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## **Bolivia: Political and Economic Developments and Implications for U.S. Policy**

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Connie Veillette  
Analyst in Latin American Affairs  
Foreign Affairs, Defense, and Trade Division

# Bolivia: Political and Economic Developments and Implications for U.S. Policy

## Summary

Bolivia is one of the poorest countries in Latin America with an ethnically diverse population. It has a long history of political instability that persists to this day. Its weak political institutions, geographic and ethnic cleavages, and an active indigenous population have interacted to produce political polarization over such important issues as the future of oil and gas exploration and production, coca eradication programs, and calls for regional autonomy and constitutional reform from some parts of the country. Political protests in 2003 led to the resignation of President Gonzalo Sánchez de Lozada, fifteen months after he was elected. Succeeding him was his former vice president, Carlos Mesa, a popular former television journalist. The focus of the 2003 protests was the continued economic marginalization of the poorer segments of society, especially in response to government budget cutbacks and proposals to raise taxes. The final spark, which immediately preceded Sánchez de Lozada's resignation, was his plan to export natural gas to Mexico and the United States via a port in Chile, a historic adversary of Bolivia.

President Mesa, after an initial reprieve, was unable to unite the disparate political forces. In response to continuing street protests that at times paralyzed the country, he resigned in June 2005. Eduardo Rodríguez, head of the Supreme Court, has assumed the presidency on an interim basis, promising to call for early elections by the end of the year, ahead of the scheduled date of August 2007. Despite these challenges, the country has made some social and economic progress over the last several decades. Coca cultivation has decreased from its peak production years in the 1990s, but is still a source of conflict between the government and coca growers. While political institutions are considered weak, changes in government that took place in 2003 and 2005 occurred according to constitutional provisions.

U.S. interest in Bolivia centers on its role as a coca producer, and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries. Some observers have criticized this focus for neglecting economic and social development issues, but the State Department defends it as necessary to promote licit economic development and democracy. Bolivia has the second-largest natural gas reserves in Latin America after Venezuela. The Bolivian government has plans, which have generated considerable controversy, to export gas to the United States and Mexico, necessitating the construction of a pipeline to a coastal port of a neighboring country.

For additional information, see CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette. This report will be updated as events warrant.

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# Bolivia: Political and Economic Developments and Implications for U.S. Policy

## Background

Bolivia is a land-locked country approximately three times the size of Montana. As a result of the War of the Pacific (1879-1883) with Chile, Bolivia lost part of its territory along the Pacific Ocean. Bolivia has preferential rights of access to the Chilean ports of Antofagasta and Arica, but it has no sovereign access, a source of lingering resentment among Bolivians. The population of 8.4 million people is the most ethnically diverse on the continent of South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 25% of the Bolivian population are Quechuan, 17% are Aymaran, 30% are mestizo (mixed), while 12% are of European origin. A 2001 census recorded that about 62% of Bolivians 15 years of age and older identified themselves as indigenous. Seventy percent of Bolivians live below the poverty level with 34.3% earning less than \$2 a day, and the average per capita annual income was \$900 in 2002, according to the World Bank.

Bolivia has been a major producer of coca leaf, the main ingredient in the production of cocaine. Although coca leaf is legal in the country for traditional uses and is grown legally in some parts of the country, its cultivation for illegal purposes increased in the 1970s and 1980s. Cultivation levels have decreased to half of the levels of the 1990s in response to government policies to eradicate illicit production, according to the State Department. These policies, and the way in which they have been implemented, have caused social unrest and economic hardship in the two main coca-growing regions. One consequence has been the rise of coca growers trade unions and an associated political party that now holds the political leadership of many municipalities as well as seats in the national legislature. Its leader, Evo Morales, finished a close second in presidential elections in 2002 and is considered a viable candidate for the 2007 elections.

## Political Conditions

Bolivia has had five presidents since 2001 when Hugo Banzer handed the reins to Jorge Quiroga due to health reasons. Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, fifteen months after he was elected. Succeeding him as president was his former vice president, Carlos Mesa, a popular former television journalist, historian, and political independent. President Mesa resigned in favor of Eduardo Rodríguez, head of the Supreme Court, in June 2005 in response to continuing street protests that at times paralyzed the country. The 2003 change in leadership came about after months of

protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society, especially in response to government budget cutbacks and proposals to raise taxes. The final spark that immediately preceded Sánchez de Lozada's resignation was his plan to export natural gas via a port in Chile, an historic adversary of Bolivia.

Gonzalez Sánchez de Lozada of the centrist National Revolutionary Movement (MNR) won the presidential election in 2002 with 22.5% of the vote. Evo Morales of the leftist Movement to Socialism (MAS) who ran on a platform critical of free-market policies and advocating indigenous rights, came in second in the 2002 presidential elections with 20.9% of the vote. As neither achieved a majority, the Congress, in accord with provisions of the Bolivian constitution, chose Sánchez de Lozada as President. He assembled a fragile coalition of the center-left Movement of the Revolutionary Left (MIR) and, for a time, the populist center-right New Republican Force (NFR), the latter having initially served as an opposition party along with the MAS. A traditionally strong party, the center-right Nationalist Democratic Action (ADN) showed poorly in the elections.

Sánchez de Lozada faced many political and economic challenges upon taking office. His small margin of victory, by only 43,000 votes over Morales, and his unstable governing coalition did not provide him with a governing mandate. In order to secure an International Monetary Fund (IMF) agreement, with its strict budget deficit targets, he proposed unpopular measures, such as tax increases, that led to popular discontent. In February of 2003, violent worker demonstrations erupted at the same time as a police strike, the latter protesting reduced resources under the President's budget proposal. Worker protests, combined with the police strike, and student demonstrations, led to violent clashes with the military that left 31 people dead. Protests continued at varying levels during the summer of 2003, growing in strength throughout the country as two Indian leaders became involved: Evo Morales of the MAS and Felipe Quispe of the Bolivian Coordinator of Syndical Unions and Campesino Workers (CSUTCB) and an opposition legislator.

The trigger for the most violent protests in October 2003 was a presidential proposal to export natural gas via pipeline to Mexico and California by way of Chile. This sparked nationalist sentiment that recalled not just Bolivia's loss in the War of the Pacific, but past exploitation of the country's natural resources of silver and tin by foreign business interests. Just as most Bolivians do not believe that they benefitted from these earlier ventures, many present-day protesters believe that they will not benefit from the expected natural gas revenues, a sentiment fueled by a growing anti-globalization attitude.<sup>1</sup> These events occurred against a backdrop of growing resentment against U.S. policy that stressed coca eradication, affecting approximately 50,000 growers who make their livelihood from both its licit and illicit

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<sup>1</sup> Larry Rohter, "Bolivia's New Leader Takes Over a Chaotic and Angry Nation," *The New York Times*, Oct. 19, 2003; and Larry Rohter "Bolivian Peasants' 'Ideology of Fury' Still Smolders," *The New York Times*, Oct. 20, 2003.

cultivation. Some observers have also argued that resentment has grown in response to the role of the IMF's requirements for additional loans.<sup>2</sup>

## Mesa Administration

The violent demonstrations and street blockages that paralyzed most of the country in September and October of 2003 resulted in up to 57 deaths and President Sánchez de Lozada's resignation on October 17. He was succeeded by Vice President Mesa, a newcomer to politics and an independent with no formal political party as a base of support. The parties comprising the former government pledged their support for the new administration. Opposition party leaders, such as Evo Morales and Felipe Quispe, initially promised to give the new government some breathing room, although they both became vocal critics since then.

Mesa appointed a new cabinet, also largely of political independents, and demonstrated a sensitivity to indigenous issues. He created the cabinet post of Minister for Indigenous Affairs and carried out his promise for a referendum on the export of natural gas. Acceding to demands of indigenous and opposition groups, he also overturned a 1997 decree that had given oil companies ownership of the natural gas they extracted. He unveiled an economic plan that puts most of the tax burden on energy companies and wealthy citizens. He has also shepherded reform legislation through Congress that allows more popular participation in elections. Further, he announced plans for a constituent assembly to consider a new constitution. With his lack of political experience, a highly mobilized opposition, and his independent status with regard to political party, many observers predicted that the challenges to his success might be insurmountable.<sup>3</sup> Since taking office, his popularity fell in many parts of the country as he was unable to unite disparate political forces.<sup>4</sup>

During his tenure, he faced a number of challenges, the same challenges that now confront current President Rogriguez. First, civil society, in the form of trade unions, peasant organizations, and student groups, remains highly mobilized. They often resort to public demonstrations and road blockages to present their demands to the government. Second, Rodriguez has no political party as a base of support, and the Congress is dominated by parties that are generally opposed to many of his policies. However, Rodriguez was the compromise candidate, by his promise to hold early presidential elections by the end of the year. Third, he must deal with implementing or revising a new and controversial hydrocarbon law that is opposed by foreign oil and gas companies and the Bolivian business community. The new legislation came about as a result of a July 2004 referendum in which Bolivians voted

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<sup>2</sup> Jeffrey Sachs, "Call It Our Bolivian Policy of Not-So-Benign Neglect," *The Washington Post*, Oct. 26, 2003; Emad Mekay, "Politics: Activists Trace Roots of Bolivian Turmoil to IMF," *Inter Press Service*, Oct. 20, 2003.

<sup>3</sup> "Political Risk Analysis — One Andean President Down...," *Emerging Markets Daily News*, Oct. 24, 2003. "Bolivia's Week-Old President Takes Flak Over Nominations," *Agence France Presse*, Oct. 24, 2003.

<sup>4</sup> Kate Joynes, "President's Popular Approval Ratings Fall as Bolivian Crisis Continues," *WMRC Daily Analysis*, Mar. 21, 2005.

to support a more engaged role for the state in the oil and gas sector. Fourth, in order to secure continued assistance from international financial institutions, Bolivia would like to be able to rely on exports of its abundant natural gas reserves, but tensions with Chile over sovereign access to a Pacific port put these plans in jeopardy. Fifth, U.S. pressure to maintain coca eradication and interdiction programs continues to meet strong resistance from coca growers and others. Sixth, municipal elections in December 2004 further weakened the country's traditional political parties in favor of MAS candidates and independent groups that, under a new law, have easier access to putting candidates on the ballot. And seventh, the resource-rich eastern section of the country, centered around Santa Cruz, is pushing for more regional autonomy and the devolution of power to elected governors and regional assemblies. This secessionist movement is opposed by most of the rest of the country.

## **Role of Indigenous Groups**

Despite the National Revolution of 1952, in which the indigenous population held sway and benefitted from land reform and expanded suffrage, indigenous groups have not been politically active, with few of their members having served in elective office. In the 1980s, indigenous-based political parties and movements emerged, and there are now 41 members of the national legislature representing indigenous parties (Movement Toward Socialism, or MAS, and the smaller Indigenous Pachakuti Movement, or MIP). They have used Congress as a forum to advocate indigenous rights and have become increasingly vocal in making demands for equitable economic development, including the demand to be able to cultivate coca, and the preservation of indigenous land and culture.

The issue of land tenure has been a long-standing source of conflict. An Agrarian Reform Law allows indigenous communities to have legal title to their communal lands. However, these communities argue that their lands have not been legally defined or protected, and that outsiders have been allowed to exploit their resources.<sup>5</sup> There have been numerous land occupations by landless farmers, some resulting in confrontations with police forces. The cultivation of coca, which is legal in the province of Yungas, is another source of conflict. Coca leaf is used legally by indigenous communities for spiritual and medical purposes, and its use is considered an important indigenous cultural right. U.S. and Bolivian policy to eradicate illegal cultivation aggressively has met with violent protests in recent years.

The two most prominent indigenous leaders are Evo Morales, former presidential candidate and current Member of Congress, who leads the opposition MAS party, and Felipe Quispe, current Member of Congress from the MIP party and campesino union leader. A Quechuan Indian and former coca grower, Morales has based his rise in politics on the support of coca growers and has since attracted other followers who are admittedly anti-American in outlook. Quispe, an Aymaran Indian and rival of Morales, considers Morales to be a mainstream politician who will continue free market policies. Both have been very critical of the Mesa Administration. It is believed Mesa will again run for president in the next elections.

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<sup>5</sup> *Country Reports on Human Rights Practices 2004*, U.S. Department of State, February 28, 2005.

## Constituent Assembly and Regional Devolution

Current debate in Bolivia is focusing on when four events — presidential elections, gubernatorial elections, the constituent assembly, and regional devolution legislation — might take place, and the order in which they should happen. President Rodriguez's priority is to schedule presidential elections before the end of the year. Although the terms of members of Congress do not expire until August 2007, there is considerable popular pressure to schedule congressional elections at the same time as presidential balloting. However, this would require Congress amending the constitution, or stepping down en masse, something that many members have renounced.

One of the pledges Mesa made upon becoming president was for a constituent assembly to reform the constitution. It was planned to occur in 2004, but disagreements with the Congress on the subjects to be considered and other logistical considerations have postponed it. At the same time, there is now considerable attention being given to a still undefined devolution of authority to Bolivia's nine departments, including the direct election of governors. Department governors are now appointed by the executive. The constituent assembly and regional devolution have been further complicated by calls from the resource-rich areas around Santa Cruz for some semblance of regional autonomy, with implications for how central government resources are distributed. This secessionist movement is supported by four regions, and opposed by the less wealthy regions, causing a further fracturing of Bolivian politics. Gubernatorial elections are scheduled for August 12, 2005, but without a plan for devolving power to the regions, critics argue that newly elected governors will have little authority. In addition, Santa Cruz has scheduled a referendum on devolution for the same date, with government officials in La Paz arguing that the vote has no legal validity.<sup>6</sup>

## Referendum and Energy Legislation

Former President Mesa promised to hold a national referendum on the role of the state in the energy sector in response to the popular demonstrations that felled the previous government. In the July 18, 2004 vote, Mesa received overwhelming support for what many observers characterized as ambiguously worded questions that support an increased state role in gas exploration and production, while stopping short of nationalization. The referendum also endorsed using "gas as a strategic resource for the achievement of a useful and sovereign outlet to the Pacific Ocean," and the export of gas with profits to benefit Bolivian industrialization, education, health, roads, and job creation.

As a result of the referendum, Mesa sent legislation to the Congress that would replace the 1996 Hydrocarbons Law, which had opened Bolivia's hydrocarbons sector to private investment. The state-owned energy company Yacimientos

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<sup>6</sup> "Bolivia's Santa Cruz Province Gives New Ultimatum in Autonomy bid," *EFE News Service*, May 10, 2005; "Bolivia: Lazarte Unhappy But Realistic About Santa Cruz," *Latinnews Daily*, June 21, 2005; and "Bolivia: Two Regions Lobby Against Autonomy," *Latinnews Daily*, February 9, 2005.



Petroliferos Bolivianos (YPB) would resume a more active role in oil and gas operations. Under the 1996 law, YPB became an overseer of contracts with the private sector, rather than engaging directly in exploration and production. The proposed legislation would also raise taxes on oil and gas production, and re-establish state ownership of oil and gas “at the wellhead.” Existing contracts with oil companies, most foreign-owned, would need to be renegotiated. The legislation ran into opposition by those in the Bolivian Congress who want full nationalization, and the hydrocarbon sector, which believes the new law would reduce its competitiveness. The largest single party in the legislature is Evo Morales’s MAS party, which has advocated nationalization.

In May 2005, the Congress approved legislation that created a non-deductible 32% Direct Tax on Hydrocarbons (IDH) that would apply to production and maintained the current 18% royalty rate. Foreign firms have six months to bring their current contracts into line with the new legislation. The legislation represents the middle ground between Morales’ call for a 50% tax and business interests who argued that gas reserves would go undeveloped. President Mesa opposed the bill, as amended by the Congress, because he argued it would put too heavy of a burden on foreign investors and would require, rather than make it voluntary for, foreign companies to renegotiate their prior contracts. However, instead of vetoing the measure, he returned it to the legislature for promulgation. Foreign oil companies have criticized the new law, threatened to take legal action over having their existing contracts rewritten, and predicted that new investments would not be feasible. Between 1997 and 2003, energy firms spent about \$3 billion on exploration of Bolivia’s natural gas reserves.<sup>7</sup> It is unclear at this point whether the current interim president will accede to the demands of groups wanting complete nationalization of the energy sector.

## Local Elections

An initial test of party popularity and strength was the municipal elections in December 2004, the first elections since the resignation of Sánchez de Lozada. The elections were the first to benefit from passage of a new law that was designed to increase the participation of representatives of civil society and indigenous groups. The new law ended the requirement that only officially registered political parties could field electoral candidates. Bolivia’s traditional political parties (MNR, MIR, ADN) largely have been discredited in the eyes of the public. This left the MAS, the party identified with representing indigenous and coca growing groups, as the potential beneficiary in municipal elections. The MAS already controlled more than 300 municipalities prior to the election, and its leaders predicted that it would pick up another 250 in December.<sup>8</sup> In fact, the MAS did well, but did not pick up nearly as many seats as they predicted. However, what became apparent from the results is that the traditional parties have lost popular support in favor of independent candidates. The MAS, the most-voted-for party, won 15.8% of the vote, and its

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<sup>7</sup> “Firms Condemn Bolivia’s New Energy Law,” *The Oil Daily*, May 19, 2005, and “New Energy Law Does Little to Calm Bolivian Tempests,” *EFE News Service*, May 18, 2005.

<sup>8</sup> Interview, MAS Mayor of Villa Tunari, Felipe Cáceres, May 26, 2004.

candidates were elected town councillors in most municipalities.<sup>9</sup> Municipal elections could indicate popular preference with regard to the next elections for President and Congress, in which it is generally believed Evo Morales will be a presidential candidate. Observers believe the leading presidential candidates also include former President Jorge Quiroga (2001-2002) of the Nationalist Democratic Action Party and businessman Samuel Doria Medina of the National Unity Party.<sup>10</sup>

## Human Rights

With increased rates of coca eradication begun in 1998 with then President Pastrana's *Plan Dignidad*, charges of human rights abuses committed by security forces have increased. The State Department's annual *Country Reports on Human Rights Practices* for 2004 recognized improvements from the previous year when it reported that serious problems existed with regard to deaths of protestors at the hand of security forces, the excessive use of force, extortion, torture, and improper arrests.

Congress has also expressed concern with human rights abuses. Report language accompanying the FY2004 Foreign Operations Appropriations Act (P.L. 108-199) recognized the lack of progress in investigating and prosecuting human rights cases by Bolivian authorities, and urged the Secretary of State to give higher priority to these issues. The Appropriations Committee required the Secretary of State to make a determination with regard to whether Bolivian security forces are respecting human rights and cooperating with investigations and prosecutions of alleged violations, and to submit a report to the committee substantiating the determination. Funding for FY2004 was not made contingent on the determination.

The State Department submitted its congressionally mandated report on April 22, 2004. In a seeming contradiction of its annual human rights report, the department's April report to the committee stated that "the Bolivian military and police respect human rights and cooperate with civilian authorities in the investigation, prosecution and punishment of personnel credibly alleged to have committed violations." It also states with regard to February and October 2003 protests that "despite unrest created by two episodes of major social upheaval, the military and police acted with restraint and with force commiserate [sic] to the threat posed by protestors." The April report has been criticized by human rights organizations for being factually incorrect and poorly written.<sup>11</sup> Those organizations argue that 31 civilians died in February and 57 in October, with most deaths resulting from gunshot wounds of high-caliber munitions used by security forces. The annual State Department *Country Reports on Human Rights Practices* for 2003 also states that the military and police were responsible for civilian deaths during protests in

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<sup>9</sup> "Bolivia: As Big Parties Shrive, New Actors Enter the Stage," *Latin American Weekly Report*, December 7, 2004, and "Bolivia: Traditional Parties Do Badly in Municipal Elections," *BBC Monitoring Americas*, December 9, 2004.

<sup>10</sup> Franz Chávez, "Bolivia: New Leader Walks a Tightrope Amid Threats of New Protests," *Inter Press Service*, June 20, 2005.

<sup>11</sup> Kathryn Ledebur and John Walsh, "Memorandum: Flawed State Department Report on Human Rights in Bolivia," Andean Information Network and Washington Office on Latin America, July 9, 2004.

2003. It made no qualifying statement that the use of lethal force was commensurate with the threat posed by protestors, as did the April report. The groups also refute the State Department's assertion in the April report that the Bolivian military and police cooperate in investigations of human rights abuses, citing numerous instances where the Bolivian Human Rights Ombudsman or prosecutors have stated that cooperation has not been forthcoming.<sup>12</sup>

## Economic Conditions

Like much of Latin America, Bolivia pursued state-led economic policies during the 1970s and early 1980s. In the mid-1980s, however, external shocks, the collapse of tin prices, a major foreign revenue earner, and higher interest rates combined with hyperinflation forced Bolivian governments to adopt free market economic policies. Bolivia was one of the first countries in Latin America to implement economic shock therapy under an International Monetary Fund (IMF) structural adjustment program. In the 1990s, many state-owned corporations were privatized. Gross domestic product growth from 1990 to 2000 averaged 3.5%. Sluggish economic growth in 2001 and 2002 (1.2% and 2.5%, respectively)<sup>13</sup> fueled resentment that the benefits of globalization and free market economic policies were not reaching most of the impoverished population.

The IMF approved the fifth review of a one-year standby agreement on April 8, 2005, and extended the agreement for one year. This action authorizes the release of \$14.5 million in loan funds. The previously negotiated standby agreement provided about \$110 million to assist economic reforms and the continuation of support under the IMF/World Bank Heavily Indebted Poor Countries (HIPC) initiative. A recent decision by the Group of 8 to forgive the multilateral debt of 18 countries will also benefit Bolivia. Under the plan, beneficiary countries will have to implement anti-corruption practices and commit to spending debt-servicing savings on health, education, and poverty reduction programs.

## Coca Cultivation and Alternative Development

Landlocked Bolivia shares no border with Colombia, but it has been a major coca producer in the past. Some argue that Bolivia's earlier significant gains in reducing illegal coca production could be threatened by any successes in controlling production in Colombia through a "balloon effect" whereby coca production shifts to other areas with less law enforcement presence. Once the world's foremost producer of coca leaf, Bolivia made great strides in reducing coca cultivation under the Banzer-Quiroga administration (1997-2002).<sup>14</sup> However, forcible eradication of

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<sup>12</sup> Ibid.

<sup>13</sup> Statistics are drawn from the World Bank *World Development Indicators 2003*, *Human Development Report 2003*, United Nations Development Program, and "Bolivia - Country Profile 2003, *The Economist Intelligence Unit*.

<sup>14</sup> President Jorge Quiroga assumed the presidency on August 7, 2001, when President Hugo (continued...)

coca has become a source of social discontent, exacerbating tensions over class and ethnicity that may foment political instability. Moreover, according to the State Department, coca cultivation increased 23% in 2002 and 17% in 2003. The United Nations Office on Drugs and Crime recently reported that cultivation increased 17% in 2004. The State Department had reported a 6% increase in 2004.<sup>15</sup> Nevertheless, Bolivia's coca cultivation is still about half of its 1995 levels. It should be noted that Bolivian law allows nearly 30,000 acres (12,000 hectares) of coca cultivation for traditional use in the Yungas region, and allows legal coca markets in both the Yungas and Chapare regions.

For some 20 years, U.S. relations with Bolivia have centered largely on controlling the production of coca leaf and coca paste, which was usually shipped to Colombia to be processed into cocaine. In support of Bolivia's counternarcotics efforts, the United States has provided significant interdiction and alternative development assistance, and it has forgiven all of Bolivia's debt for development assistance projects, and most of the debt for food assistance. Bolivia, like Peru, has been viewed by many as a counternarcotics success story, with joint air and riverine interdiction operations, successful eradication efforts, and effective alternative development programs. Others, however, view the forced eradication as a social and political disaster that has fueled popular discontent and increased the political support for opposition candidates.

U.S. programs supporting alternative development in Bolivia are explicitly linked to coca eradication. Coca farmers wanting to participate in alternative development programs must agree to manually eradicate all of their coca crops. This policy has been controversial. Critics argue that alternative crops take time to produce a profit, and until then, families are without income. In some areas, recipients claim that depressed prices for some alternative crops, like bananas and hearts of palm, as well as delays in extension services and marketing assistance, are making a livelihood from licit crops unobtainable. Supporters argue that the objective is to realize a decrease in coca cultivation; linking eradication with alternative development is, therefore, a reasonable strategy.<sup>16</sup>

## Gas Exports

According to the Energy Information Administration of the U.S. Department of Energy, Bolivia has the potential to become a natural gas hub for the Southern Cone of South America, and a major exporter of liquified natural gas to Mexico and the United States. Bolivia's proven natural gas reserves are estimated to be as high as

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<sup>14</sup> (...continued)

Banzer, whom he had served as vice president, resigned because of illness. Quiroga could not, by law, subsequently run for election.

<sup>15</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, volumes covering the years 2002, 2003 and 2004.

<sup>16</sup> Transnational Institute, *Cocalero Movements in Peru and Bolivia*, April 2004; *Alternative Development and Eradication*, March 2002; and Linda Farthing, *Rethinking Alternative Development in Bolivia*, Andean Information Network, February 2004.

55 trillion cubic feet (tcf). This would potentially make Bolivia a major world natural gas exporter with the second-largest gas reserves in South America, after Venezuela. A decision in 2001 by Repsol-YPF of Spain, British Gas, and British Petroleum to create a liquefied natural gas (LNG) export consortium had raised hopes to export gas via pipeline and tankers to Mexican and U.S. markets by 2005. As Bolivia is landlocked, the country, and the companies involved, had been planning the construction of an estimated 430-mile pipeline to a port in either Chile or Peru at a cost of an estimated \$5 billion.<sup>17</sup> A proposal to export gas through ports in Chile, a traditional adversary of Bolivia, sparked the protests in 2003 that led to the resignation of President Sánchez de Lozada. Since then, the issue of gas exports has come to dominate relations with its neighbors. While building a pipeline through Peru would be more expensive, it is the public's preferred option.<sup>18</sup> However, the development of Bolivia's oil and gas sector, as well as related exports, are jeopardized by the new hydrocarbons law recently passed by the Bolivian Congress, judging by the reaction of foreign owned oil and gas companies.

## Trade Issues

Bolivia is a member of the Andean Community, with Peru, Ecuador, Colombia, and Venezuela, and an associate member of Mercosur, the trading block composed of Brazil, Argentina, Uruguay, and Paraguay. The main destinations for Bolivian exports are Brazil, Colombia, Switzerland, and the United States. The United States is its third most important source of imports, following Argentina and Brazil. Its principal exports are natural gas, soya, zinc and gold. Bolivia currently benefits from the Andean Trade Promotion and Drug Eradication Act<sup>19</sup> (ATPDEA), which offers access to the U.S. market for products from the Andean countries of Peru, Colombia, Ecuador and Bolivia. ATPDEA, an extension of the Andean Trade Preference Act (ATPA) that began in 1991, will expire in 2006. During 2004, the United States and the Andean Community nations of Colombia, Peru and Ecuador began negotiating an Andean Free Trade Agreement.<sup>20</sup> Bolivia is not directly participating; instead it has observer status.

## U.S. Assistance

Bolivia is the third largest recipient of U.S. foreign assistance in Latin America, behind Colombia and Peru. In FY2005, it will receive an estimated \$132 million in

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<sup>17</sup> "Bolivia: Country Analysis Brief," Energy Information Administration, U.S. Department of Energy, October 2003.

<sup>18</sup> "Cerca del 70% de los Bolivianos Quiere Exportar Gas por Perú," *Europa Press - Servicio Internacional*, May 20, 2004; "Peru/Chile: Energy Exacerbates Strained Relations," *Oxford Analytica*, August 24, 2004; "Bolivia Signs Agreement to Export Gas Through Peru," *IPR Strategic Information Database*, August 9, 2004.

<sup>19</sup> For more information, see CRS Report RL30790, *The Andean Trade Promotion Act: Background and Issues for Reauthorization*, by J.F. Hornbeck.

<sup>20</sup> For more information, see CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn, and CRS Report RL32770 *Andean-U.S. Free Trade Agreement Negotiations*, by Lenore Sek.

U.S. assistance, and a proposed \$123 million in FY2006. The largest portion of assistance consists of Andean Counterdrug Initiative (ACI) funds, the U.S. program to curtail drug production and trafficking in the Andean region. ACI funds programs to eradicate drug crops, interdict trafficking operations, as well as to support alternative economic development and democracy promotion. In FY2005, the State Department estimates spending \$90 million in ACI funds in Bolivia, of which \$41 million is for alternative development and institution building programs, and \$49 million for interdiction efforts. The FY2006 request is for \$80 million. Alternative development includes economic development in coca-growing areas, demand-reduction education programs, and the expansion of physical infrastructure. Funds are also planned to support the enhancement of judicial capability to prosecute narcotics-related crimes, and to improve the quality of investigations into allegations of human rights violations. Interdiction funding provides operational support for specialized counterdrug police and military units, and is intended to improve data collection for law enforcement activities. ACI funds will also be used to support increased interdiction of precursor chemicals and cocaine products. The United States would also continue to provide support for a U.S.-owned helicopter fleet, and to maintain and purchase vehicles, riverine patrol boats, training and field equipment, and construct and refurbish antiquated counternarcotics bases.

Bolivia also receives Foreign Military Financing funds that in FY2005 total nearly \$2 million, with a request of \$1.8 million for FY2006. FMF funds in FY2005 are for equipment and training assistance to the Bolivian Armed Forces, military police units, and the Army's new Counter-Terrorism Unit to support their efforts to provide security for drug eradication and interdiction operations, to maintain control of remote areas, and to support their role as international peacekeepers. Bolivia has peacekeeping forces deployed in the Congo, and observers in Kosovo, Sierra Leone, Liberia, and East Timor. Bolivia receives small amounts of International Military Education and Training (IMET) funds, totaling \$800,000 in each of FY2005 and FY2006. IMET funds are used to provide professional military education to Bolivian military personnel at U.S. military command and staff colleges. Bolivia has signed an agreement exempting U.S. citizens from the jurisdiction of the International Criminal Court, as required by the American Service Members Protection Act of 2002 (incorporated as Title II of H.R. 4775, the FY2002 Supplemental Appropriations Act, P.L. 107-206). In July 2003, and previous to an agreement being signed, the Bush Administration had waived the withholding of U.S. military aid from the country.

In addition to ACI funding, Bolivia also benefits from other U.S. economic assistance programs. Bolivia will receive an estimated \$12 million in Development Assistance (DA) for FY2005, and a requested \$14.5 million in FY2006. This assistance will provide technical assistance to micro-finance institutions, micro-entrepreneurs, and technological services to farmers. Support will also be provided for strengthening democracy and anti-corruption programs. Bolivia will receive an estimated \$16 million in Child Survival and Health (CSH) funds in FY2005, and a requested \$15 million in FY2006. CSH funds are used for supporting health programs, HIV/AIDS programs, nutrition and vaccination programs for children, and the Amazon Malaria Initiative. Economic Support Funds, estimated at \$8 million for both FY2005 and FY2006, will be used to strengthen municipal governments, improve congressional capacities, consolidate democratic values and practices by

supporting civil service activities, and promote economic growth. The Peace Corps maintains a presence in Bolivia with a program that totals \$3 million in each of FY2005 and FY2006.

Bolivia could also benefit from the new Millennium Challenge Account (MCA), a presidential initiative announced in 2002 that is intended to increase foreign assistance to countries below a certain income threshold that are pursuing policies to promote democracy, social development, and sustainable economic growth. The program is administered by the newly established Millennium Challenge Corporation (MCC) in cooperation with USAID. Bolivia was named an eligible recipient in the first round of the program, meaning that Bolivia may submit a proposal to the MCC for consideration. Eligible countries are responsible for designing national development strategies and individual projects, with the MCC acting in an advisory role.

## Implications for U.S. Policy

Recent developments in Bolivia offer challenges to U.S. policy with regard to coca cultivation, the policy of opening economies to free trade and free market principles, and regional stability. Until setbacks starting in 2001, Bolivia was considered a success story in the eradication of coca cultivation. It is legal to grow limited amounts of coca leaf in the Yungas province for traditional uses, but is illegal in all other parts of the country. A lessening in resolve on the part of the Bolivian government with regard to coca eradication has resulted in production increases, and could embolden coca growers in other nations to organize, especially in areas such as Peru where indigenous communities also use coca leaf for medicinal and cultural purposes. Leakages of coca from traditional uses to narcotics would be seen as a setback for U.S. policy. Some observers contend that U.S. drug policies may cause wider instability in the region and fuel anti-American sentiment. The re-emergence of the leftist Sendero Luminoso (Shining Path) guerrilla group in Peru's coca-growing areas is pointed to as a potential source of trouble, where growing opposition to U.S. policy makes inhabitants more amenable to violent protest, or to join the ranks of Sendero.<sup>21</sup> Opponents of U.S. antinarcotics policy argue that it is heavy handed and stresses eradication to the neglect of sustainable economic development. Proponents of U.S. policy argue that the drug trade promotes violence and corruption in source countries that destabilize democratic governments.

As the United States promotes free trade and continues negotiations of free trade agreements in the region, protests against globalization and the degree of foreign investment complicate these negotiations. Protests in Argentina during 2001 and 2002 were fueled by anti-IMF sentiment, and Brazil's President Lula da Silva ran on a platform of resisting globalization. The United States has not engaged opposition leader Evo Morales to date. If he gains more popular support, or becomes a viable

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<sup>21</sup> Larry Rohter, "Bolivian Leader's Ouster Seen as Warning on U.S. Drug Policy," *The New York Times*, Oct. 23, 2003, and Mary Anastasia O'Grady, "Blame U.S. Drug Policy for the Bolivian Uprising," *Wall Street Journal*, June 17, 2005.

presidential candidate, the United States could be faced with a Bolivian government that is less willing to work with Washington on both drug and trade issues.

Recent developments in Bolivia have regional implications with regard to the role of indigenous movements and public attitudes toward free market policies and international financial institutions, such as the IMF and World Bank. The resignations of Sánchez de Lozada and Carlos Mesa have emboldened the loose coalition of workers, Indians, and students in Bolivia to make demands for concrete changes in government policy. As such movements exist at varying levels of strength throughout the Andean region, some observers have noted that they, too, could become more active, adopting the same tactics of demonstrations, strikes, and road blockages that have become the norm in Bolivia. Brazil has its own landless movement where groups have illegally occupied land. Peru and Mexico have also experienced dissatisfied indigenous groups, some of whom have resorted to armed confrontations with government authorities. Other governments in the region have experienced vocal opposition to Washington-backed economic policies of privatization and foreign investment, similar to the sentiment expressed by Bolivian demonstrators.

The re-emergence of tensions with Chile is another ramification of political discord in Bolivia. The proposal to export natural gas via a pipeline to Chilean ports has re-ignited nationalist sentiment and created calls by some Bolivians, including Evo Morales and Venezuela's President Hugo Chavez, to demand that Chile grant Bolivia sovereign access to the Pacific Ocean, something that the Chilean government rejects. A free trade agreement between Chile and Bolivia that was to be signed in November 2003 has been postponed, citing a number of outstanding issues that needed to be resolved. Bolivia and Chile do not have formal diplomatic relations, but high-level discussions on trade and border issues have been held. The situation has also created tensions between Chile and Peru; the latter must agree to any ceding of territory to Bolivia, according to the treaty that ended the War of the Pacific, while Chile insists that the dispute is a bilateral issue only. Instead, Peru and Bolivia are pursuing agreements that could lead to natural gas exports via Peruvian ports.<sup>22</sup>

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<sup>22</sup> Antonio Raluy, "Bolivian Revolt Reignites Demand for Return of Lost Land From Chile," *Agence France Presse*, Oct. 22, 2003; "Chile Will Not Grant Bolivia Sovereign Access to Pacific," *EFE News Service*, Oct. 20, 2003; "Peru/Chile: Energy Exacerbates Strained Relations," *Oxford Analytica*, August 24, 2004.



Figure 1. Map of Bolivia



Source: Map Resources. Adapted by CRS. (K.Yancey 8/24/04)