Marijuana in the world (CNN, 2008). And as usually, drug dealers expand business to other drugs, guns, and money laundry several criminal activities. 25 years ago analysts had estimated that up to half of all automobiles in Paraguay were stolen in Brazil (Hanratty, 1990). Although the data is old, it still shows the power of crime.

The saturation of the local commerce combined with the lack of government regulation open other paths of illegal activities. Piracy, for example is faced in very different ways between Brazil and Paraguay. While Brazil is heavily fighting against piracy, Paraguay is one of the main suppliers of pirate CDs and DVDs in Latin America.

The Brazilian government has regulations on the international border to control piracy and maintain the Brazilian shops alive. The federal government limits every Brazilian to buy U\$150.00 maximum across Paraguay's border per month. But it can't enforce it. There are too much people crossing the border every day in cars, buses, vans, motorcycles, taxis, pedestrians, bicycles, and trucks exporting soy and chicken from Paraguay through Brazilian ports. In between this big mess, there are people who live in one side of the border and work in the other. It is a solid dependency. Abruptly intervening now would affect the life of millions in China, Paraguay, Argentina and Brazil.

Fig. 5: Daily movement of people and goods on the Friendship Bridge - Source: Portal Guaira -

<http://www.portalguaira.com/PG/wp-content/uploads/2013/01/ponte-da-amizade.jpg>

Terrorism is also a problem. According to Mendel (2002), in September of 2001, after 9/11, the Paraguayan consul was arrested in Miami for selling more than 300

passports, visas and shipping documents. The consul reportedly sold 16 passports for terrorists suspects from Egypt, Syria and Lebanon, planning to move to Ciudad Del Este (Mendel, 2002).

The informality of the Paraguayan economy in Ciudad Del Este, combined with a broad lack of enforcement generated a strong criminal center for the entire world. The impacts of it go since the smuggling of cigarettes through small boats in the rivers, to floods of Chinese goods, drugs, money laundry and terrorism to Brazil and Argentina.

Conclusion – WORKING IN PROGRESS

The Parana River does not divide only two cities or two countries. It divides two very different realities. All the poverty, crimes, unhealthy environments and human degradation present in Ciudad del Este supplies the Brazilian demand for consumer goods and the Chinese demand to exportation.

International trade is the main evidence of globalization in our modern world. Although economists present concerns from the colonization economy that generally holds down development countries in order to push up developed ones (Banerjee, 2003), this statement can also be noticed in some developing regions as well. In our case study Paraguay accepts to be underdeveloped and to sustain bad human conditions in trade to increasing the economic movement of the region. This decision clearly benefits some few in the top of the market chains, but the price is high.

Fig. 6: Kids playing in Ciudad del Este streets - Source: Portal Guaira

The TBA is clearly a global area that has impacts that go beyond the region, the countries, and even the Latin American continent. Losses in Latin American wars and the state of living under very extractive institutions lead to the openness of Paraguay in a search for survival through attracting foreign investment. And it succeeded. If the objective was to attract foreign investment, it definitely did. But it is still only surviving. The acceptance of a high informal economy and the international openness lead the country to uncontrolled criminal activities of all kinds. It seems to be a city of no one. And while the Parana River waters in Itaipu are generating clean energy to supply almost the entire Paraguay and a significant portion of Brazil's demand, and while the

waters from Iguassu Falls are dazzling the eyes of thousands of tourists from all over the world, Ciudad del Este is pulsating hard. It is pulsating in the beat of the global economy. The money beat. Where some are winning but most are losing.

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