

# BOLIVIA AT THE CROSSROADS



Elizabeth Lada

**T** WILL BOLIVIA'S NEW PRESIDENT BE A FORCE FOR POSITIVE CHANGE OR LEAD THE COUNTRY BACKWARD? THIS IS THE KEY QUESTION.

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BY *PETER DESHAZO*

The inauguration of Evo Morales as president of Bolivia on Jan. 22, 2006, opened a new chapter in that country's history and poses a formidable policy challenge to the United States. While Morales came to power through an election in which he unexpectedly garnered a majority of votes, his past political practices, campaign rhetoric and ideological outlook place him at the outer limits of democracy. He was a major force in deepening Bolivia's grave crisis of governance that led to the forced departure from office of the two previous presidents, a sharp decline

in the prestige and authority of the state, the weakening of an already debilitated rule of law, and increased regional and ethnic tension. Whether Morales can construct an effective government from the ruins of the old political system he helped dismantle remains to be seen.

The public mood in Bolivia immediately following the election was one of generalized relief that violence and confrontation had been avoided by the size of Morales' victory. His 54 percent of the popular vote translated into a substantial majority for the Movement Toward Socialism, or MAS, in Bolivia's lower house of Congress (84 seats to 56 for his conservative opposition, with an additional 15 seats divided among two other centrist parties). But he has a minority position in the Senate, where he must rely on a political deal with two other parties in order to prevail. By any measure, however, Morales' landslide victory in the Dec. 18 election gives him a popular mandate.

What Morales will do with that mandate is the key question for Bolivians and the international community alike. His populist and nationalistic campaign promises, oriented toward winning support from Bolivia's impoverished but politically-mobilized indigenous majority, awakened expectations that will be difficult to meet. Although Bolivia's economy is in relatively good shape, it remains heavily dependent on the export of primary products — above all soya, natural gas and minerals — and on foreign aid. Any hope for sustained economic growth and job creation will depend on attracting domestic and foreign investment. Morales, however, may attempt to move the country back to the failed state-capitalist model that prevailed before 1985. His choices to head the key economic development and hydrocarbon ministries certainly point in that direction.

Morales' campaign rhetoric was peppered with negative references to the United States, portraying himself as

a defender of Bolivian sovereignty and economic interests in the face of "imperialism." His first foreign travel on the heels of his victory took him to Cuba and then Venezuela, prompting the world media to portray him as firmly ensconced in the anti-American camp. Whether his program of government conforms to the verbiage of his campaign, or his views and positions take a more moderate turn, will be a key factor in determining his future relationship with the United States.

That relationship will be important for both sides. The U.S. has long been the largest bilateral provider of foreign assistance to Bolivia and promotes high-profile support from international financial institutions, including coordinating (with Mexico) a Bolivia Support Group that raised nearly \$100 million in additional funding to help the government of Carlos Mesa close its budget deficits in 2003 and 2004.

U.S.-Bolivian bilateral ties have traditionally been close, although not without discordant episodes. The U.S. supported Bolivia's return to democracy in 1982 and the economic liberalization process that began in 1985. Bolivia's success in drastically reducing the amount of coca under cultivation in the lowlands Chapare region from some 46,000 hectares in 1997 to 15,000 in 2000 under "Plan Dignidad" was touted by the U.S. as a major achievement in the war on drugs in the Andean region.

The emergence of Morales in Bolivian politics, representing a disparate alliance of local political groups, civic organizations (many of a far-left orientation) and a core support group of coca growers in the Chapare region of Cochabamba Department, has long been a matter of concern to Bolivia-watchers in the U.S. government. His near-victory in the 2002 presidential elections and his subsequent maneuverings to force the winner — Gonzalo Sánchez de Lozada (popularly known as Goni) — and then Goni's successor, Carlos Mesa, from power exacerbated that concern. Now, with his overwhelming victory, Morales-in-power is a reality, and the degree to which he will become, in his own words, a "nightmare" for the U.S. warrants close attention.

### **Reform and Reaction**

In analyzing the path ahead for Morales, it is useful to look back at how and why he rose to power. It is also important to lay to rest the facile and self-serving explanation of his emergence as an expression of pent-up indigenous rage at being excluded from Bolivian political

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life, or as a conscious popular protest against the so-called Washington Consensus.

Little more than a half-decade ago, Bolivia was Latin America's poster child for political and economic reform. Beginning in 1982, the country enjoyed a quarter-century of uninterrupted democracy, a milestone in Bolivia's turbulent history pockmarked by military coups. The "New Economic Policy" — put into place in 1985 by Bolivia's greatest political figure of the 20th century, Víctor Paz Estenssoro — moved the country to the front lines of economic liberalization in Latin America, initiating a reform process broadened by subsequent administrations, especially the first government of Sánchez de Lozada (1993-1997).

These reforms put an end to Bolivia's inflationary cycles, vastly downsized the public sector, stabilized the currency, liberalized trade and investment, linked a new pension system to the capitalization of former state enterprises, and established a new hydrocarbons regime that attracted unprecedented levels of foreign investment and led to the discovery of enormous natural gas reserves. Economic reforms were accompanied by large public investments in health and education.

Under Goni, a series of important laws were passed that fundamentally altered political life in Bolivia. In 1994, the Law of Popular Participation decentralized public authority by creating municipalities around the country, providing them with resources and allowing for the direct election of mayors and municipal authorities. A further decentralization law the following year broadened the powers of local government, and the constitution was amended to lower the voting age from 21 to 18 years. Reduction of the voting age, coupled with energetic voter registration campaigns, nearly doubled the number of registered voters between 1987 and 1999.

Bolivia's liberal reform regimes between 1985 and 1998 produced some impressive results. Inflation was brought to heel. GNP rose during the late 1980s and reached a steady range of 4.3 to 5 percent annual growth throughout the 1990s; unemployment was reduced; infant mortality fell sharply; life expectancy increased; child immunization rose impressively; illiteracy plummeted;

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major gains were made in access to education and potable water; poverty rates fell; and large numbers of indigenous peoples became bilingual by learning Spanish.

Stimulated by the liberal 1996 Hydrocarbons Law, foreign investment in exploration and production of petroleum and natural gas resulted in a tripling of proven petroleum reserves and a fourfold rise in proven gas reserves. Investment in hydrocarbons increased by 600 percent between 1996 and 1998. By 2004, taxes and fees related to natural gas constituted some 37 percent of overall Bolivian tax revenues. With the conclusion of a major gas pipeline to Brazil in 1999 and with plans to resume gas sales to Argentina and expand markets to other countries in the Southern Cone and in North America, the door appeared open for a long-term role for natural gas as a motor for economic development.

By 2002, however, the liberal reform process in Bolivia began to unravel, paralleled by a breakdown in effective governance that became manifest soon after the election of Goni for a second term in 2002. An economic downturn in 1999, accompanied by a spike in unemployment, opened the door to widespread protests that eventually brought down Goni in October 2003 and Mesa in June 2005. Longer-term problems not addressed by the liberal reforms of the 1990s helped stoke the fire of protest, especially the persistence of extreme poverty in indigenous rural areas, deep disparities in income distribution and a rigid class structure based on ethnic origin, with the indigenous majority at the bottom.

### **Decline of Traditional Parties**

The clearest manifestations of the crisis, nonetheless, were political. The system of government based on coalitions of Bolivia's traditional political parties that was started in 1985 had run out of gas by the time of Goni's second, truncated presidency. At the head of the once-powerful Movimiento Nacionalista Revolucionario (National Revolutionary Movement), Goni won the 2002 presidential vote with a mere 22 percent, besting Evo Morales by about two points. Goni's subsequent government was weak from the start, in an environment where political power was dispersed among splinter parties, civil society

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and pressure groups, many with tenuous attachments to liberal democracy.

Ironically, the decentralization of government and state spending during Goni's first administration made a large contribution to the decline of traditional political parties, including his own MNR. Popular participation and decentralization stripped important sources of political patronage — the lifeblood of Bolivia's traditional political parties — from the central government, while fostering a dramatic increase in the number of locally-based parties. In rural areas, especially on the Aymara-speaking altiplano, indigenous leaders used the reforms to strengthen their political base in small municipalities. Liberal reforms that shrank the size of the state eliminated jobs that had previously gone to loyalists of the national parties, further reducing their patronage base. The dramatic increase in the size of civil society encouraged by domestic and foreign NGOs added a decidedly antiparty bias to the environment, further undercutting the legitimacy of traditional politics.

The government's own anti-corruption campaigns, while ineffective in combating the scourge, reminded Bolivians of the glaring weaknesses in transparency and governance that marked the political system, driving down the prestige of the parties further still. To be sure, the traditional parties had a major role in their own demise by adhering to authoritarian, exclusionary and elitist practices that distanced them from the rest of society, as evidenced by Goni's very weak support in 2002. The December 2005 election completed the demise of the traditional parties: the once-powerful MNR won just one Senate seat and elected 7 deputies, collecting a mere 6.5 percent of the popular vote for president.

After 2002, Bolivian politics morphed into an ongoing conflict between the national government and regional, often ethnically-based political and social groups making direct demands on the state. The rule of law, habitually weak in Bolivia, was swept aside by the protests and road blockages used by an active political minority, above all in the cities of El Alto and La Paz, to impose their will over

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the state. During this process, Morales established himself as a consummate power broker, able to call crowds into the streets and shut down much of Bolivia's economy to move his agenda forward.

The groups that drove Goni and Mesa from office and triggered the new round of elections held on Dec. 18 espoused a mix of strongly populist and nationalistic demands — ranging from broadened indigenous rights to the nationalization of hydrocarbons.

Evo Morales and the radicals to his left both promoted and rode a tide of economic nationalism that sealed Goni's fate in October 2003 and was eventually translated into the Hydrocarbons Law passed by Congress in May 2005. The new law repealed Goni's 1996 statute, placed Bolivia's state hydrocarbons corporation (Yacimientos Petrolíferos Fiscales Bolivianos, or YPF) in control of the industry, imposed new taxes on production and ordered the renegotiation of all previous shared-risk contracts between (foreign) producers and the state. It marked a full-circle return of economic nationalism in Bolivia, similar to the circumstances under which Standard Oil and Gulf Oil were nationalized in 1937 and 1969, respectively.

### **What Way Ahead?**

Bolivia now stands at a crossroads. The old political system based on coalitions of traditional parties has been swept away and the liberal economic reforms put in place in 1985 are likely to be dismantled. What will replace them? The MAS is a conglomerate of unions, civic groups and regional organizations — “a confederation of alliances” in the words of a former adviser to Morales — rather than a political party in the traditional sense. While Morales had a very strong showing in the heavily indigenous departments of La Paz, Oruru, Potosí, Cochabama and Chuquisaca, many of his supporters are of mestizo background and in the middle class, with a smattering of intellectuals and leftists of European descent.

Reflecting its diverse and disunited base of support, the MAS proposed a vision rather than a program in its electoral campaign, protesting neoliberalism, imperialism and exclusion and promising profound change, but

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without laying out a coherent plan. Beyond a call for the nationalization of hydrocarbons and for holding a constituent assembly to draft a new constitution, the campaign rhetoric of the MAS vacillated between moderate populism, staunch nationalism and virulently leftist appeals.

The legislative program Morales intends to carry out will have broad repercussions for Bolivia and for relations with the United States. Among the most contentious issues will be:

*Democracy and governance.* Is Morales a democrat? If so, what sort of democracy does he envision for Bolivia? Weak and ineffective governance lies at the heart of Bolivia's underdevelopment and helped undermine the potential of the economic reforms put in place during the 1990s. Among the most glaring weaknesses are broad disrespect for the rule of law, deep-seated official corruption, an ineffective civil service, low-quality policing, poor relations between the executive and legislative branches, enervated political parties, a widespread penchant for populism, and a political and civic culture that ignores the public good. Whether Morales attempts to deal with these fundamental problems will indicate the seriousness of his commitment to change.

In compliance with his campaign promises, Morales has already called for a constituent assembly to draft a new constitution for Bolivia. Reaching consensus on a new constitution would be a difficult enough task, given the broad ideological, ethnic and regional disparities that exist in the country. But if Morales intends to use the forum to promote a corporatist vision of society along the lines of the so-called “participatory democracy” of Chavez's Venezuela, representative democracy would be at risk. Not averse to using force and the threat of it to advance his agenda when in the opposition, Morales must now wear the other shoe as president. A key factor in judging his democratic credentials will be the manner in which his government respects the human and civil rights of all Bolivians.

*Economic policy.* Evo Morales' economic views are a work in progress. From his campaign rhetoric and statements following his election, he clearly favors a strong role for the state in the economy and has a personal distrust of the private sector. Morales' campaign promises

have awakened expectations for more jobs, quick improvement in the lives of Bolivia's poor and higher standards of living that will affect his decision-making. Myriad political favors will be on his debit sheet, with supporters expecting government jobs in what Morales insinuated would be a greatly-expanded public sector, highlighted by the resurrection of the privatized state corporations, including the state hydrocarbons corporation.

At the same time, he claims to favor fiscal discipline and a tight lid on government spending. These goals are largely incompatible. Augmenting income to the state requires either political sacrifice (charging and collecting income tax, lowering subsidies, halting contraband, fighting corruption, increasing domestic fuel prices) or stimulating exports, especially in the hydrocarbons sector, where foreign investment plays a key role. If he overmilk the hydrocarbons cow, he risks drying up foreign investment and dooming the sector to stagnation.

On one side, Morales' own supporters and opponents to his left clamor for outright nationalization of hydrocar-

bons. On the other, he must negotiate new contracts with international energy companies who regard the 2005 Hydrocarbons Law as contrary to their interests. These firms include Petrobras and Repsol-YPF. The governments of Brazil, Spain, Argentina and others have a considerable interest in the outcome of this process.

*Drug policy.* Morales' original base of political support was coca producers in the lowlands Chapare region of Cochabamba department, many of them out-of-work miners or, like Morales' own family, impoverished campesinos from the highlands. With a tradition of political militancy behind them, the Chapare cocalers provided the shock troops for protests in the zone itself and elsewhere, and constituted a vocal lobby against eradication of coca. Bolivian law allows the planting of 12,000 hectares of the crop in the tropical valleys of La Paz Department (Yungas) for "traditional" use (chewing, tea and ceremonial purposes). But in past years, production of coca leaf in the Yungas has reached levels more than double the legal limit.



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Not long after his triumph, Morales visited the Chapare and assured planters that coca would return to the area, but without going into specifics such as how or how much. Increased production of coca in the Chapare would invariably provide additional raw material for cocaine and fuel narcotrafficking. Should Morales allow large-scale production to return to the region, he would be in violation of Bolivian law and would put himself at odds not only with the United States, but other countries where Bolivian cocaine is trafficked: Brazil, Argentina and Spain. The issue constitutes another testing ground for Morales.

### **The U.S. Response**

Mindful of the spurt in support for Morales resulting from a warning by the U.S. ambassador during the last days of the 2002 election that a vote for him would imperil U.S. aid, Embassy La Paz played its hand deftly and remained above the political fray in the 2005 election. Morales, for his part, met with Ambassador David Greenlee soon after the election and gave prominent media play to his meeting with Assistant Secretary for Western Hemisphere Affairs Tom Shannon on the eve of his inauguration. His stridently anti-gringo rhetoric notwithstanding, Morales is familiar with U.S. positions on democracy, development and coca and may see the value of dialogue and accommodation with the U.S. The evolving relationship between Bolivia under Morales and the United States will depend to a large degree on his openness to cooperation and the skill of U.S. diplomats in encouraging the same.

What happens in Bolivia in the ensuing months will have a bearing not only on the well-being of Bolivians but on regional stability. A turn toward authoritarianism, especially if paralleled by close ideological and diplomatic ties to Chavez and Castro, would imperil democracy and set a negative example for other political groups in the Americas claiming to represent indigenous constituencies. The prickly nationalism that runs so deep in Bolivia may dissuade Morales and the MAS from attempting to turn the country into a client state of Venezuela or Cuba, if indeed they have any aspirations to do so. The appearance of Venezuelan or Cuban "advisers" in Bolivia, especially in the security services, would set off alarm bells.

On the economic front, Morales will have a difficult time meeting demands for jobs, poverty reduction and

sustained development if he attempts to turn back the clock by pursuing state-capitalist formulas from the 1960s. If, on the other hand, he follows a more moderate economic strategy, he could thread the needle between growth and social investment, building on his strong political mandate and the willingness of the international community to give him the benefit of the doubt. The opposition to Morales was set back by the December vote, but is not invisible, especially in the Senate and in its regional bastions of support in the hydrocarbons-rich departments of Santa Cruz and Tarija. Soon after his election, Morales traveled to Santa Cruz to ensure local leaders that he would be the president of all Bolivians. Time will tell if he is.

The U.S. should seek engagement with the new government, fine-tuning its policies according to the decisions Morales takes and his willingness to work with the United States. One key variable pending final approval by Washington is Bolivia's eligibility for nearly \$600 million from the Millennium Challenge Account for infrastructure and development projects. Working with other countries, especially Brazil and Argentina, and the international community, the U.S. should encourage moderate political and economic policies from Morales, even if he is by nature disinclined to take such steps.

Washington should also give priority to public diplomacy efforts to overcome the negative image of the U.S. in many circles, stressing American concern for democracy, economic development and poverty reduction, as well as narcotics issues. Larger-scale investment in alternative development projects in the Chapare and continued focus of USAID programs on El Alto, the altiplano and other bastions of MAS support are needed. Embassy La Paz should make certain that it has Aymara- and Quechua-speaking Foreign Service National employees in key positions. The recent announcement by the State Department that two Foreign Service officers will be deployed to Santa Cruz is a good step, as well.

Bolivia will be a difficult test for U.S. policy, with broad implications throughout the hemisphere. Evo Morales may turn out to be a force for positive change, or he may lead the country backward toward authoritarianism and further misery. Whatever Washington can do to encourage the former outcome will benefit both nations. ■