

# CRS Report for Congress

## **Bolivia: Political and Economic Developments and Relations with the United States**

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# Bolivia: Political and Economic Developments and Relations with the United States

## Summary

Bolivia has experienced a period of political volatility with the country having six presidents since 2001. Evo Morales, an indigenous leader and head of Bolivia's coca growers' union, and his party, the leftist Movement Toward Socialism (MAS), won a convincing victory in the December 18, 2005, presidential election with 54% of the votes. Early in his term, President Morales moved to fulfill his campaign promises to decriminalize coca cultivation, nationalize the country's natural gas industry, and enact land reform. Those policies pleased his supporters, but complicated Bolivia's relations with foreign investors and the United States.

Since President Morales took office, Bolivians have become increasingly divided over the issues of constitutional reform and regional autonomy. A constitutional reform process began in mid-2006 and concluded in late 2007 when the Constituent Assembly (CA) passed a draft constitution without the presence of opposition delegates. Efforts by the Catholic Church, the Organization of American States (OAS), and neighboring governments have failed to ease tensions over the reform process between the MAS government in La Paz and the opposition. Whereas plans for a national referendum on constitutional reforms have stalled, four departmental referendums on autonomy have been held, despite the lack of congressional approval for them to be convened. A national recall referendum is scheduled for August 10, 2008 on whether President Morales, the vice president, and the prefects (departmental governors) should remain in office.

U.S. interest in Bolivia has primarily centered on its role as a major coca-producing country. U.S.-Bolivian relations have been strained by the Morales government's unorthodox drug policy; ties with Venezuela and Iran; and its nationalization measures. Bolivian officials have worked closely with the United States on drug interdiction efforts, but U.S. officials have asserted that excess coca cultivation remains a problem in Bolivia. In 2007, tensions flared when Bolivian authorities complained that some U.S. assistance was going to support opposition groups trying to undermine the MAS government. The U.S. Ambassador to Bolivia was called back to Washington for consultations on security issues in mid-June 2008 after protesters surrounded the U.S. Embassy in La Paz demanding the extradition of former president Gonzalo Sánchez de Lozada and his ex-defense minister. The two have been charged in Bolivia with responsibility for civilian deaths that occurred during protests in September and October 2003.

Bolivia received \$122.1 million in U.S. assistance in FY2007, including \$66 million in counternarcotics assistance. In FY2008, Bolivia received an estimated \$99.5 million, including roughly \$47.1 million in counternarcotics assistance. The FY2009 request for Bolivia is for \$100.4 million, not including P.L. 480 Title II food aid. In February 2008, Congress voted to extend trade preferences for Bolivia, along with Colombia, Ecuador, and Peru, under the Andean Trade Preferences and Drug Eradication Act (ATPDEA) through the end of December 2008. The 110<sup>th</sup> Congress is likely to consider what level of foreign assistance Bolivia should receive in FY2009, and whether its existing trade preferences should be extended.

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# Bolivia: Political and Economic Developments and Relations with the United States

## Introduction

In December 2005, Evo Morales, an indigenous leader and head of Bolivia's coca growers' union, and his party, the leftist Movement Toward Socialism (MAS), won a convincing victory in Bolivia's presidential and legislative elections. Morales captured the presidency with just under 54% of the vote, marking the first time since Bolivia's return to democracy in 1982 that a candidate won an absolute majority in the first round of a presidential election. The MAS won a majority in the lower chamber of the Bolivian Congress, 12 of 27 seats in the Senate, and three of the country's nine governorships (prefectures), with stronger electoral support than any of the country's traditional political parties. On January 22, 2006, Evo Morales became Bolivia's first indigenous president in the country's 180-year history.

Midway through his five-year term, President Morales continues to have relatively strong approval ratings, but his efforts to enact constitutional reform have been put on hold due to vigorous opposition from leaders of the country's wealthy eastern provinces. Many Bolivians hoped that the Constituent Assembly elected in July of 2006 would be able to reconcile the competing visions for the country put forth by the MAS and by the opposition through dialogue and negotiation. Those hopes faded during the fractious Constituent Assembly process. The Assembly passed a draft constitution on December 9, 2007, but many opposition delegates did not attend the final sessions during which it was approved and have denounced it as unlawful. The draft constitution provides for indigenous rights, communal justice, land redistribution, presidential reelection, and increased federal government control over the country's oil and gas resources.

Whereas plans for a national referendum on constitutional reforms have stalled, departmental referendums on autonomy have been held in four provinces, despite the lack of congressional approval for them to be held. On December 14, 2007, prefects (departmental governors) from the four eastern departments that had voted in favor of greater regional autonomy in the July 2006 referendum issued "autonomy statutes" declaring some independence from the central government. Those statutes, which some national leaders (even from the opposition) have dismissed as unconstitutional, received strong popular support from those who voted in departmental referendums held in four eastern departments during May and June 2008. The Morales government has used the high abstention rates in those recent referendums to minimize the importance of the voting results.<sup>1</sup>

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<sup>1</sup> "Bolivian Assembly Approves New Constitution; Prefects Declare Autonomy," *Andean* (continued...)

President Morales and the opposition have separately agreed to hold a recall referendum on whether Morales, the vice president, and the prefects (departmental governors) should remain in office. The recall referendum is scheduled to take place on August 10, 2008. Most observers doubt that either the results of the departmental autonomy referendums or the recall referendum will settle the ongoing disputes between the Morales government and the departmental prefects.<sup>2</sup>

U.S. interest in Bolivia has primarily centered on its role as a major coca-producing country. Bolivian officials have worked closely with the United States on drug interdiction efforts, but U.S. officials have asserted that excess coca cultivation remains a problem in Bolivia. In 2007, tensions flared when Bolivian authorities (including President Morales) complained that some U.S. assistance was going to support opposition groups trying to undermine the MAS government. The U.S. Ambassador to Bolivia was called back to Washington for consultations on security issues in mid-June 2008 after protesters surrounded the U.S. Embassy in La Paz. During its second session, the 110<sup>th</sup> Congress is likely to monitor conditions in Bolivia and to conduct oversight on counternarcotics, trade, and human rights issues.

## Background

Bolivia is a country rich in cultural diversity and natural resources, whose political and economic development have been stymied by chronic instability, extreme poverty, pervasive corruption, and deep ethnic and regional cleavages.<sup>3</sup> In 1825, Bolivia won its independence from Spain, but then experienced frequent military coups and counter-coups until democratic civilian rule was established in 1982. As a result of the War of the Pacific (1879-1883) with Chile, Bolivia lost part of its territory along the Pacific coast and has no sovereign access to the ocean, a source of lingering resentment among Bolivians. Bolivia does have preferential rights of access to the Chilean ports of Antofagasta and Arica and the Peruvian port of Ilo. As a result of the Chaco War with Paraguay (1932-1935), Bolivia lost access to the Atlantic Ocean by way of the Paraguay river and significant territory. Bolivia is rich in natural resources, with the second-largest natural gas reserves in Latin America after Venezuela and significant mineral deposits, yet 64% of Bolivians live in poverty and 35% earn less than \$2 a day.<sup>4</sup>

Bolivia's population of 9.1 million people is among the most ethnically diverse in South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 30% of the

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<sup>1</sup> (...continued)

*Group*, January 2008; "Country Report: Bolivia," *Economist Intelligence Unit*, June 2008.

<sup>2</sup> "Bolivia: Restoring the New Constitution and Democratic Stability," International Crisis Group (ICG), June 19, 2008.

<sup>3</sup> For historical information on Bolivia, see Herbert S. Klein, *A Concise History of Bolivia*, New York: Cambridge University Press, 2003.

<sup>4</sup> U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America*, 2007.

Bolivian population are Quechuan, 25% are Aymaran, 30% are mestizo (mixed), while 15% are of European origin.<sup>5</sup>

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 policies to eradicate illicit production, according to the U.S. 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, the Movement Toward Socialism (MAS).

## Role of Indigenous Groups

Despite the National Revolution of 1952, in which the Bolivian indigenous benefitted from land reform and expanded suffrage, indigenous groups have historically been under-represented in the Bolivian political system and disproportionately affected by poverty and inequality. In 2002, some 74% of indigenous Bolivians lived in poverty as compared to 53% of the general population.<sup>6</sup>

In the 1980s, indigenous-based political parties and movements emerged in Bolivia, and by 2006 some 17% of members of the Bolivian Congress were self-identified as indigenous.<sup>7</sup> In recent years, indigenous representatives have used the legislature 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. Although indigenous representation has increased, some argue that the inefficacy of the Bolivian Congress has impeded the success of such legislative initiatives. Others assert that indigenous groups may gain more strength in the Bolivian political system if there continues to be an alliance between leftist and indigenous struggles, as has occurred since 2000. The Constituent Assembly was presided over by an indigenous woman and the draft constitution it produced recognizes indigenous autonomy and the incorporation of indigenous communal justice into the judicial system.<sup>8</sup>

The issue of land tenure has been a long-standing source of conflict. An Agrarian Reform Law passed in 1996 allows indigenous communities to have legal title to their communal lands. However, these communities argue that their lands

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<sup>5</sup> U.S. Department of State, "Background Note: Bolivia," last updated in May 2008.

<sup>6</sup> Gillette Hall and Harry Anthony Patrinos, "Indigenous Peoples, Poverty, and Human Development in Latin America: 1994-2004," World Bank, 2004.

<sup>7</sup> *Country Reports on Human Rights Practices 2006*, U.S. Department of State, March 2007.

<sup>8</sup> Robert R. Barr, "Bolivia: Another Uncompleted Revolution," *Latin American Politics and Society*, Fall 2005; Jeffrey R. Webber, "Left-Indigenous Struggles in Bolivia," *Monthly Review*, September 2005; Hilary Burke, "Bolivia Split Over New Multicultural Constitution," *Reuters*, January 29, 2008; Monte Reel, "Bolivia's Burning Questions: Who May Dispense Justice?" *Washington Post*, February 2, 2008.

have not been legally defined or protected, and that outsiders have been allowed to exploit their resources. 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 Yungas region, 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 forcibly has met with violent protests in recent years. The Morales government has sought to help resolve these issues by promoting land reform and decriminalizing coca cultivation.

## Political Situation

### Political Instability: 2003-2005

Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, just 15 months after he was elected. The 2003 protests were led by indigenous groups and workers concerned about the continuing economic marginalization of the poorer segments of society. The protesters carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. These events occurred against a backdrop of opposition to U.S.-funded coca eradication programs and to the government's implementation of austere fiscal reforms backed by the International Monetary Fund (IMF).<sup>9</sup> The final spark that preceded Sánchez de Lozada's resignation was his plan to export natural gas via a port in Chile, a historic adversary of Bolivia.

Human rights organizations and the Morales government believe that former president Sánchez de Lozada, who currently resides in the United States, should be held legally responsible for the civilian deaths that occurred in Bolivia in September and October 2003. In September 2007, the Bolivian Supreme Court issued a new extradition decree for the former president. A separate civil lawsuit was filed in the U.S. court system in September 2007 by human rights lawyers seeking compensatory damages for ten families of those killed in the 2003 protests.

Succeeding Sánchez de Lozada as president was his former vice president, Carlos Mesa, a popular former television journalist and political independent. Mesa appointed a new cabinet, also largely of independents, and demonstrated a sensitivity to indigenous issues. He 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. Mesa also shepherded reform legislation through Congress that allowed more popular participation in elections. Further, he announced plans for a constituent assembly to consider a new constitution.

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<sup>9</sup> Jeffrey Sachs, "Call It Our Bolivian Policy of Not-So-Benign Neglect," *The Washington Post*, October 26, 2003; Emad Mekay, "Politics: Activists Trace Roots of Bolivian Turmoil to IMF," *Inter Press Service*, October 20, 2003.

Despite these measures, President Mesa, like his predecessor, proved unable to resolve continuing discord over issues related to the exploitation of Bolivia's natural resources, coca eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. In June 2005, Mesa resigned in favor of Eduardo Rodriguez, head of the Supreme Court, in response to continuing street protests that at times paralyzed the country. Some analysts argue that this chronic instability was caused not by the failure of one leader or political party, but by the inability of Bolivia's weak institutions to respond to the demands of the country's increasingly mobilized population.<sup>10</sup> Upon taking office in June 2005, President Rodriguez promised to convoke early presidential and legislative elections, which were then not scheduled to occur until June 2007.

### Morales Biography

Evo Morales was born on October 26, 1959, in Oruro, Bolivia. Morales, like most coca growers, is descended from the Quechua and Aymara Indians drafted by the Spanish to work in Bolivia's silver and tin mines and then driven to the Chapare jungle when the prices of those commodities collapsed in the 1970s. After high school, Morales served briefly in the Bolivian military and then became a coca farmer. He rose to prominence as a leader of the powerful Bolivian coca grower's union. In 1997, Morales was first elected to the Bolivian Congress as an MAS representative. In 2002, Morales and the MAS finished a close second in the presidential balloting, having broadened their support base from coca growers and the indigenous.

**Source:** "Evo Morales," *Latin News*, September 2005.

## December 2005 Elections

On December 18, 2005, a record 85% of the Bolivian electorate voted in elections that were deemed to be free and fair. Evo Morales won a convincing victory in the presidential election with 54% of the votes cast as compared to 29% for former president Jorge Quiroga, representing the Social and Democratic Power Party (PODEMOS), a new center-right political party, and 8% for Samuel Doria Medina, a cement magnate standing for the center-right National Unity Front (UN).

In the legislative elections, the MAS became the first party since Bolivia's return to democracy in 1982 to win both the presidency and a majority in the lower chamber of the Congress. The MAS has 72 seats in the 130-seat chamber. In the Senate, MAS now has 12 of the 27 seats, while Quiroga's PODEMOS has 13 and the UN and the MNR have one each.

While some analysts forecasted a Morales victory, few predicted that he would win by such a decisive margin. That margin proved that Morales had broadened his support beyond rural, indigenous, union, and lower-middle class voters. Some factors that likely contributed to his victory included the perception that most Bolivians had not benefitted from pro-market economic reforms adopted by previous

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<sup>10</sup> Michael Shifter, "Breakdown in the Andes," *Foreign Affairs*, September/October 2004.



governments, the corruption of the traditional parties, and the tough, nationalistic stances he had taken against foreign investors and U.S. counternarcotics programs.<sup>11</sup>

The December elections were also significant because they included the first direct election of governors (prefects) in Bolivia. Department governors have traditionally been appointed by the executive and have not been held directly accountable to citizen's demands. Although MAS dominated the presidential and legislative elections, candidates from traditional or the new center-right parties won most of the gubernatorial races. Ongoing conflicts have since occurred between the Morales government in La Paz and departmental governments regarding the distribution of resources and political power in the country.

## Morales Administration

Midway through his five-year presidential term, Evo Morales and the MAS, a leftist party with origins in Bolivia's social movements, have already had a profound effect on Bolivia's political system. Supporters maintain that, despite entrenched opposition to many of his policies, the Morales government has implemented some significant social and economic reforms, such as nationalizing the country's gas industry and enacting land reform. Critics argue that the Morales government has used anti-democratic methods, such as encouraging the Constituent Assembly to approve a draft constitution despite a boycott by opposition delegates, to try and impose his will on the country.<sup>12</sup>

Despite these differing interpretations, most analysts agree that the Morales government has benefitted from high energy prices and that, despite ongoing cycles of civil unrest, President Morales continues to enjoy strong personal approval ratings. His governments' position has been reinforced vis-a-vis the opposition prefects by the support he has received from fellow Latin American leaders and by the Organization of American States (OAS).<sup>13</sup>

## Constituent Assembly

Since 1990, there have been repeated calls from Bolivian civil society — particularly the indigenous majority — for a new constitution to increase the recognition and participation of the indigenous and other traditionally excluded groups in the political and cultural life of the country. The convocation of a constituent assembly to reform the Bolivian constitution has been a key demand of social protests since 2000.<sup>14</sup> A constituent assembly was originally planned for 2004,

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<sup>11</sup> Kent H. Eaton, "Bolivia at the Crossroads: Interpreting the December 2005 Elections," *Strategic Insights*, Vol. 5, Issue 2, February 2006.

<sup>12</sup> "Bolivian President Faces Challenge in 2<sup>nd</sup> Half of Term," *Xinhua News Agency*, January 23, 2008; "2 Years After Morales' Win, Bolivia's Divisions Deepen," *South Florida Sun-Sentinel*, January 6, 2008.

<sup>13</sup> "Insulza Backs Morales," *Latinnews Daily*, January 25, 2008.

<sup>14</sup> Kathryn Ledebur and Evan Cuthbert, "Bolivia's Constituent Assembly: Essential for a (continued...)"

but disagreements with the Congress on the subjects to be considered and other logistical considerations postponed it until mid-2006. In March 2006, President Morales secured passage of legislation establishing elections for a constituent assembly. Elections for constituent assembly delegates were held on July 2, 2006. The MAS captured 50.7% of the popular vote and 137 of 255 seats in the constituent assembly but lacked the two-thirds majority necessary to pass constitutional reforms. Any constitutional reforms approved by two-thirds of the delegates present were then to be voted on by Bolivians in a national referendum. On August 6, the constituent assembly was installed in Sucre, the colonial capital of Bolivia.

President Morales and his supporters urged the assembly to draft a constitution that would redefine Bolivia as a “multinational state made up of indigenous groups”<sup>15</sup> and incorporate indigenous institutions within the national structure. They also favored measures in support of agrarian reform and state ownership of the country’s natural resources. Many opposition delegates, particularly those from Bolivia’s wealthy eastern provinces, maintained that the MAS proposals could result in a “radically ethnic” governing model that is not representative of the entire country.<sup>16</sup> They expressed concern that President Morales was trying to use his executive power to dominate the assembly, as occurred in Venezuela under President Hugo Chávez. Opposition delegates in the assembly pushed for increased regional autonomy from the central government.

Throughout the assembly process, neither side appeared willing to compromise its positions in order to move negotiations forward.<sup>17</sup> For the first eight months of its deliberations, the assembly was bogged down in a protracted debate over voting procedures. Opposition delegates repeatedly rejected MAS proposals to allow individual articles to be approved by a simple majority as long as the final draft document was approved by two third of the delegates. In response, they launched large-scale demonstrations, hunger strikes, and work stoppages in protest. As a result, most of the constitutional commissions did not begin to consider reform proposals until the spring of 2007. In August, the Bolivian Congress reached a last minute agreement to extend the assembly deliberations until December 14, 2007.

By the fall, both sides’ positions were becoming deeply entrenched and increasingly divergent. In October, the MAS government introduced a decree, which was approved by the Congress in November, to divert a significant portion of the direct hydrocarbons tax (IDH) revenue that had gone to the departments to pay for a national pension payment for seniors. This provoked heated resistance from the opposition prefects and assembly delegates. At the same time, opposition delegates supported Sucre residents’ proposal to move the capital from Laz Paz to Sucre, a seemingly inviolable proposal opposed by most of the MAS delegation. Recurring

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

Peaceful Transition and National Unity,” *Andean Information Network*, January 2007.

<sup>15</sup> Monte Reel, “A Road Paved With Hope,” *Washington Post*, August 6, 2006.

<sup>16</sup> “Bolivia’s Reforms: The Danger of New Conflicts,” International Crisis Group (ICG), January 8, 2007.

<sup>17</sup> “Bolivia’s New Constitution: Avoiding Violent Confrontation,” ICG, August 31, 2007.

protests in Sucre, which turned violent, kept the CA suspended for most the fall. Violent clashes between police and opposition protesters in Sucre in November 2007 resulted in three deaths and dozens of injuries.

The CA passed a draft constitution on December 9, 2007, but many opposition delegates did not attend the final sessions during which it was approved and have denounced it as unlawful. Seven of Bolivia's nine departmental prefects have rejected its proposals. The draft constitution provides for indigenous rights, communal justice, land redistribution, presidential reelection, and increased federal government control over the country's oil and gas resources. It does not resolve the issue of what size of private land should be considered excessive and therefore vulnerable to government expropriation. Plans to convoke a national referendum on whether or not to adopt the draft constitution have been put on hold.

## **Regional Autonomy**

In recent years, civic committees and citizens from the resource-rich areas around Santa Cruz have been pushing for increased regional autonomy, with implications for how central government resources are distributed. This movement is largely supported by Bolivia's four wealthy eastern regions. Nine governors or prefects were elected on December 18, 2005; however, their powers have yet to be well-defined. Several of the prefects are pushing for autonomy over budgetary and even military powers. This push for regional autonomy and devolution has caused friction between political and business leaders from the eastern regions and the Morales government in La Paz.

On July 2, 2006, concurrent with the constituent assembly elections, Bolivia held a referendum on whether to grant increased powers and autonomy to the regional (departmental) governments. According to the law convoking both the Constituent Assembly election and the referendum on regional autonomy, the Assembly delegates would be legally bound to grant increased powers (which are still to be defined) to prefects in the departments where a majority of supporters approve the autonomy measure. The election results revealed the deep socioeconomic and geographic divisions within Bolivia. The country was split as the four wealthy eastern provinces voted strongly in support of increased autonomy, while the other five provinces opposed the measure.

Notwithstanding the results of the autonomy referendum, the Morales government, including the MAS delegates in the Constituent Assembly, has resisted devolving power or resources to prefects in the four departments that voted in favor of the autonomy measure. President Morales has asserted that no gas-producing departments will receive a higher percentage of revenue at the expense of the national government. In November 2006, he proposed legislation that would allow the Bolivian legislature to impeach elected prefects. These moves prompted six of the country's nine prefects to break ties with the MAS government in November 2006 and to launch massive protests in December 2006.

Conflicts between the eastern prefects and the MAS government in La Paz continued throughout 2007. In mid-January 2007, after the opposition prefect from Cochabamba hinted that he would seek greater regional autonomy, MAS

sympathizers launched protests demanding his resignation. Those protests led to violent clashes that left 2 people dead and more than 100 injured.<sup>18</sup> In July, the four eastern prefects commemorated the anniversary of the autonomy referendum by announcing draft autonomy statutes. In late November, the prefects were deeply angered when the Morales government was able to push its proposal to redirect the IDH hydrocarbons revenues from their departmental budgets to pensions for seniors through the Bolivian Congress. They also vehemently opposed the draft constitution passed by the Assembly in early December.

In response to the draft constitution, four prefects issued autonomy statutes on December 14, 2007. The statutes, though varying by department, generally seek greater departmental control over taxes, land, security, and natural resources than is currently allowed under the current or proposed Bolivian constitutions.<sup>19</sup> Whereas plans for a national referendum on constitutional reforms have stalled, departmental referendums on autonomy have been held in four provinces, despite the lack of congressional approval for them to be convened. The statutes received strong popular support from those who voted in each of the referendums held in May and June 2008. The Morales government has used the high abstention rates in those recent referendums to minimize their results.<sup>20</sup>

## Economic Situation

Bolivia pursued state-led economic policies during the 1970s and early 1980s. In the mid-1980s, however, external shocks, the collapse of tin prices, and higher interest rates combined with hyperinflation forced Bolivian governments to adopt austerity measures. Bolivia was one of the first countries in Latin America to implement an IMF structural adjustment program. In the 1990s, many state-owned corporations were privatized. Gross domestic product growth from 1990 to 2000 averaged 3.5%, but the economy remained highly dependent on foreign aid and had an extremely high debt/GDP ratio. Sluggish economic growth in 2001 and 2002 (1.2% and 2.5%, respectively) fueled resentment that the benefits of globalization and free market economic policies were not reaching most of the population.

Bolivia posted faster growth rates of roughly 4% in both 2004 and 2005. Strong international demand for Bolivian mining products and gas, as well as high tax revenues from the natural gas sector, fueled growth of about 4% in 2006. Bolivia's GDP grew by close to 4% again in 2007, despite significant flooding that damaged much of the country's agricultural production. Economic growth was driven by strong performance in the construction, financial services, manufacturing, and

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<sup>18</sup> Monte Reel, "Bolivia's Political Fissures Force Morales to Shift Course," *Washington Post*, January 22, 2007.

<sup>19</sup> "Bolivian Departments Aim to Control Taxes, Land, Natural Resources," *BBC Monitoring Americas*, December 15, 2007.

<sup>20</sup> "Bolivian Assembly Approves New Constitution; Prefects Declare Autonomy," *Andean Group*, January 2008; "Country Report: Bolivia," *Economist Intelligence Unit*, June 2008.

hydrocarbons sectors.<sup>21</sup> Despite that growth, some 63% of Bolivians live in poverty with 34.3% earning less than \$2 a day.<sup>22</sup> Future growth will likely be constrained by declining foreign investment and the country's high debt burden, among other things.

President Morales opposes free market economic policies and supports more state involvement in economic policy-making and greater government spending on infrastructure, health, and education. In June 2006, the MAS unveiled a five-year national development plan (2006-2010) calling for \$6.9 billion in government investment complemented by \$6 billion of private investment, particularly in the housing, infrastructure, and small business sectors. The plan aims to increase GDP growth to 7.6% by 2010, create 90,000 jobs annually and reduce the percentage of the population living in poverty to below 50%. Critics of the plan argue that it lacks a clear financing plan and is overly ambitious.<sup>23</sup>

The Morales government also continues to negotiate for further debt relief from the major international donors. On July 1, 2006, the World Bank announced that Bolivia would receive a total of \$1.8 billion in total debt relief under the Multilateral Debt Relief Initiative. In March 2007, the Inter-American Development Bank (IDB) agreed to cancel Bolivia's \$1 billion debt, along with the outstanding debt owed by Guyana, Honduras, Nicaragua, and Haiti.<sup>24</sup>

Investors are concerned about the ad-hoc nature of the Morales government's economic policy. They are also worried about Morales' stated goal of increasing state control over mining, energy, transport, and telecommunications.<sup>25</sup> Inflation, which reached 11.7% in 2007, has become a major challenge for the government to address. The most controversial components of the Morales government's economic and social development plans have been its efforts to nationalize the natural gas sector, to industrialize the coca leaf for licit uses while using cooperative means to eradicate excess crops, and to enact large-scale land reform.

## **Gas Exports and Nationalization**

Bolivia has the second-largest gas reserves in South America after Venezuela, with proven natural gas reserves estimated to be as high as 55 trillion cubic feet. Some 50% of the gas used in Brazil, and 75% of the gas used in the industrial state of São Paulo, flows from Bolivia. Bolivia is land-locked and must go through neighboring countries in order to export its natural gas. In addition, Bolivia lacks the technological and financial capacity to develop its natural gas resources without significant foreign investment.

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<sup>21</sup> "Country Report: Bolivia," *Economist Intelligence Unit*, February 2008.

<sup>22</sup> U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America*, 2007.

<sup>23</sup> "Bolivia: Going Pretty Well," *Latin American Economy and Business*, June 2006.

<sup>24</sup> "IDB Forgives Debt of 5 Nations," *Caribbean Update*, May 1, 2007.

<sup>25</sup> "Country Report: Bolivia," *Economist Intelligence Unit*, June 2008.

Despite these limitations, most Bolivians believe that their government needs to assert greater control over its natural resources in order to ensure that the revenues they produce are used to benefit the country as a whole.<sup>26</sup> In a June 2004 referendum, more than 92% of Bolivians support an increased state role in gas exploration and production, while stopping short of nationalization. As a result of the referendum, then-president Carlos Mesa sent legislation to the Congress to replace the 1996 Hydrocarbons Law, which had opened Bolivia's hydrocarbons sector to private investment. The state-owned energy company Yacimientos Petroliferos e Fiscales Bolivianos (YPFB) would resume a more active role in oil and gas operations. The proposed legislation raised taxes on oil and gas production and reestablished state ownership of oil and gas "at the wellhead." Existing contracts with oil companies, most foreign-owned, needed to be renegotiated.

In May 2005, the Bolivian Congress enacted its own version of hydrocarbons 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 oil companies vehemently criticized the law, but most elected to comply with its terms, at least in the short-term. As a result of the tax hikes, some companies initiated legal action over having their existing contracts rewritten and investment reduced, and predicted that new investments would not be feasible in Bolivia.<sup>27</sup>

On May 1, 2006, President Morales fulfilled his campaign pledge to nationalize the country's natural gas industry. As a result of the May 2006 nationalization measure, the Bolivian government's income from gas and oil rose to an estimated \$1.57 billion in 2007 (compared to \$173 million in 2002). The nationalization measure significantly raised energy costs for neighboring Argentina and Brazil and raised tax and royalty rates to a level that some investors perceived to be unprofitable. As a result, Brazil's Petrobras and Spain's Repsol-YPF — the largest foreign investors in Bolivia's energy sector — halted new investments in the country through the end of 2007. Owing to a lack of investment in production in recent years, Bolivia is currently unable to fulfill its domestic needs for natural gas and meet the contract demands of Brazil and Argentina. State oil companies from a number of countries (including Petrobras and Repsol) have pledged to make \$1.5 billion in investments in Bolivia in 2008, which should enable it to boost production by 2009. Critics of the nationalization measure assert that, even with new investments, YPFB has neither the technological nor financial capacity to develop and export Bolivia's gas resources.<sup>28</sup>

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<sup>26</sup> The idea that governments should exert more control over their natural resources has recently taken hold in Bolivia, Ecuador, and Venezuela. For more information on "resource nationalism" in Latin America, see "Oil Nationalization Has Many Forms in Latin America," *Petroleum Intelligence Weekly*, June 12, 2006.

<sup>27</sup> "Morales Threat Hangs Over Bolivian Gas Talks," *Financial Times*, November 17, 2005.

<sup>28</sup> Tina Hodges, "Bolivia's Gas Nationalization: Opportunity and Challenges," *Andean Information Network*, January 15, 2008; "Bolivia Reduces Gas Supplies to Neighbors," *Latin American Weekly Report*, January 10, 2008. Eduardo Garcia, "Analysis- Bolivia Races Against Time to Boost Natural Gas Output," *Reuters*, September 21, 2007.

## Coca Cultivation

The coca leaf has been used for thousands of years by indigenous communities throughout the Andean region for spiritual and medical purposes, and its use is considered an important indigenous cultural right. The coca leaf is also a primary component of cocaine, an illicit narcotic. Since the 1960s, coca leaf and coca paste produced in Bolivia have been shipped to Colombia to be processed into cocaine. At the height of its production, the Chapare region of Bolivia — a jungle region stretching from the eastern Andes mountains to the Amazon — produced enough coca leaf to make some \$25 billion worth of cocaine per year.<sup>29</sup>

Since the 1980s, successive Bolivian governments, with financial and technical assistance from the United States, have tried various strategies to combat illicit coca production. In 1988, Bolivia passed legislation criminalizing coca growing outside 30,000 acres (12,000 hectares) in the Yungas region that was set aside to meet the country's traditional demand for coca. During the 1990s, the Bolivian government tried to implement that drug control law by paying coca growers to eradicate their crops. After this policy produced only modest results, the Banzer-Quiroga administration (1997-2002), implemented a forced eradication program focusing on the Chapare region.<sup>30</sup> Although the program dramatically reduced coca cultivation in Bolivia, human rights abuses were committed by security forces during its implementation.<sup>31</sup> In addition, the government failed to implement viable alternative development programs to benefit coca growers and their families. Forced eradication caused economic hardship and fueled social discontent in the Chapare region. Frequent clashes between coca growers and security forces, which occasionally turned violent, de-stabilized the region and the country as a whole.

This ongoing conflict continued until October 3, 2004, when Chapare growers, led by Evo Morales and others, signed a one-year agreement with the Mesa government, which permitted limited coca production in the region and replaced forced eradication with a more cooperative, voluntary approach. Under the agreement, each family is allowed to produce one *cato* (1,600 square meters) of coca, but any coca grown beyond that is subject to eradication. U.S. State Department figures found that drug cultivation in Bolivia increased by 8% in 2005 compared to the previous year, but the United Nations Office on Drugs and Crime (UNODC) reported an 8% decrease in cultivation for the same period. UNODC credited that reduction largely to the success of the Chapare agreement.<sup>32</sup> Regardless of its merits, the Chapare agreement was only supposed to remain in place if a European Union-funded study, which just got underway in 2007 after a long delay, concluded that the

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<sup>29</sup> Daniel Kurtz-Phelan, "Coca is Everything Here," *World Policy Journal*, Fall 2005.

<sup>30</sup> President Jorge Quiroga assumed the presidency on August 7, 2001, when President Hugo Banzer, whom he had served as vice president, resigned because of illness. Quiroga could not, by law, subsequently run for election.

<sup>31</sup> Gretchen Gordon, "The United States, Bolivia and the Political Economy of Coca," *Multinational Monitor*, January/February 2006.

<sup>32</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006; UNODC, *Bolivia Coca Cultivation Survey*, June 2006.

“traditional” demand for coca in Bolivia exceeds the current 12,000 hectares allowed by law. Critics argue that since, according to police sources, some 99% of the coca grown in the Chapare goes to the cocaine industry, it is not going to meet traditional demand for coca and must therefore be eradicated.<sup>33</sup>

**Morales’ “Coca Yes, Cocaine No” Policy.** Evo Morales and the MAS have developed a “coca yes, cocaine no” policy for Bolivia based on the principles of the Chapare agreement. The policy seeks to (1) recognize the positive attributes of the coca leaf; (2) industrialize coca for licit uses; (3) continue “rationalization” of coca (voluntary eradication) in the Chapare and extend it to other regions; and, (4) increase interdiction of cocaine and other illicit drugs at all stages of production.

In order to implement his new policy, President Morales has sought to decriminalize coca growing and his government is trying to develop alternative uses of the coca plant for products such as coca tea. Venezuela is funding the restoration of two factories in the Yungas region for the industrialization of coca products — such as baking flour and toothpaste — for export. In June 2006, President Morales announced a plan to end the current division of the Yungas region into legal and illegal coca growing zones, to allow licensed growers to sell coca directly to consumers, and to permit each family in the Yungas to grow one cato of coca. In July 2006, his government then targeted some 3,000 hectares in the Yungas for cooperative eradication, marking the first time that the Bolivian government has attempted eradication in that region.<sup>34</sup> According to the U.S. Department of State’s International Narcotics Strategy Control Report covering 2007, the Morales government met its coca eradication targets for 2007 and seized more cocaine base, marijuana, and precursor chemicals than in 2006.

Proponents of the “coca yes, cocaine no” policy argue that it is a culturally sensitive approach to coca eradication that is widely accepted in Bolivia. For those reasons, they believe that, although it may take time to show results, it stands a much better chance of being successful than previous forced eradication programs. They assert that Morales’ experience as a coca grower has enabled him to negotiate agreements with producers in regions where prior governments were unable to limit coca cultivation.<sup>35</sup>

Critics of Morales’ coca policy argue that it is based on the false premises that traditional demand for coca exceeds the current legal threshold, and that there are viable markets outside Bolivia for licit coca-based products. They further point out that both the new “rationalization” policies and the December 2006 MAS proposal to expand the areas allowed for licit cultivation may encourage further increases in illegal drug cultivation and processing in both the Chapare and Yungas regions.<sup>36</sup>

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<sup>33</sup> “Zero Cocaine, Not Zero Coca,” *Latin American Special Report*, July 2006.

<sup>34</sup> “Cáceres Anuncia la Reducción de Coca en Zona Tradicional,” *La Razon*, July 29, 2006.

<sup>35</sup> “Is Coca the New Hemp?” *New York Times*, March 28, 2006; Kathryn Ledebur and Coletta A. Youngers, “Bolivian Drug Control Policy,” January 2007.

<sup>36</sup> “Growing Narcotics Trade Worries Officials,” *Washington Times*, July 16, 2007.



## Land Reform

Extreme land concentration and the lack of indigenous access to arable land has been a long-standing cause of rural poverty in Bolivia. In 1953, Bolivia enacted a large-scale land reform program, distributing some 2 million acres to indigenous and peasant communities. Nevertheless, as of 2005 some 100 families reportedly owned 12.5 million acres of land in Bolivia, while 2 million survived on 2.5 million acres.<sup>37</sup> In 1996, Bolivia passed an Agrarian Reform Law 1996 that 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. Previous land reform efforts in Bolivia and other countries in Latin America reportedly have been incomplete, because they have failed to provide land recipients the access to credit and technical assistance needed to use the land efficiently.<sup>38</sup>

In May 2006, the Morales government launched its agrarian reform program, giving land titles for 7.5 million acres to 60 indigenous communities and promising to distribute titles, accompanied by access to credit and technical training, for an additional 50 million acres to Bolivia's rural poor over the next five years. According to the government, about one-third of the land to be distributed is state-owned, and the additional two-thirds would be reclaimed from individuals or companies that own land in the eastern lowlands without legal titles or with illegally obtained titles.<sup>39</sup>

This land redistribution policy has been vehemently opposed by the agro-industrial sector and other large landowners in the Santa Cruz region, who see it as a threat to their livelihoods.<sup>40</sup> It is also likely to affect hundreds of Brazilian landowners who have acquired large tracts of land in eastern Bolivia for soya farming and other agricultural pursuits. In 2006, landowners reported an increase in peasant occupations of private land, actions which they say have been encouraged by the Morales government.<sup>41</sup>

On November 28, 2006, the Morales government secured passage of a new agrarian reform law with the support of two alternate senators from opposition parties. This move prompted strong criticism from opposition party leaders who accused the MAS of using "inducements" to gain that support. Those accusations have not been substantiated.<sup>42</sup>

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<sup>37</sup> Helen Barnes, "Conflict, Inequality and Dialogue for Conflict Resolution in Latin America: The Cases of Argentina, Bolivia and Venezuela," 2005.

<sup>38</sup> Alain de Janvry and Elisabeth Sadoulet, "Land Reforms in Latin America," *University of California at Berkeley*, June 2002.

<sup>39</sup> Douglas Hertzler, "Bolivia's Agrarian Reform," June 28, 2006.

<sup>40</sup> "Bolivian Landowners See Politics, Chávez Behind Reform," *Reuters*, June 5, 2006.

<sup>41</sup> "Bolivia: A Country Report," *Economist Intelligence Unit*, January 2007.

<sup>42</sup> ICG, January 2007.

Although press reports have described the agrarian reform bill as “radical,” some observers maintain that it does not represent a dramatic departure from the land policy enacted in 1996. The new agrarian reform law stipulates that government land, unused tracts of private land, and land that was illegally acquired will be distributed to settlers, peasants, and indigenous peoples. Opponents of the law are concerned that it is likely to lead to arbitrary expropriations of private lands and will inhibit landowner’s ability to buy or sell existing holdings, but Bolivian government officials say they will take the steps necessary to avoid those outcomes.<sup>43</sup>

## Trade Policy

Bolivia is a member of the Andean Community (CAN), with Peru, Ecuador, and Colombia. The members of the Andean Community have requested an extension of trade benefits from the United States and started negotiating a free trade agreement with the European Union. The future of the CAN had been in question after Venezuela suddenly quit the trading block in April 2006 because it opposed free trade agreements negotiations conducted by Peru, Ecuador, and Colombia with the United States. Prospects for the CAN have improved, however, as Chile appears likely to rejoin the group.

Bolivia is also an associate member of Mercosur, the trading block composed of Brazil, Argentina, Uruguay, Paraguay, and, as of July 2006, Venezuela.<sup>44</sup> In May 2006, the Morales government signed a trade and cooperation agreement with Cuba and Venezuela. Morales and the MAS oppose the Free Trade Area of the Americas (FTAA) and have been critical of the type of bilateral and sub-regional trade agreements reached by other countries in Latin America with the United States.

Bolivia currently benefits from the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which offers access to the U.S. market for products from the Andean countries of Peru, Colombia, Ecuador and Bolivia. ATPDEA, is an extension of the Andean Trade Preference Act (ATPA) that began in 1991. In February 2008, Congress voted to extend trade preferences for Bolivia, along with Colombia, Ecuador, and Peru, under the Andean Trade Preferences and Drug Eradication Act (ATPDEA) through December 2008.<sup>45</sup>

## Relations with the United States

For some 20 years, U.S. relations with Bolivia have centered largely on controlling the production of coca leaf and coca paste, much of which was usually shipped to Colombia to be processed into cocaine. In support of Bolivia’s

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<sup>43</sup> “Bolivia’s Morales Signs Sweeping Land Reform Bill,” *Agence France-Presse*, November 29, 2006.

<sup>44</sup> For more information, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J.F. Hornbeck.

<sup>45</sup> For more information, see CRS Report RS22548, *ATPA Renewal: Background and Issues*, by M. Angeles Villarreal.

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 worsened Bolivia's chronic instability.

Prior to the December 2005 elections, most analysts predicted that a Morales victory would complicate U.S. relations with Bolivia. Although U.S. officials refrained from commenting publicly on their concerns about a possible Morales victory for fear of inadvertently swaying Bolivian support to his candidacy (as occurred in 2002), they expressed serious concerns about his position on the coca issue and his possible ties with Cuba and Venezuela.<sup>46</sup>

After the election, U.S. State Department officials congratulated Evo Morales but noted that "the quality of the relationship between the United States and Bolivia will depend on what kind of policies they [Morales and the MAS government] pursue."<sup>47</sup> Some analysts predicted that Evo Morales would become another Hugo Chávez, an outspoken, anti-American, leftist leader. Others disagreed, maintaining that the United States still exerts a lot of influence over Bolivia in terms of foreign aid, trade preferences, and influence over international finance.<sup>48</sup>

Despite an initial openness to dialogue, U.S.-Bolivian relations became tense in 2006. U.S. officials expressed concerns about the Morales government's commitment to combating illegal drugs, its increasing ties with Venezuela and Cuba, and its May 2006 nationalization of Bolivia's natural gas industry.<sup>49</sup> In June 2006, Adolfo Franco, Assistant Administrator of the U.S. Agency for International Development (USAID) for Latin America and the Caribbean, asserted that the Morales government had "demonstrated inclinations to consolidate executive power and promote potentially anti-democratic reforms."<sup>50</sup> In September 2006, President

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<sup>46</sup> In 2002, then U.S. Ambassador to Bolivia Manuel Rocha stated that "if Morales was elected, the U.S. would have to reconsider all future aid [to Bolivia]. Most observers, and Morales, too ... say that [those comments] got him and MAS at least 20 percent more votes." See David Rieff, "Che's Second Coming?" *New York Times*, November 20, 2005.

<sup>47</sup> Sean McCormack, U.S. State Department Regular News Briefing, December 20, 2005; Interview with Secretary of State Condoleezza Rice on CNN, *Federal News Service*, December 19, 2005.

<sup>48</sup> "Don't Do Chavez a Favor in Bolivia," *Christian Science Monitor*, December 22, 2005.

<sup>49</sup> "A War of Words: The Avoidable Bush/Bolivia Meltdown," *The Democracy Center*, Vol. 30, June 30, 2006.

<sup>50</sup> Testimony of Adolfo A. Franco, Assistant Administrator of the Bureau of Latin America and the Caribbean for USAID, before the House International Relations Committee, June 21, 2006.

Bush expressed concern about the decline in Bolivian counternarcotics cooperation that had occurred since the previous October.<sup>51</sup>

In 2007, there continued to be periodic friction in U.S.-Bolivian relations. In September 2007, President Bush expressed concern about the reported expanded coca cultivation in Bolivia that has occurred despite the Morales government's eradication efforts.<sup>52</sup> Tensions in U.S.-Bolivian relations flared during the fall of 2007 as Bolivian authorities (including President Morales) complained that some U.S. assistance was going to support opposition groups seeking to undermine the MAS government.<sup>53</sup> U.S. officials also expressed some concerns about the instability in Bolivia surrounding the constitutional reform process.

The U.S. Ambassador to Bolivia was called back to Washington for consultations on security issues in mid-June 2008 after protesters surrounded the U.S. Embassy in La Paz demanding the extradition of former president Gonzalo Sánchez de Lozada and his ex-defense minister Carlos Sanchez Berzain. The two have been charged in Bolivia with responsibility for civilian deaths that occurred during protests in September and October 2003. The June protests occurred in response to Berzain's announcement that he had received political asylum from the U.S. government.<sup>54</sup>

## U.S. Assistance

For the past several years, Bolivia has been among the largest recipients of U.S. foreign assistance in Latin America. However, assistance levels have been declining since FY2007. Bolivia received \$122.1 million in U.S. assistance in FY2007, including \$66 million in counternarcotics assistance through the Andean Counterdrug Initiative account. In FY2008, Bolivia received an estimated \$99.5 million, including roughly \$47.1 million in counternarcotics assistance. The FY2009 request for Bolivia is for \$100.4 million, not including P.L. 480 Title II food aid. **Table 1** provides figures on U.S. counternarcotics aid to Bolivia since FY2000, including how funds have been broken down between interdiction/eradication and alternative development.

From FY2000 through FY2007, Bolivia received interdiction assistance as well as alternative development assistance through the Andean Counterdrug Initiative (ACI). Beginning in FY2008, the Andean Counterdrug Initiative (ACI) was renamed as the Andean Counterdrug Program (ACP). In addition, alternative development programs previously supported by Andean Counterdrug Initiative funds shifted to the Economic Support Fund (ESF) account. In the FY2009 budget request, funds for alternative development were shifted to the Development Assistance (DA) account.

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<sup>51</sup> White House, "Memorandum for the Secretary of State, Presidential Determination No. 2006-24," September 18, 2006.

<sup>52</sup> White House statement, text of presidential determination memo, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2008," September 17, 2007.

<sup>53</sup> "Morales Puts U.S. Diplomat in Sights," *Washington Times*, November 28, 2007.

<sup>54</sup> "Bolivia, U.S. Look to Improve Relations," *EFE*, July 4, 2008.

Interdiction funding provides operational support for specialized counterdrug police and military units and is intended to improve data collection for law enforcement activities. ACP funds are also be used to support increased interdiction of precursor chemicals and cocaine products. They provide support for a U.S.-owned helicopter fleet and funding to maintain and purchase vehicles, riverine patrol boats, training and field equipment, and to construct and refurbish antiquated counternarcotics bases. A small amount of ACP funds are also used to fund voluntary eradication programs.

Alternative development programs provide a range of assistance to help farmers as they stop relying solely on coca production and as their illicit crops are eradicated by law enforcement. U.S. programs supporting AD in the Chapare and Yungas regions of Bolivia have been linked to illicit coca eradication. AD includes economic development in coca-growing areas, demand-reduction education programs, and the expansion of physical infrastructure. For the past few years, USAID has been carrying out AD work in the Chapare in municipalities where some of the mayors are former coca growers. In June 2008, however, Chapare coca grower representatives announced that they would henceforth not sign any new AD or other assistance agreements with USAID. Instead, USAID will focus its programs on the Yungas region.<sup>55</sup>

**Table 1. U.S. Counternarcotics Assistance to Bolivia, FY2000-FY2009**  
(in historical U.S. \$ millions)

Year	Interdiction	Alternative Development	Total
FY2000	57.00	101.00	158.00
FY2001	32.00	20.00	52.00
FY2002	48.00	39.60	87.60
FY2003	49.00	41.70	90.70
FY2004	49.20	41.80	91.00
FY2005	48.60	41.70	90.30
FY2006	42.60	36.60	79.20
FY2007	35.00	31.00	66.00
FY2008 est.	30.00	17.00	47.00
FY2009 req.	31.00	15.25	46.25

**Sources:** Figures are drawn from the annual State Department and USAID Congressional Budget Justifications for fiscal years 2002 through 2009.

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<sup>55</sup> “More Rumbling with the United States,” *Latin American Andean Group Report*, June 2008.

## Millennium Challenge Account (MCA)

Bolivia could also benefit from assistance from the Millennium Challenge Account (MCA). In December 2005, Bolivia submitted a compact proposal worth \$598 million to the Millennium Challenge Corporation (MCC). That initial proposal focused on linking raw material producers to small and medium-sized businesses who would then produce valued-added manufactured goods for export. After taking office, the Morales government decided to modify the compact proposal slightly and resubmit it to the MCC. On September 21, 2007, the Bolivian government submitted a second proposal to the MCC for consideration. That proposal focused on improving road infrastructure in the historically isolated northern region of La Paz, Beni, and Pando. It also included a smaller project focusing on rural productive development.

In December 2007, a visit by the MCC Bolivia Transaction Team to Bolivia was postponed due to unrest in the country surrounding the Constituent Assembly process. On January 29, 2008, Philip Goldberg, the U.S. Ambassador to Bolivia, stated that the MCC dialogue process with Bolivia has been put on hold for the time being.<sup>56</sup> The MCC is continuing to monitor developments in Bolivia closely in order to determine when the proper political, economic, and social situation is in place that could enable the dialogue process to move forward.

## Counternarcotics Efforts

By the late 1990s, Bolivia, like Peru, was considered a counternarcotics success story and a close U.S. ally in the fight against illegal narcotics. As aggressive coca eradication programs in Bolivia resulted in significant reductions in illegal coca production, the bulk of U.S. concern (and counternarcotics funding) shifted to neighboring Colombia. At that time, some argued 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," in which coca production shifts to other areas with less law enforcement presence. Those warnings appear to have some merit as, according to the State Department, coca cultivation in Bolivia increased 17% in 2003, 6% in 2004, and 8% in 2005. These findings, and the social discontent that has resulted from forced eradication, have prompted some critics to question the efficacy of existing counternarcotics programs in Bolivia and across South America.<sup>57</sup>

Bush Administration officials maintain that it is vital that governments in Latin America continue to combat the cultivation of coca in order to help stem the flow of illicit narcotics to the United States. Many U.S. officials were seriously concerned that the level of drug cooperation from Bolivia would lessen following the December 2005 election of Evo Morales. Morales was a coca growers union leader who had been extremely critical of U.S. drug policy.

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<sup>56</sup> Transcript of Conference Call sponsored by the Bolivian-American Chamber of Commerce, January 29, 2008; Email from MCC official, January 29, 2008.

<sup>57</sup> Colletta A. Youngers and Eileen Rosin, *Drugs and Democracy in Latin America: The Impact of U.S. Policy*, Washington D.C.: Lynne Reiner Publishers, 2004.

At first, some U.S. officials expressed a willingness to engage in a dialogue with the Morales government on how to fight drug processing and trafficking while allowing some level of coca cultivation for traditional uses. This willingness has been replaced by increasing frustration on the part of the U.S. government with Bolivia's counternarcotics efforts. The State Department found that the Chapare agreement, rather than contributing to reductions in coca cultivation, actually "undercut the Government of Bolivia's commitment to its forced eradication policy and resulted in less eradication in 2005." U.S. officials are wary of President Morales' December 2006 policy to allow more coca to be grown in order to satisfy demand for traditional coca usage and coca-based products for export. The State Department asserts that "many suspect [that traditional coca usage] has declined as Bolivian society has urbanized."<sup>58</sup>

U.S. officials' concerns about the Morales government's commitment to combating coca production may have a direct impact on future counternarcotics funding levels for Bolivia. The House Appropriations Committee report to the FY2007 foreign operations appropriations bill (H.R. 5522; H.Rept. 109-486) cited concerns about reports that Bolivia has lessened its commitment to combating drugs and recommended cutting counternarcotics funding to Bolivia to \$51 million from the requested \$66 million.

In September 2007, President Bush expressed concern about the expanded coca cultivation in Bolivia that occurred in 2006 despite the Morales government's eradication efforts.<sup>59</sup> Figures from the United Nations Office of Drugs and Crime (UNODC) showed that coca cultivation in Bolivia increased by 5% in 2007. U.S. officials have noted that, while Bolivia has met its self-established eradication goals for 2005, 2006, and 2007, those levels are much lower than what was eradicated in previous years. Some also argue that Bolivia has interdicted more cocaine, at least in part, because more is being cultivated.<sup>60</sup>

## **Andean Trade Promotion and Drug Eradication Act (ATPDEA)**

The United States extends special duty treatment to imports from Bolivia, Colombia, Ecuador, and Peru under the Andean Trade Preference Act (ATPA; Title II of P.L. 102-182) which was enacted on December 4, 1991 and was originally authorized for 10 years. ATPA lapsed on December 4, 2001 and was renewed and modified under the Andean Trade Promotion and Drug Eradication Act (ATPDEA; Title XXXI of P.L. 107-210) on August 6, 2002. ATPDEA renewed ATPA trade preferences until December 31, 2006, with a retroactive date of December 4, 2001, and also expanded trade preferences to include additional products in the following categories: petroleum and petroleum products, textiles and apparel products,

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<sup>58</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006.

<sup>59</sup> White House statement, text of presidential determination memo, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2008," September 17, 2007.

<sup>60</sup> United Nations Office on Drugs and Crime (UNODC), *Coca Cultivation in the Andean Region*, June 2008; U.S. Department of State, *International Narcotics Control Strategy Report*, released February 29, 2008.

footwear, tuna in flexible containers, and others. Congress has approved short term extensions of ATPDEA benefits, with the most recent extension scheduled to expire on December 31, 2008. Ecuadorian officials estimate that some \$5.6 billion in U.S. trade and 350,000 jobs could be lost without ATPDEA.<sup>61</sup>

The effects of the ATPDEA on Bolivia's economy are unclear because of the challenges in isolating the effects of the preferential trade program from other variables that affect the economy, such as national macroeconomic policies and foreign investor confidence. In general terms, however, the overall effect on Bolivia's economy if the ATPDEA benefits were to be eliminated would likely be small because exports under this program account for a small percentage of GDP. Only 13% of Bolivia's total exports in 2006 were destined for the United States, with about half of those exports entering duty-free under ATPDEA.

## Human Rights

Between 1996 and 2004, the implementation of forced eradication programs in Bolivia had been accompanied by charges of human rights abuses committed by Bolivian security forces. In 2003, violent clashes erupted between protesters and government troops in the Chapare and the La Paz departments that resulted in more than 80 deaths, prompting new allegations of abuses by security forces. The State Department's annual *Country Reports on Human Rights Practices* covering 2004-2007 recognized improvements from 2003, 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 repeatedly expressed concern with human rights abuses in Bolivia. Report language accompanying the foreign operations appropriations laws for FY2004 through FY2008 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 and FY2005 was not made contingent on the determination, but funding for FY2006 and FY2007 was contingent on that determination. The FY2008 Consolidated Appropriations Act (H.R. 2764/P.L. 110-161) includes a provision in the act itself stipulating that aid to Bolivian military and police be contingent upon the Secretary's determination.

## Case Against Former President Sánchez de Lozada

Human rights organizations and the Morales government believe that former President Sánchez de Lozada, who currently resides in the United States, should be held legally responsible for the civilian deaths that occurred in Bolivia during September and October 2003. The 2003 protests were led by indigenous groups and

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<sup>61</sup> "Andean Trade Reprieve," *EIU-Business Latin America*, July 9, 2007. See CRS Report RS22548, *ATPA Renewal: Background and Issues*, by M. Angeles Villarreal.



workers concerned about the continuing economic marginalization of the poorer segments of society. The protesters carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. In September 2007, the Bolivian Supreme Court issued a new extradition decree for the former president that is currently being translated into English and will soon be sent to the U.S. State Department. A separate civil lawsuit was filed in the U.S. court system in September 2007 by human rights lawyers seeking compensatory damages for ten families of those killed in the protests.

Figure 1. Map of Bolivia



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