

AN ANALYSIS OF
CONSIDERATIONS FOR A PROPOSED HOTEL IN
ASUNCION, PARAGUAY

Thesis for the Degree of M. A.
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John Harris Guggenheim
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AN ANALYSIS OF CONSIDERATIONS FOR A PROPOSED HOTEL
IN ASUNCION, PARAGUAY

by
John Harris Guggenheim

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The inadequacy of hotel facilities in Asuncion, Paraguay, has pointed to the possibility of the investment of foreign capital in the construction of a modern hotel. This situation has led to an investigation concerning the background into which such an investment could be made.

Purpose. The main purpose of this study is to determine whether or not the political and economical evolution of the Republic of Paraguay makes the construction of a modern hotel an advisable investment.

Method. In the preparation of this work, the writer has drawn from three main sources: first, published books, reports and articles on the history of Paraguay, together with the economical, political and social development of the country; second, personal interviews with government officials in Paraguay, technical specialists directly concerned with the economical and tourist situation of Paraguay, as well as many casual observers of the hotel conditions in Asuncion, or in the neighboring country of Uruguay, where the author managed the ultra-modern Hotel Victoria Plaza in Montevideo; and third, by following up these interviews by correspondence.

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Findings and interpretations. One of the two inland countries of the continent, the Republic of Paraguay, is located in the south central part of South America. Paraguay, as such, is strategically located on the crossroads of South America, which location is most interesting from the tourist point of view. The capital of Paraguay, Asuncion, has no modern hotel conveniences, which might be a deterrent to promote an active tourist industry.

The interpretations drawn from the findings are as follows:

1. The historical background and physical setting of the country are outstanding from the tourist point of view.

2. The political and economical conditions of Paraguay are rather unstable and might be considered adverse to any foreign investments.

However, the present government has recently introduced laws to guarantee the withdrawal of earnings and capital of foreign investors.

The continuation of growth and development of the Paraguayan industries do make foreign investment a necessity, which factor is

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recognized by all political factions of the country.

3. The need of a modern hotel is an urgent one.

The author believes that such an investment will be profitable and over a long range basis. However, the author makes several suggestions as to the type of construction which might be most advantageous in this particular instance.

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CHAPTER I

INTRODUCTION

The Republic of Paraguay is located in the heart of South America. Asuncion, the capital, is situated on the eastern side of the Paraguay River, about one thousand miles by river from the Atlantic Ocean.

Various international airlines bring many travelers daily to this city. Some of these travelers come for business reasons, others come as tourists. Regardless of the reason for visiting Paraguay, most of the travelers will stay in one of Asuncion's hotels.

There are a number of hotels operating in Asuncion, ranging in size from fifteen to seventy rooms, and in age anywhere from twenty to ninety years old. The largest and oldest hotel in operation is the Gran Hotel del Paraguay.

Over the past fifteen to twenty years many modern hotels have been constructed in South America, especially in the capital cities. These hotels have added considerably to an increased tourist movement and have helped to bring to their respective countries the intangible export commodity of tourism with a derived income of foreign exchange. No new hotel has been built in Asuncion during the last twenty



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years. Whereas no factual information was available to explain this lack of construction, it might possibly be due to an absence of interest and understanding of the increasing tourist business, as well as financial and political instability of the country. It is an accepted fact in the international hotel industry that the traveler of today desires to have the same comforts and conveniences in foreign hotels that he enjoys at home. The existing hotel accommodations in Asuncion do not satisfy the demands of a large per cent of today's tourist or traveler.

The fact that Paraguay is sharing to a very small extent in the tourist trade with its South American neighbors may be partially attributed to the above mentioned facts. The tourist movement has almost completely overlooked Paraguay (and Asuncion), a most interesting country, which in its simplicity, old-fashioned charm, and excitingly beautiful natural setting, might well prove to be one of the highlights of any South American tour.

The author of this report was employed for over five years in the neighboring country of Uruguay. He operated during this time the new Hotel Victoria Plaza in Montevideo. The management of the Victoria Plaza enabled him to gain an insight into the problems connected with attracting tourists

to a small country which the hurried traveler has a tendency to overlook. Many of the suggestions brought forth in this report are based on facts and experiences gained in a situation similar to the problem of a proposed hotel in Asuncion, Paraguay. The author made frequent trips to Paraguay, studying there the possibilities of the construction of a new hotel. Interested persons were interviewed in order to gain a firsthand impression of the opinions of the international traveler, as well as of the local businessman.

The question of whether or not a new hotel construction in Asuncion is feasible, and whether or not it would be a profitable investment is further investigated within this report. To arrive at a rational conclusion, many factors had to be studied and consulted. This report will give a brief account of the general economy of South America, with emphasis on the hotel business and tourist movement. The political as well as the economic situation in Paraguay is given major importance.

The problem. With this study the author is considering whether or not the political and financial evolution of the Republic of Paraguay makes the construction of an ultra-modern commercial type city hotel an advisable investment of foreign capital.

Importance of the study. In the world of today with ever increasing conflicts between the philosophies of our western civilization and the revolutionary communistic tendencies, it is of prime importance to help the industries of underdeveloped countries. Whenever possible, the development of the industry should be a profitable venture to attract the necessary foreign capital.

The construction of a new hotel will undoubtedly help promote increased tourist trade and could be a worthwhile undertaking. The indirect result is greater understanding between individuals of many nations. The direct result of a new hotel construction could be an increase in business volume generally, within the capital city of Asuncion, and would contribute to better labor conditions and improved standard of living.

Delimitations of the study. The prime purpose of this report is to analyze the economical, social and political environment of Paraguay, in which a new hostelry could be built. If such a background should prove to be favorable, then the financial aspects for the building, leasing and operating of such a property are to be given the greatest attention. The problems of construction as well as prospective operation are only slightly touched upon, as they represent entirely new facets.

Procedure. The data presented in this study was collected through personal interviews in Asuncion and in other South American cities where interested persons were interviewed relative to the problem. The parties interviewed had either lived or visited in Asuncion, Paraguay, and were familiar with the hotel situation.

While the author was in Asuncion, Mr. Frederic R. Fisher of the United States Operations Mission in Asuncion, very kindly provided a car and guide to better familiarize the author with the different sites under consideration for hotel construction. The director of the National Tourist Agency assisted with many suggestions. All local tourist agencies were consulted, as well as all major local and foreign business and banking organizations. The interviews were followed up in many cases by correspondence with the officials of the above mentioned organizations, especially with the local branches of the First National City Bank of New York and also with the Bank of London and South America.

Much data, of course, was collected through the media of U.S. and Paraguayan government publications, as well as the reading of general publications on Paraguay and its many aspects.

In order to make the reading of the study more comprehensive, the author dwells to a great extent on the economic, social, and political conditions of the country. This material is presented in detail to provide basic background information and data about a little-known country.

Definitions of terms used. Most terms used in this report, which might prove unfamiliar to the reader, are associated with the culture of the country. The explanation of these terms within the introductory chapter cannot be considered necessary because in the overall scope of the study the reader will become acquainted with the meaning of the individual terms used. However, a special usage is made of the phrase "commercial type city hotel" and it is necessary to explain this usage.

There are many types of hotel operations. The more prevalent classifications are the transient hotel, the residential hotel and the resort hotel. By "commercial type" it is meant to include all three major types of hotel operations, but certainly with greatest emphasis to the needs of the commercial transient traveler. This term has been arbitrarily used by the author.

Organization of thesis. The author has tried to provide an objective account of Paraguay's manyfold economic

problems, which are exceptionally uncompromising with its political development, but are of prime importance when deciding on a long-term investment such as the building of a hotel.

Chapter II gives some basic information of the history, political evolution, and social conditions of Paraguay.

Chapter III is an account of the economic situation of Paraguay.

Chapter IV gives the reader a report and discussion of the importance of Paraguay to South America, as well as a comparison of tourist interest.

Chapter V concerns itself entirely with the problems of financing a hotel property in Asuncion, suggestions of a typical construction, and possibilities of investment returns.

Chapter VI summarizes the study, with recommendations and conclusions.

CHAPTER II

HISTORY, POLITICAL EVOLUTION AND SOCIAL CONDITIONS OF PARAGUAY

The synopsis of the history of Paraguay is given in order to show the basis of the general environment in which a hotel is proposed to be built. It includes information on the political evolution and social conditions.

I. HISTORY

Alijo Garcia, a Portuguese explorer in the 1500's, searching for a route to the Inca Empire, made his way across the treacherous Chaco jungle with a band of Guarani Indians. Prior to his death, at the hands of the Indians, he had explored the vicinity of Asuncion. Later, Sebastian Cabot explored the region of the Paraguay and Parana Rivers for some distance. However, Juan de Salazar is usually credited with the founding of the first permanent Spanish settlement of Asuncion on August 15, 1537, first day of the Assumption. The fort was established on the banks of the Paraguay River which, in honor of the day, was named NUESTRA SENORA DE SANTA MARIA DE LA ASUNCION. The fort soon became a thriving little city, and for many years was the capital of the entire LaPlata

colony. The LaPlata colony was composed of Argentina, Uruguay, and Paraguay.

The Conquistadores found two major Indian tribes living in Paraguay. The eastern section was occupied by the Guaranies, the west by the Chacos. The Spaniards and the Guaranies became allied at once, while the Chacos remained a deadly menace for many years. The Guaranies, or Great Warriors, as the name implies, were very brave people who had an unusually advanced culture, especially in cotton weaving, manufacturing implements, farming, and the application of medicinal plants. Even in the beginning, Guaranies and Spaniards intermarried and mingled freely. During this era the first Alliance in this part of the world was signed, the Alliance of the River Plate. Its purpose was to combat and defeat the Chacos. In reality, the Chacos never submitted, and the tribe slowly disappeared into the Brazilian and Bolivian jungles. Colonial Paraguay and Argentina were closely linked under the joint rule of the Spanish governor. Until 1580, Asuncion was the government seat, at which time it was removed to Buenos Aires. By the decree of December 16, 1617, the administration of Paraguay was separated from that of the Rio de la Plata.

In 1609 a royal order authorized Jesuit priests to aid in the civilization and conversion of the Indians. The

Jesuits built self-sufficient mission settlements at which agricultural and small industries were developed under a communal system. Indians were protected from colonial exploitation as the Jesuits obtained almost complete freedom from the local authorities. Interesting to note, Spanish visitors were not tolerated more than three days, and students received no instructions in Spanish, although Latin was taught to apt pupils. Soon the Jesuits sold surplus produce at great reductions. Naturally, resentment grew from competing local settlers. This, plus growing animosity toward the Crown, brought on the Revolution of 1722 to 1735. In 1767, the Jesuits were expelled from Paraguay, and the thirty-odd settlements soon disintegrated completely. Today these ruins of the Missions territory are a tourist attraction.

On May 14, 1811, Dr. Gaspar Rodriguez de Francia carried out a bloodless revolution which ended in Paraguay's independence. The governing body was made up of two elected consuls, of which Francia was one. Francia today is proclaimed by the Paraguayans as the "Father of the Country." In order to consolidate Paraguay, he closed the country to the outside world to avoid trade interferences and to make the country self-sufficient. A dictator in many aspects, he gave industry and agriculture a considerable boost. Fearing the influence

of the Catholic Church, Francia closed all religious institutions, but actively promoted primary education. After his death in 1840, two consuls took over the government.

In 1844 a constitution was proclaimed and Carlos Antonio Lopez was elected president. Lopez was an able diplomat and negotiator who reversed Francia's policy of isolation and set into motion many social reforms. In order to assure security for Paraguay in view of pending international situations in that part of the world, he formed a strong army.

Upon Lopez's death, his son, Francisco, assumed the office of president. Known as the Marshal, according to historians, the younger Lopez became one of the most colorful figures in Paraguay's history. In 1859 the Marshal showed his diplomatic ability when he acted as mediator in the civil war of Argentina, which resulted in that country's unification. Lopez, in 1864, led his people in the disastrous Triple Alliance War, in which Argentina, Brazil, and Uruguay, combined, fought against Paraguay for five years. This terribly heroic and valiant but desperate struggle ruined Paraguay's economy, cost large pieces of territory, and reduced its able-bodied population to less than one-half. With the death of Lopez on the battlefield, the war ended in 1870.

Man power and resources were again expended in 1932 when war broke out between Paraguay and Bolivia over the questions of boundaries in the Northern Chaco. Hostilities ceased in 1935, and a peace treaty was signed in 1938. Paraguay received three-fourths of the disputed area, while Bolivia gained transit facilities on the Paraguay River.

II. RECENT POLITICAL EVOLUTION

From 1870 to 1932, when the Chaco war with Bolivia began, Paraguay had twenty-nine presidents, few of whom, whether elected or taking office through force, were able to complete their terms.

The main political parties have been the conservative Colorado party and the Liberal party. In February, 1936, a new party, the Febreristas, who patterned their ideas for a "New Paraguay" after the totalitarian theories of governments then gaining ground in Europe, overthrew the Liberal party (then in power for almost thirty years) government of President Eusebio Ayala. A series of revolts ensued until the election of the Liberal party's candidate, General Estigarribia, a hero of the Chaco war, who took office in 1939.

After General Estigarribia's death in an airplane accident in 1940, the Minister of War and Navy, Higinio

Morinigo, ruled absolutely until 1948. When the Allies had won the war, Morinigo recognized that it would be wise to moderate his dictatorship. But the Paraguayans were unprepared for democracy and in 1947 civil war broke out which lasted for five months. In 1948, J. N. Gonzalez, of the Colorado party, was elected. A fractional dispute of two wings of the party brought Dr. Federico Chavez to power after a coup d'etat in 1949. In 1954, Dr. Chavez, in turn, was forced to resign and the Colorado party's candidate, General Alfredo Stroessner, was elected without opposition, retaining his post as Commander-in-Chief of the Armed Forces. Therefore, during the century and a half of Paraguay's existence as an independent republic, centralization of governmental functions has been pronounced. The unitary form of government has prevailed; and this concentration of power has been intensified by periods of highly personalized and often dictatorial administrations. The struggle for control of the Presidency has very often resulted in changes of Government by force.

Since the early 1940's, the pre-eminence of the National Government and of the executive has facilitated the efforts of all successive administrations to intervene actively in the economic life of the country, claiming that intervention would further economic progress.

III. SOCIAL CHARACTERISTICS OF PARAGUAY

Countless travelers who have visited Paraguay through the centuries have described this country as an Arcadia. A striking difference exists between the character of this land and its inhabitants, and that of any other Latin American country.

Paraguayans are a very friendly and hospitable race. An important characteristic of the Paraguayan population is its extraordinary degree of homogeneity. Robert Triffin says that the "Spaniards intermixed with the native Guarani race from the very beginning of the colonial period, with the result that over ninety per cent of the present population is a thorough blend of whites and Guaranis."¹

Location and physical setting. Paraguay, an inland country, located in the south central part of South America is crowded between and bordered by Argentina to the South, Brazil to the North, and Bolivia to the West. It covers an area of approximately 157,000 square miles.

Since the country has no direct access to the sea, the 1,000 miles to the Atlantic Ocean is traversed by a system

¹Robert Triffin, Monetary and Banking Reform in Paraguay (Board of Governors of the Federal Reserve System, Washington, D.C., July, 1946), p. 1.

of rivers. River transportation is time consuming and often uncertain, a factor which has stunted economic and social development. Prior to the Air age Paraguay, in the practical sense, existed in isolation from world influence. Then, the only means of transportation for foreign travel was a four day journey by river steamer from Buenos Aires to the river port of Asuncion. The Paraguay River, flowing north to south (Brazil to Argentina), is the life-line of the country. It is not only a means of transporting products, but Paraguay's only access to the ocean. It must be emphasized that the Paraguay River plays a major role in the economic, social and political life of the country.

The Paraguay River divides the country into two contrasting and very distinct regions. The populous eastern section and the sub-tropical Chaco. The eastern region consists of rolling fertile plains, grasslands, and densely wooded areas. The population is concentrated in this rich farming and cattle-grazing section, where most of the country's commercial nerve centers are located.

The Chaco, west of the Paraguay River, is a flat and sparsely populated region of extensive swamps drained by unnavigable rivers which constantly change their course. Included in the Chaco are vast areas of grassy savannas and

woodlands which are thought suitable for agricultural colonization. The rainy season floods this area, and when the waters subside, numerous marshes and silt lagoons remain. The heavily wooded northern section contains most of the squat quebracho trees, a valuable source of tannin, used in the preparation of leather.

Capital. Asuncion has an estimated population of 205,000. The capital, located in eastern Paraguay and situated on the banks of the Paraguay River, was founded as a fort by Juan de Salazar on August 15, 1537, and actually predates Paraguay itself.

For many years it was the capital of the Rio de La Plata area, long before Paraguay had any territorial identity. As the nation's capital, largest city, and shipping center, Asuncion today is the pulse of Paraguay, considered to be a picturesque city still bathed in tranquility and untouched to a great extent by modern turmoil.

Old colonial houses sit amidst flower-lined gardens fronting directly on the street and sheltering patios within. A peaceful tenor of life add much to the city's charm. Here, an undefinable mixture of two distinct worlds meet, the civilized and semi-modern and the primitive of a by-gone era. It is apparent everywhere that Asuncion is fighting for

progress, but at the same time it is hampered and imprisoned by its own traditions, lores and dreams of a glorious past. The Asuncion area constitutes the most important market of the country. The concentration of exports, imports, domestic and foreign banking institutions, commercial and manufacturing enterprises, transport, and communication systems have greatly influenced the development of the city into a small metropolis. Being the country's central point of focus, its influence has spread to the distant rural areas. From remote regions, raw materials are shipped to its plants for processing, marketing, and re-shipping. Conversely true, Asuncion is the distribution and shipping center supplying the rest of the country.

Asuncion is the center of the nation's cultural, academic, technical, and professional training facilities, possessing a great advantage over other cities in its availability of skills not found elsewhere in the country. Also unique is the degree of bilingualism: Spanish and Guarani. Spanish is the official language, but Guarani is still exclusively spoken in the hinterland.

Population. Estimated at approximately 1,406,000, the inhabitants of Paraguay are a mixture of the early Spanish settlers, and the now almost extinct Guarani Indians. A very rare and unusual fact is that the Guarani Indians

absorbed their Spanish conquerors. Since African slaves were not imported, there exists virtually no negro population. Immigration has been encouraged, but with very little or no success. Only some 33,000 persons have immigrated since 1918. Much of this immigration has consisted of national or religious groups who have established private or government sponsored colonies. This factor has definitely discouraged intermingling with the native Paraguayans.

The serious unbalance between males and females stemming from the unusually large number of male fatalities in the War of the Triple Alliance about one-hundred years ago has slowly been equalized. However, approximately forty-two per cent of the total population are children under fifteen years of age, according to the 1950 census.

The density of the population is approximately nine persons per square mile.² Distribution as to area (approximately) is as follows:

3.6 per cent Chaco

2.8 per cent domicile unspecified

3.9 per cent not classified geographically

89.7 per cent Eastern Paraguay

²Conditions and Outlook for the United States Investors in Paraguay, (U.S. Department of Commerce, December, 1954) p.4.

Breaking down these distribution figures even finer shows the following trends:

Two-thirds of the people live in rural areas or towns of less than 2,500 population.

70 per cent of the total population live within a radius of 120 miles of Asuncion.

38 per cent of the total population live in the immediate hinterland of Asuncion, which comprises only four per cent of the total area of the country.

Employment. Estimated at 452,000. The breakdown in percentages according to employment activities is approximately as follows:

70 per cent in agricultural activities

12 per cent in industrial and commercial enterprises

18 per cent in miscellaneous, such as transportation, communication and government service.

Health and sanitation. The incidence of diseases frequently found among peoples with a low standard of living is high. Life expectancy is estimated to be forty-three to forty-six years of age. The birth rate is slightly more than double the rate of mortality.

³Investments in Paraguay, Ch. 1, p. 5.

The United States Operations Missions to Paraguay, working with the Paraguayan Government, have made considerable progress in the field of health and sanitation.

Indoor plumbing is still considered a luxury in Paraguay and Asuncion. The majority of homes obtain their water from tank carts. The only sewer system in Asuncion is one trunk line in the downtown section. Cesspools and outdoor privies in many households are the most common means of waste disposal. Sanitary inspection of water supplies, markets and restaurants is negligible. Slaughterhouses and meat supplies are controlled with less rigidity.

Education. It has been estimated that only sixty per cent of the population over the age of seven can read or write. Since the majority of the population still speak Guarani, the literacy rate of Spanish may be considerably lower.

The constitution provides free and compulsory primary education for all children between the ages of seven and fourteen. However, this requirement is not strictly enforced, especially in the outlying rural areas. The concept of primary education is to prepare the student to make the most of his environment with the barest basic minimum requirements.

Secondary schools offering academic, business, and vocational training are neither free nor compulsory. The principal institution of higher education (the National University at Asuncion) is government sponsored. During the past few years government sponsored vocational schools have been established both in Asuncion and in rural areas offering night courses.

Language. The official language is Spanish. The majority of native Paraguayans speak the Guarani dialect, which is a mixture of the two languages.

Climate. It has often been said that the climatic conditions are very similar to that of Florida. Paraguay embraces two zones, the tropical and the temperate, in which two-thirds of the country lies.

There are two prevailing winds; a hot, humid wind from Brazil, and a cooling dry south wind from the Argentine plains, actually resulting in a sub-tropical climate in the temperate zone. Here, winter is a glorious spring, followed by a rainy season. In this area the majority of the population is concentrated. The weather conditions are excellent for Americans and Europeans, and also for the establishing of industries. In Asuncion, maximum temperatures in the summer (October-March) are between 98 degrees and 103 degrees

Fahrenheit; mild temperatures varying between 71 degrees and 73 degrees Fahrenheit. The monthly breakdown is as follows.⁴

TABLE I
AVERAGE MONTHLY TEMPERATURES AND RAINFALL

	Average Temperature Degrees	Rainfall Inches
January	80	5.4
February	80	5.1
March	78	4.2
April	72	5.1
May	67	4.8
June	63	2.8
July	64	2.2
August	66	1.6
September	70	3.1
October	72	5.5
November	76	5.8
December	80	6.2
Annual average temperature: 72 degrees		
Annual inches of rainfall: 4.3 inches		

In summary, the colorful history of Paraguay has been the roots to an ever unstable political situation. The social environment of Paraguay will be of interest to the prospective tourist. The best months to visit Paraguay, when considering the weather conditions, will probably be between the months of April and October.

⁴New Horizons, (Pan American World Airways, Simon and Schuster, N.Y., 1956) p. 411.

CHAPTER III

ECONOMIC CONSIDERATIONS OF PARAGUAY

This chapter presents a concise picture of the economic history and present economic situation of Paraguay. The author is aiming to present, however, only such material having some correlation with the problem under consideration.

Paraguay suffers from a chronic lack of investment capital. Many industries, considered essential to the national economy, had to be established through the auspices of the government, others had to be taken over by the government in order to safeguard proper functioning and development.

Enterprises in which the government is sole owner.

Since 1941 the government has undertaken to operate as entrepreneur certain economic activities, which, in general, are autonomous. In order to achieve this monopolistic goal enterprises have been nationalized or expropriated in which the government is the sole owner, or in partnership with, Paraguayan capital. Authority is maintained through the appropriate ministries with the executive branch of the government. Many enterprises in which the government is the sole owner will be discussed briefly below.

The Paraguayan Alcohol Administration assigns production quotas to alcohol and rum producers, controls

quality, purchases and sells the entire output of producing plants at fixed prices, and controls all imports of rectified or denatured alcohol. The Administration regulates the industry, controls its development, produces alcohol and related products itself, and engages in commercial operations. A large majority of the profits go to the National Treasury which in turn imposes excise taxes on alcohol and rum, the balance being used to increase its capital and reserves.

The Paraguayan Meat Corporation has monopolistic powers and controls the following:

Purchase of cattle for domestic meat supply.

Fixes cattle prices to be paid to livestock producers.

Determines supply of live cattle going to packing plants producing for export markets.

Engages in the slaughter of animals.

Engages in the processing of hides and animal by-products.

Regulates and sets retail prices.

The Government Enterprise Administration was established in order to stimulate economic development. It has a broad scope of authority and may engage in productive activities including agricultural, livestock, forestry, industrial and mineral production and related commercial activities.

The Bureau of Paraguayan Industries has general authority to organize industries in the national interest. At present, it manufactures war materials and acts as a repair shop for the government and private enterprises.

The Public Service Administration regulates and controls operations of three autonomous government enterprises including:

1. The State Merchant Fleet, which was established because private capital failed to develop a merchant marine. Insufficient tonnage and a lack of ships suitable for river traffic have limited its scope of operations. Its activities have reduced freight rates.
2. The National Telecommunications Administration, which controls and operates telephone, telegraphs and radio communication systems.
3. The National Electric Power Administration, which controls, establishes, and regulates all electrical power and traction facilities in Asuncion as a monopoly. Outside the capital it may operate on the same basis or join with municipal or private capital.

The Asuncion Port Administration is the sole owner of all portal installations (warehouses, piers, cranes and roads). It controls and operates all facilities.

The National Airline, which has the monopoly of an air-taxi service within Paraguay.

The Asuncion Sanitary Works Corporation, which was established in 1954 to provide the capital with a modern water and sewage system. The system was developed with the assistance of engineers from the KAISER Engineering firm.

The Central Bank of Paraguay, which performs all central banking functions.

The Bank of Paraguay, which functions strictly as a commercial and development bank.

The Agricultural Credit Bank, which grants and provides supervised agricultural credit. It also imports fertilizers, insecticides, seeds, and agricultural equipment which is sold to farmers at low prices.

State trading. It would be virtually impossible for the above listed autonomous enterprises to control the manifold goods that are both exported and imported. However, whenever the government believes it to be necessary, it takes over the entire control of a specified commodity. Therefore, wheat is imported by the Wheat and Flour Council of the

Ministry of Industry and Commerce which also apportions the amount to domestic mills. The government also imports all necessary supplies and equipment for its projects, facilities, and enterprises.

The government as a minority (forty-nine per cent) stockholder. The government provides financial assistance to any essential but distressed industry falling into the industrial, agricultural or forestry category. The government is then represented on the Board of Directors of such a company.

Land reform. This has involved the expropriation of land holdings not in productive use, the formation and consolidation of supervised colonies on such areas, and the consolidation of extremely small farms into more easily manageable units. Consolidation has never evolved into an action program. Instead, colonists have been drawn from population surpluses, dispossessed farmers, and a small number of immigrants who have settled in Paraguay in recent years. Large landowners have complied with the legal requirements regarding productivity to such an extent that comparatively few properties were seized subject to confiscation; and land reform authorities have been fully occupied in carrying out colonization programs on landholdings already appropriated.

Aid to agriculture. This activity has taken the form of guaranteed crop purchases by the government, minimum prices for agricultural products, limited and supervised credit facilities, encouraging production by means of subsidizing the importation of machinery and equipment.

The Major Industries of Paraguay

Agriculture. Agriculture is, and has been for centuries, the mother industry. Seventy per cent of the total population is engaged in pastoral activities, in an area approximately 360,000 hectares, where some 100,000 farmers cultivate small holding, using primitive and obsolete methods.

. Crops consist of: cotton, maize, mandioc, potatoes, beans, rice, sugar cane, citrus fruits, tobacco, indigo, and yerba mate. The majority of the crop-producing centers are in the temperate zone and around Asuncion. With the assistance of the United States Agricultural Mission, Paraguay is trying to put agriculture on a scientific level and, at the same time, to improve its products. This rich and fertile soil is considered to be one of the best in America.

Stock raising. This industry has developed in the grasslands of the south and in the Chaco region. Usually, the only cattle slaughtered are for domestic consumption,

the balance being exported. All meat sold for local consumption is government price controlled. Livestock consists of cattle, horses, sheep, hogs and goats.

Forestry. Chief forest products are quebracho and oil of petit-grain. Quebracho, source of tannin, is used heavily in the tanning industry. The oil of petit-grain is used as a base for perfume and food flavorings. Paraguay is also very rich in medicinal plants.

Manufacturing. There is very little manufacturing in Paraguay, and the quantities are insufficient to meet domestic demands. The only industry worth mentioning is the processing of raw materials for export. However, lack of electrical power supply has slowed down advancement. The most striking advances were made by industries enjoying government support. Undercapitalization and lack of foreign exchange resources have handicapped firms in obtaining needed equipment and has caused considerable unemployment. However, there is no manufacture of capital goods on a commercial scale.

Labor Supply and Labor Legislation

While there is a more than adequate supply of unskilled labor for urban employment, there is a scarcity of trained workers. Many persons left Paraguay during the Civil War

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of 1947 and have not since returned, partly because of better opportunities found elsewhere, especially in Argentina, and due to bad crop years. This last factor has increased labor unemployment in the cities.

Labor unionism at this time may be regarded as of secondary importance. The organized labor movement is a relatively new development in Paraguay and relations between organized labor and management, on the one hand, and government, on the other, have been marked by a few disagreements of serious proportions or consequences.

"Every employer engaged in industrial, commercial, or banking activities in Paraguay is required, if he employs more than four persons, to maintain Paraguayans in at least ninety per cent of the employee ranks.⁵ The new law provides for 'the exemption, for a period not over five years, of the obligation to employ the legal percentage of Paraguayan personnel.'"⁶

Employment of minors. Children under twelve years of age may not be employed except as apprentices, and then only with parental consent. Minors under eighteen may work only

⁵ (Investment in Paraguay) pp. 73-74.

⁶ "Foreign Investment Law of Paraguay," Economic Reports, World Trade Information Service, p. 2 (M 246, Article 5F).

six hours per day, and may not be employed in work dangerous to health and morals.

Hours. The maximum requirement, regardless of sex, is composed of an eight hour day and a forty-eight hour week. By law, overtime (in excess of eight hours) is calculated at fifty per cent over the normal wage.

Wages. All persons over eighteen years of age must receive no less than the established minimum daily wage based on the area of Paraguay (Asuncion has a higher minimum wage), type of employment, and sex. "The minimum wage for a day laborer is 67.25 Guaranies."⁷ Information obtained states that Paraguayan law prescribes a family allowance for the purpose of encouraging large families.⁸ It requires all employers to pay their employees a family allowance of five per cent of the minimum wage for each dependent child. The child must be:

- (1) Under eighteen years of age
- (2) Unmarried
- (3) Born after December, 1937

⁷ ("Economic Developments in Paraguay," 1954, Economic Reports, World Trade Information Center, Part 1, N. 55-71, United States Department of Commerce, June, 1955) p. 6.

⁸ (Investment in Paraguay) p. 75.

(4) Legitimate or legitimated by the claiming parent

This allowance stops once the worker earns more than 200 per cent of the minimum wage.

"An annual bonus must be paid to all employees on or before December 31 of each year."⁹ Employees receive one month's salary and workers receive twenty-five days' wages. Wage earners averaging less than twelve months in the year receive a bonus equal to one-twelfth of their yearly salary. The family allowance is not included in the bonus calculations.

Vacations. Any employee who has worked more than one year and over 220 days for an employer is entitled to a paid vacation. Vacations are subject to a progressive rate, determined by length of employment.

Severance liabilities. These are subject, again, to a progressive rate determined by length of employment; however, the rate is small. Only after three years of service does an employee receive any severance pay, and the maximum is four months' salary after fifteen to twenty years of service. "The code of Commerce provides that unless the employee is guilty of 'gross bad conduct' he is entitled to one month's notice of the severance of his contract."¹⁰

⁹(Investment in Paraguay) p. 75.

¹⁰Ibid., p. 76.

Social security. Premiums are paid by means of a payroll tax. The employers contribute ten per cent of their total payrolls, employees contribute five per cent of their wages; and, using the same basis, the government contributes an additional one and one-half per cent.

Social security legislation provides the following benefits for all wage earners regardless of salary:

- (1) Workman's compensation
- (2) Non-occupational sickness insurance
- (3) Maternity insurance
- (4) Old age and survivors insurance

However, government, railroad, and bank employees are not covered by this legislation.

General Outlook for the Investment Climate in Paraguay

Paraguay is possessed with a number of disadvantages which are peculiar to all lesser developed areas of the world. Natural resources for the development of heavy industrialization are nonexistent. There are inadequate transportation facilities, an inability to maintain a constant supply of materials, and inadequate facilities for storage and the handling of products. Skilled labor is in short supply, and those who acquire a skill either emigrate to a higher wage

center in neighboring countries, or they go into business for themselves.

Foreign investments in Paraguay have never been abundant, but have been decisive in the establishment of public services and development of basic agriculture, forest, and livestock industries. Increases effected since World War II have been offset by the nationalization of various industries. Statute-wise, there does not appear to be any restriction on the type of business in which a foreigner may engage. However, Article 15, of the Constitution of 1940, states that "The state may nationalize, with idemnification, the public services and monopolize the production and distribution sale of prime necessities." This definitely limits the fields of business in which aliens, as well as Paraguayans, may engage in Paraguay. Domestic corporations pay a flat seventeen per cent tax on their net taxable income, while foreign corporations, if in accordance with law N 246, receive twenty-five per cent reduction in income tax. All other taxpayers are subject to a progressive rate of taxation (as to "Investments in Paraguay," Appendix B., p. 102) as follows:

TABLE II
SCHEDULE OF INCOME TAX RATES

Brackets of net taxable income in guaranties (000 omitted)	Fixed tax on bracket minimum in guaranties (000 omitted)	Rate on tax on amount of excess over bracket minimum (per cent)
1 to 20		7
20 to 40	1	9
40 to 60	3	11
60 to 80	5	13
80 to 100	8	15
100 to 120	11	17
120 to 140	14	19
140 to 160	18	21
160 to 180	22	23
180 to 200	27	25
200 to 220	32	27
220 to 240	37	29
240 to 260	43	31
260 to 280	49	33
280 to 300	56	35
Over 300	63	21

The tax system is characterized by a multiplicity of taxes, although these taxes represent only a minor burden on the majority of business enterprises. Within the recent past, the Paraguayan Government, as part of its strong desires to have the aid of foreign capital in developing the national economy, has granted unusually favorable contractual terms to some foreign investors in commercial and industrial activities thought to be desirable for development purposes.

On October 28, 1955, the Paraguayan Government signed an agreement with the United States concerning guaranties to United States investment. These guaranties cover the risk of:

- (1) Inconvertibility of currency
- (2) Confiscation or expropriation

Incorporation of foreign capital. The Chamber of Representatives of Paraguay, on February 25, 1955, enacted a law to establish a system for the incorporation of private foreign capital. To enjoy the privileges of this law, the foreign private capital must be inscribed in the Register of Investment Capital. Article 2 of this Law (N 246)¹¹ provides that the capital may be incorporated in any of the following forms, essentially:

- (1) In foreign currency;
- (2) In machinery, accessories, and replacement parts in the quantity required to assure the operation of the enterprise during the period for which privileges have been granted;
- (3) In machinery and equipment, and any apparatus for transmission, communication and transportation necessary for the operation of the enterprise;

¹¹Economic Reports, (World Trade Information Service, United States Department of Commerce, Washington, D.C., June, 1955) p. 1.

- (4) In raw materials and semi-manufactured products not produced in this country, or produced in insufficient quantities, in a volume adequate to fill the requirements of not more than a year of the enterprise's full productive capacity.

Tax concessions to new investments. Article 5 of Law 246, (as reported on page two of the same edition of Economic Reports), grants the following guaranties and benefits:

- (1) The exemption from basic and additional customs duties on the importation of machinery, accessories, and spare parts; instrumental equipment; apparatus and equipment for transmission, communication and transportation, as well as other capital goods introduced by investigators, technicians, professionals, and workers for the purpose of permanently helping them in their work;
- (2) The exemption from the taxes imposed on the establishment of enterprises, contracts of organization, inscription in the Public Register of Commerce and other national registries, and on the issuance, sale, and transfer of shares and debentures;
- (3) A reduction of twenty-five per cent of the income tax;
- (4) The obtainment from the Central Bank in a regular form of the foreign exchange necessary for the payment of interest, profits and dividends, royalties and rights for the use of trademarks and patents, as well as for the repatriation of capital in a proportion not to exceed twenty per cent per year of the capital registered.

The time limits accorded for the benefits mentioned are determined in the respective resolutions of the National Council of Economic Coordination, within terms ranging from five to ten years, according to the economic importance of, and the conditions pertaining to, each field of investment. The remittances specified in Article 5d shall be made at the free selling rate of exchange, according to the quotation in effect on the date of transfer, according to Article 12 of the same law.

Foreign Trade and Payments Agreement

The payment agreements policy has been intensified whenever possible. Often a major portion of trade has been diverted away from hard-currency areas and into payments-agreeable channels.

In 1955, the Presidential decision to encourage new foreign investments was enacted after considerable opposition from both political and business elements. No official reports have been issued up to date regarding the success or failure of this investment law. The Central Bank started to negotiate private clearing and long-term credit agreements with several private European marketing groups. At least one such agreement was signed in 1955.

Some of the official loans were negotiated through the services of the Export-Import Bank, the principal foreign lending agency of the United States Government. The basic purpose of this bank (as stated by the Congress) is to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and any foreign country of the agency or nationals thereof. In carrying out its objectives, it is the statutory policy of the bank that its loans shall supplement and encourage but not compete with private capital. The loans are to be used for projects which tend to improve the economy of the borrower's country and strengthen its dollar exchange position. Under an agreement between the Bank and the Director of the Foreign Operations Administration, the Bank acts as agent for the Director in the issuance, in accordance with his instructions, of currency transfer guaranties and guaranties against loss from expropriation or confiscation covering new industrial investments abroad by United States investors approved by the Foreign Operations Administration.

Political and policy factors have had a retarding effect on Paraguay and its currency. The continuing inflation has increased the cost of living, and has brought pressure of wage increases from all sectors of employees. Changes

are constant in big government offices; and in this atmosphere of insecurity, little progress has been made in efforts to strengthen the country's economic situation.

Underpopulated, lacking the abundance and variety of resources necessary to attract substantial investments, and hampered in its own efforts to exploit its farm lands, pastures, and forests because of its geographical isolation, Paraguay has been handicapped in its efforts to achieve economic development and diversification. Not only has access to world markets been difficult, but this has also contributed to backwardness in scientific and technological matters; and therefore, only limited progress has been made in this direction since World War II.

Currency and exchange control. Political unrest in the late forties counteracted the results of the reforms the government instituted in the country's banking and monetary legislation. Consequently, the value of the Paraguayan currency (the Guarani) declined continuously.

In 1950, the government invited foreign financial experts acting as a joint mission of the International Monetary Funds and the International Bank for Reconstruction and Development to Asuncion. They established the par value of the Guarani at six to the United States dollar.

Nevertheless, inflation was unchecked and in 1952 these same experts fixed the basic value of the currency at fifteen Guaranies per one dollar. In 1954 the basic value was fixed at twenty-one Guaranies to the dollar, or equivalent to \$.0667 in United States currency.

"The legal free-market selling rates on August 31, 1953, were fifty-six Guaranies to the United States dollar."¹² The Sociedad General Financiera y Commercial at Asuncion quotes the following free-market rates of the United States dollar.

TABLE III

FREE-MARKET RATES OF THE UNITED STATES DOLLAR

	Buying	Selling
January, 1954	61.50	63.30
July	70.50	72.50
January, 1955	72.50	74.67
July	76.00	77.14

The International Administration, United States Mission to Paraguay (April 1956, Chapter 9, p. 80) published the following figures:

¹²George Pendle, Paraguay - A Riverside Nation, (Royal Institute of International Affairs, London and New York, Oxford University Press, 1955) p. 89.

TABLE IV
RATE OF EXCHANGE PER DOLLAR

1955	
January 1	63.50
June 28	78.00
July 29	77.25
August 30	76.75
October 31	73.50
November 16	75.00
November 20	81.50
December 12	86.50
December 19	96.50
December 30	94.10

However, it was reported by the First National City Bank of New York, Asuncion Branch, August 17, 1959, that in 1959 the Guarani reached the ratio of 122.00 to 1.

The Board of Directors of the Banco Central del Paraguay, as of August 12, 1957, established a new system of exchange and foreign trade. The International Monetary Fund approved the single exchange market, free from the obligation to guarantee monetary parties in exchange operations. The system, based on a single free exchange market, enjoys relative freedom from formalities in foreign trade. However, imports are still being restrained by prior deposit requirements.

The discussion below is based on a report by the Bank of London and South America Limited in their pamphlet:¹³

Free Exchange Market

1. All Exchange operations are transacted through the free exchange market which roughly includes all incoming foreign exchange and currency of any denomination derived from exports, the entry of capital, loans or other credit operations and outgoing movements for payments and remittances abroad, payments of dividends, profits, amortizations, and repatriated capital. It can best be described as a free flow of all types of funds, regardless of origin or destination, in monetary gold, foreign exchange, and currency.
2. The scope of the Banco Central's foreign exchange operations are as follows:
 - a. It exclusively conducts all operations financed with National or Municipal budgetary funds, requiring always, the express approval of either the Ministry of Finance or Interior.
 - b. It effects investments and deposits made by foreign banks.
 - c. It may only handle spot transactions with authorized banks, with the exceptions mentioned in "a" and "b."
 - d. It will establish exchange quotations daily without obligation to maintain monetary parties.
 - e. It may buy or sell monetary gold, currency, and all other documents used for the international transfer of funds.

¹³"Exchange Reform in Paraguay," (Fortnightly Review, September 14, 1957, Volume 22, Number 546) pp. 675-580.

- f. In its Exchange Department, operations are advised by a special Exchange Commission.
- g. In order to avoid any exceptional exchange fluctuations an Exchange Stabilization Fund is maintained with the proceeds earned.

Import Regulations are:

1. To be conducted only through authorized banks.
2. Do not require a prior permit.
3. To be made without restrictions provided that terms of payment do not exceed over the prescribed period of ninety days from delivery of documents for Customs clearance. Those exceeding ninety days require permission from the Banco Central.
4. The Banco Central requires prior deposits on all imports. These are to be calculated on the F.O.B. value and based on the percentages established by the Board paid in at an authorized bank prior to shipment based on the day's rate of exchange. Upon delivery of documents of Customs clearance the deposit is returned. These deposits earn no interest.
5. Authorized banks maintain a special account of 100 per cent of prior deposits received in the Banco Central
6. The Board of Directors of the Banco Central established percentages for prior deposits. Commodities are grouped in five classes.

TABLE V
COMMODITIES

Class	Per cent
1	5
2	50
3	100
4	300
5	400

Banks Authorized to Operate in Exchange:

1. Includes all commercial banks in Paraguay, and to carry out all the operations mentioned in Article 2.
2. All commercial banks are covered by the following rulings:
 - a. They may purchase for their own account gold coins, foreign exchange and currency, both spot and forward, including agreement dollars quoted by the Banco Central.
 - b. They may only handle spot sales of exchange.
 - c. The difference between the operations purchase and sales quotations may not exceed two per cent.
 - d. In all spot transactions the day's exchange quotation is applied.

- e. Forward purchases are applicable to the rate in force on the day the contract is signed.
 - f. The Exchange Department will decide daily the amount of exchange each bank may obtain; the excess to be negotiated with the Banco Central at the day's exchange rate fixed by the same department.
3. Banks authorized to operate in exchange will be supervised by the Banking Superintendent.

Exports and Imports

Table VI and Table VII shown on pages 47 and 48 were prepared by the Bank of London and South America Limited.¹⁴ These tables will give the reader some indication of the major export commodities, as well as the major trade partners of Paraguay. Although the amounts exported to the individual countries vary slightly from year to year, it is to be noted that the general export gross has increased steadily.

Commodities. No recent data showing commodity distribution in United States dollars are available; the latest statistics are in Guaranies of non-uniform rates of exchange, and relate to the year 1952. The principal groups in that year were approximately as follows:

¹⁴"Paraguayan Foreign Trade," (Fortnightly Review, Volume 22, Number 545, August 31, 1957) p. 674-675.

TABLE VI
PARAGUAYAN EXPORTS

SPECIAL EXPORTS (F.O.B.)	1954		1955		1956	
	U.S. \$m.	Per cent	U.S. \$m.	Per cent	U.S. \$m.	Per cent
<u>Destinations</u>						
Argentina	14.73	43.4	16.04	45.7	12.80	34.9
U.S.A.	6.33	18.6	6.39	18.2	6.53	17.8
United Kingdom	2.80	8.2	3.34	9.5	5.41	14.8
Spain	0.12	0.4	0.39	1.1	2.05	5.6
Uruguay	3.16	9.3	1.01	2.9	1.90	5.2
Netherlands	1.93	5.7	1.45	4.1	1.29	3.5
Belgium	0.77	2.3	0.49	1.4	1.25	3.4
Germany	0.96	2.8	1.67	4.8	1.09	3.0
France	0.27	0.8	0.75	2.1	0.85	2.3
Italy	0.19	0.6	0.27	0.8	0.22	0.6
Others	2.71	8.0	3.30	9.4	3.30	9.0

<u>Commodities</u>						
Timber	11.14	32.8	13.04	37.1	11.84	32.3
Quebracho extract	4.02	11.8	5.63	16.0	6.49	17.7
Cotton fibres	6.85	20.2	5.50	15.7	5.60	15.3
Meat products	2.10	6.2	2.32	6.6	4.60	12.5
Cattle hides	1.67	4.9	1.41	4.0	2.01	5.5
Vegetable oils	3.07	9.0	1.94	5.5	1.40	3.8
Tobacco	0.89	2.6	0.95	2.7	1.34	3.7
Essential oils	1.42	4.2	1.25	3.6	1.17	3.2
Yerba mate	1.13	3.3	1.28	3.7	0.60	1.6
Fruits	0.62	1.8	0.57	1.6	0.22	0.6
Others	1.06	3.2	1.21	3.4	1.43	3.9

Total Exports	33.97	100.0	35.10	100.0	36.69	100.0

TABLE VII
PARAGUAYAN IMPORTS

SPECIAL IMPORTS (F.O.B.)	1954		1955		1956	
	U.S. \$m.	Per cent	U.S. \$m.	Per cent	U.S. \$m.	Per cent
<u>Sources</u>						
Argentina	9.20	28.0	12.57	43.4	7.06	28.7
U.S.A.	6.48	19.7	4.04	14.0	3.31	13.4
Netherlands						
Antilles	1.45	4.4	1.77	6.1	2.52	10.2
United Kingdom	3.19	9.7	2.04	7.0	1.93	7.8
Uruguay	2.86	8.7	0.46	1.6	1.79	7.3
Sweden	0.57	1.7	1.18	4.1	1.11	4.5
Germany	2.77	8.4	1.34	4.6	0.96	3.9
Spain	0.33	1.0	0.46	1.6	0.60	2.4
Belgium	0.42	1.3	0.18	0.6	0.43	1.7
France	2.29	7.0	1.30	4.5	0.20	0.8
Italy	0.48	1.5	0.31	1.1	0.16	0.6
Netherlands	0.82	2.5	1.01	3.5	0.15	0.6
Brazil	0.19	0.6	0.06	0.2	0.14	0.6
Switzerland	0.52	1.6	0.24	0.8	0.07	0.3
Yugoslavia	0.37	1.1	0.10	0.4	0.06	0.2
Others	0.96	2.9	1.90	6.5	4.14	16.8
 Total Imports	 32.88	 100.0	 28.96	 100.0	 24.63	 100.0

food, beverages and tobacco (24 per cent of total) - mainly wheat and wheat products; textiles and manufactures (16 per cent); vehicles and equipment (14 per cent); iron and steel and manufactures thereof (8 per cent); machinery and apparatus (8 per cent); fuels and lubricants (5 per cent); and chemical and pharmaceutical products (5 per cent).

The following is a list of Paraguay's major exports and imports:

TABLE VIII
PARAGUAY'S MAJOR EXPORTS AND IMPORTS

Exports	Imports
Cotton fibres	Cotton textiles
Lumber	Motor vehicles
Quebracho extract	Agricultural implements
Meat	Tin plate
Cattle hides	Breeding cattle
Leaf tobacco	Wheat flour
Oil of petit-grain	Gasoline
Yerba mate	
Fruits	

No other form of explanation could as adequately explain the inflation that has occurred in Paraguay than the following table prepared by the United States Mission in Paraguay, (Chapter 9, p. 70). Note that all figures are quoted in thousands of Guaranies.

TABLE IX

VARIATION OF BANK CREDIT AND CIRCULATING MEDIA

1946 to 1955

Year	Bank credit (000 omitted)	Notes and Coins in hands of public (000 omitted)	Bank, official, and private demand deposits (000 omitted)
1946	54	28	36
1947	90	39	33
1948	133	63	50
1949	188	84	76
1950	225	128	113
1951	361	215	204
1952	608	358	270
1953	946	478	539
1954	1,435	647	600
1955	2,347	850	806

Cost of Living

For a few years economic and social progress was made, but like a morning-glory, it started to wilt before the sun set. Unfortunately, many qualified and able citizens had to leave Paraguay because they were not in accord with the current regime in power. Others are leaving because Argentine, Brazil, or Uruguay offer more business and job opportunities and a higher standard of living. Ten years ago, the Guarani was approximately three to one to the dollar; the Guarani is now worth slightly more than zero in the international

exchange market. With the constant increase in the issuing of paper money any investor will reconsider heavily before risking any capital in Paraguay where the Guarani is so extremely deflated.

Produce-wise Paraguay at one time was almost self-sufficient. Due to government control and low parities, agricultural areas are producing mainly for self-sustenance, but not enough for retail consumption. Today, staples such as milk, butter, and potatoes must be imported.

Cost of living has sky-rocketed, and salaries have not been increased in proportion. It has been said that fifty per cent of an average employee's daily salary is spent for one liter of milk and one kilo of meat, leaving a balance of fifty per cent for other essential needs.

An index for workmen's cost of living, prepared by the United States Mission in Paraguay, (Chapter 9, p. 70) is shown on page 52.

In summary, the economic situation of Paraguay seems to be very dependent on the uncertain political development of the country. The national trade factor has definitely improved over the past years; however, the financial situation seems to have somewhat deteriorated over the same period of time.

TABLE X

COST OF LIVING INDEX FOR WORKMEN

1946-1955

Year	Population*	Production	Wholesale Price**	Cost of living**	Wage
Base: 1946 = 100					
1946	100	100	100	100	100
1947	102	85	122	121	119
1948	105	81	158	182	147
1949	107	89	191	240	189
1950	110	108	266	437	256
1951	112	115	414	640	378
1952	116	110	1059	1646	751
1953	117	98	1362	2205	1163
1954	120	95	1668	2600	1519
1955	123	95	1916	3261	1850

*to June 30

**to December 31

The government, as presented in this chapter, has made many efforts to attract foreign capital through concessions in every respect. These inducements should be taken into consideration for the construction of a new hotel property, as discussed in this study.

CHAPTER IV

TRANSPORTATION AND TOURIST ATTRACTIONS

In order to pinpoint the importance of Asuncion and the traffic flow through South America, there follows a discussion of the situation. A brief analysis of Paraguay's role in the economic standing of South America is also discussed.

A Brief Analysis of the Recent International Development of the South American Economy

Superficially, the South American nations show some similarity in their basic economical concepts, ethical composition, political outlooks, and forms of government. Further study shows wide differences from country to country, and no all-encompassing statement can be made. It is true that most of the economies of these nations are one-sided and not balanced. In this direction, also, nations such as Brazil, Argentina, and to a much smaller extent, Venezuela, have made over the past few decades enormous strides to overcome such obstacles to a more balanced national economy. The South American Nations have democratic forms of government; democracy finding many ways of expression, from true

popular support and enthusiasm to military backing of a so-called democratic government. Paraguay, however, is governed by a military dictatorship, headed by General Stroessner.

The economies of all South American Republics have one common denominator; that is, there is a general need for foreign investment. Above generalization about the area as a whole holds true for most individual countries. However, the capital invested in some countries, such as Venezuela, has paid for a large part of its imports, while in other countries these investments help the economy over a long term.

While up to very recently many South American nations resisted direct participation of foreign investment with an intense feeling of nationalism, based on the shopworn charges of foreign exploitation, there has now been, again, a definite trend in favor of attracting foreign capital. Of greater interest and significance is the increasing foreign investment in the manufacturing industries.

With a much increasing population and a slow but continuous change from a predominantly agricultural economy to more industries and the therewith connected change in employment pattern, the consumption of capital goods is steadily increasing. This situation demands more capital investments in order to increase such industries.

The following table clearly substantiates the foregoing statements.¹⁵

TABLE XI
LATIN AMERICA: GROSS INFLOW OF CAPITAL
AND ITS MAJOR COMPONENTS, 1947-1957*

Year	In Millions of Dollars					
	Direct private investment	Long-term and medium-term private credits	Net short-term private capital outflow	Official loans	Official donations	Total gross inflow
1947	280		174	110	24	588
1948	472			60	9	541
1949	502			122	26	650
1950	115		52	88	13	268
1951	410	140	50	220	20	840
1952	640	80	170	200	20	1030
1953	320	70		500	30	920
1954	170	110		410	40	730
1955	330	90	40	590	60	980
1956	800	110	100	450	80	1540
1957	1250	293	67	530	100	2240

*Excluding re-investment of profits by foreign companies domiciled in Latin America.

The Transportation Pattern

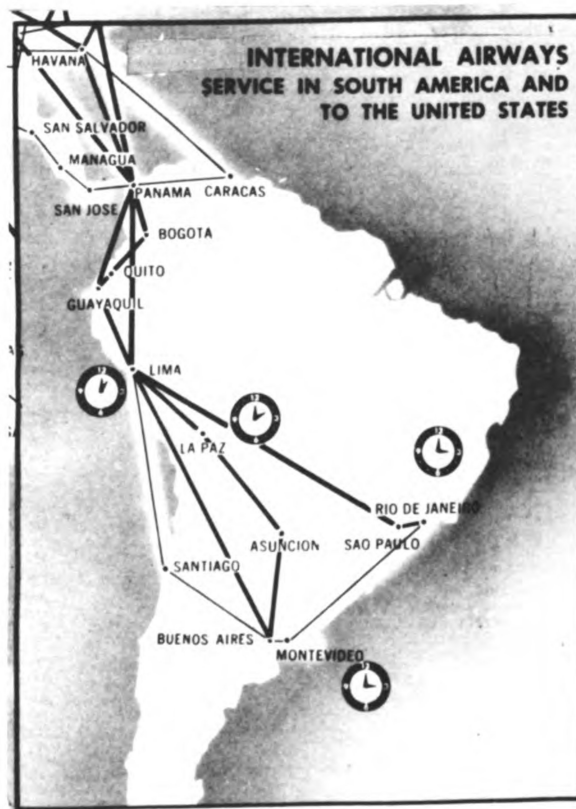
South America can, to a certain extent, be considered as a unit. This is very apparent through the study of the

¹⁵Economic Survey of Latin America, 1957, (United Nations, Department of Economic and Social Affairs, New York, New York, 1959) p. 51.

transportation possibilities. Transportation by air or sea, which generates from North America or Europe, does not channel the transportation media to a certain country. Moreover, these media have established their routes in a way that takes into consideration almost every nation and have thereby set a definite pattern.

The most important stopovers of the commercial airlines on the East coast of South America are: Caracas, Rio de Janeiro, Montevideo, and Buenos Aires. The most important stopovers on the West coast are: Bogota, Quito, Lima, and Santiago de Chile. With Pan American's advent of jet flights, the city of Asuncion has to be prominently added to this list.

The international shipping lines are using the port facilities of the above mentioned East coast cities. However, on the West coast, secondary cities are being used, the reason being the capital cities are located further inland.



The Hotel Pattern

Most capital cities of the South American Republics have, in the recent past, seen the erection of one or several ultramodern hotels. These hotels meet the criteria of comfort and standards desired and found in hotel operations throughout the United States and Europe.

Surveying these capital cities we find that:

1. In Caracas, Venezuela, the government of Venezuela built the luxurious Hotel Tamanaco. This 400-room hotel is leased and operated by Intercontinental Hotels Corporation, a subsidiary of Pan American World Airways.
2. In Bogota, Colombia, the retirement fund of the Colombian Armed Forces built the 400-room Hotel Tequendama. This hotel was opened for operation in 1953 and is also leased by Intercontinental Hotels Corporation. A 200-room addition is now in the building stage.
3. In Quito, Ecuador, the Social Security Administration of Ecuador is currently building a 250-room luxury hotel at a cost of approximately six million dollars. This hotel is to be completed for the Pan-American Conference in February, 1960, and will be operated by the Hotel Corporation of America on a lease basis.

4. In Lima, Peru, there are in existence several older, but luxurious and well maintained hotel operations, such as the 350-room Hotel Bolivar, the 150-room Country Club of Lima, and the 300-room Hotel Grillon (to which a 500-room addition is in the planning stage). All of these hotels are owned and operated by local interests.
5. In Santiago, Chile, the older but well maintained Hotel Carrera, a 400-room house, is one of the landmarks of Chile. This hotel is owned by local interests and operated on a lease basis by Intercontinental Hotels Corporation.
6. In Buenos Aires, Argentina, there are several deluxe hotel operations, such as the 320-room Hotel Plaza, the 300-room Hotel Alvear Palace, the 100-room Hotel Wellington; as well as many more moderately priced but equally good hotels, such as the Hotel City (450 rooms), Hotel Nogaro (250 rooms), etc. All of these hotels are owned and operated by local interests. A new 600-room hotel is in the planning stage, also to be owned by local interests, but operated on a lease basis by Intercontinental Hotels Corporation when completed.

7. In Montevideo, Uruguay, the pride of that city is in the new Hotel Victoria Plaza, a 400-room house owned by local and Argentine interests, but operated on a lease basis by Intercontinental Hotels Corporation.
8. In Rio de Janeiro, Brazil, the 500-room Hotel Copacabana Palace, an older but most luxurious hotel is still the favorite of the international traveler. The new 280-room Hotel Excelsior Copacabana and the entirely redecorated 250-room Hotel Gloria are equally very fine hotels. These hotels are owned and operated by local interests.
9. In Sucre, Bolivia, the 100-room Hotel Copacabana and another smaller hotel has been constructed and opened for business over the last four years. These hotels are owned and operated by local interests. It is interesting to note that these hotels were built during a period in the history of Bolivia, known to be as economically depressed and which still persists.

The only capital city of the South American Republics which cannot boast of any hotel similar in comfort and conveniences is Asuncion, Paraguay.

The afore-mentioned hotels are, to a great extent, a symbol and measure of pride to each capital city and to each

country where they are located. These hotels have become the social centers of their communities. Diplomatic affairs, weddings of the prominent social set, business meetings and conventions are held there.

In countries where the government, outright, or government agencies financed the construction of a hotel for purposes of investment and/or prestige, these agencies found it convenient to lease the facilities of the hotel to experienced international hotel management firms. This system, while insuring the investor of a fair and steady return of the investment, relieved these agencies of any problems of operation. In countries, however, where private interests financed the construction of a hotel, some few have also found it convenient to lease out their operation, for reasons mentioned above. The majority are taking the risks of controlling the operations directly, and from personal observation are doing so quite successfully. It should be noted that in such cases there was a basic pool of experienced hotel personnel available in the respective country.

These hotels are, moreover, located in the capital cities of the South American countries. These capital cities are to each country the center of all traffic, transportation,

and commercial and financial trade. The main airport of the country is usually located there, which services the international flights. It is the center of the national railway system. Depending on the location of the capital city, we find that some countries have the second largest city centered around the country's main port facilities. Asuncion, Paraguay is, however, the absolute center of activities of the nation. It possesses one of South America's few airports which can handle jet flight traffic.

Colorful Paraguay

In the past and the present, Paraguay was, and still is, slightly off the beaten track of the tourist trade. However, with the advent of jet air travel, South America and Paraguay, in particular, has moved much closer to potential hard-currency tourist countries (basis of the outgoing flow of tourism, especially the United States of America). Starting in the fall of 1959, Pan American World Airways is establishing a jet air route from New York to Buenos Aires, with stopovers in Caracas, Venezuela and Asuncion, Paraguay. This will bring the American tourist or the traveling businessman almost directly into Asuncion.

For the tourist who likes the colorful and the picturesque, Asuncion, with its old-fashioned charm and

excitingly beautiful natural setting might well prove to be one of the highlights of any South American tour in the future. The following places are usually visited by tourists.¹⁶

1. Botanical Gardens: 10 kilometers from Asuncion. Hunting and Fishing Club. Swimming. Golf Club.
2. San Lorenzo: 12 kilometers from Asuncion. Swimming. Night Club.
3. Colonia Independencia: Properous German settlement close to Villa Rica, second biggest town in Paraguay, 175 kilometers from Asuncion. Wine processing.
4. Ruins of Humaita: Ruins of an old fort, battle ground during the Triple Alliance War of Paraguay against Argentina, Uruguay, and Brazil. Close to the town of Pilar in the south.
5. Paraguari: 63 kilometers from Asuncion on paved route. Famous grotto of Santo Thomas which attracts considerable tourists.
6. Yaguaron: 40 kilometers from the capital. Famous chapel constructed by Jesuits in the 16th century. Interesting interior.

¹⁶The First National City Bank of New York, Asuncion Branch, August 17, 1959.

7. Itagua: Only 30 kilometers from Asuncion. Center of Paraguayan lace making "Nanduti."
8. Ita: 34 kilometers from the capital. Typical Paraguayan pottery.
9. Caacupe: 54 kilometers from Asuncion on paved route. Famous for the sanctuary of the Virgin of Caacupe (Paraguay's Lourdes) visited by many pilgrims. Swimming and fishing. Good hotel service.
10. El Tirol: 18 kilometers from Encarnacion. Swimming pool, good hotel, attractive scenery.
11. Iguazu Falls: Larger and more spectacular than Niagara Falls; in Brazil, but accessible from Asuncion.

A river port, where native women wash their clothes and beat them on stones, is still a common everyday scene. A familiar sight is shawl-wrapped native women, carrying black umbrellas, riding sidesaddle on donkeys.

There is a new modern bank building in the city, which stands out like a white symbol; yet, the streets in front of it are thronged with natives on donkeys. The older buildings have a decided Italian influence. The elder Lopez imported an Italian architect who designed the palace and the Pantheon,

which are modeled after Napoleon's tomb. The Pantheon contains the coffins of Lopez, two Paraguayan unknown soldiers, and other national heroes.

The shopping center is Calle Palma, where the shawl draped Indian women and the well dressed lady of Asuncion rub shoulders. The ladies of Asuncion go hatless, wear white gloves, bags, and shoes.

The women of Asuncion gather for tea in the afternoon, often at the Terraza Caballero, a good restaurant overlooking the bay on the Paraguayan River. The two finest private clubs, for which a card is necessary, are the Club Centenario and the Club Cenisa.

One of the most colorful native holidays is the Feast of San Blas on February 3. It is a celebration in honor of the patron saint of the republic. On this day, bullfights and horse racing are held in Asuncion and other towns.

Paraguayan lace is world famous, and it is chiefly made in the village of Itaugua. This lace, beautifully hand embroidered blouses, and wooden bowls are wonderful souvenirs of Asuncion and Paraguay.

Jesus and Trinidad are the two most important and interesting Jesuits ruins to visit in the Missions territory. The ruins are approximately forty miles from Asuncion, and

the round trip can be accomplished in one day. These ruins, one of the high-lights of Paraguay, clearly depict a way of life destroyed by ignorance and greed. Some of the altars and the valuable artistic objects which these Missions had, are still kept intact. The forest lined road leading to the Missions passes through numerous and typical small Paraguayan towns; and this gives the visitor a first-hand opportunity to see a part of the country, the people, and a completely different way of life.

San Bernadino, the only city outside of the capital which caters to tourists, situated on a lake, is a two hour car trip from Asuncion. The lake, called Ypacarai, is shallow and easily heated by the summer sun. San Bernadino is an old-time summer resort, whose two hotels are filled during the season.

In all of Paraguay there are only about 40,000 Indians, a few of which can be seen on a reservation near Asuncion. Some of these Indians can also be seen in the city, trying to sell souvenirs. Guided tours to the reservation are conducted by a local tourist agency.

Transportation

Water transportation. The most economical means of transportation is by water. Steamer services operate on

the Paraguay and Parana Rivers between Asuncion, Buenos Aires and Montevideo. The journey by steamer from Buenos Aires to Asuncion takes four days. All cargo is shipped via this route and exported to the rest of the world from the two above-mentioned ports. However, developments in the shipping industry have been expanded directly to Europe and to the United States. A Dutch shipping concern increased its operations to provide monthly freight services between Asuncion and Northern European ports. Also, an English firm, on a more modest scale, established a direct service via Brazilian ports to Liverpool. In addition, both firms have established a similar and direct service between New York and Asuncion.

Railroads. The 274-mile Central Paraguayan Railroad, under British control, connects with an Argentine railroad at Posadas. The trip from Buenos Aires to Asuncion takes slightly more than two days on a dusty and old-fashioned train, which still uses a wood-burning locomotive from Posadas to Asuncion.

Air travel. The trip from Asuncion to Buenos Aires, which takes some four days by boat and some fifty-six hours by train, can be covered in only four hours by air. Rio de Janeiro can be reached in six hours and La Paz in seven hours by air.

"Paraguay has one international airport, about six and one-half miles from Asuncion. It was built in 1944 by PAN AMERICAN WORLD AIRWAYS, and has 1800 meters of asphalted runway. It is now owned by the state."¹⁷ The registered international movement of airplanes has increased considerably during the past few years.

The international airlines scheduled for Asuncion at present are:

TABLE XII
INTERNATIONAL AIRLINES SCHEDULE FOR ASUNCION*

Airline	Number of stops per week
Braniff	2
Pan American World Airways	2
Pan Air do Brazil	1
Pluna	1
Real	3

*According to Turistica del Paraguay, Direccion General de Turismo, p. 45.

¹⁷George Pendle, Paraguay - A Riverside Nation, Royal Institute of International Affairs, London and New York, Oxford University Press, 1954, p. 75.

Paraguay's air taxi express service has proceeded to expand its fleet, communication facilities, and schedules within the country. At the same time, the transport wing of the Paraguayan Air Force started a regularly scheduled passenger service to the Chaco and border points.

Roads. During his stay in Paraguay, the author made these following personal observations. Few highways are paved. The majority are dirt roads which are impassable during the rainy season. Upon the completion of the Pan American Highway, Paraguay will be more closely linked to its neighbors. Bus service within Asuncion and for trips into the interior is good. A fleet of modern buses were imported several years ago.

Air Traffic

Asuncion sits at the cross-roads of important air routes. Planes crisscross between Rio de Janeiro, Sao Paulo, Lima, La Paz, Montevideo and Santiago, frequently with passengers from Europe, the United States, and other Latin American countries. Foreign-flag airline traffic entering and clearing Asuncion has increased markedly as is shown by the latest following table of passenger distribution.¹⁸

¹⁸Courtesy of Mr. F. R. Fisher, U.S.A. Operations Missions to Paraguay, The Institute of Inter-American Affairs, Asuncion, Paraguay.

TABLE XIII
FOREIGN-FLAG AIRLINE TRAFFIC ENTERING AND CLEARING
ASUNCION

From and to Asuncion and:	1952	1954
Buenos Aires	13,615	20,419
Rio de Janeiro	4,490	8,856
Montevideo	1,729	7,925
Santiago	449	168
U.S.A. and other countries	1,023	1,295
	21,315	38,663

The improvement of Asuncion's airport, for which a \$700,000 export-import loan has recently been concluded, will augment the growth of air traffic. And to that extent, makes the need for a first-class hotel in the capital much more imperative. Asuncion should not be a mere transit point, but should offer attractions for stop-over passengers and vacationists.

Official Recognition of Importance of Tourism

The following article was printed in one of the local papers and, according to an unpublished pamphlet by the

Dirección General de Turismo, Algo Sobre Turismo y Hoteles.

However, all reference data was not included in the transaction (approximate date of publication, May 1955).

Toward a More Efficient National Tourist Agency

Tourism, no doubt, is a very important means of understanding and interpretation between peoples; and, in the countries where it is well organized, it is, moreover, a source of foreign currency as well as an occasion for useful cultural and artistic interchange which is always beneficial to any country. Therefore, governments which have understood the importance of tourism within the international relations, have shown interest in its improvement and development, by all means at their reach.

Nature has been splendid to this country, and its geographic location is another favorable factor, particularly on account of the modern means of inter-continental transport served by the airlines. Because of it all, a good and efficient organization of tourism is an urgent need, not to be postponed.

Undoubtedly, the existing official agencies have not performed a very difficult task, either for lack of special authority which might have placed the Directors of Tourism in a position to make the various procedures more expeditious and to carry out a closer control and promote the improvements of facilities at places of interest for tourists who came into the country. That is why we welcome the bill designed to reorganize the Tourist Agency and to transfer it from the Ministry of Interior to the Ministry of Public Works and Communications, to which it is more related functionally.

One of the principal tasks which the Agency must perform is to adopt a new organizational plan and to devise measures which make it easier for touristic interest to enter and depart. In this connection, the creation of the Tourist Card is under study at present,

a development which will facilitate greatly procedures for persons visiting the country as tourists. Also, special tourist central offices would be established so that tourists may find it easier to carry out these various procedures. On the other hand, as hotels, and other lodging and eating places are of great importance for the development of tourism, the Agency has created a commission to check on prices, headed by the Director of Tourism and composed by representatives from the Ministry of Industry and Commerce, the Municipality and the Association of Hotels, Inns, Bars, Restaurants, etc., the purpose of which is to keep prices for services rendered by this kind of business at a fair level. Moreover, the Agency will firmly support any plea for the construction of a modern hotel in the capital city, equipped with all the necessary comforts for tourists; besides, facilities will be given for the construction of small hotels and inns in those towns which may be of interest for tourists because of their natural beauty or their artistic or historical values.

There is no doubt that the coming of tourists into this country is a source of valuable earnings; therefore, we wish the Agency all success and hope that its efforts become fruitful, to the advantage of the country.

Judging from the preceding article, there is official recognition of the importance of tourism as a source of foreign exchange earnings. The principal obstacle has also been admitted, namely, a lack of adequate hotel accommodations. It is perfectly evident that without such proper facilities any effort made in the direction of tourist propaganda is certain to bring about consequences that are harmful in the long run. Visitors might come to Paraguay once, but they

would leave with unpleasant recollections and tell their friends of the discomforts they were obliged to endure, of bad food, poor service, shabby rooms, and the general lack of an agreeable atmosphere.

Average daily expenses of a tourist as computed by the Tourist Bureau adds up as follows:¹⁹

TABLE XIV
DAILY EXPENSES OF A TOURIST

Accommodations	Expenses			
Hotel room plus food	Gs.	700.00	(US\$ 5.73)	approx.
Taxi ride	"	50.00	(" 0.40)	"
Various small expenses	"	100.00	(" 0.81)	"
Souvenirs	"	250.00	(" 2.04)	"
Sundries	"	100.00	(" 0.81)	"
	Gs.	1,200.00	(US\$ 9.83½)	converted at 1 US\$ = Gs.122

Businessmen will continue to come from other countries because they must; but relatively few people, touring South America or living in neighboring countries will, at this time, make Paraguay a vacation-time pleasure stop.

¹⁹The First National City Bank of New York, Asuncion Branch, August 17, 1959.

Shopping

Native handicrafts are abundant and a source of wonder to the tourist. Nanduti lace (spider web) is as valuable as Belgian lace. The weaving of these gossamer doilies, scarves, mantillas, and exquisite tablecoths occupies almost the entire female population of San Bernadino.

Beautifully embroidered blouses of handwoven cotton, rugs, blankets, and ponchos similar to those worn by the vaqueros may be purchased in shops or in the market squares.

Clay figures delicately colored, depicting native types, are exquisite in detail.

The Hutterites are well known for their articles made of wood such as bowls and highly polished boxes. Hand-tooled leather articles such as handbags, etched silver bombillas and gourds, gold and silver puzzle rings (also called the Paraguayan wedding ring) and bracelets (composed of many fine rings) make wonderful souvenirs.

Foreign Representations and Foreign Banking Institutions

The following countries are represented in Paraguay through an embassy in Asuncion: Argentina, Bolivia, Colombia, Cuba, Chile, Dominican Republic, Spain, Vatican, U.S.A.,

NATIVE HANDICRAFTS AVAILABLE IN LOCAL SHOPS



HAND-WOVEN
PANCHOS
AND
FAJAS



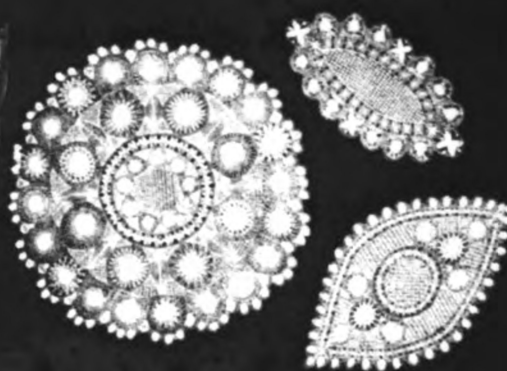
ETCHED SILVER BOMBILLAS AND
GOURDS



HAND-TOOLED LEATHER
ARTICLES



NANDUTI HAND FASHIONED LACE



Brazil, France, Great Britain, Honduras, Italy, Mexico, Peru, Uruguay, and Venezuela.

The following countries are also directly represented in Paraguay and through a consulate in Asuncion: Belgium, Denmark, Finland, Norway, the Netherlands, Portugal, Sweden, Switzerland, Yugoslavia, Ecuador, Lebanon and Austria.

These foreign representations cause a continuous flow of movement, especially considering the frequent transfers of personnel so common in the diplomatic corps.

Besides several local banks, there are in Asuncion branches of the following international banking institutions: Banco del Brazil, Bank of London and South America, First National City Bank of New York, Banco de la Nacion Argentina, and Banco Hogar Argentino. These banking institutions are actively promoting foreign trade.

In summary, Paraguay is one of the least developed countries in South America. It is, however, centrally located within this continent and therefore easily accessible from all of the South American countries. Paraguay has much to offer of interest to any prospective tourist, be it sight-seeing or shopping. Daily expenditures, as shown in Table XIV, are very reasonable for a tourist accustomed to rates in other tourist centers.

CHAPTER V

PROBLEMS OF FINANCING AND CONSTRUCTION

OF THE PROPOSED HOTEL

In Chapters III and IV, the author has presented the economic background of Paraguay, into which an additional foreign investment for the proposed hotel could be introduced, and also the transportation pattern to and within the country in connection with the value of Paraguay to international tourism.

This chapter concerns itself specifically with the actual conditions of the hotel industry in Asuncion. The possibilities of financing new construction, suggestions as to the proposed building, and anticipated revenue, are also presented within this chapter.

Present Conditions of the Hotel Industry in Asuncion

Although the city of Asuncion has no running water, the three medium-sized hotels and better residences have their own artesian wells with running water in semi-modern bathrooms. Unfortunately, running hot water is not always available upon request.

The Gran Hotel del Paraguay, located in the outskirts of the city (once the residence of General Lopez, paramour

of Eliza Lynch, who held court there), is a large one-story building. The murals in the dining room, which was once Mrs. Lynch's private theater, are bizarre and provocative. This is an extremely depressing lodging place, whose singularly large rooms creak with, and look of old age, and has ancient furnishings and decorations such as old and ugly iron bedsteads.

However, since both the Colonial and Palace Hotels in the center of town are also on the same level, all visitors are forced to make the best of a completely disagreeable situation. Restaurant and bar services at these hotels are equally sub-standard as compared to modern hotel standards. All of these mentioned hotel buildings have an average age of approximately sixty years. In the United States, similar properties are classified as "flophouses." In addition, there are several smaller lodging places (boarding houses with eight to fifteen rooms, operating under the American Plan system.) These smaller places are much superior to the three hotels in comfort and cleanliness.

To date, air-conditioning, electric fans, and screening are luxury items and are non-existent anywhere in the hotels and boarding houses. An open window, the only source of ventilation, is a direct invitation to all forms of insect

life to enter, especially during the summer months when they are plentiful and considered to be a plague. Mosquito netting is the only form of protective measure in use.

As there is a continuous stream of businessmen, technicians, and embassy personnel from various countries to Asuncion, all of the hotels and family-type boarding houses enjoy a continuous high occupancy rate. Reservations must be made well in advance.

The prevailing daily room rates at the best hotels and boarding houses average approximately \$5.00 per person, which should be considered high when compared to the accommodations offered. Meals, however, are reasonable and when computed on a daily basis cost approximately \$2.00 per person. Prices of alcoholic beverages are approximately equal to those in the United States. All figures were purposely quoted on an approximate basis, since all prices are subject to constant fluctuations.

In summary, travelers today have been amazed and astonished at the archaic and decrepit accommodations they will have to endure while in Paraguay. To illustrate the present conditions of the hotel industry in Asuncion, the following article is quoted from "La Tribuna," (May 12, 1955, p. 5, "City Themes" column):

"Asuncion bears a chronic sickness, the lack of hotels. This default is, no doubt, one of the most serious shortcomings in the capital and one of the main stumbling blocks in its way towards progress. For that reason, the tourist stream thins out and does not find the smooth channel it requires to gather momentum.

We trust, therefore, that any action which may tend to eliminate that lacking--so evident and so harmful--will be approved and supported by the proper authorities. Asuncion badly needs hotel facilities in accordance with its metropolitan condition and with its present modernistic impulses. It is not conceivable, indeed, nor tolerable, that the capital of Paraguay continue to ail from that sorrowful handicap and to display that sad aspect of poverty which can be discovered in this walk of its life.

The impression a foreigner gets upon arriving in Paraguay is deplorable when he finds out that there are no lodging facilities in accordance with the requirements of a progressive city. And the version that is later divulged abroad, on account of this fact, is disfavorable and adverse; of course, it brings serious damage to Asuncion from the standpoint of tourist attraction. The lack of hotels is the main negative factor affecting the name and prestige of Asuncion and the main obstacle obstructing the valuable affluence of foreigners to the city.

Thence the necessity that any action that may tend to furnish us with the hotel facilities needed in Asuncion receive firm and compulsory support. Thus, we believe a pressing problem shall be solved and new prospects for advancement of the capital city will be open."

Tentative Plans for the Contruction of a Hotel

Possible reasons for delay of construction. Some of the major reasons why no hotel as foreign investment was built so far, were, most probably:

1. The general lack of confidence in the foreign exchange situation, as Paraguay has had a long-term record of successive currency devaluations;
2. Recurring periods of dollar exchange shortages, when exchange has not been made available to service North American investments;
3. The threat of expropriation of foreign-owned property without proper compensation.

These points can no longer be a real obstacle since Paraguay has recently decided to participate in the Mutual Investment Guarantee Program. The new law, dated October 28, 1955, discussed on page 36 (establishing a system for the incorporation of foreign capital), is a definite stabilizing factor for new foreign investment, granting many privileges.

Financing of hotel construction. The proposed hotel, discussed, could be financed either with government funds or with private venture capital. In the latter case, it could be all foreign capital, or a combination of both local and domestic capital. Whatever form of financing is undertaken, it appears essential, under the circumstances, that the administration be performed by a qualified hotel management group, preferably a company with wide experience in Latin

America. Such companies operate under contract either on a flat-fee basis, a percentage of gross income, or for a share of the profits. Consequently, it is evident that the services of a management firm should be engaged at the outset. Then, there is an implicit mutual interest in the success of the venture.

In view of the recognized need for adequate hotel facilities in Asuncion, Intercontinental Hotels Corporation, Hilton Hotels International, and the American Hotels Corporation were contacted. The purpose was to sound out their interest in a management contract, if financing could be separately arranged by local or other contracts. The three companies were contacted because of their international reputation for managing hotels.

Hilton Hotels flatly turned down the project as they believed the size and style of hotel which it was their practice to operate would be premature for Asuncion, American Hotels referred the matter to one of their subsidiary companies, and no further word has been received. Intercontinental Hotels stated that it was not possible for them to make any tentative proposal without receiving some direct and detailed written request from the Paraguayan Government. The Paraguayan Government showed no great interest in Intercontinental Hotel's proposal.

The prospects of financing a hotel entirely with local capital are presently rather slight, despite the admitted urgent lack of adequate hotel accommodations. According to Mr. Frederic R. Fisher (U.S.A. Operations Mission to Paraguay, The Institute of Inter-American Affairs, Asuncion, Paraguay), such capital could be readily found as soon as an improvement occurred in the investment climate.

In this connection, however, there might be some encouragement as a result of the Mutual Investment Guarantee Program inasmuch as it gives scope for a joint U.S.-Paraguayan venture. The principal requirement is that the company be organized under U.S. laws and that a majority of the equity be held by U.S. citizens. This means that as much as forty-nine per cent of the equity would be Paraguayan and enjoy the guarantees against the risks mentioned.

The U.S.A. Operations Mission to Paraguay, of the Institute of Inter-American Affairs, had sounded out the prospect of financing by the Export-Import Bank, according to Mr. F. R. Fisher, but at the time (1954), the Export-Import Bank indicated that loans of this nature were not encouraged for policy reasons. As in all situations, the attitude of the bank is subject to change and revision in line with government policies.

The Foreign Operations Administration in Washington possibly would consider helping to finance this project if a United States firm would provide a major part of the required capital investment. The Export-Import Bank has, on occasion, provided financing for dollar expenditures of hotel projects; but they no longer do, on the grounds that such loans are regarded as non-developmental by them. However, the Export-Import Bank might have been convinced, if requested, of the desirability of a loan in order to provide a means for the purchase of U.S. equipment and services. With regard to this second point, the Prevision Social and the president of the Central Bank questioned the availability of foreign exchange necessary for purchases in reference to this project.

Efforts of the Prevision Social to start construction of the hotel. On February 22, 1954, the Prevision Social announced, through the press, the projected construction of a hotel on a downtown property which it owned. The building, for which plans were drawn by Paraguayan architects, is to be of twelve floors, built of reinforced concrete, and air-conditioned. The ground floor is to be used for shops and offices. The first floor will contain a dining room, a reading room, and administrative offices. There will be

another dining room on the seventh floor, as well as a large room for banquets and a cocktail lounge. The top floor will have open and covered terraces, and a bar. The remainder of the building will contain 206 rooms and eighteen apartments. The announced cost of the building was sixty-million Guaranies and it was estimated that it would take five and one-half years to build.

On April 26, 1954, announcement was made in the press that demolition of an old building in the center of town (on the proposed site) had been authorized. However, by 1957, a huge government-owned service station had been established on this site.

After the two press releases, a Chilean hotel firm (which operates the Hotel Panamericano at Santiago, Chile, the Hotel Sucre-Palace at La Paz, Bolivia, and the Hotel Panamericano at Vina del Mar, Chile), submitted a proposal to the director of Prevision Social, which was accepted.

At the end of September, 1955, however, the Instituto de Prevision Social announced the purchase from the Ministry of Finance of a square block near the Central Bank building, facing the public square. Thirty-two million Guaranies had been paid for the property, according to Dr. Cubas, director of the Instituto de Prevision Social, which, to a certain

extent, seems to be an accounting transfer between the two agencies.

The plans are to erect a 150-room hotel, fully air-conditioned, at a cost of around two-million dollars. The land allocated has been cleared and architectural plans presented, but ground has not been broken. It has been said the hotel would be ready for occupancy either in 1959 or 1960. The financing of the project would be made by the Prevision Social (Social Security) and is regarded as a gilt-edge long-term investment by both the government and the agency. Whether or not any foreign concern or capital is involved has not been established nor revealed by official sources, even though a Chilean firm is involved. Although contracts have been signed, the construction of the building itself is most problematic unless foreign capital gives a helping hand.

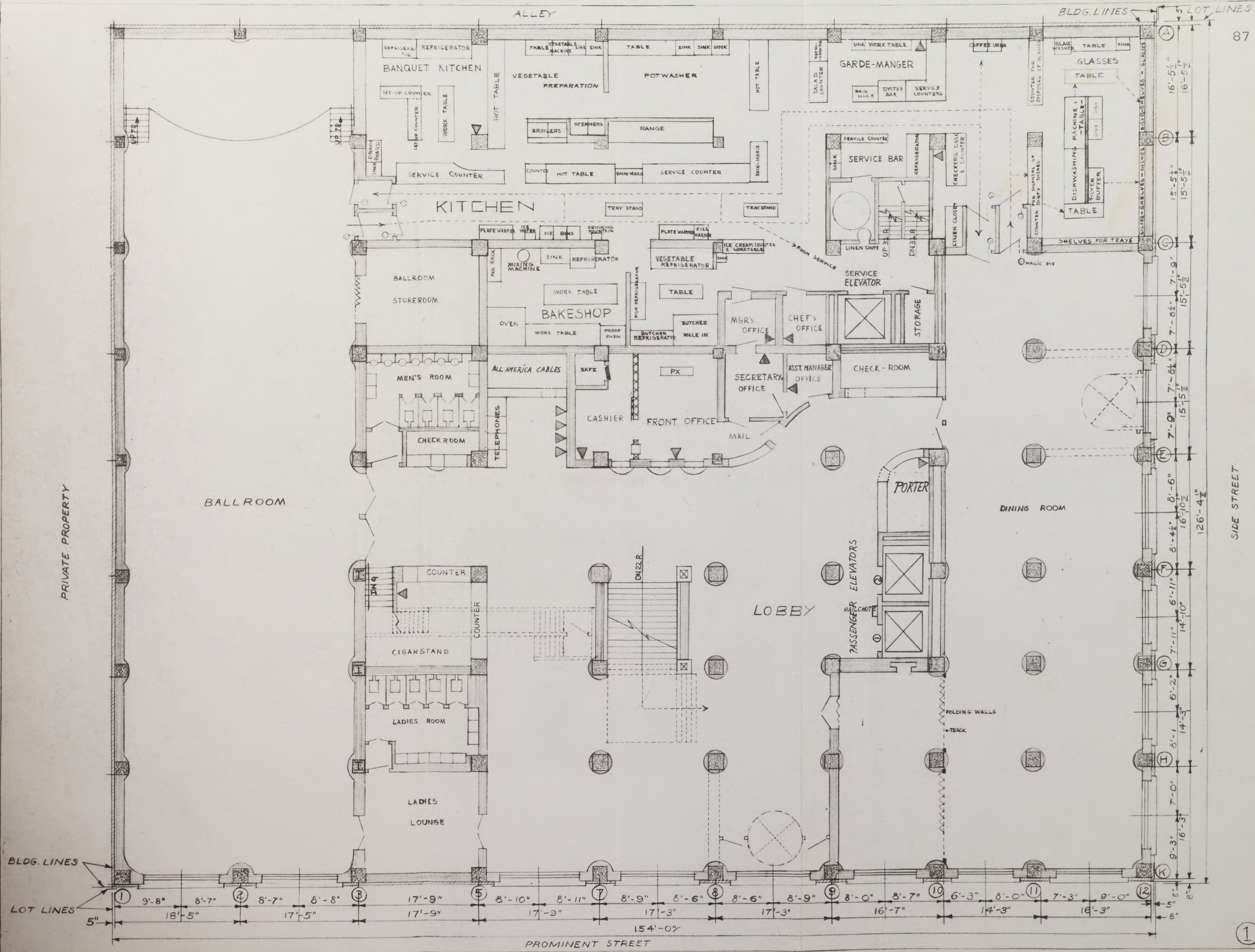
The Proposed Hotel

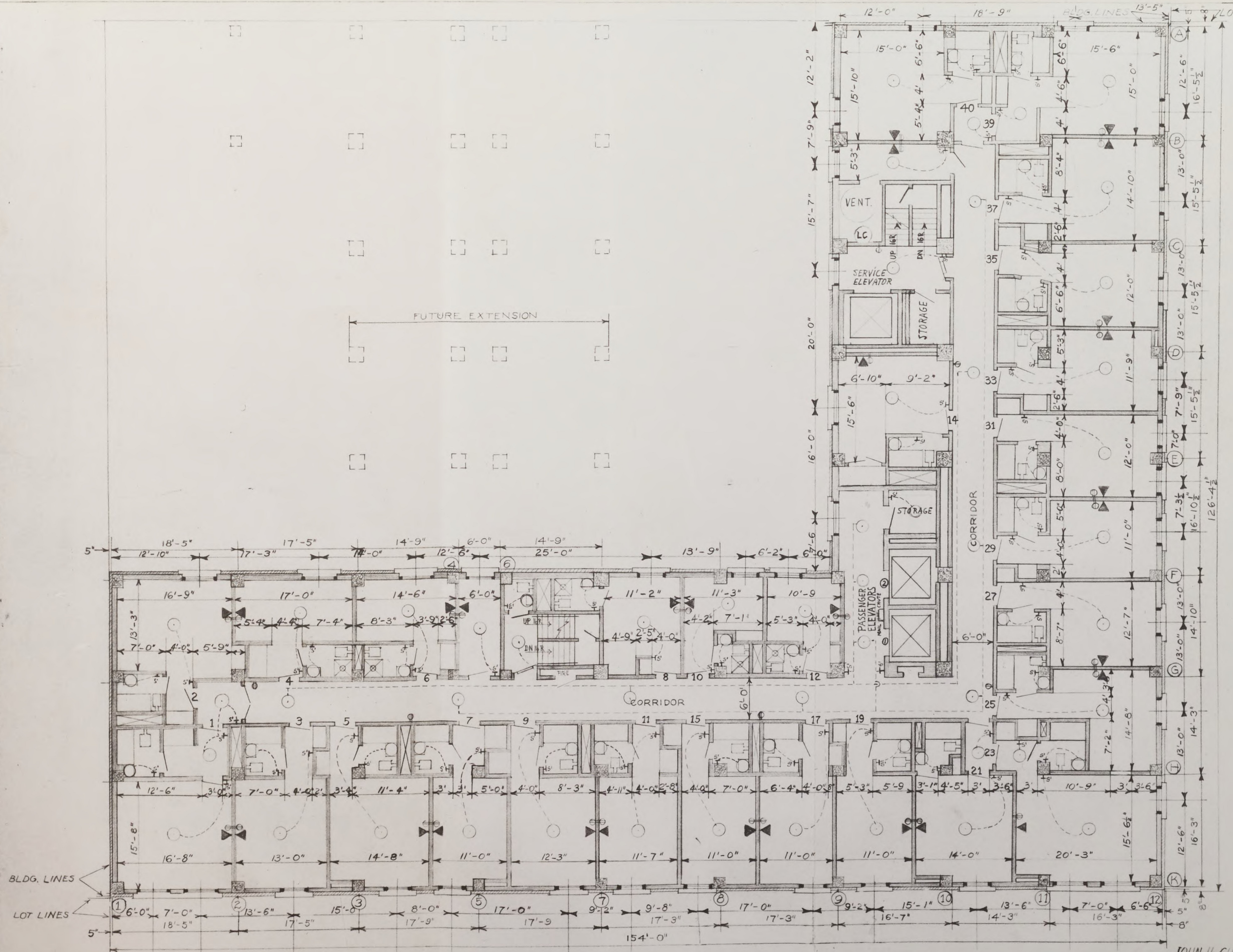
Type of hotel construction suggested. Generally, when building up a business or industry, one must be concerned with building up volume. In this particular case, an initial, rather good volume of business for a medium-sized modern hotel may be already there because the present hotel

facilities are booked to capacity most of the year. Further indication of high occupancy is the continuous stream of businessmen, technicians and embassy personnel from various countries to Asuncion. This situation, plus an ever-increasing flow of tourist trade, is expected to expand quite rapidly with the establishment of a new hotel, and calls for the planning of a dual purpose hotel:

1. One part of the hotel should be of the residential type, permitting persons whose occupation necessitates a lengthy stay in Asuncion, either to reside for their entire stay in Paraguay at the hotel, or for a period of several months until definite arrangements for a private home can be made.
2. The greater part of the hotel should be of the transient type, to take care of the current tourist and short-stay businessmen's trade.

The following floor plan is typical of one type of hotel construction suggested. Please note that this hotel would consist of, in addition to the lobby floor, six bedroom floors, with a total of 126 transient rooms and eighteen two-room apartments. This would be twenty-one transient rooms per floor, plus three two-room apartments.





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The main lobby would consist entirely of office space, food preparation space, main dining room, and ballroom.

The bar, built with easy convertibility into a night club, two additional smaller meeting rooms, as well as a shopping arcade (including a travel agency with guide service) and offices, would be located in the basement. Separate, but also in the basement, would be the laundry and dry cleaning plant, linen room, housekeeping, and storage space. The machinery, repair and maintenance department, and various food storage rooms would be located in the second basement. A swimming pool with a few cabanas could be installed on top of the building.

Banquet space, large enough to take care of the local service clubs and small social affairs, should be included in the planning of this project. One medium-sized banquet room holding approximately 200 persons; and some smaller rooms, which would hold approximately forty persons each, would be sufficient.

A small, but elegant cocktail lounge, with possibilities of easy convertibility into a night club, are the important income spaces of the food and beverage department to be considered.

Additional revenue could be obtained by having a hotel-owned gift shop. Accommodations of space for several other types of stores or offices should be provided, especially a beauty parlor and a barber shop.

Special importance, also, should be given to the inclusion of store rental space, a house laundry and dry-cleaning plant.

The hotel should be built of a moderate size, 120 to 150 rooms, with possibilities for subsequent additions if the business conditions should warrant it.

As general replacement costs tend to be very high, due to the transportation problem, and taking into consideration the time element, it is suggested that the hotel be appointed with equipment, furniture and fixtures of high quality, with long life possibilities. It must also be realized that the possibility of dollar shortages might, in the future, make purchases difficult, or even impossible. The fact that very few items in use in a hotel operation, besides food and beverages, can be purchased locally must also be taken into account.

The hotel should be fully air-conditioned, the need of which can be fully understood when studying the table of average monthly temperature breakdown. The inclusion

of these basic elements of modern comfort, such as (1) telephone in every guest room, (2) combination tub and shower in every guest bathroom, with hot and cold water, is, of course, understood. Furthermore, it is recommended that the following luxury facilities be installed in every guest room:

1. Built-in radio
2. Running ice water in every guest bathroom
3. Wall-to-wall carpeting

The hotel should have ample refrigerated storage space because of seasonal purchasing, which is still a very common practice all over South America due to transportation problems and a lack of proper refrigeration facilities. This would subsequently save considerably on the food cost. The acquisition of a milk pasteurization machine, as well as an ice cream machine, is also recommended. From personal observation, there seems to be no possibility of the purchase of bulk ice cream. The ice cream being sold by the local eating places is of very poor quality (low cream content).

In other words, the hotel should be as much as possible, a self contained unit. According to the author's analysis of the room occupancy pattern at the Hotel Victoria Plaza in Montevideo, Uruguay, the following rooms distribution

in the proposed hotel in Asuncion, might be considered advisable.

Of the suggested 150 rooms, there should be approximately twenty kitchenette apartment units, to be rented to technical personnel, embassy personnel, who bring their families and tend to stay for several months until definite quarters are found. Of the 110 transient rooms, a definite number should be of the studio type, where the traveling salesman or businessman can receive his business contacts or representatives.

Potential patronage for a new hotel. The table shown on page 69 clearly indicates that the number of passengers stopping for any period of time is definitely increasing. Since the overthrow of the Peron regime, travel to any or all of South American countries has been increasing steadily. Therefore, it is only reasonable to assume that even now Paraguay receives her small portion. With a new and modern hotel, this amount would be raised; however, these increases would be slow. The tourist boom that several of her neighbors are now experiencing would still be part of a three to five year struggle in order for Paraguay to obtain its measure in proportion. Upon construction and completion of this project, Paraguay and Asuncion must be advertised and sold to the tourist trade.

A small hotel (120 to 150 rooms), but having all modern conveniences, would do very well in Asuncion. At present there are, as previously indicated, enough businessmen and tourists stopping in Asuncion who would welcome a modern, well equipped, and well run hotel. Also, there is a constant influx of U.S. Embassy and mission personnel, plus diplomats from other countries who, until they found permanent living quarters, would stay for prolonged periods at the hotel.

With the building or completion of the new jet airport, it could be entirely possible that more airlines would make Asuncion a stop, bringing with them additional travelers. With the building of a new hotel, these travelers could be induced to stay longer in Asuncion than anticipated.

As far as actual operation of a modern and efficient hotel business establishment is concerned, it is to be recommended to interest for such a task the services and cooperation of an international hotel management organization, and if possible, of the United States. This is of prime importance, not only for the operating phase of the hotel, but also for the complete planning of the building and its organization as there is no competent Paraguayan hotel management personnel of up-to-date executive caliber available.

Such personnel could then be trained, subsequently, within the organization to insure the continuity of efficient hotel procedure with Paraguayan key personnel, if the necessity should arise.

The opportunity exists in Paraguay for the development of tourist traffic. Now that means of transportation are rapidly available to almost any point of the globe, lack of accommodations are now one of the obstacles to a flow of visitors. Here would seem to be a fruitful field for the provision of government incentives for the encouragement of private enterprise, as tourism is an intangible-export commodity.

Profit and loss forecast. Considering an average year-round occupancy of 75 per cent, at an average daily rate per room of \$7.00 for 150 rooms, the total room sales per year should amount to \$287,437.50.

The following tentative Profit and Loss Forecast for a year's period has been based on accepted average American percentages, as well as on actual average figures from the Hotel Victoria Plaza in Montevideo, Uruguay (an operation similar in scope to the suggested operation in Asuncion, Paraguay). The figures from the hotel in Montevideo have been slightly changed and adapted to the particular needs and problems of Asuncion.

TABLE XV
PROFIT AND LOSS FORECAST

		Per cent
<hr/>		
TOTAL SALES (including other income).....	\$ 500,858	
<u>ROOMS DEPARTMENT</u>		
Sales	287,437	100
Payroll.....	25,869	9
Other expenses.....	28,743	10
Total expenses.....	54,612	19
Departmental profit.....	232,825	81
<u>FOOD AND BEVERAGES DEPARTMENT</u>		
Food sales.....	129,346	45
Beverage sales.....	84,075	65
Total sales.....	213,421	100
Food cost.....	50,445	39
Beverage cost.....	23,541	27
Total costs.....	73,986	34
Gross profit.....	139,435	65
Other income.....	1,067	0.5
Total gross profit and other income.....	140,502	65.5
Expenses		
Payroll.....	32,013	15
Other expenses.....	38,416	18
Total expenses.....	70,429	33
Departmental profit.....	70,073	33
Ratio of food and beverage profit to room sales.....		24
Net profit from minor operated departments...	11,497	4
Other income.....	14,372	5
<u>GROSS OPERATING INCOME</u>	328,767	
Administrative and general.....	28,744	10
Payroll.....	17,246	6
Other expenses.....	22,994	8
Total administrative and general.....	40,240	14
Advertising and promotion.....	7,185	2.5
Heat, light and power.....	57,486	20
Repairs and maintenance.....	28,743	10
Total deductions.....	133,654	

TABLE XV (continued)

		Per cent
<u>HOUSE PROFIT</u>	\$ 195,113	
Store rentals.....	5,748	
<u>GROSS OPERATING PROFIT</u>	200,861	
Rent, taxes and insurance.....	71,850	25
Interest.....	17,246	6
Depreciation and amortization.....	10,059	3.5
Total capital expenses.....	99,155	34.5
<u>NET OPERATING PROFIT</u>	101,706	35
Other deductions		
Provision for incentive fee		
Provision for income taxes		
NET PROFIT (before income taxes).....	101,706	
<u>STATISTICS</u>		
Number of rooms available.....	150	
Percentage of occupancy.....	75	
Average daily rate per room....	\$ 7.00	

Comments on profit and loss forecast. The yearly Profit and Loss Forecast on the preceding pages has not been broken down on a monthly basis as no comparative statements are available on which such a study could be based.

However, the following points merit a certain amount of consideration:

1. The indicated payroll, which might seem low compared to United States standards, as well as to Argentine and Uruguayan standards, is partially based on the Paraguayan Minimum Wage law for unskilled labor of 67.25 Guaranies per day. It is assumed that most of the personnel will earn substantially more than the indicated minimum amount; however, not over three dollars per day, with the exception of the department heads.
2. The food and beverage income, in relationship to the room income, might seem out of proportion when compared to similar hotel operations in the United States. One of the main reasons is that the transient guests will patronize the food and beverage facilities to the greatest extent, as no other (from personal observation and interviews) Continental and/or American dining rooms are in

existence in Asuncion. Therefore, the bar and restaurant of this proposed hotel will also attract almost entirely the different foreign colonies of Asuncion, as well as the upper class of Paraguay, but to some lesser extent. Since this hotel is to be constructed in part with government funds, it is very likely, and from personal observation in similar instances (e.g., Hotel Tequentama, Bogota, Colombia), that the different government agencies will hold all of their various affairs and receptions there.

Due to the government financial interest in the hotel, these government agencies will show a more than common interest in the success of this enterprise. The combination of these factors are the basis for the forecasted high food and beverages sales volume.

In summary, there is at present a lack of modern hotel conveniences in Asuncion, which might possibly be a negative factor in attracting tourist business to Paraguay. However, government authorities are planning the construction of a new hotel. This seems to have much public support in Asuncion, as brought forth in

in the different newspaper editorials which are quoted in this chapter. The lack of foreign capital is the only obstacle, at present, to make the construction of the hotel effective. This chapter also indicates how the hotel construction could be financed; gives suggestions as to the type of hotel construction which might be desirable; and finally, through the medium of a tentative one-year profit and loss forecast, gives some indication of the earning potential which, although computed conservatively seems rather satisfactory and interesting.

CHAPTER VI

SUMMARY AND CONCLUSIONS

Summary

In order to acquaint the reader to the fullest extent with the background of Paraguay, it is necessary to include historical, political, social and economic considerations.

The author has presented many of the underlying relationships because of their importance to the basic problem.

We find that the history of Paraguay is full of colorful events, some of tragic dimensions. This is especially true of the Triple Alliance War, which seems to have completely changed the social environment of the country. Politically, Paraguay has been very unstable. However, the frequent changes of government seem to be no more than palace revolutions. The chief executive of the country changes, which seems to affect the national economy to an insignificant degree. The succeeding governments, in relation to the respective economic conditions of the country, have made many concessions in order to attract foreign capital investments.

Today's negative factors, politically and otherwise, must be viewed from a long-range investment basis, where it acquires a different dimension. For the past five years, General Alfredo Stroessner has acted as president of Paraguay, entrusted with dictatorial powers.

Small, isolated Paraguay is gifted with nearly every condition required for prosperity and happiness--fine, rich soil, great forests of hardwoods, extensive grasslands, spectacular waterfalls, and an ideal climate. Yet most of this bountiful land lies unsurveyed and unexploited. Paraguay's chief handicap to normal development has been her remoteness from either coast of South America. However, from an "airline point of view," and especially in this jet age, Paraguay, in the very heart of the continent, is of greatest strategical importance.

The present condition of the hotel industry in Asuncion is such that the question of losing potential tourist business has arisen. The government, through the Social Security Agency, the Instituto de Prevision Social, is planning the construction of a modern hotel. There is, however, a lack of capital to start the construction of the projected hotel.

Conclusions

The study of the possibility of financing the hotel construction should, according to the author, take into consideration two kinds of factors. They are the profitability and success of the projected hotel operation, and the long-term returns on the initial investment.

Profitability of projected hotel. The author has shown within this report that a new hotel would have little competition, that a continuous high occupancy percentage can be expected. Together with these most favorable facts and tendencies, the labor cost will be very low. To safeguard success, however, the hotel should be built in a moderate size and, as suggested in this report, with possibilities for subsequent additions when the business conditions warrant. Under these conditions there appears little doubt that the hotel operation would yield much greater returns than a hotel of similar size elsewhere.

Long-term investment. The initial investment factor ties in very closely with the economic condition of the country. Paraguayan receptiveness to foreign investments is to some extent counterbalanced by a number of unfavorable factors. As presented in this study, it can be seen that the country has a number of economic disadvantages which

are not peculiar to Paraguay, but rather, to all lesser developed areas in the world. Monetary instability and foreign exchange controls have deterred foreign capital in the past. The history of depreciation in the value of local currency may prompt a decision to rely upon local borrowings for investment capital, but this aim is likely to be thwarted by past flights of local capital and by the cost of obtaining that limited amount needed for the construction of a hotel, and which might still be available in Paraguay.

Foreign investments in Paraguay have never been large in absolute terms, but they have been decisive in the establishment of public services and in the development of basic industries. The attitudes of foreign individuals and companies toward investment in specified fields of economic activity in Paraguay, and consequently the likelihood of such investment for the hotel project, may be influenced by a multitude of factors, many of them--the international political situation and the level of business activity in capital--related only remotely to conditions in Paraguay.

Under these various conditions, the prospects of earning a reasonable return on the proposed long-term investment in a hotel construction in Asuncion, Paraguay, are good.

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BIBLIOGRAPHY

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APPENDIX

The First National City Bank of New York

ESTABLISHED 1812

CABLE ADDRESS "CITIBANK"

MAIL

CASILLA DE CORREO 1174

Asunción, Paraguay

CHILE ESQ. PTE. FRANCO

August 17, 1959

IN REPLY PLEASE QUOTE

RCS

VIA AIR MAIL

The District Vice President
South American District
The First National City Bank of New York
55 Wall Street
New York 15, N.Y.

RECEIVED

AUG 24 1959

SOUTH AMERICAN DISTRICT

Dear Sir:

Re: John H. Guggenheim, Hendrick Hudson Hotel
Troy, New York

In reply to your letter of July 22, 1959 SAD, we are pleased to pass on to you information developed on the tourist trade in Paraguay in accordance with the request of your above mentioned client.

10,332 tourists have entered the country in 1958. Up to June 30, 1959, 5,337 persons came to visit Paraguay. Average daily expenses as computed by the Tourist Bureau add up as follows:

Hotel room plus food £s.700.00 (US\$ 5.73) approx.

Taxi ride " 50.00 (" 0.40)

Various small expenses ... " 100.00 (" 0.81)

Souvenirs " 250.00 (" 2.04)

Sundries " 100.00 (" 0.81)

£s. 1,200.00 (US\$ 9.83) converted at

1US\$ = £s.122

The following places are usually visited by tourists:

- 1) Botanical Gardens: 10 kilometers from Asuncion. Hunting and Fishing Club. Swimming. Golf Club.
- 2) San Lorenzo: 12 kilometers from Asuncion. Swimming. Night Club.
- 3) Colonia Independencia: Prosperous German settlement close to Villa Rica, second biggest town in Paraguay 175 kilometers from Asuncion. Wine processing.
- 4) Ruins of Humaita: Ruins of an old fort, battle ground during the Triple Alliance war of Paraguay against Argentina, Uruguay and Brazil. Close to the town of Pilar in the south.
- 5) Paraguari: 63 kilometers from Asuncion on paved route. Famous grotto of Santo Tomas which attracts considerable tourists.

Cont'd

AIR MAIL

SHEET NO 2 - The District Vice President, S.A. District - RCS - 8/17/59

- 6) Yaguaron: 40 kilometers from the capital. Famous chapel constructed by jesuits in the 16th century. Interesting interior.
 - 7) Itagua: Only 30 kilometers from Asuncion. Center of Paraguayan lace making "Nanduti".
 - 8) Ita: 34 kilometers from the capital. Typical Paraguayan pottery.
 - 9) Caacupe: 54 kilometers from Asuncion on paved route. Famous for the sanctuary of the Virgin of Caacupe (Paraguay's Lourdes) visited by many pilgrims. Swimming and fishing. Good hotel service.
 - 10) San Bernardino: On the shore of Paraguay's biggest lake 30 kilometers from Asuncion on paved route. Old church and colonial-style houses.
 - 11) El Tirol: 18 kilometers from Encarnacion. Swimming pool, good hotel, attractive scenery.
 - 12) Iguazu Falls: Larger and more spectacular than Niagara falls, in Brazil but accessible from Asuncion
- LIST OF ASUNCION HOTELS:

- 1) Gran Hotel del Paraguay (1st class) - Sarmiento y Triunvirato
- 2) Hotel Terraza Caballero (1st class) - Caballero y Barranco del Rio
- 3) Hotel Asuncion Palace (2nd class) - Colon y Estrella
- 4) Hotel Colonial (2nd class) - Palma y 14 de Mayo
- 5) Hotel Argentina (3rd class) - Eligio Ayala casi Estados Unidos
- 6) Hotel Astra (3rd class) - Juan E. O'Leary 398

BOA DINGHOUSES:

- 1) Pension Lipsky (very good) Calle España in front of American Embassy
- 2) Pension Caballero (very good) Calle España casi Peru
- 3) Pension Rosa Aguirre (good) Azara entre Estados Unidos and Brasil
- 4) Pension Asturia (fair) Cerro Corá 427
- 5) Pension Los Misioneros (fair) Cerro Cora No 431.

As to the projected increase in tourist traffic in view of the Panamerican's new jet service it is too early for accurate pronostics. However, we will send you this information after 3 months of regular flights. The new hotel that the Prevision Social is constructing on the Plaza de Independencia is scheduled to be completed somewhere in 1961 and is supposed to be 8 stories high and will undoubtedly be the biggest, most modern and most fashionable hotel in Asuncion, capable of taking care of all tourists that want to visit this country,

If there is any additional information your client desires, please contact us again.

Very truly yours,


 Robert E. Wells
 Sub-Manager

rk

UNITED STATES OF AMERICA OPERATIONS MISSION TO PARAGUAY

THE INSTITUTE OF INTER-AMERICAN AFFAIRS

c/o AMERICAN EMBASSY
ASUNCION - PARAGUAYCable Address:
USOM, ASUNCION

November 3, 1955

Mr. John H. Guggenheim,
141 Shephard st.,
Lansing, Michigan

Dear Mr. Guggenheim:

In reply to your letter of October 18th, I had heard from Mr. Watson about your leave of absence.

Enclosed is a copy of an article I wrote recently concerning hotels and tourism in Paraguay. Also a copy of the foreign investment law No. 246 which gives the terms and conditions affecting new capital. This would answer your question number 4; but, of course, there is no special treatment referring to importations for hotel purposes in particular.

With regard to further legislation you may have read that on October 28th the Paraguayan Government signed an Agreement with the United States concerning guaranties to U.S. investment. These guaranties cover the risks of: 1) inconvertibility of currency; and 2) confiscation or expropriation. The Agreement goes into effect provisionally on November 15th, subject to ratification by the Chamber of Representatives. Paraguay thus becomes the seventh Latin American country to participate in the Mutual Guaranty Program. I suggest that you write to:

International Cooperation Administration
Investment Guaranties Branch
Maiatico Bldg.,
Washington 25, D.C.

You can ask them to send you a copy of their "Investment Insurance Manual" which will give you full particulars.

I also suggest that you write to the Superintendent of Documents, U.S. Government Printing Office, in Washington for a copy of "Investment in Paraguay - Conditions and Outlook for United States Investors". I believe it would be very helpful to you in preparation of your thesis.

In answer to your first question, I would say that prospects of financing a hotel entirely with local capital is presently rather slight despite the admitted urgency of adequate hotel accommodations. This need has been publicly acknowledged in a series of articles during the past year. I believe such capital could be readily found as soon as there was an improvement in the investment climate.

In this connection, however, there might be some encouragement as a result of the Investment Guaranty Program inasmuch as it gives scope for a joint U.S. Paraguayan venture. The principal requirement is that the company be organized under U.S. laws and that a majority of the equity be held by U.S. citizens. That means that as much as 49 percent of the equity could be Paraguayan and enjoy the guaranties against the risks mentioned above.

As I told you when you were here, Prevision Social had plans for the construction of a downtown hotel and had even bought property at the corner of Estrella and Convencion. This project was abandoned. However, about a month ago Prevision Social announced the purchase from the Ministry of Finance of a square block near the Central Bank building and facing the public square. Dr. Cubas, the director, told me that \$ 32 million had been paid for the property (to a certain extent an accounting transfer between the two agencies) and planned to erect a 200 room hotel at a cost of around \$ 2 million. He had no further information to give me at the moment.

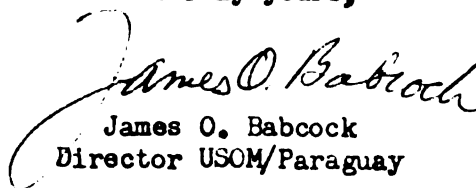
With reference to your second question, over a year ago we sounded out the prospect of Ex-Im financing but were informed that loans of this nature were not encouraged for policy reasons. The attitude of this bank may have changed so I would suggest you write to them for clarification of their present attitude.

The answer to question number 3 you will find in the Investment Manual for Paraguay.

As for question number 5, you mean the Central Bank, of course. As an agent of the Government their policy regarding transfers abroad of earnings is dictated by the legislation in force - namely Law No. 246 which is enclosed. From a practical point of view, such transfers have been subject to availabilities of foreign exchange. It is for this reason that the provisions of the Mutual Guaranty Program are of importance with respect to new investments of predominantly U.S. capital.

I hope this will cover the salient points in your letter. If at a later date I can fill in some gaps, please let me know.

Sincerely yours,


James O. Babcock
Director USOM/Paraguay

By: 
Frederic R. Fisher

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