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Ben Armstrong

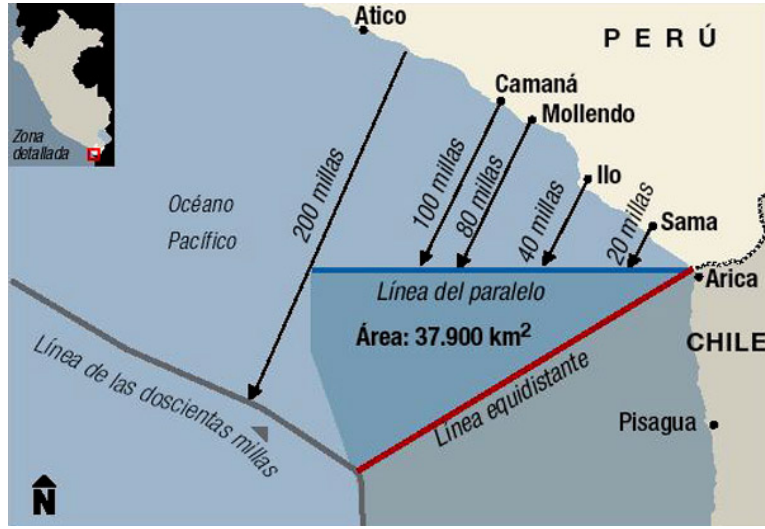
IPE Term Paper

A Landlocked Bolivia: Disputes between Bolivia, Peru and Chile.

Vast expanses of desert, rainforest, mountain, and coastal biomes sprawl across Peru, Bolivia and Chile. These diverse countries hold not only striking beauty throughout these regions, but also vast natural resources. In the Atacama Desert region, the discovery of such important natural resources have left residual problems lingering in the economic and political relations between these South American nations, and still cause tensions today. This paper explores historic disputes over resources on the borders where all these nations meet, and how they affect current politics and economic relationships, specifically related to Bolivia's desire to regain access to the sea. Then, current solutions and development of the problem are analyzed, and a suggested long-term solution is presented that could best address the border disputes.

Territorial controversies in the Atacama Desert region where Peru, Chile and Bolivia meet are not a recent development. Rather, many current disputes arise from arguably unresolved border issues from past wars treaties. In the 1940s, it was discovered that "valuable quantities of nitrate of soda could be extracted from guano and nitrates (saltpeter), both of which were abundant in Peru", for use as a fertilizer and for making gunpowder (Foster, 190). These dual purposes forced demand for nitrates in developed countries, especially those in Europe, to greatly increase. Through this new market, the Atacama Desert area in southern Peru and parts of Bolivia and Chile transformed from an uninhabited desert to a desirable, profitable region. Chileans attempted to take advantage of these profits by mining in the disputed region between Chile and Bolivia, so Bolivia "attempted to raise taxes on exports by Chilean intermediaries of nitrates", breaking a past treaty (Foster, 190). This led Chile to declare war on both Bolivia and Peru, who were secret allies at the time. Through the victories of their superior navy and infantry, Chile was able to "seize Bolivia's Atacama province and Peru's Tarapacá", including "all of the nitrate zones in Bolivia and Peru and most of Peru's coastal guano deposits" (Foster, 191). This loss of resources and land caused Peru to lose one of their main exports and fall into a recession, as well as causing Bolivia to become landlocked. The tensions that arose from the war still exist between the three nations, causing social, political and economic strains on relations and current events in the region.

More recently, residual disputes from the War of the Pacific have manifested themselves



in current economic and political disagreements between these nations. Currently pending as an issue brought to the International Court of Justice (ICJ), Peru claims sovereignty to the “maritime zone lying within 200 nautical miles of Peru’s coast, and thus appertaining to Peru, but which Chile considers to be part of the high seas” (ICJ,1).

Figure 1 Currently, however, it is internationally recognized that “the delimitation of the boundary between the maritime zones of the two States in the Pacific Ocean, beginning at a point on the coast called Concordia” is where the maritime boundary actually lies as based on a treaty between the two nations from 1929 (ICJ, 1). Peru, still bitter about their past war and territory loss with Chile, still refuses to act diplomatically with regards to international politics. The grudge that they hold as a result of the War of the Pacific hinders them from working constructively with their neighbors. The two countries have now turned to the ICJ to mediate the dispute where Peru “has constantly met a refusal from Chile to enter into negotiations” (ICJ, 1). Figure 1 shows the current maritime dispute; the blue line is the current border, and the red line represents the line that Peru claims. This dispute between Chile and Peru has not only proved problematic for these two nations and their maritime claims, but also for the economies and relations between Chile, Peru and Bolivia.

Morales (the Bolivian President) worried that “Peru’s maritime claim with Chile could put in jeopardy his country’s chances of ever getting an outlet to the Pacific Ocean” (Tessieri, 1). The strains between Morales and Alan Garcia (the Peruvian President) lead to name calling where Morales commented on Garcia’s weight, causing Garcia to return by calling Morales “anti-Peruvian” (Tessieri, 1). Bolivia worried that any headway made between the already strained relations with Chile would be lost if Chile had to revoke ocean claimed to be high seas to Peru. Strained relations with Bolivia and Chile have strengthened nationalist beliefs that Peru should not trade liquid natural gas (LNG) with either nation, and has halted any progress towards

a gas pipeline connecting the three nations (Tessieri, 1). This shows Peru's mercantilist policies, because it wants to use Chile and Bolivia's dependence on its participation in LNG trade to influence Chilean decisions, specifically regarding the maritime dispute. Bolivia remains politically dependent on Peru rather than economically dependent. Bolivia claims that "Chile and Peru stand in the way of Bolivian aspirations to become a major supplier of energy to the Pacific Basin"(America's Insider, 1), and simply has shifted its alliances to the nation that offers them the best option regarding their desire to regain access to the sea. Based on the treaty ending the Pacific War, Chile granted "Bolivia access to the Chilean port of Arica via road and railway" (America's Insider, 1). Though this allowed Bolivia to maintain one pipeline to the sea, it gave "Chile a virtual stranglehold over Bolivian trade" (America's Insider, 1) and forced Bolivia to trade with Argentina and Brazil, neither of which have enough demand for the supply of natural gas and materials that Bolivia could provide. Therefore, Bolivia has fought continually for access to the sea and ultimately for land from Chile that could give Bolivia a connected outlet to the ocean. This duty to retake access to the sea is mirrored throughout the propaganda and beliefs of the country, as manifested by a sign at Lake Titicaca stating: "the sea belongs to us by right, to take it back is our duty" (Carroll, 1).

Looking at the economic statistics regarding these claims, Bolivia seems to be telling the

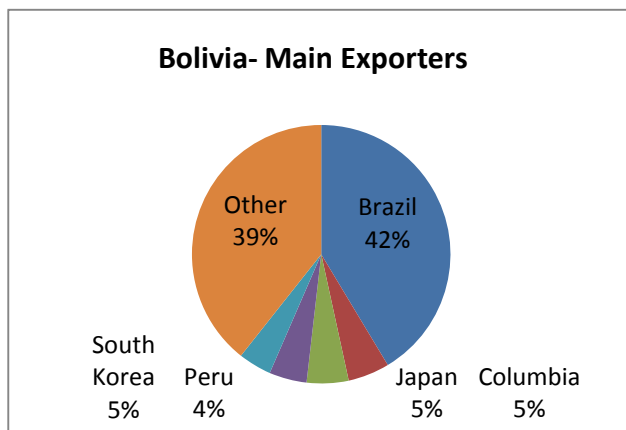


Figure 2

truth about their predicament. From a liberalist perspective, the lack of access to the sea does restrict Bolivian ability to trade, and limits their access to much of the free market. Currently, as shown by Figure 2 (CIA), Bolivia exports primarily to Brazil, taking up almost half of all its exports. The largest export nations for both Chile and Peru,

however, are China and the United States (CIA), both which lie in the Pacific Basin. Bolivia's landlocked status currently forces it to trade with the closest nations, while its neighbors benefit from their ability to trade with a much larger region. Looking from a liberal standpoint, Bolivia advocates a free port to increase trade internationally which, at least for Bolivia, could directly improve the economy and the standard of living in the country. From a mercantilist perspective,

Bolivia seeks access to the Pacific so that it can decrease its dependence of trade on its neighbors (especially Brazil), and expand its trade partners while increasing its exports (which would increase the dependence of other nations on them). These motives contradict Bolivia's perceived status as a strong socialist nation, because its motive clearly proves it to be a country ensuring its security and independence in its region. While Morales and Bolivia appear to be outspoken socialists, their actions show their desire to participate in international trade and to improve Bolivia's status from a view that is anything but socialist.

By 2001, Bolivia had already explored alternate options, however, by establishing a project "to export natural gas liquids and liquefied petroleum gas via a pipeline to the Peruvian port of Ilo" (America's Insider, 2). This possibility carried many of the same implications as the Bolivian pipelines and abilities to export through Chile. It would not represent full sovereignty for Bolivia, and would require "a deal so that the foreign investors in Peru would benefit from an expansion of the project" (American Insider, 2). This situation would also create dependency on Peru since Bolivia would be working exclusively through them. Also, to ensure good relations between the nations and continued support for Bolivian gas pipelines through Peru (and any future export project of Bolivia), Bolivia would need to ensure that "Peruvian natural gas is not crowded out by a flood of Bolivian gas" (American Insider, 2). This precarious position could force relations to deteriorate ever further between Bolivia, Peru and Chile if they choose this route.

One of Bolivia's main focuses about their desired access to the sea is the benefit they would receive through their opened ability to trade oil and natural gas with other nations in the Pacific Basin. The claim that Chile and Peru stand in the way of these aspirations seems to

Resource	Peru	Bolivia	Chile
Oil Proved Reserves (million bbl)	447.4	465	150
Oil Exports (bbl/day)	68,640	10,950	49,250
Production- Consumption (bbl/day)	-9,000	-11,950	-216,150
Natural Gas Proved Reserves (billion cu m)	334.1	750.4	97.97
Natural Gas Exports (cu m)	0	11.79	0
Production- Consumption (billion cu m)	0	11.79	-0.69

Figure 3

be economically true. Currently, Bolivia has the largest amount of both oil reserves and natural gas reserves of all three nations (see Figure 3 (CIA)).

Though they have almost an equal amount of oil reserves as Peru, they excel in their reserves of natural gas, almost holding more than double the reserves of both Peru and Chile combined. Currently, however, Bolivia exports the smallest amount of natural gas and oil of the three nations. Attributed to their restricted trading abilities because of their landlocked status, it seems that a port would boost their oil and natural gas exports, and therefore their economy and overall GDP. As mentioned, though, Bolivia would need to be careful about these exports if they were to receive a large area of land. The possible competition that would arise between Bolivia and Peru, but also to a large extent Chile, could create even worse political situations than the one currently in dispute. Especially if Bolivia did not gain full sovereignty over the land, the legal implications and attempts to restrict and control Bolivian exports could also be a source of dispute in the future.

The inability to trade with the Pacific Basin could prove somewhat advantageous for Bolivia in some respects. In regards to current account balance between the nations, Bolivia seems immune to large fluctuations that Peru and Chile show (see Figure 4 (Index Mundi)). Chile and Peru's current account follow a very similar pattern, mostly because of the similarities

of their economies and trade partners. Their growing economies showed large current account surpluses until 2006, while they both plummeted quickly to negative values in 2008. Though both seem to be returning to equilibrium and current account balances, Bolivia has shown a much more stable current account balance. Its current account has been

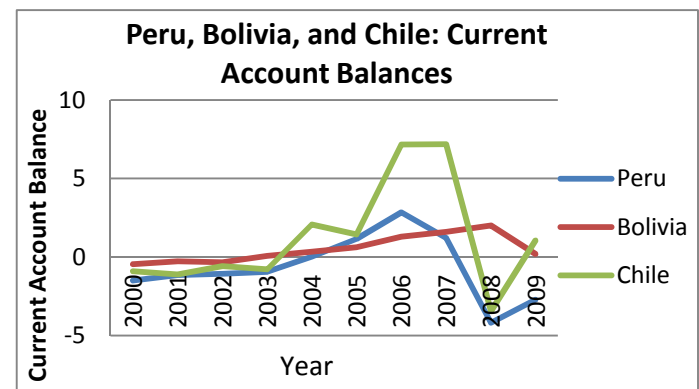


Figure 4

steadily increasing over the past 10 years, and only slightly has started to decrease in 2008.

The decrease is much less drastic than that of Peru and Chile, however, and denotes a steadier economy and balance of payments. These differences most likely arise from the differences in trade. Though other factors influence the current account, imports, exports, and trade partner's most likely influence these statistics most. Chile and Peru, who trade with the same countries in the Pacific Basin, show similar current accounts while Bolivia, who trades mainly with Brazil, seems less affected by the recent financial crisis that probably caused the fluctuations in current accounts for the other two nations. This could be beneficial to Bolivia, because it seems more

immune to the Global Financial Crisis than Chile and Peru. Rather than depending on the U.S. and China as trade partners like many developing nations, Bolivia instead trades with the quickly but steadily growing Brazil. From this data, it seems that all three nations look from a mercantilist perspective. They seem to only desire a positive current account, and are using politics to try to gain independence and control over the other nations. Because previously Peru and Chile have best achieved these goals, Bolivia desires an equal economic opportunity to increase its exports through access to the sea.

The GDP of the nations shows how Bolivia could truly benefit from access to the sea. As shown by Figure 5 (Index Mundi), Peru and Chile show similar trends of increasing, relatively high GDP, while Bolivia, though its GDP is slowly but steadily increasing, does so at a much lower level than its neighbors. A nation

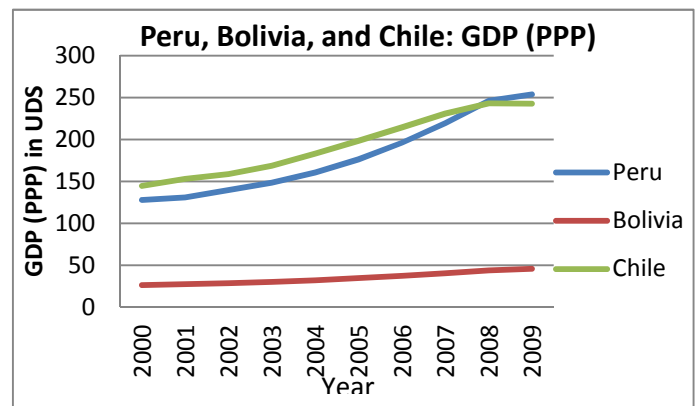


Figure 5

with a port “increases its gross domestic product between 0.5-3 percent”, so through such negotiations with Chile and Peru, Bolivia is truly searching to boost its growth and GDP (Andean, 1). This port would increase trade and production throughout the country as Bolivia could channel many of its exports into the Pacific Basin from the coast. The economic growth that this could bring would aid in elevating the economic standing of Bolivia to one similar to that of its neighbors. Jealous of the recent economic productivity and political stabilization of its neighbors, Bolivia now seeks to follow their example by improving the standard of living to that comparable to Peru and Chile. Though the GDP gap between these nations still remains large, it seems Bolivia hopes to greatly change its standings in South America to prove its economic importance and ability to compete with its neighbors on all levels through a port on the Pacific.

Decisions about such an outlet to the sea through sovereign access and ownership by Bolivia, however, cause interesting political dependencies between the three nations. This trilemma Bolivia finds itself in has restricted such access in the past and threatens future developments of the situation. If Bolivia and Chile were to decide on a comprehensive agreement to cede land to Bolivia for their access to the sea, Chile would have “treaty obligations to seek Peru’s approval if it should propose to cede land near its northern border to

Bolivia” (Taylor,1). Bolivia remains quite frustrated about their inability to change the situation, and seem trapped with their inability to get both of their neighbors to support their maritime claims. Bolivia, even with permission from Chile, needs to avoid “repeating the Peruvian veto that sank the last serious Bolivian-Chilean attempt to resolve the issue in the 1970s” (Taylor, 1). Peru, however, has looked at the possibility for them to use the situation to “negotiate a clear and advantageous definition of Pacific maritime borders” that are disputed with Chile (Taylor, 1). Peru and Chile have used Bolivia’s desperate position to further their political and economic motives, without actually following through with what they say. Though other nations in Central and South America often support Bolivia’s claims to regain access to the sea, there lies “unease at reopening century-old territorial questions arising from the War of the Pacific that also involve Peru, Brazil, Argentina, and Paraguay” (Taylor,1). The prospect of reopening past geopolitical disputes remaining from the War of the Pacific makes many nations hesitant to fully support Peru and Bolivia. This leaves Bolivia in a precarious position attempting to appease both of its neighbors. It must balance the tug of war of political tensions between Chile and Peru in order to truly persuade them to cede Bolivia land to access and establish itself on the ocean.

Most recently, though, Bolivia has accepted Peru’s offer for a “1.4 square mile patch of sand that La Paz will lease from Lima for 99 years” (Carroll, 1). Despite the tensions between these nations, and particularly the two leaders, both have seemed to overcome their past prejudices and taunts to agree on this solution. This temporary peace, however, also served as a “diplomatic poke at Chile” (Carroll, 1), to further the “multifaceted geostrategic struggle” (Bathing, 1) between all three nations. Though Chile stated that they were handling the situation in a responsible way and considering Bolivia’s plight and possibilities for a solution, Chilean resentment regarding the decision led Peru to suggest that certain Chilean leaders take “tranquilizers for their indignation over Peru’s offer to Bolivia” (Bathing, 1). Peru’s gracious offer makes Chile seem cruel and restrictive to Bolivia’s attempts to reconcile past prejudices, and may even gain Peru political support from other South American countries besides Bolivia. Yet despite the continued strains in relations with Chile, reconciliation between “Peru’s conservative, pro-business leader and Bolivia’s outspoken socialist” (Carroll, 1) seem to have greatly improved with the generous act by Peru. Even if the port does not turn out to be everything that Bolivia hoped, it still pressures Chile to take some action on the matter that could

benefit both Bolivia and Peru in their quest to reclaim at least some zones lost in the War of the Pacific.

Though many news articles portray this act as a huge improvement between the relations of Peru and Bolivia and in regards to Bolivia's quest for access to the sea, I don't believe Peru's generous donation to aid its neighbor will solve the situation in the long term. One hindrance could be the inability for Bolivia to physically establish and build a port. As mentioned before, Bolivia had previously been offered land and had left it stagnant until the offer expired. Now, though, I do believe that Morales (with the excitement and hopes of a navy and port) will capitalize on this opportunity. Still, I don't believe this to be enough to solve the long-engrained problems facing the actors. The port of Ilo ceded to Bolivia will expire after 90 years and does not provide a feasible, long term solution for Bolivia. At the end of such a term, Peru could decide to terminate the project, which could cause a political altercation of a much larger scale than the current issue. If Bolivia invests in the port and develops it, which it must to make a functional, beneficial port, then Peru and Bolivia will be left with quite a dilemma of ownership over land and capital on the land when the expiration of the treaty arrives.

From the countries' mercantilist perspectives, if Peru no longer needs Bolivia as an ally to further their objectives with the Chilean government regarding maritime rights, Peru would no longer politically or economically want to host Bolivia on their coast. The issue of competition and restrictions might arise much earlier than the allotted 90 year period if Peru finds itself competing with Bolivia through its exports out of the new port. Bolivia's potential to export large quantities of natural gas and oil reserves hold huge economic wealth and growth for the country. Yet if they act on this possibility, Peru might find itself competing in the same market. In this scenario, I believe that Peru would try to greatly restrict the amount of exports Bolivia could channel through the Pacific coast, or even take back the land ceded to Bolivia. For example, both nations contain large reserves of oil, and Peru might want to cap the amount of oil passing through the port to eliminate the added Bolivian competition. For any of these possibilities, the security threats and political and economic conflicts that could arise would cause problems of a much larger magnitude than the issue of Bolivia not having access to the sea. Though at any point Bolivia would have the small port already owned by Chile to fall back on, this would be a costly and politically dangerous situation that could destabilize relations in the whole southwestern region of South America. With such a dramatic shift in trade abilities

and access, the border disputes could easily expand as South American nations choose which side they supported morally or economically. Nations across the Pacific basin with stakes in the new Bolivian market would not want to lose such an important natural resource partner, and these relationships might cause global disputes over what actions should be taken.

Bolivia already has some access on the Chilean coast to use as a port, and I don't believe this new treaty will please Bolivia any more than the option they already have. Though initially it may seem like a prosperous option, Bolivia will soon return to the mindset that, for both the goals of mercantilist independence and liberal economic growth, it should have land area that connects mainland Bolivia to the Pacific Ocean. Bolivian persistence on the matter throughout history has shown their staunch demands for through access to the coast that does not leave the nation dependent on the country surrounding their island port. Bolivia is using their current situation as a gateway to the negotiations they hope to instigate. It could not reject Peru's offer because it needed to protect the vast improvements in relations between Morales and Garcia, but will not settle with such a solution that leaves them dependent on the nation that holds the port as a viable long term solution.

The short term regional political economic goals of Peru and Bolivia to force Chile into action may not have the effect they fully desired. Chile, though it may strongly consider options for a long term solution for Bolivia, will not jump on the prospect of donating land to them to increase its political status with the situation. I believe this somewhat spiteful act towards Chile may even anger Chilean officials and cause them to cease negotiations on the matter, possibly leading to more typical name calling in the South American political field. The initial bliss and excitement over this new port in Ilo will soon subside, and Bolivia will be forced to return to negotiations between Chile and Peru to gain sovereignty over a strip of land bridging their landlocked country to the Pacific Ocean.

I believe the best solution for this problem would be a compromise in which Chile granted both access to the sea for Bolivia and maritime rights to Peru. Though (as has been shown throughout history) they will not willingly cede these rights, there could be negotiations to arrange such a compromise. Chile holds the least amount of natural oil and gas reserves, and with the current global oil crisis Chile could benefit greatly from negotiations and even open trade with its neighbors for these resources. Currently, disputes over land and sea restrict projects to increase trade and production of oil. If all three countries could come to an agreement

that would allow for infrastructure like that of the proposed natural gas pipeline, all of these countries could benefit. As discussed above, I don't believe that the current solution of a Bolivian port in Peru will solve the residual land disputes. Rather, all three nations will need to come to an agreement rather than simply bilateral, often spiteful agreements against the third nation.

For this to happen, Chile will have to open up to the prospect of losing a small portion of their sparsely inhabited northern lands to Bolivia and rights to maritime claims of international waters to Peru. Though currently the government seems opposed to any discussions on the matter, Peru and Bolivia could be able to persuade Chile to negotiate if they offered natural resources in return. This would even allow for the countries collectively establishing pipelines between the nations for trade, which would promote cooperation and reduce the tensions in relations. For all nations, from their mercantilist standpoints, it would increase independence and security: Peru would gain more maritime rights, Bolivia would be able to establish a port and trade without becoming dependent on Peru or Chile, and Chile would be able to gain valuable natural resources and reduce its dependency on foreign oil with valuable, long term trade infrastructure with its neighbors. From a liberalist standpoint, these actions would increase trade in the region and across the Pacific Basin, and would increase the GDP of all the nations and the standards of living for their citizens.

Peru and Bolivia cling to their staunch belief that Chile unrightfully holds claims to land and ocean that truly belong to them. Their inability to forget past disputes over the land Chile gained in the War of the Pacific causes them to fight in any way they can to regain those claims. I don't believe that the current situation of Bolivia controlling ports in Chile and Peru will solve any of the issues, but is simply a diplomatic tool to try to influence other decision makers to act in their benefit. To truly solve all of the issues surrounding the region, Chile will have to give up some of its claims in its sparsely inhabited northern region to appease the desires of its neighbors. Chile, however, could use these negotiations as an opportunity to diplomatically ensure energy supply from these regions as compensation for their losses in a way that could greatly benefit their consumption needs for the present and the future. In such a way, long standing diplomatic and cultural conflicts from the War of the Pacific could be resolved as Chile decreases its dependence on oil from other regions of the world and ensures a safe supply for its future.

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