

1 AGRICULTURE

1.1 CURRENT SITUATION

1.1.1 General description

(1) Characteristic of agricultural sector

The agricultural sector of Paraguay produced a total agricultural production earnings of US\$1.54 billion in 1998 generated by approximately 310,000 farms household and agricultural holding other than farm household operating on 33.5 million hectares of agricultural land (cultivated land, pasturage, and forest land). The total agricultural production earnings have comprised 27 % of the GDP and it has generated foreign currency earnings surpassing US\$900 million annually since 1990 (85 % of the total export earnings). It is a key industry that supports the national economy. Moreover, about 50 % of the population live in rural area that is largely dependent on the agriculture and livestock industry for their employment, income, and lifestyle. In addition, the agricultural sector is a major source of raw materials for the domestic industrial sector that is composed largely of agro-industries.

As mentioned above, the agricultural sector is a key industry, but it is distinguished by the following four characteristics; a) the domestic market is limited due to a small population; b) it is in transition stage to a real market liberalization after joining MERCOSUR; c) nearly 80 % of the sector is comprised of small-scale farms whose competitiveness in the market is weak; and d) agricultural development is highly dependent on technical assistance and financial cooperation from international donor institutions, and foreign immigrants residing in Paraguay.

The average annual growth rate for the last ten-year period (1989-1998) of the agricultural sector was 2.5 %, which was lower than the population growth rate of 2.8 % for this same period. If policies to develop the agricultural sector are not actively and strategically implemented based on these four characteristics, there is the danger that agricultural development will stagnate. If this were to occur, food costs and the wage level in urban area will rise and in turn, hinder the growth of the manufacturing and other industries. Further more, overall domestic economic growth will be negatively affected since farmer incomes and the domestic purchasing power will not increase, leading to deficient growth in the industrials sector.

(2) Study approach

The following approach from a macro and micro level was adopted to implement the study in

order to clarify the issues and conditions required for agricultural development based on the characteristics explained above.

- a) Verification of the issues and transitions in macro agricultural development policies before and after Paraguay's affiliation with MERCOSUR.
- b) Evaluation of the targets of macro agricultural development policies based on an analysis of the agricultural produce trade.
 - c) Agricultural development issues were verified according to the following micro-agriculture aspects; i) agricultural development trends according to region, ii) development conditions of vegetables, cotton, soybeans and new livestock products, iii) conditions and issues faced by farmer organizations and agricultural cooperatives.
- d) Trends and issues in Official Development Assistance (ODA) that are relevant to promoting agricultural development.
- e) Issues in agricultural development policies stemming from multilateral agricultural negotiations (MERCOSUR, WTO).

1.1.2 Transitions of major agricultural development policies

Beef and cattle production by large-scale farms, and food crop (cassava, corn) and cash crop production (cotton) by small-scale farms, has been the basic and traditional form of agriculture in Paraguay. In the mid-1970s, a national agricultural policy to promote increased grain production was implemented due to the growing international demand for soybeans. As a result, large-scale farms began the production and export of soybeans, in addition to cotton, beef and cattle. This led to the structure of agricultural production that exists in Paraguay today.

In Figure 1, the transitions in major agricultural development policies from 1995, in conjunction with Paraguay's membership into MERCOSUR, were reviewed in tandem with external changes and/or important assumptions that have occurred both internal and external of the country. Agricultural development during this period is identified by three major policies that were pursued - increased production of exported agricultural products, improving productivity with the aim of increasing competitive viability, and assisting small-scale farms. These policy targets were established to create real market liberalization in Paraguay and they are also characteristic of agricultural development in developing countries with a sparsely populated and small market. Meanwhile, the support of small-scale farms, which comprise 80 % of the total number of farms in the country, has been remarkable; and rectifying the economic disparity between small, medium, and large-scale farms has become a vital issue in sustained agricultural development.

On the other hand, reforms of the system that is centered on modernizing the agricultural sector, reorganizing the MAG, and supporting rural development, have been pursued since Paraguay's membership in MERCOSUR as well as in WTO. Participation in these two organizations has defined the country's strategy in multilateral agricultural negotiations and addressing new policy issues.