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

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Summary

In the past few years, Bolivia has experienced extreme political unrest resulting in the country having six presidents since 2001. Evo Morales, an indigenous leader of the leftist Movement Toward Socialism (MAS) party, won a convincing victory in the December 18, 2005, presidential election with 54% of the votes. He was inaugurated to a five-year term on January 22, 2006. The MAS won control of the lower chamber of the Bolivian Congress, 12 of 27 seats in the Senate, and three of the country's nine governorships.

President Morales has moved to fulfill his campaign promises to decriminalize coca cultivation and to nationalize the country's natural gas industry. These policies have pleased his supporters within Bolivia, but have complicated Bolivia's relations with some of its neighboring countries, foreign investors, and the United States. He also secured passage of legislation convoking a special election for delegates to a constituent assembly to reform the country's constitution. The MAS performed relatively well in those elections, capturing 137 of 255 seats, but will have to form alliances in order to reach the two-thirds majority needed to pass constitutional reforms. The assembly convened on August 6 and will deliberate for one year. In a concurrent referendum, the four wealthy eastern provinces of Bolivia voted in favor of increasing regional autonomy, while the other five provinces opposed the measure. The issue of regional autonomy will be taken up in the constituent assembly.

For some 20 years, U.S. interest in Bolivia has centered on its role as a coca producer and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries in the Andes. U.S.-Bolivian relations have become tense in 2006 in the wake of the Morales government's questionable commitment to combating illegal drugs, increasing ties with Venezuela and Cuba, and the nationalization measure. In FY2006, Congress provided an estimated \$116.6 million in foreign assistance to Bolivia, including some \$79.2 million in counternarcotics funds. For FY2007, the Administration proposes spending \$99.8 million on Bolivia, including roughly \$66 million in counternarcotics funds. Congress is soon likely to consider whether to renew the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which provides duty free access to some imports from Bolivia and other Andean countries in exchange for counternarcotics cooperation. The ATPDEA expires in December 2006, although legislation has been proposed, H.R. 5070 (Rangel), that would renew its benefits for another year.

For additional information, see CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance*, by Connie Veillette; CRS Report RL33163, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Carolina Navarrete-Frias; and CRS Report RL32770, *Andean-U.S. Free Trade Negotiations*, by M. Angeles Villarreal. This report will be updated as events warrant.

Contents

Introduction	1
Background	1
Role of Indigenous Groups	3
Political Situation	4
Political Instability: 2002-2005	4
December 2005 Elections	5
Constituent Assembly	6
Referendum on Regional Autonomy	7
Economic Situation	8
Gas Exports and Nationalization	9
Coca Cultivation	10
Morales' "Coca Yes, Cocaine No" Policy	11
Land Reform	12
Trade Policy	13
Relations with the United States	14
U.S. Assistance	15
Article 98 and U.S. Assistance to Bolivia	17
Millennium Challenge Account (MCA)	18
Counter-Narcotics Efforts	19
Andean Trade Promotion and Drug Eradication Act (ATPDEA)	20
Human Rights	21

List of Figures

Figure 1. Map of Bolivia	23
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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), scored a convincing victory in Bolivia's presidential and legislative elections. These watershed elections have had a profound effect on Bolivia's political system and focused international attention on Bolivia, a land-locked country that is among the poorest in Latin America. 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, with stronger electoral support than any of the country's traditional political parties. With Evo Morales' inauguration on January 22, 2006, he became Bolivia's first indigenous president in the country's 180-year history.

Since January, President Morales has moved to fulfill some of his major campaign promises. These promises include decriminalizing coca cultivation, nationalizing the country's natural gas industry, and convoking a constituent assembly to reform the constitution. Although these policies have pleased MAS supporters within Bolivia, they have also complicated Bolivia's relations with neighboring countries, foreign investors, and the United States.

After the December 2005 election, U.S. State Department officials congratulated Evo Morales on his victory but noted that the nature of U.S.-Bolivian relations would depend on what kind of policies the Morales government adopts. U.S. officials have 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. The Bolivian government has in turn been frustrated by U.S. attempts to influence its policies, particularly in the area of drug control. These and other issues currently at play — involving U.S. assistance, counternarcotics cooperation, and trade benefits — could determine the future of U.S.- Bolivian relations.

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.¹ 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 63% of Bolivians live in poverty with 34.3% earning less than \$2 a day, according to the World Bank.

Bolivia's population of 8.4 million people is the most ethnically diverse on the continent of South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 30% of the Bolivian population are Quechuan, 25% are Aymaran, 30% are mestizo (mixed), while 15% are of European origin. A 2001 census recorded that about 62% of Bolivians 15 years of age and older identified themselves as indigenous. Indigenous Bolivians tend to reside in the poorer central and western regions, while many mestizos and Bolivians of European extraction are concentrated in the country's wealthier eastern zones.

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).

In the last few years, Bolivia has gained international attention for its citizens' recurring protests against foreign companies and orthodox economic reforms. In 1985, Bolivia became the first country in Latin America to adopt austere economic policies, so-called "neo-liberal" reforms, as part of a stabilization program aimed at staving off hyperinflation. In the 1990s, related reforms opened up the country's natural gas industry and other state-run entities to foreign investment. By 2000, large portions of the Bolivian public perceived that pro-market reforms had failed to improve the country's economic and social conditions.² Just as most Bolivians do not believe that they benefitted from earlier foreign ventures to extract wealth from the country's tin and silver industries, many believed that they were not benefitting

¹ For background information on Bolivia, see Rex Hudson, ed., *Bolivia: A Country Study*, Washington D.C.: Federal Research Division, Library of Congress, 1991; Herbert S. Klein, *A Concise History of Bolivia*, New York: Cambridge University Press, 2003.

² Edwin G. Corr, "Whither Bolivia?" *World Literature Today*, March/April 2006.

from private foreign companies developing Bolivia's natural gas reserves, a sentiment fueled by a growing anti-globalization attitude.³

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.⁴ In the 1980s, indigenous-based political parties and movements emerged in Bolivia, and by 2005 some 17% of members of the Bolivian Congress were self-identified as indigenous.⁵ 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 — an institution plagued by corruption and clientelism — 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 2000.⁶

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 have not been legally defined or protected, and that outsiders have been allowed to exploit their resources.⁷ 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 two most prominent indigenous leaders in Bolivia are President Evo Morales of the MAS party, and Felipe Quispe, former Member of Congress from the Indigenous Pachakuti Movement (MIP) party and union leader. An Aymaran Indian and former coca grower, Morales has based his rise in politics on the support of coca

³ Larry Rohter, "Bolivia's New Leader Takes Over a Chaotic and Angry Nation," *The New York Times*, Oct. 19, 2003; and Larry Rohter "Bolivian Peasants' 'Ideology of Fury' Still Smolders," *New York Times*, Oct. 20, 2003.

⁴ Gillette Hall and Harry Anthony Patrinos, "Indigenous Peoples, Poverty, and Human Development in Latin America: 1994-2004," World Bank, 2004.

⁵ *Country Reports on Human Rights Practices 2005*, U.S. Department of State, March 2006.

⁶ Barr, 2005; Jeffrey R. Webber, "Left-Indigenous Struggles in Bolivia," *Monthly Review*, Sept. 2005.

⁷ *Country Reports on Human Rights Practices 2004*, U.S. Department of State, Feb. 28, 2005.

growers. Quispe, an Aymaran Indian and rival of Morales, considers Morales to be a mainstream politician who will continue free market policies at odds with indigenous interests. Both leaders played a prominent role in protests that unseated two of Bolivia's last three presidents.

Political Situation

Political Instability: 2002-2005

A rise in popular discontent with the established political parties may have contributed to the narrow victory of Gonzalez Sánchez de Lozada of the centrist National Revolutionary Movement (MNR) in the 2002 presidential election with 22.5% of the vote. Evo Morales of the MAS, who ran on a platform critical of free-market policies and advocating indigenous rights, came in second with 20.9% of the vote. As neither achieved a majority, the Congress, in accord with provisions of the Bolivian constitution, chose Sánchez de Lozada as President.⁸

Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, 15 months after he was elected. The 2003 change in leadership came about after months of protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society, especially in response to government budget cutbacks and proposals to raise taxes. These events occurred against a backdrop of growing opposition to U.S.-funded coca eradication programs, affecting approximately 50,000 growers who make their livelihood from both its licit and illicit cultivation. Other observers argued that Bolivian resentment had grown in response to the role of the IMF's requirements for additional loans.⁹ The final spark that immediately 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 current Bolivian government believe Sánchez de Lozada should be held legally responsible for the civilian deaths that occurred in Bolivia in September and October 2003.

Succeeding Sánchez de Lozada as president was his former vice president, Carlos Mesa, a popular former television journalist, historian, and political independent. Mesa appointed a new cabinet, also largely of independents, and demonstrated a sensitivity to indigenous issues. He created the cabinet post of Minister for Indigenous Affairs and carried out his promise for a referendum on the export of natural gas. Acceding to demands of indigenous and opposition groups, he

⁸ The Bolivian electoral system stipulates that if no candidate receives a majority of the popular vote, the Congress must decide between the top two candidates. See Robert R. Barr, "Bolivia: Another Uncompleted Revolution," *Latin American Politics and Society*, Fall 2005.

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

also overturned a 1997 decree that had given oil companies ownership of the natural gas they extracted. He 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.

Despite taking several proactive measures, President Mesa, like his predecessor, proved unable to resolve continuing discord over several key issues facing the country. Those 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.¹⁰ In June 2005, Mesa resigned in favor of Eduardo Rodriguez, head of the Supreme Court, in response to continuing street protests and road blockages 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.¹¹ 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.

December 2005 Elections

The three main candidates in the December 18, 2005, presidential elections were former president Jorge Quiroga, representing the Social and Democratic Power Party (PODEMOS), a new center-right political party; Evo Morales of the MAS; and Samuel Doria Medina, a cement magnate standing for the center-right National Unity Front (UN) party. On December 18, 2005, a record 85% of the Bolivian electorate turned out to vote 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 Quiroga and 8% for Doria Medina.

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

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 a representative of the MAS. 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.

¹⁰ Kate Joynes, "President's Popular Approval Ratings Fall as Bolivian Crisis Continues," *WMRC Daily Analysis*, Mar. 21, 2005.

¹¹ Michael Shifter, "Breakdown in the Andes," *Foreign Affairs*, Sept/Oct 2004.

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. On January 18, 2005, an MAS senator became president of the Bolivian Senate.

Although some analysts were forecasting a Morales victory, few predicted that he would win by such a decisive margin. The large margin proved that Morales had broadened his support beyond rural, indigenous, union, and lower-middle class voters. He achieved significant support in urban areas and higher than expected support in the conservative eastern provinces. Some factors that may have led to his victory include the perception that pro-market economic reforms had not benefitted the majority of the Bolivian population; the corruption of the traditional parties that had ruled since 1982; and the tough, nationalistic positions he has taken against foreign investors and U.S. counter-narcotics programs.¹²

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. Conflicts have already arisen between the Morales government in La Paz and departmental governments regarding the distribution of resources and political power. Future conflicts may be particularly pronounced in the resource-rich areas around Santa Cruz as leaders in that region renew calls for regional autonomy.

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 2000.¹³ A constituent assembly was originally planned for 2004, 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. The MAS captured 50.7% of the popular vote and 137 of 255 seats in the constituent assembly but lacks the two-thirds majority necessary to pass constitutional reforms and will have to form alliances in order to advance its agenda.¹⁴

¹² Kent H. Eaton, "Bolivia at the Crossroads: Interpreting the December 2005 Elections," *Strategic Insights*, Vol. 5, Issue 2, February 2006.

¹³ Kathryn Ledebur and Evan Cuthbert, "A New Constitution for Bolivia: The History and Structure of the Constitutional Assembly," *Andean Information Network*, June 28, 2006.

¹⁴ "Bolivia: No Carte Blanche," *Economist Intelligence Unit*, July 17, 2006.

On August 6, the constituent assembly was installed in Sucre, the colonial capital of Bolivia. The assembly has up to one year to deliberate. Any constitutional reforms that are approved by two-thirds of the delegates must then be approved by a majority of Bolivians in a national referendum, if the reforms are to take effect. President Morales and his indigenous supporters would like the assembly to draft a new constitution that would redefine Bolivia as a “multinational state made up of indigenous groups” and incorporate indigenous institutions within the national structure. They would also like the constituent assembly to pass measures in support of agrarian reform and state ownership of the country’s natural resources. The political opposition is wary that Morales will try to use his executive power to dominate the assembly and use it as a means of increasing his presidential powers, as has occurred in Venezuela under President Hugo Chávez. Many opposition delegates, particularly those from Bolivia’s wealthy eastern provinces, are pushing for increased regional autonomy from the central government, a measure opposed by the Morales government. Some opposition assembly members have already been angered by President Morales’ decision to appoint Silvia Lazarte, Quechua member of the MAS block, to preside over the assembly, rather than allowing her to be selected by the members of the MAS delegation.¹⁵

Referendum on 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 supported by Bolivia’s four eastern regions and opposed by the less wealthy regions in the center and west of the country, causing a deep divide in Bolivian politics. 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 will 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. Morales and the MAS oppose increasing regional autonomy but support measures to give indigenous communities more autonomy and control over their lands. The issue of regional autonomy is likely to be one of the most contentious issues to be taken up by the constituent assembly.

¹⁵ Monte Reel, “A Road Paved With Hope,” *Washington Post*, August 6, 2006; “Amid Tensions, Bolivians Strive for Peace,” *Miami Herald*, August 6, 2006; “Assembly Gets Off to a Troubled Start,” *Latin America Weekly Report*, August 8, 2006.

Economic Situation

Like much of Latin America, Bolivia pursued state-led economic policies during the 1970s and early 1980s. In the mid-1980s, however, external shocks, the collapse of tin prices, 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 International Monetary Fund (IMF) structural adjustment program. In the 1990s, many state-owned corporations were privatized. Gross domestic product growth from 1990 to 2000 averaged 3.5%, 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)¹⁶ fueled resentment that the benefits of globalization and free market economic policies were not reaching most of the impoverished 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, should fuel growth of about 3% in 2006.¹⁷ Despite that growth, some 63% of Bolivians live in poverty with 34.3% earning less than \$2 a day, according to the World Bank. Future growth will likely be constrained by declining foreign investment and the country's high debt burden, among other things. Growth is unlikely to reach levels sufficient to relieve Bolivia's high poverty rates.

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.¹⁸

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. That debt forgiveness does not extend to debt owed to the Inter-American Development Bank, Bolivia's largest external creditor. Further debt relief may be difficult considering the international community's increasing skepticism of Morales' economic policies and the distancing of relations that has occurred between the Bolivian government and the IMF.

¹⁶ Statistics are drawn from the World Bank *World Development Indicators 2003*, *Human Development Report 2003*, United Nations Development Program, and "Bolivia - Country Profile 2003, *Economist Intelligence Unit*.

¹⁷ "Bolivia - Country Report," *Economist Intelligence Unit*, August 2006.

¹⁸ "Bolivia: Going Pretty Well," *Latin American Economy and Business*, June 2006.

The most controversial components of the Morales government's economic and social development plan include its plans 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.

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.¹⁹ 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 Petrolíferos 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 firms were given six months to bring their current contracts into line with the new legislation. 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. In the first six months of 2005, oil exploration in Bolivia fell by more than 80% compared with the previous year.²⁰

¹⁹ 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.

²⁰ "Morales Threat Hangs Over Bolivian Gas Talks," *Financial Times*, Nov. 17, 2005.

On May 1, 2006, President Morales fulfilled his campaign pledge to nationalize the country's natural gas industry.²¹ This action significantly raised energy costs for neighboring Argentina and Brazil and has raised tax and royalty rates to a level that many investors perceive to be unprofitable.²² The nationalization move prompted Brazil's Petrobras and Spain's Repsol-YPF — the largest foreign investors in Bolivia's energy sector — to halt all new investments in the country, although both companies are still operating in Bolivia and are renegotiating contracts with the Morales government. Bolivia has reached an agreement with Argentina to increase the prices of its natural gas exports, but negotiations with Brazil have stalled. The Bolivian government has vowed to resort to international arbitration if its negotiators are unable to reach an agreement with Brazil by mid-October.

Critics of the nationalization measure assert that, even with new investments and advisors from Venezuela, Bolivia has neither the technological nor financial capacity to develop and export its gas resources on its own. These criticisms were validated as the Bolivian government announced in mid-August 2006 that it was temporarily suspending the nationalization process due to a lack of economic resources at YPFB.²³ On August 28, 2006, the nationalization process was dealt another blow as the head of YPFB, Jorge Alvarado, resigned. Alvarado violated the terms of the nationalization decree by having YPFB contract to export crude oil through an independent Brazilian company.²⁴

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.²⁵

²¹ Presidential Decree No. 28071 placed Bolivia's oil and natural gas reserves under state control. It returned the Bolivian government to a majority holding in the companies it had privatized in the 1990s as well as two Petrobras refineries. The Morales government has said that most of those holdings are currently held in trust, but some will be transferred from private investors to the Bolivian government. It is unclear whether an indemnity will be paid for those transferred shares. The decree gives all companies until October 2006 to sign new contracts agreeing to new tax/royalty measures. For large fields with outputs of more than 100 million cubic feet per day, the tax/royalty burden will increase to 82%. Smaller fields will be subject to a 50% tax/royalty as outlined in the May 2005 Hydrocarbons Law. See "Country Report: Bolivia," *Economist Intelligence Unit*, August 2006.

²² "Bolivia Endangers Southern Cone Growth," *Energy Economist*, June 1, 2006.

²³ "Nationalization of Gas Stalling," *Miami Herald*, August 15, 2006.

²⁴ "Head of Bolivian State Oil Company Quits," *Miami Herald*, August 28, 2006.

²⁵ Daniel Kurtz-Phelan, "Coca is Everything Here," *World Policy Journal*, Fall 2005.

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.²⁶ Although the program dramatically reduced coca cultivation in Bolivia, human rights abuses were committed by security forces during its implementation.²⁷ 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.²⁸ Regardless of its merits, the Chapare agreement was only supposed to remain in place if a European Union-funded study, which has yet to get underway, concluded that the "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.²⁹

Morales' "Coca Yes, Cocaine No" Policy. Evo Morales and the MAS have developed a "coca yes, cocaine no" policy for Bolivia based on some of 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

²⁶ President Jorge Quiroga assumed the presidency on Aug. 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.

²⁷ Gretchen Gordon, "The United States, Bolivia and the Political Economy of Coca," *Multinational Monitor*, Jan/Feb 2006.

²⁸ U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006; UNODC, *Bolivia Coca Cultivation Survey*, June 2006.

²⁹ "Zero Cocaine, Not Zero Coca," *Latin American Special Report*, July 2006.

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.³⁰ According to Bolivian government estimates, the Bolivian government did not meet its coca eradication targets for the first six months of 2006 but seized 31% more cocaine during that time than in the same period in 2005.

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.³¹

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 the new “rationalization” policies violate Bolivia’s existing drug control legislation and may encourage further increases in illegal drug cultivation and processing in both the Chapare and Yungas regions. They point to estimates from Bolivia’s Special Force to Fight Crime and Narco-trafficking (FELCN) that the number of cocaine laboratories operating in the country almost doubled in the first seven months of the Morales government.³²

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

³⁰ “Cáceres Anuncia la Reducción de Coca en Zona Tradicional,” *La Razon*, July 29, 2006.

³¹ “Is Coca the New Hemp?” *New York Times*, March 28, 2006; Kathryn Ledebur and Coletta A. Youngers, “Crisis or Opportunity?” Bolivian Drug Control Policy and the U.S. Response,” June 2006.

³² “Zero Cocaine, Not Zero Coca,” *Latin American Special Report*, July 2006; “Bolivian Cocaine Rises with Morales,” *Washington Times*, July 27, 2006.

peasant communities. Nevertheless, today some 100 families reportedly own 12.5 million acres of land in Bolivia, while 2 million survive on 2.5 million acres.³³ 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.³⁴

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 in accordance with the 1996 agrarian reform legislation, 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.³⁵

This land redistribution policy is 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.³⁶ 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. Landowners have reported an increase in peasant occupations of private land in 2006, actions which they say have been encouraged by the Morales government.³⁷

Trade Policy

Bolivia is a member of the Andean Community (CAN), with Peru, Ecuador, and Colombia.³⁸ President Morales assumed the rotating presidency of the CAN in June 2006. The members of the Andean Community have requested an extension of trade benefits from the United States and are interested in 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.

³³ Helen Barnes, "Conflict, Inequality and Dialogue for Conflict Resolution in Latin America: The Cases of Argentina, Bolivia and Venezuela," 2005.

³⁴ Alain de Janvry and Elisabeth Sadoulet, "Land Reforms in Latin America," *University of California at Berkeley*, June 2002.

³⁵ Douglas Hertzler, "Bolivia's Agrarian Reform," June 28, 2006.

³⁶ "Bolivian Landowners See Politics, Chávez Behind Reform," *Reuters*, June 5, 2006.

³⁷ "Bolivia: A Country Report," *Economist Intelligence Unit*, August 2006.

³⁸ CRS Report RL33162, *Trade Integration in the Americas*, by M. Angeles Villarreal.

Bolivia is also an associate member of Mercosur, the trading block composed of Brazil, Argentina, Uruguay, Paraguay, and, as of July 2006, Venezuela.³⁹ 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 Act⁴⁰ (ATPDEA), which offers access to the U.S. market for products from the Andean countries of Peru, Colombia, Ecuador and Bolivia. ATPDEA, an extension of the Andean Trade Preference Act (ATPA) that began in 1991, will expire in 2006. The prospects for renewal of ATPDEA will be discussed below.

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 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.⁴¹

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." Secretary of State Condoleezza Rice said that "the issue for us is, will the

³⁹ For more information, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J.F. Hornbeck.

⁴⁰ For more information, see CRS Report RL30790, *The Andean Trade Promotion Act: Background and Issues for Reauthorization*, by J.F. Hornbeck.

⁴¹ 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*, Nov. 20, 2005.

new Bolivian government govern democratically? Are they open to cooperation that, in economic terms, will undoubtedly help the Bolivian people? ... from our point of view, this is a matter of behavior.” On January 2, 2006, Evo Morales met with then U.S. Ambassador to Bolivia, David Greenlee, at which time the two agreed on the importance of “confronting drug-trafficking and respecting democracy in the region.”⁴²

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. They urged U.S. officials not to antagonize Evo Morales but to use “power and rhetoric, sparingly, if at all” to urge Morales and the MAS to maintain open-market and democratic policies.⁴³

Despite that initial openness to dialogue, U.S.- Bolivian relations have become tense in the past few months. U.S. officials have 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.⁴⁴ In June 2006, Adolfo Franco, Assistant Administrator of the U.S. Agency for International Development (USAID) for Latin America and the Caribbean, also expressed U.S. concerns that the Morales government had “demonstrated inclinations to consolidate executive power and promote potentially anti-democratic reforms.”⁴⁵ The Bolivian government has in turn been frustrated by U.S. attempts to influence its policies, particularly in the area of drug control. President Morales has accused the United States of engaging in “policies of imposition” by demanding that the Bolivian government use forcible methods to eradicate coca fields.⁴⁶ The Bolivian government has also reportedly been disappointed by the U.S. government’s failure to respond to its request to extradite former president Gonzalo Sánchez de Lozada.

U.S. Assistance

For the past several years, Bolivia has been the third largest recipient of U.S. foreign assistance in Latin America, behind Colombia and Peru. Bolivia received \$126 million in U.S. assistance in FY2005 and an estimated \$116.5 million in

⁴² Sean McCormack, U.S. State Department Regular News Briefing, Dec. 20, 2005; Interview with Secretary of State Condoleezza Rice on CNN, *Federal News Service*, Dec. 19, 2005; “Bolivia’s Morales, US Discuss Drugs and Democracy,” *Agence France Presse*, Jan. 2, 2006.

⁴³ “Don’t Do Chavez a Favor in Bolivia,” *Christian Science Monitor*, Dec. 22, 2005; “Morales Set to Challenge U.S. on Trafficking, Aid,” *Miami Herald*, Jan. 13, 2006.

⁴⁴ “A War of Words: The Avoidable Bush/Bolivia Meltdown,” *The Democracy Center*, Vol. 30, June 30, 2006.

⁴⁵ 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.

⁴⁶ “Morales: Bolivia Deserves Renewal of U.S. Trade Preferences,” *EFE News Service*, August 2, 2006.

FY2006. The FY2007 request for Bolivia is for \$99.8 million. As reflected in **Table 1**, the largest portion of assistance consists of Andean Counterdrug Initiative (ACI) funds, the U.S. program to curtail drug production and trafficking in the Andean region.⁴⁷

Table 1. U.S. Counternarcotics Assistance to Bolivia, FY2000-FY2007
(in millions \$)

	ACI		FMF	IMET	Total
	Interdict.	Alt. Dev.			
FY2000	57.00	101.00	—	0.50	158.50
FY2001	32.00	20.00	—	0.70	52.70
FY2002	48.00	39.60	2.00	0.70	90.30
FY2003	49.00	41.70	2.00	0.80	93.50
FY2004	49.20	41.80	4.00	0.60	95.60
FY2005	48.60	41.70	—	—	90.30
FY2006	42.60	36.60	1.00	0.80	81.00
FY2007	35.00	31.00	0.03	0.05	66.08
Total	361.40	353.40	9.03	4.15	727.98

Sources: Figures are drawn from the annual State Department and USAID Congressional Budget Justifications for fiscal years 2002 through 2007.

ACI funds include interdiction efforts and alternative development (AD) programs. Interdiction funding provides operational support for specialized counterdrug police and military units and is intended to improve data collection for law enforcement activities. ACI funds 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.

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 are linked to illicit coca eradication. AD includes economic development in coca-growing areas, demand-reduction education programs, and the

⁴⁷ For more information, see CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance*, by Connie Veillette.

expansion of physical infrastructure. Funds are also planned to support the enhancement of judicial capability to prosecute narcotics-related crimes and to improve the quality of investigations into allegations of human rights violations. USAID now works in municipalities where some of those mayors are former coca growers. Human rights organizations working in the Chapare region have supported USAID's decision to work with coca growers.

Article 98 and U.S. Assistance to Bolivia. Since 2003, the Bush Administration has sought bilateral agreements worldwide to exempt Americans from International Criminal Court prosecution, so-called "Article 98 agreements."⁴⁸ Bolivia has signed, but not ratified, an Article 98 agreement. Pursuant to the American Servicemembers' Protection Act, or ASPA, (P.L. 107-206, title II), the Administration terminated military assistance to nations that had not signed Article 98 agreements on July 1, 2003. Bolivia received a presidential waiver from these provisions until January 1, 2004 but lost FMF and IMET funding in FY2005 for failure to ratify that agreement. The Nethercutt Amendment to the FY2005 Consolidated Appropriations Act (H.R. 4818/P.L. 108-447) and FY2006 Foreign Operations Appropriations Act (H.R. 3057/P.L. 109-102) prohibited some economic assistance to the governments of those same countries that do not have Article 98 agreements. The House-passed version of the FY2007 Foreign Operations Appropriations Act (H.R. 5522) would continue those aid prohibitions for FY2007.

FMF funds in FY2005 (\$ 2 million) were to be used for equipment and training assistance to the Bolivian Armed Forces, military police units, and the Army's new Counter-Terrorism Unit to support their efforts to provide security for drug eradication and interdiction operations, to maintain control of remote areas, and to support their role as international peacekeepers. Bolivia has peacekeeping forces deployed in the Congo and observers in Kosovo, Sierra Leone, Liberia, Cyprus, and East Timor. In FY2005, Bolivia lost nearly \$2 million in FMF funding. Some \$1 million in FMF funds have been slated for Bolivia in FY2006 but are also subject to ASPA provisions. Bolivia also generally receives small amounts of International Military Education and Training (IMET) funds. IMET funds are used to provide professional military education to Bolivian military personnel at U.S. military command and staff colleges. Bolivia lost \$800,000 in FY2005 and could lose \$800,000 in FY2006. The FY2007 request for Bolivia included only an estimated \$30,000 in FMF funds and \$50,000 in IMET funds.

Bolivia also benefits from U.S. economic assistance programs. In FY2006, Bolivia received an estimated \$10 million in Development Assistance (DA) funds. The FY2007 request is for another \$10 million in DA to increase economic opportunities, help disadvantaged indigenous groups, and support the Bolivian government's health-sector priorities. In FY2006, Bolivia received an estimated \$16.5 million in Child Survival and Health (CSH) funds. The FY2007 request is for \$13.7 million to support health programs, HIV/AIDS programs, nutrition and

⁴⁸ In July 2002, the Rome Statute that created the International Criminal Court (ICC) entered into force. The ICC is the first permanent world court with jurisdiction to try individuals for war crimes and other grave human rights abuses. For more information, see CRS Report RL33337, *Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America*.

vaccination programs for children, the Amazon Malaria Initiative, and Avian Flu initiatives. Pursuant to Nethercutt aid restrictions, the FY2005 Economic Support Funds (ESF) for Bolivia, which totaled an estimated \$8 million, were reprogrammed to non-governmental organizations. The same is likely to occur with the estimated \$6 million that the Bolivian government was to receive in FY2006. The FY2007 ESF request for Bolivia is for \$6 million. ESF funds, which are two-year monies, are slated to be used to strengthen municipal governments, reinforce democratic practices, promote trade capacity and economic competitiveness, and further justice sector reform in Bolivia. Peace Corps funds for Bolivia, which totaled an estimated \$3 million in FY2006 support a presence of more than 140 volunteers in Bolivia. The FY2007 Peace Corps request is also for \$3 million.

In addition to this bilateral assistance, in 2004, USAID's Office of Transition Initiatives (OTI) launched a program in Bolivia to help to defuse tensions in areas of the country prone to social conflict and to help the country prepare for key electoral events. Through June 2006, OTI had committed more than \$10 million to 291 projects in Bolivia. Recent projects have sought to support the processes of regional devolution in Bolivia by helping newly elected prefects develop the capacity to respond to their constituents' demands. Other projects focus on improving the political representation of indigenous groups in Bolivia.

Millennium Challenge Account (MCA)

In addition to traditional development assistance, Bolivia could benefit from the new Millennium Challenge Account (MCA), a presidential initiative announced in 2002 that is intended to increase foreign assistance to countries below a certain income threshold that are pursuing policies to promote democracy, social development, and sustainable economic growth.⁴⁹

In December 2005, Bolivia submitted a compact proposal worth \$598 million to the MCC, which has been endorsed by the Morales government. The compact focuses on linking raw material producers to small and medium-sized businesses who will then produce valued-added manufactured goods for export. If funded, the program would spend some \$433.5 million on road construction and infrastructure rehabilitation; \$157.5 million on financial services to the small businesses, and \$7 million on program administration. As of July 2006, the MCC was still engaged in ongoing discussions with the Bolivian government, other U.S. agencies, and the broader donor community regarding Bolivia's compact proposal.⁵⁰ Some analysts wonder whether some of the economic and political policies that the Morales administration has promoted might threaten Bolivia's eligibility for MCC assistance. Others wonder whether Morales would accept MCC assistance even if it is offered,

⁴⁹ For more information on the MCA, see CRS Report RL32427, *Millennium Challenge Account*, by Curt Tarnoff.

⁵⁰ For updated information on the status of Bolivia's compact with the MCC, see [http://www.mca.gov/public_affairs/fact_sheets/country_status_reports/Bolivia_CSR.pdf].

given that recipients of MCC aid are generally expected to pursue certain internationally accepted economic and political reforms.⁵¹

Counter-Narcotics 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 23% in 2002, 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.⁵²

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 about the level of drug cooperation they would receive from Bolivia following the December 2005 election of Evo Morales, a coca growers union leader who had been extremely critical of U.S. drug policy. 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. Thomas Shannon, Assistant Secretary of State for Western Hemisphere Affairs, said that "Bolivia has waged an important war against the production of cocaine in Bolivia and eradication [of coca leaf] has been an important part of this. We're going to have to talk to the new government to understand fully how we can keep on with this process."⁵³

An initial willingness to work with the Morales government 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 reportedly wary of President Morales' assertions that more cultivation should be allowed in order to provide for traditional

⁵¹ Tyler Bridges, "To Bolivians, U.S. Aid Often Goes Unnoticed," *Miami Herald*, March 26, 2006.

⁵² 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.

⁵³ "Bolivia to Reject U.S. Aid if Conditional on Fighting Drugs," *Dow Jones Industrial News*, Dec. 27, 2005; "Region: Shannon Conciliates While Chávez Rants," *Latin News Daily*, Jan. 11, 2006.

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.”⁵⁴

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. In June 2006, John Walters, the Director of the White House Office of National Drug Control Policy, said that Bolivia’s “current level of [anti-drug] cooperation is not what it has been in the past, nor what it needs be to continue reducing the problem.”⁵⁵ The House Appropriations Committee report to the FY2007 foreign operations appropriations bill (H.R. 5522; H.Rept. 109-486) cites concerns about reports that Bolivia has lessened its commitment to combating drugs and recommends cutting counternarcotics funding to Bolivia to \$51 million from the requested \$66 million, which is already some \$14 million less than the FY2006 estimated allocation. The Senate Appropriations Committee report to the FY2007 foreign operations appropriations bill (H.R. 5522; S.Rept. 109-277) would provide \$64 million in counternarcotics funding to Bolivia. It would, however, require the State Department to submit a report by no later than October 15, 2006, determining the Bolivian government’s commitment to implementing programs funded by the ACI account.

Andean Trade Promotion and Drug Eradication Act (ATPDEA)

The United States currently extends duty-free treatment to imports from Bolivia and other Andean countries under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The act provides certain trade benefits in return for cooperation in counternarcotics efforts. In February 2002, the ATPDEA reauthorized the 1991 Andean Trade Preference Act (ATPA) that expired in December 2001. The ATPDEA added products that had been previously excluded under the ATPA, including petroleum and petroleum products, certain footwear, tuna in flexible containers, and certain watches and leather products. Duty-free benefits under ATPDEA end on December 31, 2006, but legislation has been proposed, H.R. 5070 (Rangel), that would renew its benefits for another year. Free trade agreements negotiated with Colombia and Peru would make the ATPDEA duty benefits permanent for these countries.

Bolivia participated as an observer in the U.S.-Andean free trade negotiations that began in May 2004. When the Administration first notified Congress of the intent to begin free trade negotiations with Andean countries, a press release that accompanied the notification said that the Administration planned negotiations initially with Colombia and Peru and would work with Ecuador and Bolivia “with a view to including them in the agreement as well.”⁵⁶ Then USTR Zoellick stated a year later that, although the door was open for Bolivia, the country was facing

⁵⁴ U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006.

⁵⁵ “U.S. Drug Czar Criticizes Bolivia’s Cooperation,” *Agence France Presse*, June 26, 2006.

⁵⁶ Office of the USTR, “USTR Notifies Congress of Intent to Initiate Free Trade Talks with Andean Countries,” Press Release, November 18, 2003.

economic and political challenges that made it difficult for it to be a participant in the negotiations.⁵⁷ In March 2006, President Morales announced that Bolivia would “never” negotiate a free trade agreement with the United States but has since moderated his position.

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. National macroeconomic policies and foreign investor confidence may have a much larger effect on economic trends. In general terms, however, the overall effect on Bolivia’s economy of the elimination of ATPDEA benefits would likely be small because exports under this program account for a small percentage of GDP, just 1.79% in 2005. Moreover, only 12% of Bolivia’s total exports in 2005 were destined for the United States, with about half of those exports entering duty-free under ATPDEA.

The Morales government has offered to step up its drug interdiction efforts in exchange for a one-year extension of ATPDEA trade benefits.⁵⁸ Some say that extending ATPDEA could help buoy support for U.S. policies in Bolivia and in the broader Andean region. In July 2006, Thomas Shannon, U.S. Assistant Secretary of State for Western Hemisphere Affairs, told reporters that ATPDEA has been “an important counterpoint to drug production in the region ... [that has] produced hundreds of thousands of jobs.” Others, including Senate Finance Committee Chairman Charles Grassley, oppose continued preferential benefits for countries like Ecuador and Bolivia that have enacted policies prejudicial against foreign investment.⁵⁹

Human Rights

Since 1998, the implementation of forced eradication programs in Bolivia has been accompanied by charges of human rights abuses committed by Bolivian security forces. In 2003, violent clashes erupted between protesters and government troops 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 and 2005 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 FY2004 Foreign Operations Appropriations Act (P.L. 108-199) recognized the lack of progress in investigating and prosecuting human rights cases by Bolivian authorities and urged the Secretary

⁵⁷ Rosella Brevetti. “Zoellick Hopes Progress in Global Round Will Help Lagging Hemispheric Trade Talks,” *Daily Report for Executives*, Bureau of National Affairs, Inc, September 10, 2004.

⁵⁸ ATPDEA Renewal Hangs in the Balance,” *Latin American Regional Report: Andean Group*, July 2006.

⁵⁹ “U.S. Could Scrap Trade Benefits Programs,” *Reuters*, July 27, 2006.

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.⁶⁰ Funding for FY2004 was not made contingent on the determination.

Congress has continued to monitor the human rights situation in Bolivia. Report language in the FY2005 Foreign Operations Appropriations Act (P.L.108-447) and the FY2006 Foreign Operations Appropriations Act (P.L. 109-102) required the Secretary of State to determine whether Bolivian security forces are respecting human rights and cooperating with investigations and prosecutions of alleged violations. Funding for FY2005 was not made contingent on the determination, but funding for FY2006 is contingent on that determination. Report language in the FY2007 Foreign Operations Appropriations Act (H.R. 5522) would continue to make aid to Bolivian security forces in FY2007 contingent upon a State Department certification

More than two years have passed since the Bolivian Congress authorized a “Trial of Responsibility” to determine whether former president Sánchez de Lozada and some of his cabinet ministers and military commanders should be held legally responsible for the civilian deaths that occurred in Bolivia in September and October 2003. On August 9, 2006, the Bolivian armed forces announced that it would respect Bolivia’s Supreme Court ruling that two former military commanders can be tried in the civilian court system as part of the “trial of responsibilities” without legislative approval. Sánchez de Lozada and two of these former cabinet officials currently reside in the United States. Gustavo Guzmán, the recently-appointed Bolivian Ambassador to the United States, has expressed hope that U.S. officials will facilitate the extradition of Sánchez de Lozada to Bolivia to stand trial.

⁶⁰ The State Department submitted its congressionally mandated report on April 22, 2004. In a seeming contradiction of its annual human rights report, the Department’s April 2004 report to the committee stated that “the Bolivian military and police respect human rights and cooperate with civilian authorities in the investigation, prosecution and punishment of personnel credibly alleged to have committed violations.” It also stated with regard to February and October 2003 protests that “despite unrest created by two episodes of major social upheaval, the military and police acted with restraint and with force commiserate [sic] to the threat posed by protestors.” The April 2004 report has been criticized by human rights organizations for being factually incorrect and poorly written. The groups also refute the State Department’s assertion in the April report that the Bolivian military and police cooperate in investigations of human rights abuses, citing numerous instances where the Bolivian Human Rights Ombudsman or prosecutors have stated that cooperation has not been forthcoming. See Kathryn Ledebur and John Walsh, “Memorandum: Flawed State Department Report on Human Rights in Bolivia,” *Andean Information Network* and *Washington Office on Latin America*, July 9, 2004.

Figure 1. Map of Bolivia



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