

POWERING THE FUTURE: A CONVERSATION WITH THE PRESIDENT OF PARAGUAY H.E. SANTIAGO PEÑA

Announcer 00:00

For part two, please welcome President of Paraguay, Santiago Peña in conversation with Daniel Yergin, Vice President S&P Global.

Daniel Yergin 00:20

Hello everybody. We're very pleased here to be with President Santiago Peña of Paraguay for a very timely discussion, and we're going to talk about economy and energy, how they tie together renewables and stability. But I wanted to actually begin by reading something. Our company, S&P Global, does ratings. And although I have to say that I've been told that I have to be very careful, I have nothing to do with the ratings. Nothing to do with them. However, our headline from a little while ago is Paraguay outlook revised to positive on potential improvement in growth and fiscal trajectory. So congratulations, Mr. President.

Santiago Peña 01:16

Thank you, Dan. We are on good track. Last year we were upgraded to investment grade by Moody's—

Daniel Yergin 01:22

That's a competitor—

Santiago Peña 01:23

And I know that this is going to follow the most important thing, the market has been rating Paraguay investment grade for a very long period of time. When you look at the spread, Paraguay is behaving at par with Uruguay, just very close to Chile among the three top performers in Latin America. So—

Daniel Yergin 01:43

So, let me ask you, before you became president, you were finance minister. You're also an economist. You're at the IMF—Paraguay is different from your two big neighbors, Brazil and Argentina, who keep changing the name of their currency. You've had the same currency for 82 years. Wearing your hat as an economist as well as a leader of a country, what lessons have you taken from the volatility and populism and the impact it's had on Latin America as you think about your own policies? What did you learn?

Santiago Peña 02:14

There are no shortcuts for development. There are no shortcuts to progress and success. It required consistency. It required long-term commitment. And—I have to acknowledge that being in a—"neighborhood" where we have two large and very complicated countries, these by itself, made us more resilient and—to work harder, because Paraguay suffered a lot in the past, there is a very long history of ups and downs, wars, friendship, but most importantly, around 25 years ago, the Paraguayan society decided that we don't want to be dancing samba or tango anymore. We want to dance our own music, and for that, we need to strengthen our economic institutions, and this is what we have been doing: independent central bank, a very responsible fiscal policy, —and this is emerging as a success story. For many, still a hidden gem in the heart of South America, but very nice coming after your previous panel, because Paraguay will be leading the energy transition, not only for the energy that we produce, but because we're going to be the connection between the large amount of gas that has been discovered in Argentina and Vaca Muerta, but the market is in Brazil, and the best way to take all that gas is through the middle of Paraguay. So we think that Paraguay will be the champion on energy—

Daniel Yergin 03:45

Is there already plans for pipeline?

Santiago Peña 03:47

We are talking, we are talking—Brazil is very important, because we need the off-taker. Argentina needs the off-taker. And for us it will be also a great opportunity, because we know that there is gas in the Chaco of Paraguay. So the problem is, we don't know how much. We have not done all the exploration, but if we have the pipeline that

is going to come from Argentina with all the gas from Vaca Muerta, it makes a lot of sense also to take out our own gas.

Daniel Yergin 04:16

That is very interesting. Has there been any exploration?

Santiago Peña 04:18

Yes, there are many explorations. We know that there is gas. What we don't know is how much we have.

Daniel Yergin 04:24

Right. So—let's talk about fiscal and then we'll come back to energy. What has been your strategy on fiscal policy?

Santiago Peña 04:33

Having fiscal rules and abiding to those fiscal rules. Paraguay was the last country in South America to issue bonds in the for—in the sovereign market. In 2013 I was a member of the Board at that time, and it was very clear from asset managers, rating agencies, they said, look, you're coming to the market. You're coming to a party. It's very important that you behave in this marketplace, and all the things that you say that you're going to do it, you need to fulfill, you need to deliver those messages. So for the last 12 months—and we had three administrations taking over—Paraguay has maintained this fiscal responsibility. Of course, we had to use some exit clauses during the pandemic, but since the pandemic, we have been lowering the deficit. Last year, the fiscal deficit was 2.6. Our commitment for this year is 1.9 and in the following year, we will converge to our fiscal responsibility—

Daniel Yergin 05:39

Politically, you're not feeling populist pressure?

Santiago Peña 05:42

No. Paraguay is a very nice example of how we have been able to be absent of these swings of populism, either to right or the left. Paraguay has remained, always in the center. So I think that as—the world is in a turbulent time, I think it's a great opportunity to emerge as a shining star in South America.

Daniel Yergin 06:08

There is a little, as you may have noticed, some turmoil in the world economy in the last few months. You're an exporter of agricultural products. How has that affected your economy? and how have you adjusted—?

Santiago Peña 06:19

The reality is that the Paraguayan economy is—no longer an agricultural economy. The economy has been diversifying, and this is proof of how growth has been sustained. '23 growth was 5percent, '24 was 4 percent, '25, we're projecting a 4 percent growth, and this is driven by a diversification of the economy. We have now more manufactured goods exported than agricultural goods exported. So agriculture, we cannot deny we have a comparative advantage. We produce food for 100 million people. It's a very efficient agricultural sector, cattle-raising sector, we export to the US, many, many goods and products. But the economy is no longer only an agricultural—

Daniel Yergin 07:11

And what sort of manufacturing sectors have—?

Santiago Peña 07:14

What happened is that around 10 years ago, we approached Brazil, and we said, Brazil, you are importing—at that time, it was around \$60 billion from Asia. And half—sorry— 10 percent of those imports could be manufactured in Paraguay by Brazilian companies. So, 10 years ago, we started talking about this idea of near-shoring and it's very important to understand the largest market in Brazil is São Paulo. Asunción, which is our own capital, is 1000-2000 kilometers out of São Paulo. Manaus, which is the largest industrial complex outside of São Paulo, is 5000 kilometers away from São Paulo, and on the other side, you have in Paraguay, low taxes, ease of doing business. So Brazil, which is our largest trading partner, has rediscovered a neighboring country with a lot of advantages. So, Brazil now is our largest foreign direct investor, surpassing the US in recent years. So—these manufacturers are out of [instead of "out of": our exports?] ports, textile, food processing— these are a wide range of products which are very similar to what Mexico does with the US in this maquila regime.

Daniel Yergin 08:40

So, MERCOSUR is the trading relationship among the three countries.

Santiago Peña 08:43

Yes—

Daniel Yergin 08:43

And obviously, there's the global market, there's the US, there's tariffs. What has it meant for MERCOSUR within the this turmoil? Does it tend to focus greater on trade among you?

Santiago Peña 08:58

I think this is great news for Paraguay because, as we are the most open economy with the least constraint to international trade and transactions, we have, of course, benefited off MERCOSUR, but even MERCOSUR has a lot to improve in terms of access to market. For us, having more access to the Brazilian market is a great opportunity. We're talking about the eighth largest economy in the world, and Brazil continues to be a very protective economy. So for us, Brazil trying to be more agile, more flexible, more open to the world economy, in light of what is happening with this battle on tariffs, this will be a great news for us. We are already enjoying this in the case of Argentina. President Milei came with a very aggressive change in public policy, opening the Argentinian market—

Daniel Yergin 09:54

It's been good for you—

Santiago Peña 09:55

Amazing. I mean, we are exporting goods that we were not able to export for 40 years. So this is a —great news for Paraguay. I think that we're going to benefit a lot. What we plan in the case of Paraguay, is to create a level playing field: macro stability, political stability, ease of doing business, a pro-business environment. So this will be good for our trade within MERCOSUR. This will be good for our trade with the EU. We just signed last year a free trade agreement between MERCOSUR and the European Union. We are in the process of signing one with the Emirates. We signed one—

Daniel Yergin 10:37

Free trade agreement?

Santiago Peña 10:38

Free trade agreement. So MERCOSUR is the international bloc that has been moving the most among all the countries, among all the blocs in the world. So we feel that this is a great moment for Paraguay. And we believe that despite all the growth that Paraguay has experienced, it's nothing compared to what is still to come. We think

that the potential for the country—geography that is larger, or almost the size of the state of California; 100 percent of arable land; water—I mean, we're sitting on top of one of the largest sweet-water aquifers in the world—

Daniel Yergin 11:14

—and your population is only like 15 percent of California's—

Santiago Peña 11:17

Yes, yes. We're only 6 million or so and a mostly young population. The average age in Paraguay is 28 years old. So the demographic is very positive—and we are investing heavily because we think that this energy transition could make Paraguay a great ecosystem for technology companies. [inaudible]

Daniel Yergin 11:39

So let's turn to that. But before we do, just generally talk about the environment that you're trying to create for foreign investors and what that environment is like?

Santiago Peña 11:49

Well, first of all, low taxes. We did a tax reform 25 years ago. We lowered taxes from 30 percent to 10 percent and a very simple tax regime: 10 percent VAT, 10 percent corporate tax, and 10 percent personal income tax. I brought a lot of—I mean, I'm a long-career civil servant, but I brought a lot of people from the private sector into the areas where regulations are made for the private sector. So, a lot of business people that were complaining about red tape. So I said, "Come here, let's work." And we have accelerated the opening of companies, the closure of companies, in general, the relations between the government—and provide—and I said that Paraguay is a great place to do and test new technology, like a sandbox, a regulatory sandbox. I was member of the board of the central bank in 2012 when we allowed telcos to open accounts, and it was quite controversial, and a lot of the banking industry were very, very concerned. And—this proved to be a great opportunity. Mobile payments have flourished. Digital banking is really doing very, very well. Paraguay's banking sector is among the most profitable in the world.

Daniel Yergin 13:12

You know, you made a point and you went over it fast, but it's worth reflecting on for a moment in terms of policy and learning. I mean, many will say one of the biggest problems the EU has is the divorcement between the regulation and the market, and industry and the economy. And the point you made is that to make the regulation connected to the economy.

Santiago Peña 13:34

Innovation goes much faster than regulation, so you need to have a regulation that will allow some level of innovation that will go ahead of the regulation. So this is something that we feel very proud and we are promoting. I was listening yesterday to Elon Musk, and he was saying that the deployment of automated cars—I mean self-driving cars—will depend on the regulation. And I was trying to raise my hand, said, look, come to Paraguay. Paraguay is a great place for you to test that, and we have so much electricity, so it makes a lot of sense to have EV vehicles in the city.

Daniel Yergin 14:13

I think at this point we have to stop and talk about electricity, because you have a very unique situation in terms of electricity that I don't think any other country in the world has.

Santiago Peña 14:24

No. Because of our geography and the rivers that surround Paraguay and are the limits with Argentina and Brazil. 50 years ago—we built these massive hydroelectric plants that if they were to be built now it's going to be impossible because of all the impact on the natural resources, but it happened 50 years ago, and these are two massive hydroelectric plants. We move 100 percent of our economy on renewable, on hydro—

Daniel Yergin 14:56

—but not automobiles, just electricity is 100 percent—electricity—

Santiago Peña 15:00

Electricity comes from hydro, and we export half of everything that we produce. But we are working to continue to expand. There are so many areas where we can do more hydro plants because of all the rivers that we have. And we also planning to expand into solar, because we think that the mix, for example, what happened in Brazil—solar electricity, solar-generated electricity, exploded in recent years, but it's non-reliable, right? You need to combine with a more reliable source. And the most reliable source of energy is hydro. Is the most contact, is the most stable. So we think that the possibility to expand the generation of electricity in Paraguay, and combine the huge amount of hydro with solar will be very—

Daniel Yergin 15:53

You're already 100 percent hydro electricity. Why would you need to build more dams?

Santiago Peña 15:59

Because we want to do more investment, we are expanding our use very rapidly. The 4 percent growth over the last four years also has been driven by an increase in consumption, particularly for the industrial sector. Last year, energy consumption went up by 20 percent. So—I don't see any benefit in selling cheap electricity to a neighbor country. So we are trying to attract—I'm trying to attract hyperscalers. I'm holding the door for all the crypto miners who are coming knocking on the door and trying to benefit from a short-term contract. We are giving them. They are doing short-term contracts. But—this is not the type of industry that we envision for the medium to long term. So we are advancing. I was in San Francisco last year meeting with all of the big tech companies, and for them, it was the first time to listen to this small "Qatar of sustainability" in the middle of South America, a country with so much electricity, so they are still trying to grip and to understand how stable and how reliable Paraguay is. We have an international treaty with the US that protects US investment in Paraguay. We are talking now with the administration to expand the coverage of that—protection for investment. So we recognize, and we acknowledge that Paraguay continues to be an unknown for many people, but as we go further in improving our macro stability, political stability—and this is recognized by rating agencies, this is recognized by other international institutions, this will give more assurance for foreign investors to come.

Daniel Yergin 17:44

So without giving anything away, do you want to say where the discussions with the hyperscalers are?

Santiago Peña 17:51

Now, the question comes: If I'm going to do a multi-billion investment, which I need to repay in 10, 15, 20 years, what is the assurance that the story of Paraguay is consistent in the long term? And they give the example: for example, in the Middle East, in the Saudi Emirates, Qatar, these systems—political systems, give us some assurance as we see the leadership. They have 30, 40, years still to go. But for countries in Latin America, democracy is very hard sometimes to manage. So we understand the concerns, and we are giving all the assurance, and we are more than willing to work to expand the level of trust that they need for this type of investment. For us in the meantime, it's continuing to deliver on all of our promises on maintaining macro-stability, or maintaining macro-political-stability. I won with a very large majority in Congress, and almost it's already two years that I have been elected. I still have the majority, and I have passed so many reforms that are important for the country.

Daniel Yergin 19:04

So do you find that Paraguay's story is quite different from many of the other countries in terms of volatility? So, is that a challenge for you, to separate out Paraguay from perceptions of Latin American volatility?

Santiago Peña 19:19

Not really, not really, because we are awakening a giant. Paraguay was already a leading and a shining star in Latin America 160 years ago. It was the most developed nation. It was the first country to gain independence from Spain. We have eradicated analphabetism in 1850, we invested in people, and we had a lot of industries, but the destiny was very hard on Paraguay. In 1864, we had to enter into a war against Brazil, Argentina, and Uruguay, and it was a war of extermination. So we fought back for six years. At the end of the war, we lost 60 percent of the territory and 90 percent of the male population: nine-zero. So it was a war of extermination, and this halted our development for almost a century. So we have been rebuilding, and over the last 36 years, we have accelerated the pace, and the result has been astonishing, but again, it's nothing compared to the potential that we have. So that's why we are accelerating our process of being a full member of the OECD. We have now a country program with the OECD. We think that this will be an additional seal of trust and confidence for investors—to have that trust that the country is good for the long term—

Daniel Yergin 20:45

Right—and that and your growth rate is pretty stable.

Santiago Peña 20:49

Very stable. The economy is diversifying. There are projects that are coming in, they're coming very, very soon. We are also and—this is taking the opportunity that the president of the (International Development Bank) IDB is here—we are leading on the green economy, and then we are piloting with other countries on this new facility in investing in a green economy. So we are a green economy, but we want to continue to be, in the future, a green economy. So the type of investments are also very smart investments to make the growth sustainable. And yes, as you mentioned, the growth has been sustaining. It's diversifying. We are entering the forestry market, which will be also very important for Paraguay and green hydrogen. We are now with an investment, a very large investment, from a British company—on green fertilizer, green hydrogen. So we think that this is also going to be a frontier market for Paraguay.

Daniel Yergin 21:52

So let's turn to foreign policy relations and economic and political relations with the US, with China. You have your—you have diplomatic relations with Taiwan. Is that complicated?

Santiago Peña 22:06

Well, standing for the right causes is always complicated. But again, as I mentioned on development and growth, there are no shortcuts. The same happens for maintaining values and principles. It's not simple. There are no shortcuts. Is—most of them are very hard ways, but only a country that has experienced so much hardship knows what other countries in that same situation feel. So, Paraguay has been a very strong supporter for Israel. We reopened our Embassy in Jerusalem in December of last year. We have designated Hamas, Hezbollah, and the Iranian guard as terrorist organizations. We are staying next to Israel in this conflict, and the same we're doing with Taiwan. Taiwan has been a friend for 70—66 years, so we think that they also show us a great model of development, a small country next to a very large country. But despite all the might of China, they continue to be a powerhouse in technology and semiconductors. So we think that this is a path that we would love to do. Of course, we don't think China is as aggressive or Brazil is as aggressive as China, but, you know, there's this sense in Paraguay that our neighbors have not behaved so well with us—so but this is the neighborhood that we have. We cannot move from where we are, so we'd rather buckle up, shelf up, and work very hard to make ourselves stronger.

Daniel Yergin 23:46

In comparison to Taiwan—course education, technology, young people. What is your focus in terms of education—?

Santiago Peña 23:54

10 years ago, when I was Minister of Finance, I asked the Taiwanese government to get me a meeting with the CEO of Foxcom. And he received me, very nice person. And I said, I want Foxcom to manufacture iPhones in Paraguay. And he asked me, How many engineers do you produce every year?

Daniel Yergin 24:14

And the answer was?

Santiago Peña 24:15

And I said, look, can you hold that thought? I'm going to come back in a couple of years. So I went back to the government of Taiwan and said, I want to make the MIT of Taiwan in Paraguay. I want to bring Taiwanese teachers to teach Paraguayans. So we built this university, the Paraguay Taiwan Technological University, 10 years ago. So we have produced close to 1,000 engineers—technological engineers, two years working, studying in Paraguay, two years studying in Taiwan, and then staying in Taiwan for a couple of years working. So this is exactly the same thing as what Taiwan did in the '60s and the '70s, when they brought people that were working in Texas Instruments, other companies—

Daniel Yergin 25:03

Exactly.

Santiago Peña 25:04

—and they created TSMC, the Taiwanese semiconductor company. So we are looking to make Paraguay a technological hub. The other thing that we are working—

Daniel Yergin 25:13

Can I ask just where are you?—So if you started 10 years ago, you have the first crop of graduates— What are they up to?

Santiago Peña 25:20

Well, some of them are back in Paraguay. Some others are still working in Taiwan. We are building now with Taiwan technology—a digital district. So it will—it's like a digital industrial park. So we're going to have companies from Taiwan coming and manufacturing some of the process in that park. So we are partnering with Taiwanese companies, which has been also a change for us, because we have maintained great relations with the government, but the companies will not follow always the government. That's a plus. So what we have been doing is outreaching business companies and telling them, look, forget about recognizing Taiwan as a sovereign nation. That's okay—that's a plus but that's not the advantage that Paraguay has. The advantage is location, stability, a young labor force that is eager to learn, and, of course, clean renewable electricity, which is going to be fundamental in the coming years.

Daniel Yergin 26:22

So that cadre of young engineers who are back in Paraguay, what are they? Are they starting companies? Are they going to work for companies?

Santiago Peña 26:30

They are—in a way trying to transition, because we don't have the companies yet. So many of them are coming to the companies. For example, many went to work in these auto parts manufacturing companies—right? which are targeting the Brazilian market. This is a big business. It started 10 years ago, and we have now five out of the six largest wire harnesses companies in the world manufacturing goods in Paraguay for the Brazilian market. So we are in this transition period, and we are hoping that the next couple of years we're going to be able to accelerate the process of technology—a company—but I just wanted to mention the other program that we are working very

hard which is how to make Paraguay the hub for digital integration between the EllaLink, which is the link that comes from Europe to Brazil, the submarine cable, and the Humboldt project, which is the one that is coming from Asia to Chile—

Daniel Yergin 27:37

Right—

Santiago Peña 27:38

So we have signed an agreement with Chile to partner in this project—We think that Paraguay will be the ideal place to connect both cables, both submarine cables. So we think that this is going to be another advantage to make Paraguay a digital hub in the coming years.

Daniel Yergin 27:56

Well, Mr. President, thank you very much for joining us and telling us a story that is not well known, but is becoming much better known. And your presence here and the elucidation of it is really very constructive. So indeed, on behalf of everybody, thank you very much.

Santiago Peña 28:10

Thank you. Thank you very much.

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