



## **“U.S.-Bolivia Relations: Looking Ahead”**

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### **INTRODUCTION**

Good afternoon, Mr. Chairman and members of the Subcommittee. Thank you for the privilege to be with you to discuss a topic of such relevance at this time of change – both in Bolivia and the U.S.

Mr. Chairman, we greatly appreciate your ongoing leadership and strong voice for the region. We have had distinct pleasure of working closely with you, Mr. Meeks, and your staff on issues related to Bolivia, including your visit there last year. Mr. Mack, we congratulate you as the new Ranking Minority Member.

I am pleased to be here on behalf of the Bolivian-American Chamber of Commerce, where we recently celebrated our 25<sup>th</sup> anniversary. The Chamber, a business membership organization, aimed at fostering and promoting trade, commerce and investment between Bolivia and the U.S., believes that free markets and private enterprise offer the most effective means to achieve economic growth, prosperity, and social equity. Our membership currently comprises approximately 65% of all foreign direct investment (FDI) in Bolivia – including U.S. and foreign companies in sectors such as energy, manufacturing, natural resources, technology, tourism, telecommunications, transportation, healthcare and pharmaceuticals, legal, banking and financial services.

### **GENERAL BOLIVIAN CONTEXT**

In recent years, Bolivia has faced many challenges to its stability and constitutional order that many observers have wondered how Bolivia has avoided slipping into widespread violent conflict. Bolivia has a highly divided society where wide sectors of the population have been

historically excluded from the political arena; presently, it has very weak political parties, if any at all, that have been unable to create national coalitions; and its political apparatus has been unable to effectively guarantee space for the resolution of conflict within existing juridical structures. The combination of these factors has contributed to the erosion of the legitimacy of the state, further exacerbating intra-institutional conflict and stability.

The 1990s saw the strengthening of social movements that acquired important political salience and that demanded a rethinking not only of how politics operated, but of the configuration of public policy itself. Social movements took their demands to the streets, staging massive protests that frequently paralyzed the economy. These contentious tactics were met with fear and disdain by the political establishment, which failed to effectively respond to their demands.

It is in this backdrop of contesting political discourses and their consequent tensions that Evo Morales won the presidential elections. His triumph is part of what had been referred to as Latin America's turn to the "new populist left", after a wave of electoral contests clearly rejected the policies inspired by the Washington Consensus, which had prevailed in the 1990s, and brought to power left-of-center candidates in Argentina, Bolivia, Brazil, Chile, Ecuador, Nicaragua, Paraguay, Uruguay and Venezuela. A tactical alliance with Venezuela and Cuba has provided Bolivia the resources and political support, respectively, to allow Morales to move ahead with radical agendas without compromising with the opposition.

Strong regionalism permeates social and political relations. The question of local autonomy has become a serious threat for the unity of Bolivia. The divide between the center of political power (La Paz) and economic prosperity (Santa Cruz) has called into question the strongly centralized government in Bolivia. The ethnic divide that accompanies this division has resulted in the indigenous population, who live mostly in Western Bolivia, supporting Morales' quest to retain that centralism as a feature of the new constitution while the white and mestizo population of Eastern Bolivian states ("media luna") demand greater autonomy from the center. Morales' agenda has been defined not only by the opposition, but also by the more radical sector of his party - the MAS (Movimiento al Socialismo) - which is quick to remind him of the promises he made before and during his presidential campaign.

## **ECONOMIC AND INVESTMENT OUTLOOK**

In 2008, a record fiscal surplus and robust monetary reserves, resulting from increased taxation of hydrocarbon and mining companies and the global commodity boom, have left Bolivia with financial benefits. However, 2009 and beyond will be much more challenging. In addition, Bolivia is now dealing with an 8.7% inflation rate, the fifth highest in Latin America as per the World Bank. The 5.5% average growth in GDP will likely not be maintained as the global financial crisis affects Bolivia, creating a wide-ranging slow-down. The Bolivian Minister of Finance has confirmed that Bolivian exports, including hydrocarbons, minerals, and soya by-products have already suffered an acute deceleration. Their Central Bank estimates that remittances have drastically dropped as Bolivian immigrants abroad are facing the effects of unemployment.

Despite being the linchpin of gas supplies to the Southern Cone, Bolivia is struggling to secure long-term investment for its hydrocarbons sector amid questions over its reliability as a supplier and uncertainty over demand from export markets. The recent ratification of the new constitution presents legitimate concerns to the FDI community, particularly with regard to Morales' continued execution of his state-led development policy through strategic sector nationalization.

President Morales recently traveled to Russia and France to sign agreements with Gazprom and insist that Total further invest. The fact that Bolivia has to go so far abroad highlights the partial harm it did by nationalizing its energy industry in 2006, driving away technically able international companies with a proven ability to raise funds. Bolivia, having undermined its strategic position, is now turning to countries such as Russia and Venezuela to fill the investment gap. Morales wants to rely on state-to-state investments – which has worked in the case of Petrobras – but is unlikely to succeed with Gazprom (Russia), PDVSA (Venezuela), and the National Iranian Oil Company. YPFB (Bolivian state-owned gas company) says it expects to boost oil and gas investment to US \$530 million this year, after it fell to US \$149 million in 2007 from a peak of US \$581 million in 1999.

The 12 foreign companies that operate in the Bolivian hydrocarbons space, already rattled by the nationalization of the country's gas and oil sector, are awaiting implementation of a hydrocarbons law required by the new constitution, are wary of getting more involved. The only U.S. company operating in this sector in Bolivia is Occidental. Exxon-Mobil pulled out a few years ago. The electrical sector in Bolivia, which was awash with U.S. investors (Duke, Econergy, PPL Global), has now dwindled to one (Tenaska) plus European investors are concerned that their sector might be next in being nationalized. The perception of the foreign direct investor is that the current government has no problem in NOT following contracts and that the legal system is not up to normal standards. It is important to note that President Morales recently called for Bolivian Supreme Court justices to resign for political/administrative reasons. After lawsuits initiated by the executive branch and a wave of resignations, the Constitutional Tribunal has no quorum in order to function, effectively leaving Bolivia with no judicial oversight on constitutional questions.

Lithium has now become the future investment promise for Bolivia, which holds the world's largest deposits. Several companies, including Bolloré (France), LG Group (South Korea), Mitsubishi (Japan), and Sumitomo (Japan), are courting the government for the rights to explore mineral deposits of lithium, which is a key element in batteries for hybrid automobiles.

## **U.S.-BOLIVIAN RELATIONS**

For the past two decades, U.S. engagement in Bolivia, and the rest of the Andes, has focused on security and counter-narcotics issues – favoring unilateral over multilateral intervention. In the final months of the George W. Bush administration, U.S. relations with Bolivia turned from bad to worse, including Bolivia's expulsion of U.S. Ambassador Philip Goldberg, and the United States' expulsion of Bolivian Ambassador Gustavo Guzman, and then Bolivia's subsequent expulsion of DEA.

There are lessons to be learned from the current crisis, and there is hope that U.S.–Bolivia relations might improve if the incoming Obama administration is open to a new approach. Obviously, Washington has more obvious priorities than Bolivia, and the current environment in La Paz offers no guarantee that conciliatory overtures from the Obama administration would immediately be reciprocated.

All “politicos” in La Paz follow with the closest attention any developments in Washington that could have an impact upon their country. The opposite is true in Washington. U.S. relations with Bolivia rank far down in the hierarchy of foreign policy concerns. During the cold war Bolivia had at least some limited leverage, based on the possibility that La Paz might “switch sides”. But in the “war on terror” Bolivia has limited importance, and even in the “war on drugs” it is a second tier player.

On the flip side, a Morales administration that has limited hope of securing constructive relations with Washington may well gain domestic political capital from pursuing the opposite course, since one result can be to cast rival political parties and future candidates in the role of disloyal instruments of an overbearing foreign power.

As the current U.S. administration attempts to reestablish its eroded international “soft power” and to repair its tarnished reputation as a benevolent regional power, it is essential to recognize that Morales also possesses similar “assets” and a legitimate democratic mandate, which has been reaffirmed during the recent referenda processes. U.S. policy measures designed to discipline his government’s conduct are more likely to stiffen its resistance and to hurt the Bolivian people by further reducing their desire for social progress.

## **COUNTER-NARCOTICS EFFORTS**

As already mentioned, counter-narcotics policy has been the driving force in U.S.-Bolivian relations since the late 1980s, and plays a critical role in determining where the Bolivian government stands today, and how relations might improve in the future. Morales owes his presidency to his defiance of drug policy in the 1980s in the Chapare (his home base) as well as his success in gaining power in local and later national elections. It is important to remember that the coca leaf is a traditional and cultural symbol within Bolivia, and the coca growers expect their democratic politicians to protect their interests. Morales himself presides over the country’s coca growers federation, and has the formal responsibility to negotiate quota and alternative development compensation agreements.

Two obvious pieces of evidence suggest that U.S. drug policy in Bolivia is NOT working. First, the level of coca-leaf production has either remained the same or increased over the years - despite 15 years plus of coca-leaf eradication programs in the Chapare and Yungas regions. Second, the prices for retail sales of cocaine have changed little over the past few years. This suggests that drugs are plentiful on U.S. streets, meaning demand-side interdiction policies are not effective either.

Both the UN Office on Drugs and Crime (UNODC) and the European Union have strategically increased their presence in Bolivia. It would be necessary for these initiatives to be scaled up if they are to fill the void left by U.S. alternative development and interdiction programs. This also shows evidence of an international prerogative to develop approaches that are more multilateral and that could therefore most definitely enlist stronger Bolivian cooperation.

On a recent trip to Bolivia, EU Ambassadors expressed deep concern regarding the vacuum that U.S. interdiction efforts have left since Bolivian cocaine is being smuggled, via Brazil, to Western Europe. The Brazilian Ambassador in La Paz, Frederico Cezar de Araujo also stressed Brazil’s concern with this development and is promoting greater joint action, with Bolivian police officials, to reverse this trend.

It is obvious that any new agreement on coordinated drug policy between Bolivia and a multilateral coalition would still need the support of Washington. Surely, the Bolivian government would welcome a shift in policy whereby U.S. anti-narcotics agencies contribute to rather than lead the design and implementation of policies.

## **ATPDEA**

At present, U.S. trade preferences in the Andean region are tied to drug reduction commitments, vis-à-vis ATPDEA. The impact of trade preferences on the Bolivian export economy has been evident, increasing trade volume and product diversity. Between 25,000 and 50,000 jobs in El Alto depend on access to the U.S. market, and these jobs in turn have a significant impact on the rest of the national economy.

Suspension of trade preferences has been extremely challenging to workers and manufacturers. Every job created through ATPDEA has contributed to workers remaining in Bolivia. As nations like India, Russia, and Iran play an increasing role in Bolivia; the U.S. needs to take advantage of every opportunity to stay engaged in positive and meaningful ways and continue to reach out to the Bolivian population through beneficial aid and trade programs. Unfortunately, this suspension will continue to invigorate champions of anti-Americanism, and continues to make the U.S. less relevant in Bolivia – on all levels. Jobs that have already left Bolivia – particularly in the textile and some other manufacturing areas – will quickly move to China and other Asian markets. Once these jobs are gone, there will be no incentive to bring them back.

Presently, Bolivia is an unusual case in South America because economic growth has not generally translated into less poverty. In fact, poverty has statistically increased over the past few years. The exceptions to this pattern are in the export sector linked to U.S. trade preferences — sectors such as textiles, gold jewelry, leather and organic agricultural products that have higher labor and environmental standards than other sectors of the economy.

## **U.S. FOREIGN ASSISTANCE**

As Barack Obama indicated during the campaign, current U.S. foreign assistance and support for poverty reduction in developing countries is much too small. Through the Millennium Challenge Corporation, USAID, the IFIs, and the UN system, the U.S. should provide much more funding for poverty reduction and development activities.

Bolivia was one of three original countries in the Western Hemisphere selected for eligibility for the Millennium Challenge Account in 2004. Bolivia qualified again in 2005 and 2006, and presented a proposal to the MCC in December 2005 during the Presidency of Eduardo Rodriguez, which was superseded by a new proposal submitted September 2007 by the Government of Morales. An MCC assessment scheduled for December 2007 was postponed due to unrest surrounding the Constitutional Assembly process. This past December, the MCC Board of Directors decided to not reselect Bolivia as eligible for compact assistance.

With certainty, the last proposal of US \$657 million made by the Government of Morales for the infrastructural development of Northern Bolivia (departments of La Paz, Beni, and Pando), as well as helping to diversify the Bolivian economy from its reliance on natural gas and mineral resources, would probably be one of the first things the Bolivians put back on the negotiating table, if a rapprochement with U.S. administration were to happen. However, at this time of financial belt tightening, a pared down version of their proposal should only be considered.

## CONCLUSIONS

U.S. policy toward Bolivia has been dominated by the drug issue and usually has been handled in a rigid bilateral manner, without giving enough consideration to other dimensions of mutual policy interest, including economic growth, poverty reduction, energy, trade, and aid.

Four actions could contribute to a new and positive approach to U.S.-Bolivia relations in the near future.

- The need to reestablish normal diplomatic relations, with an exchange of Ambassadors, and resuming other programs currently suspended. Clearly, political isolation pushes Bolivia deeper into regional polarization and internal conflict
- Considering special treatment for Bolivia on trade and aid that is geared toward growth and poverty reduction rather than on non development objectives (drug eradication and interdiction). This new mechanism should substitute for the APTDEA initiative until a new trade framework is in place
- Re-examining the U.S. counter-narcotics policy in Bolivia and a move toward multilateralism over the immediate future
- Naming a State Department Special Representative or Special Envoy for Bolivia and Venezuela, as has been done for Afghanistan and Pakistan; North Korea; the Middle East; the Persian Gulf and Southwest Asia, as well as a Special Envoy for the Americas. The appropriate time to unveil these appointments would be immediately prior or during the upcoming Trinidad and Tobago Summit of the Americas.

Thank you.

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