

Artículo de revisión/Review article

Unsuccessful in Alfredo Stroessner's Political Economy: Reynolds Metals' Investment Attempt in Paraguay (1974-1982)

Austin Connors



¹Investigador Independiente. Estados Unidos

<https://orcid.org/0009-0003-5614-7319>

Autor correspondiente: austin.connors@alumni.duke.edu

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Resumen

The article delves into an instance of unsuccessful foreign investment in Paraguay: Reynolds Metals' attempt to construct a ~\$700 million USD aluminum smelter during the 1970s and 1980s. It challenges conventional claims that the project's failure stemmed solely from unsettled bribery, instead proposing that Alfredo Stroessner's broader political and economic agendas played a role. It advances a theory as to why electro-intensive industries were not established in Paraguay, despite its renewable energy surplus from hydroelectric sources in the latter half of the 20th century.

Palabras clave: Reynolds Metals, U.S. State Department, ANDE, hydroelectricity, foreign direct investment (FDI), industrialization

1. Introducción

Some foreigners consider Paraguay as a destination for investment due to the country's renewable energy. The country's public utility company, Administración Nacional de Electricidad (ANDE), administers three dams—Itaipú, Yacyreta, and Acaray. The dams fuel Paraguay's power grid with nearly 100% hydroelectricity. Itaipú is a binational entity, equally co-owned by Paraguay and Brazil. Construction began in 1971, the Itaipú Treaty between the two governments was signed in 1973, and the dam's first turbine started generating electricity in 1984. In 2007, Itaipú activated its twentieth and final turbine, bringing the dam's installed capacity to 14,000MW.¹ In terms of cumulative electricity produced, Itaipú is the most productive hydroelectric dam in the world. Until 2019, it outproduced the Three Gorges Dam in China, which now generates more electricity on an annual basis.² Yacyreta is owned equally by Paraguay and Argentina, with an installed capacity of 3,200MW. The treaty between the respective countries was signed in 1973 and electricity generation began in 1994. Acaray is the smallest of the three dams and owned entirely by Paraguay. With an installed capacity of 233.4MW, it first produced electricity 1968 but does not generate at maximum potential (Vera Abed, 2016).

Since 1974, at least two of the world's largest aluminum manufacturers have attempted to invest significantly in Paraguay to utilize the country's hydroelectricity. In the respective moments, both would have been Paraguay's largest foreign investment. Neither project was executed. The more recent of the two attempts was Rio Tinto Alcan's proposal (2009-2013), which primarily occurred during Fernando Lugo's presidency (2008-2012). Known as a champion of the people, Lugo's election was historically significant since it marked the first presidential victory of the opposition to Paraguay's dominant Colorado Party since 1947. Lugo attempted significant land reform in Paraguay, most of which was unsuccessful. His agreement with Brazilian president Luiz Inácio Lula da Silva in 2009, commonly known as the *Acuerdo Lugo-Lula*, tripled compensation to Paraguay for the Itaipú electricity sold to Brazil. Yet, his presidency was marked with several public-facing scandals. It ended with impeachment in June 2012 amidst negotiations with Rio Tinto.³ The multi-national corporation "suspended" its \$4 billion USD project in December 2013, within three months of Horacio Cartes' presidential inauguration (Reuters Staff, 2013). Lugo's short presidency briefly uprooted the status-quo of Paraguayan politics. His political advisors sought to rethink Itaipú's role for Paraguay, exemplified in their analysis of Rio Tinto's investment proposal and the successful negotiation with Lula.

¹ For more on Itaipú's history and political implications, see Folch (2019), Blanc (2019), and Blanc & Freitas (2018).

² Three Gorges Dam's installed capacity is 22,500MW and Itaipú's is 14,000MW. For more on Itaipú's recent electricity generation, see Folch (2023).

³ For more on Lugo's impeachment, see (Padgett, 2012) and (Szucs, 2013).

This article examines the earlier attempted aluminum investment: Reynolds Metals' project (1974-1982) to construct an aluminum smelter during General Alfredo Stroessner's authoritarian government (1954-1989). It challenges a conventional assumption that the investment failed due to Reynolds' inability to appease the Paraguayan government with corrupt kickback payments. It instead reveals that Enzo Debernardi, who helmed ANDE in line with Stroessner's interests, was not interested in pursuing Reynolds' project. Though it may appear surprising that a resource such as Itaipú would not be wielded to industrialize the country, Stroessner's politics of economic development, claims of uncertainty as to whether Reynolds would contribute positively to the Paraguayan economy, and the absence from ANDE records of consultation with experts on industrial policy—despite consultation on other corporate operations—reveal that under-the-table payments or lack thereof do not fully rationalize Reynolds' inability to invest in Paraguay.

Stroessner ascended to power in 1954 after initiating a coup d'état and winning a national election in which he was unopposed on the ballot. Under his rule, civil liberties were restricted, and opposition was only meagerly tolerated towards later years. There was practically no income tax to support the government's annual budget, which hovered around \$45 million USD in the early 1960s (Dictator by Popular Request, 1963). He remained in power until his confidant, Major General Andrés Rodríguez, overthrew him in 1989. His 35 years in office enabled elite and trusted Colorado Party members to concentrate power vis a vis political favors. Dissidents who voiced concern or resistance, however, risked consequences up to physical exile from Paraguay and torture.

The United States (U.S.) supported Stroessner until President Jimmy Carter (1977-1981) questioned the state of human rights in Paraguay. Even then, when Stroessner admitted that political opponents had been imprisoned, he claimed that his governance was in Carter's best interest because of his alignment with the U.S. anti-communist agenda (Carter, 1978). An economic relationship stemmed from the political partnership. The U.S. State Department facilitated conversations between U.S. corporate executives—to include the Reynolds team—and Paraguayan officials.

Despite "stable" and constant governance under Stroessner, which are factors that should promote foreign direct investment (FDI) in Latin America, the U.S. State Department and Reynolds were unable to convince Paraguayan leadership that their country was suitable for the project. Instead, Debernardi argued that investing in Brazil, as opposed to Paraguay, was a more strategic investment for Reynolds. Latin American FDI research conclusions assume that a foreign investor determines whether a country's market is commercially profitable for business. The Reynolds case, on the other hand, reveals that Paraguay's economy was not open to any foreign investor. In alignment with Paraguayan scholars' conclusions about industrialization and unionization during Stroessner's governance, the ANDE was wary of

foreigners' intervention in economic systems and attempts to industrialize the country, even though Paraguay was on track to become a world leader in hydroelectric exports.

2. Materiales y métodos

The article is a historical case study of one foreign investment proposal—Reynolds Metals—but contextualized within further economic and historical scholarship using qualitative research methods. The author used primary and secondary sources derived from Paraguayan and American authors, written in both English and Spanish. Footnotes indicate translation details for each citation. Archives referenced include ANDE's Central Archive and la The National Library of Paraguay, both in Asunción.

3. Resultados

3.1 The Origins of Reynolds Aluminum's Interest in Paraguay: Support from the U.S. Government (1974-1977)

Between the Second World War and the 1970s, aluminum producers vertically integrated, and the “Bix Six” aluminum producers (Alcoa, Alcan, Reynolds, Kaiser, Pechiney, and Alusuisse) acquired near absolute market control (U.S. Congress Office of Technology Assessment, 1990, p. 27). Profit margins declined by the 1970s, however, and major players reduced production and/or sought to manufacture in low-cost foreign locations (U.S. Congress Office of Technology Assessment, 1990, p. 30). Taking advantage of South America's emerging hydropower production, low cost of labor, and sizeable bauxite mines, North American aluminum manufacturers shifted their gaze towards the Southern Cone, particularly Brazil.⁴

Brazil's political economy was appealing to foreign investors. A report for the U.S. Treasury Secretary William Simon stated that the country was “rapidly awakening on its vast resources” enabling 50 foreign-owned mining companies to engage in a “minerals rush” (U.S. Consulate Rio de Janeiro, 1976). Paraguay was not as known, globally, in part due to its smaller size relative to its neighboring countries, but Reynolds' interest in the Brazilian market and the attention drawn to the country during Itaipú's planning resulted in executives considering expansion into Paraguay. Evident from extensive archives of telegraphic correspondence, the U.S. State Department noted North American aluminum corporations' interest in the Southern Cone. The Paraguayan Minister of Industry and Commerce Delfín Ugarte Centurión appeared optimistic towards accepting FDI in Paraguay.

⁴ Bauxite is a sedimentary rock with high quantities of aluminum. Globally, it is the primary ore of aluminum, commonly extracted from sub-tropical regions.

In 1974, the U.S. Consulate in Rio de Janeiro informed the U.S. Secretary of State that 11 aluminum companies had projects in the exploration phase in Brazil, and that Alcoa and Alcon officials believed that between \$2 and \$3 billion USD would be invested in bauxite alumina-aluminum complexes in the Amazon by the end of the decade (U.S. Consulate Rio de Janeiro, 1974). Important to the Consulate was the Tucuruí Dam project on the Rocantins River, whose construction had just been approved to supply energy for an aluminum smelter (U.S. Consulate Rio de Janeiro, 1974). In the same note, the Consulate stated that the Brazilian and Paraguayan governments had named its Itaipú Authority members. And, that Itaipú's engineers expected the dam to be constructed quickly (U.S. Consulate Rio de Janeiro, 1974). This is the State Department's earliest written record of Paraguay's hydroelectric potential within discourse on aluminum production.

Later, in August 1974, U.S. Ambassador to Paraguay George Landau wrote to the Office of the Secretary of State, asking that it extend a grant for Igor Fleischer, an engineer working on Itaipú's plans, to visit the U.S. for 35 days (U.S. Embassy Asuncion, 1974).⁵ Fleischer was interested in meeting with U.S. corporations with potential to establish industry in Paraguay, to make use of Paraguay's proximate renewable electricity (U.S. Embassy Asuncion, 1974). The Ambassador suggested Alcoa and Reynolds Aluminum businesses with potential to invest in Paraguay, along with unnamed wood pulp processors (U.S. Embassy Asuncion, 1974).⁶ Here, Landau established a precedent in which U.S. functionaries would facilitate relationships between Southern Cone officials and North American aluminum executives.

By December 1975, Reynolds seemed interested, as was the State Department on its behalf, to expand its Southern Cone business operations. The company announced that it was considering a plant in Paraguay, rumored to cost \$700 million USD and utilize up to 10% of Itaipú's electricity output (Investment Picks up in Paraguay, 1976). A company spokesman reported to the Wall Street Journal that the project "sounds promising" ahead of a corporate visit to Asunción in early 1976 (Reynolds Metals Co. Considering Building a Smelter in Paraguay, 1976). Not reported concurrently to the press, Reynolds executives had planned a visit to Brazil from February 11-19th to advance investments and operations in-country. The Office of the Secretary of State wrote to the U.S. Embassy in Brasilia on February 6th requesting government reports on the availability of electric power, taxes, tariffs, export incentives, and preferred industrial sites to forward to the company's executives (Office of

⁵ Since 1992, Fleischer has served as honorary Russian consul in Paraguay. His relationship with the State Department, which enabled him to travel to the U.S. with government funding, suggests that he was a trusted individual within American circles during the Cold War, despite his connection to the USSR.

⁶ Wood pulp manufacturing in 2023 is on the brink of proliferating in Paraguay. Paracel, a Swedish-Paraguayan company, is investing \$3.5 billion USD, the country's now-largest economic investment, to build a pulp mill just north of the city of Concepción on the Paraguay River. State Department correspondence does not suggest that the U.S. Embassy in Asunción followed through with connecting Paraguayan officials to U.S.-based pulp manufacturers in the 1970s. As a further note, Paraguayan newspapers suggest that Argentine investors were also interested in manufacturing pulp in Paraguay during the same time period (Empresarios Salteños Quieren Montar En Paraguay Una Fábrica de Celulosa y Papel, 1977).

After the trip in February, a Reynolds team scheduled another visit to Brazil in mid-March, but this time with a stopover in Paraguay for less than 24 hours, specifically to meet with Stroessner (Landau, 1976a). Stroessner met with the group at 7:30am, unwilling to reschedule his meeting with the World Bank president later in the day (Landau, 1976a). Landau suggested that the executives only visited Asunción since Stroessner himself met them to discuss economic investment (Landau, 1976a). The meeting was reported in Paraguayan newspapers. *Patria* claimed that Ugarte received the group with strong interest and that the executives spelled out their interests in detail (*Empresarios Norteamericanos En Industria*, 1976). *ABC Color* reported that Reynolds was studying the feasibility of exploiting proposed Monday and Yacunday hydroelectric dams as electricity sources for its aluminum smelter but that further details of the meeting were unclear. The group communicated in English, and the Ministry of Industry and Commerce's (MIC) spokesman only spoke Spanish (*Electricidad y Aluminio: Tema de Una Importante Reunión*, 1976). Sources analyzed for this research did not reveal how the stakeholders planned to progress forward.

In November of the same year, Landau met with Ugarte Centurión, who was expecting another visit from Reynolds executives (Landau, 1976b). The minister reported his ministry's skepticisms about the Reynolds project: a shift from his attitude during their visit in March. Specifically, he told Landau that the MIC was unwilling to commit financial obligations to Reynolds and instead wished to receive a payment in the form of royalties for electricity from a proposed hydroelectric plant on the Monday River (Landau, 1976b). A functionary from U.S. Embassy reported again, this time to the U.S. Ministry of Commerce in January 1977, that Paraguay's government had heard nothing from Reynolds, despite a planned visit at the end of the month (U.S. Embassy Asuncion, 1977). The correspondence—and lack thereof—proceeding the meeting in March 1976 indicated that the Reynolds investment had become less probable. The Paraguayan government was unwilling to subsidize the project, and Reynolds executives were not compelled to continue negotiating.

3.2 “Stable” Governance, Low Taxes, and GDP Growth: Economic Trends of Foreign Investment in Paraguay (1970s-1980s)

Historians Mora and Cooney claimed that political stability in Paraguay in the second half of the 1960s created a somewhat favorable climate for some North American investors (2009, p. 227). The Investor Guarantee Agreement (el Acuerdo de Garantía de Inversiones) of 1966 provided low taxes and profit repatriation, enabling foreign banks, beverage production, meat processing, and petroleum companies to enter Paraguay in the late 1960s (Mora & Cooney, 2009, p. 227). U.S. foreign investments surpassed \$20 million USD by the end of the decade (Mora & Cooney, 2009, p. 227). The State Department, in a 1969 analysis, stated that Stroessner's continued governance was necessary for Paraguay's “stability,” and his removal

from office would result in a period of “economic uncertainty” (*Country Analysis and Strategy Paper for Paraguay*, 1969 in Dries, 2021, pp. 18–19). With this evidence, Stroessner’s policies and continuance in power appear to have enabled an investment climate favorable to foreigners in the 1960s.

Economists Staats and Biglaiser contend that while there is significant scholarship on the global importance of “quality courts and rule of law for attracting foreign direct investment,” there is limited scholarship that has emerged with a focus on Latin America to back that claim (2012, p. 193). The scholars advance the Commitment Theory, claiming, “Strong courts contribute to political stability, which, in turn, encourages FDI by providing a climate of predictability for investors (Rummel and Heenan 1978; Bollen and Jones 1982; Crenshaw 1991)” (Staats & Biglaiser, 2012, p. 194). Their survey of CEOs who invested in Latin America found two most common factors that propelled their foreign investment in the region: adherence to rule of law and recognition of private property. As with Mora and Cooney’s conclusions, it implies that a stable government promotes FDI, yet extends to claim that the judiciary must protect stakeholders equally and consistently. The Stroessner dictatorship did not guarantee this rule of law.

Scholars Pujadas and Szekut also propose an explanation as to why not all investors may not have looked favorably upon Paraguay. They claim that Paraguay has been a legitimate “duty free” for companies (Pujadas & Szekut, 2018). They theorize that the Paraguayan state has facilitated transnational corporations’ extractive operations in the country: cross-border contraband between Brazil and Argentina as opposed to promoting complex multinational operations. As Reynolds did not seek to grow illicit markets in Paraguay and instead planned to invest significantly to grow their global enterprise, the country lacked the institutional oversight privy to corporations in states with regular corporate taxes.

Paraguay as a “duty free” tax haven appears to have invited non-industrial investments. While the U.S. was the top source of Paraguayan FDI in the 1960s, the investments predated Itaipú and were neither electro-intensive nor industrial. While Paraguay’s overall GDP grew an average of 8% annually during the 1970s, U.S. FDI only represented 8% of total investment in Paraguay (Mora & Cooney, 2009, p. 230). Meanwhile, with pendulum politics at play, Brazilian FDI in the 1970s sought to capitalize on the sudden economic expansion in Paraguay that resulted from Itaipú.⁷ Still, there is little large-scale industrialization in Paraguay, and virtually none outside of agriculture, despite the influx of hydroelectricity from Itaipú.

3.3 Unions, Workers’ Rights, and Industrialization under Stroessner

Stroessner wanted to protect and develop Paraguay’s economic interests throughout his administration but in a way that guaranteed his continuance in power. He provided a “stable”

⁷ For more on pendulum politics, see (Birch, 1992).

environment for capitalists who procured trust from his Colorado Party within the growing economy. As noted by economists Juan Carlos Herken, Lucas Arce, and Fernando Ovando, the dictatorship controlled economic development and regulation. They stated,

"It is worth noting that that in the period of 1940-2008 there is the long period of General Stroessner's dictatorship (1954-1989), which raises the possibility of, at least, an ability to impose a determined vision of the economy and the measures required to accelerate growth. This vision would imply a tight control of public administration and public entities, with areas to which the private sector had no access; a conservative monetary and exchange rate policy; unrestricted access to foreign investment; and a policy of investment in infrastructure and transportation aimed at integrating and densifying the domestic market, as well as improving conditions for access to the world market" (Herken et al., 2011, p. 63).⁸

Prolonging the regime's depended upon this previously referenced "determined vision" in which only a specific network could gain "unrestricted access" to foreign investment. Stroessner himself stated, "We are in a position to incorporate into our agricultural, livestock, forestry and industrial methods the technological guidelines that make them more profitable" (Bogado, 1973). This indicates that he wanted to expand the production of raw goods.⁹ Yet, it was believed that he would "continue to promote, with extraordinary impetus, the immediate implementation of a vast industrial program, in which private enterprises will contribute positively to the national productivity growth" (Bogado, 1973, p. 76).¹⁰ To date in the 21st century, there is arguably no "vast industrial program" in Paraguay. Reynolds attempted to contribute industrial resources at the time, but their offer was ultimately rejected by political appointees in the MIC and at ANDE.

Stroessner's economic vision, moreover, could not risk independent labor unions. That is not to say that laborers did not want to unionize. A labor movement existed throughout Stroessner's 35 years in power. Historian Ignacio González Bozzolasco argued that it was divided into three phases:

⁸ Original text in Spanish: "Cabe señalar que el hecho que en el período 1940-2008 se encuentra el largo paréntesis de la dictadura del General Stroessner (1954-1989), plantea la posibilidad de, por lo menos, una capacidad de imponer una visión determinada de la economía y las medidas que se requieren para acelerar el crecimiento. Esta visión implicaría un férreo control de la administración pública y los entes públicos, con áreas a la que el sector privado no tenía acceso; una política monetaria y de tasa de cambio conservadora; acceso irrestricto a las inversiones extranjeras, y una política de inversiones en infraestructura y en transporte destinada a integrar y a densificar el mercado interno, así como a mejorar las condiciones de llegada al mercado mundial." Translated by Austin W. Connors.

⁹ Original text in Spanish: "Estamos en condiciones de incorporar a nuestros métodos agrícolas, ganaderos, forestales e industriales las pautas tecnológicas que las hagan más rendidores." Translated by Austin W. Connors.

¹⁰ Original text in Spanish: "Continuará propiciando con ímpetu extraordinario, la realización inmediata de un vasto programa industrial, en el que las empresas privadas contribuirán positivamente al aumento sustancial de la productividad nacional." Translated by Austin W. Connors.

"Repressive, during which unionism was limited, contained through the use of all available resources by the state apparatus (1954-1958)... *cooptation*, in which the vestiges of unionism surviving the great repression rearticulated its relationship with the government, the Colorado Party and the state apparatus from subordination (1958-1985)... [and] *resistance*, coinciding with the final phase of [Stroessner], during which the model of cooptation promoted and consolidated by the regime began to crack, together with the political apparatus that promoted and sustained it (1985-1989)" (González Bozzolasco, s.f., p. 68).¹¹

In 1951, before Stroessner's ascension to power, la Confederación de Paraguaya de Tranajadores (CPT) replaced what had been the Organizaciòn Republicana Obrera (ORO), a political party that had driven unionism in Paraguay since 1946. During the *repressive* phase of the workers movement, Stroessner's government intervened in the CPT's organizational structure and appointed a police officer as the secretary general, with seven more police as members of the executive committee (González Bozzolasco, 2013, p. 52). This limited the autonomy of unions and workers' strikes and continued for decades. The Instituto America para el Desarrollo del Sindicalismo Libre (IADSL), funded by the U.S. government, was active in Paraguay beginning in 1971 and was able to act more independently than the Colorado-controlled CPT (González Bozzolasco, 2013, p. 54). In the late 1970s, the Confederación Paraguaya de Trabajadores en el Exilio (CePeTe-e), a group of Paraguayan workers who had fled the country, denounced the CPT as a legitimate union, due to the government's intervention. At the 1978 International Confederation of Free Trade Unions (ICFTU) Global Congress, the voting members replaced the CPT with the CePeTe-e as Paraguay's internationally recognized union representation (González Bozzolasco, 2013, pp. 52–53, as found in Barboza, 1987, p. 225).

It was amidst this tension, with the Colorado Party embedded in the national workers' union and exiled workers speaking out against the situation that Reynolds sought to further industrialize Paraguay. ANDE's collaboration with Reynolds would have increased the likelihood of a worker's union in Paraguay under the jurisdiction of the North American corporation, which would have counteracted Stroessner's defined controls. Despite supposedly economically favorable conditions and foreign investment in other economic sectors, a large aluminum smelter was unprecedented, and the Colorado Party's ability and willingness to embed itself in Reynolds' operation was not unequivocal. After all, Reynolds

¹¹ Original text: "*Represiva*, durante la cual el sindicalismo fue limitado, contenido a través del uso de todos los recursos disponibles por parte del aparato estatal (1954-1958)"; the second being "*cooptación*, en la que los vestigios del sindicalismo sobreviviente a la gran represión rearticula su relación con el gobierno, el Partido Colorado y los aparatos estatales desde la subordinación (1958-1985)"; and the third "*resistencia*, coincidente con la fase final del stronismo, durante la cual el modelo de cooptación impulsado y consolidado por el regimen comienza a agrietarse, conjuntamente con el aparato político que lo impulsó y sostuvo (1985-1989)." Translated by Austin W. Connors.

factory workers in the U.S were unionized as early as the 1940s (United Steelworkers of America, Local Union 325 and Local Union 333 Records, 1949-1983).

3.4 ANDE's Attitude Towards Foreign Investment, Including the Reynolds Project

ANDE leadership's attitude towards foreign investment appears to have been ambivalent at best during the 1970s. Itaipú was to proximately provide Paraguay with an abundance of clean electricity. The country's technocrats were not prepared with expertise as to how to manage and plan for this valuable new resource, and the higher-level goal to maintain the dictatorship was of priority. From Landau's correspondence with Reynolds, Paraguayan officials understood that compensation for their unused electricity would contribute to some extent to the Paraguayan economy, and their personal bank accounts. They were, however, unsure as to how to evaluate economic effects that corporate FDI would have on the country. ANDE president Enzo Debernardi was fearful that Reynolds' presence would compete with agricultural development, which was of interest to Stroessner.

To evaluate ANDE's general operations in 1976, Debernardi contracted a Canadian company, C.I Power Services Limited, to evaluate jobs and placement within the organization and ANDE's distribution of invoices (Ottolenghi, 1977). At the study's conclusion, a C.I Power functionary wrote Debernardi and offered unsolicited guidance: to open Paraguay to foreign investment for cement production (Houghton, 1977, p. 1). He claimed that Paraguay could easily produce 1000 tons a day and that a manufacturing plant could be built for \$40 million USD financed with Canadian banks and bilateral institutions (Houghton, 1977, p. 2). The letter was marked as received at ANDE's headquarters in Asunción, but there is no evidence that suggests that ANDE executives followed up on this cement investment with Canadian partners. Hiring the consulting firm is evidence that Debernardi showed interest in foreign perspectives. Yet, the solicited request suggests that he was interest in foreign perspective as to how to improve internal operations as opposed to pursuing foreign investment.

On February 8, 1982, nearly six years after their previous trip to Paraguay, Reynolds executives met with the U.S. Ambassador to Paraguay Lyle Lane and Ugarte Centurion in Asunción, as shown in Imagen 1 ("La Reynolds Desea Invertir En El Pais U\$S 700 Millones," 1982).

Figura 1. Executives from Reynolds Metals meeting with MIC Delfín Ugarte Centurión on February 8, 1982 in Asunción. From *Patria*, February 9, 1982.



The day after this meeting, on February 9, 1982, the corporate executives met with Debernardi along with functionaries from the MIC, Central Bank, and Technical Planning Secretariat. Three days later, Debernardi submitted a ten-page brief to Ugarte Centurion (Debernardi, 1982, p. 1). The brief's concluding comment best summarized Debernardi's attitude towards the Reynolds project:

“The decision to accept a proposal, such as that of Reynolds, which implies substantial subsidies by the State, exceeds the technical level to which this report is limited. Therefore, just as a contribution to the better study of this matter, we allow ourselves to suggest that, in addition to all contributions of knowledge that can be obtained at the national level, it is also possible to obtain advice from independent external specialists, since in our country it has not yet been possible to accumulate sufficient experience on this matter, and its technical, economic, legal, social, and political implications” (Debernardi, 1982, p. 10).¹²

Thus, without further review of technicalities, Debernardi recommended that the MIC did not proceed with the Reynolds project. While divided into twenty points, Debernardi's pessimism was divided into three overarching claims: Reynolds' offer per kWh was too low;

¹² The original writing, in Spanish, was as follows: “La decisión de aceptar una propuesta, como es la de la Reynolds, que implica subsidios substanciales a cargo del Estado, supera al nivel técnico al que está limitado el presente informe. Por tanto, apenas como contribución al mejor estudio de este asunto nos permitimos sugerir que, además de todo aporta de conocimientos que pueda obtenerse en el ámbito nacional, es obtenga también asesoramiento de especialistas externos independientes, visto que en nuestro país aún no ha sido posible acumular suficiente experiencia sobre esta materia, y sus implicancias técnicas, económicas, jurídicas, sociales y políticas.” Translation by Austin Connors.

it would not generate sufficient other benefit on the economy to justify a subsidy for loss; and that it made no logical sense for Reynolds to have been interested in Paraguay when agrobusiness was primed for growth and Brazil had easier access to Reynolds' raw resources.

Before elaborating upon his claims, Debernardi provided a description of the Reynolds plan. This provides the most insight to the project relative to other sources still accessible today.¹³ During the 1977 meetings involving the U.S. State Department, Reynolds mentioned potential hydroelectric opportunities on the Monday and Acaray Rivers. Debernardi, however, concluded that only Itaipú's capacity would suffice for Reynolds. Reynolds completed its Feasibility Study to install an aluminum smelting plant to produce 140,000 tons of primary aluminum annually, starting in 1985 (Debernardi, 1982, p. 1). The start date fell just beyond Itaipú's initial generation in 1984. Reynolds planned to import alumina from Australia, with the ability to import from other countries, too, totaling 268,000 tons annually (Debernardi, 1982, p. 1). This information provides key information to analyze his next comments on pricing, employment, and practicability.

On pricing, Debernardi revealed that Reynolds offered to pay \$0.014 USD/kWh (Debernardi, 1982, p. 2). While two years before Itaipú started generating electricity, there was not yet a price per kWh that Paraguay would need to charge for the electricity to effectively cover dam construction costs and operating expenses. Debernardi, however, speculated it would total between \$0.03 USD/ kWh and \$0.045 USD/kWh (Debernardi, 1982, pp. 2–3). This price estimation, without including a margin of profit, was more than double Reynolds' offer, and the ANDE was not comfortable accepting the presumably low compensation. Moreover, Debernardi disagreed with Reynolds' estimation for the contracted potential their aluminum smelter would require. To produce the 268,000 tons of aluminum, Reynolds claimed to need 2,143 million kWh/annually. Reynolds estimated this to total 255,000 kW, while Debernardi estimated they would require a number 52% higher, at 367,600 kW (Debernardi, 1982, p. 3). Thus, based on Debernardi's difference in predicted kWh use and price compared to the Reynolds report, he estimated that Paraguay would assume a loss of \$66,433,000 USD/annually. The government would relay a subsidy to Itaipú to cover the actual cost per kWh.

The team of technicians, engineers, and managers at ANDE determined that that there were indirect benefits that Reynolds' investment could bring to Paraguay: net return in foreign exchange for the balance of payments and for the trade balance; job creation; input of national goods and services; tax benefits; quantifiable indirect economic effects (Debernardi, 1982, p. 4). This would have been the case, as the assessment aligns with findings from the

¹³ In 1977, Debernardi turned in a report of more than a thousand pages plus drawings and diagrams to Ugarte and requested that Reynolds technicians review the report (Landau, 1977). This report has not been located. And, sometime between 1977 and 1982, Reynolds conducted a Feasibility Study for its Paraguayan project proposal, but the author was unable to locate it for this project. Thus, the letter from Debernardi to Ugarte in 1982 is a crucial primary source.

Organization for Economic Co-operation and Development (OECD):

“A preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries” (OECD, 2002).

This said, the Paraguayans, with limited experience in analyzing an investment of this size, understood that advancing an unspoken and unplanned industrialization policy would have indirect benefits on the economy, in addition to the \$700 million USD direct input.

To analyze these economic and social effects, Debernardi made further calculations. Firstly, Debernardi suggested that the Reynolds plant would result in a \$6 million USD annual deficit for the Paraguayan trade balance, after a net positive of \$44 million USD for the first three years during the plant's construction phase (Debernardi, 1982, p. 5). Thus, over the course of the aluminum smelter's lifespan, the trade balance would not play in Paraguay's favor. Debernardi was also pessimistic regarding direct job creation. According to Reynolds, the construction phase of the plant would employ 2000 people and the more longitudinal operational phase, 805 people. Circling back to Debernardi's speculated ~\$66 million USD annual subsidy, he also claimed that a subsidy that large would employ more Paraguayans if it were for another industry. Over a ten-year period, he stated, that subsidy should employ 114,400 people (Debernardi, 1982, p. 7). Yet, he did not propose a specific operation that would provide such an employment output. Not optimistic, either, about the input of goods nor tax contributions, he calculated them to contribute another \$6 million USD to the deficit (Debernardi, 1982, p. 6).

After explaining that the Reynolds investment would not benefit the Paraguayan economy, he communicated that the investment made no practical sense for Reynolds. Specifically, he stated that Brazil had all of the favorable conditions for Reynolds' aluminum smelter: bauxite reserves, lower transportation costs to import alumina, an abundance of hydroelectric power sources with sufficient profit to finance Itaipú's initial production, and the domestic market to use Reynolds' aluminum for further goods (Debernardi, 1982, p. 8). Indeed, the ANDE's president believed to know more about how to maximize Reynolds' profit than the corporation's own executives. He informed them of this and rejected their unprecedented investment in Paraguay: one with potential to grow his country's economy and serve as a gateway into other electro-intensive projects. But to Debernardi, agro-industrial investment in lieu of aluminum would have been more appropriate for the Paraguayan economy (Debernardi, 1982, p. 6).

The drawn-out correspondence and debate between the MIC and ANDE indicate that they

had not previously collaborated on national industrial policy to make use of the proximate electricity surplus. Such policy would have better prepared all contingents for these complex calculations. Reynolds would have known how much Paraguay would have expected in compensation per kWh. This would have been incorporated into their project proposal. The MIC would have been able to actively approach international companies, instead of relying on the foreigners themselves to petition the Paraguayan government. And, ANDE would have been able to plan for the intended use of the electricity, based on where target industries would establish operations within the country, and plan for future growth in demand, as they have done in the *Plan Maestro de Generación 2021-2040*.¹⁴ Instead, internal discussions prolonged a decision to reach Reynolds, and the aluminum giant ultimately invested its resources elsewhere.

4. Conclusiones

Reynolds' attempt to invest in Paraguay was not a typical FDI proposal. Instead, it would have been the largest single case of foreign investment in Paraguayan history. It would have established electro-intensive industry to utilize Itaipú's generation. Whether or not Paraguay's economic climate under Stroessner was attractive to foreign investors, industrialization triggers unionization, an idea that would've tested Stroessner's authoritarian policies.

In 1976 when Landau approached Ugarte Centurion with the initial project idea, Itaipú's construction was well underway, having begun in 1974. Reynolds was a large corporation, accustomed to conducting business internationally. It is clear, based on the timeline that the company's leadership knew of Itaipú's construction. Aluminum production was proliferating at the time in South America—particularly in Brazil—and Reynolds was looking to increase its market share. Reynolds completed and submitted their study to the Paraguayan government sometime before 1982. It claimed that the company could construct and produce aluminum by 1985, just following Itaipú's completion.

By the 1980s, however, Debernardi staunchly opposed the Reynolds investment. He outlined calculations and believed that even with the indirect economic impact of Reynolds' FDI, the Paraguayan economy would not benefit from the business. Yet, the lack of industrial strategy and his claim that Paraguay's agroindustry would be better for the economy suited Stroessner's interests. Even though he understood that Itaipú's electricity unleashed potential for economic development, Debernardi did not consult with professionals experienced with a project of this size to weigh the benefits and drawbacks. Thus, Reynolds' inability to invest in Paraguay reveals that decisionmakers at the time were unwilling approve

¹⁴ ANDE's Plan Maestro 2021-2040 explains how the national electricity company plans to adapt to Paraguay's expected increase in electricity demand through 2040. It is publicly available on their webpage.

the foreign investment not only due to lack of planning and unfinalized electricity tariffs, but also due to decisionmakers' unwillingness to relinquish social and economic capital to unfamiliar and foreign investors.

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6. Declaración de conflictos de intereses

El autor declara no tener conflictos de intereses.

7. Declaración de autores

El autor aprueba la versión final del artículo.

8. Contribución de los autores

Autor	Contribución
Austin Connors	Participación importante en la conceptualización, revisión bibliográfica y redacción del borrador del manuscrito y la versión final.

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