

THE CENTER FOR PREVENTIVE ACTION

Bolivia on the Brink

Eduardo A. Gamarra

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CONTENTS

Foreword	v
Acknowledgments	vii
Map	ix
Acronyms	xi
Council Special Report	1
Introduction and Summary of Recommendations	3
The Rise of Evo Morales	7
Challenges Facing the Morales Government	16
U.S. Policy Recommendations	31
Conclusion	45
About the Author	47
CPA Mission Statement	48
CPA Advisory Committee	49

FOREWORD

Three years ago, the Council on Foreign Relations launched a commission to examine U.S. policy in the Andean region and the Colombian conflict. The result, *Andes 2020: A New Strategy for the Challenges of Colombia and the Region*, outlined a comprehensive new regional policy designed to move toward a better balance of “guns versus butter.” Unfortunately, violence continues to plague the region to this day, most recently in Bolivia, where the controversial actions of President Evo Morales and the organized opposition have increased polarization and the likelihood of sustained social unrest.

This new Council Special Report, sponsored by the Council’s Center for Preventive Action, addresses the ongoing social, political, and economic challenges underway in Bolivia and presents a clear set of recommendations for the U.S. government. *Bolivia on the Brink*, written by Eduardo A. Gamarra, professor and director, Latin American and Caribbean Center, Florida International University, argues that with ethnic, regional, and political tensions in Bolivia on the rise, Washington’s current “wait and see” approach to the Morales government is no longer adequate. Instead, Gamarra encourages the U.S. government to redirect its policy toward Bolivia with an emphasis on preservation of democratic process and conflict prevention.

In order to do so, the report recommends the use of more carrot than stick in the near term, encouraging Washington to continue to work to develop relations with both the Bolivian government and opposition. Gamarra argues that excluding Bolivia from trade, military training, and development assistance would only push the Morales government closer to Cuba and Venezuela, feed anti-American sentiment in the region, and increase the likelihood of sociopolitical turmoil. Describing U.S. leverage too limited to influence the direction of the Bolivian government, the report also urges Washington to work with regional states to persuade all Bolivian parties to work within the democratic system to address the nation’s many challenges.

The result is a valuable contribution to any consideration of U.S. policy in the region, one that merits attention from regional specialists and foreign policy generalists alike.

Richard N. Haass
President
Council on Foreign Relations
February 2007

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Eduardo A. Gamarra

BOLIVIA



Source: Central Intelligence Agency World Factbook, <https://www.cia.gov/cia/publications/factbook/geos/bl/html>.

ACRONYMS

ALBA	Bolivarian Free Trade Area of the Americas
ATPDEA	Andean Trade Preference and Drug Enforcement Act
CAN	Andean Community of Nations
DEA	Drug Enforcement Agency
FTA	free trade agreement
IADB	Inter-American Development Bank
IMET	International Military Education Training
MAS	Movement Toward Socialism
MCA	Millennium Challenge Account
MNR	National Revolutionary Movement
NEP	New Economic Policy
NGO	nongovernmental organization
OAS	Organization of American States
PDVSA	Venezuelan Petroleum, S.A.
PODEMOS	Democratic and Social Power Party
TCP	People's Free Trade Treaty
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
YPFB	Bolivian State Petroleum Agency

COUNCIL SPECIAL REPORT

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Since gaining independence from Spain in 1825, Bolivia has endured nearly two hundred coups and countercoups. Despite the establishment of comparatively democratic, civilian rule in Bolivia in 1982 through a system of “pacted democracy,” Bolivian leaders still face many of the same difficult problems as they did twenty years ago: deep-seated poverty, social exclusion of the indigenous and *mestizo* (of mixed racial ancestry) majority, and illegal drug production.

In December 2005, Bolivians elected Movement Toward Socialism’s (MAS) Evo Morales president. Morales, a coca union leader, and the first Aymara Indian to hold the presidency, has promised to address Bolivia’s core dilemmas by restoring the authority of the state in economic decision-making, challenging the country’s traditional political class, and empowering the nation’s poor. The election of Morales, a close ally of Venezuelan President Hugo Chávez and vocal critic of U.S.-led trade initiatives, provided further evidence that U.S. credibility and leadership in Latin America is declining. The models of representative democracy and market-oriented economic policies implicit in the Summit of the Americas process are being challenged by Morales’s calls for direct, participatory, and “unmediated” forms of democracy—all of which have the potential to threaten liberal democracy itself.

Washington’s reaction to Morales’s election, policies, and rhetoric has been to “wait and see.” Yet after a year in office, the Morales administration’s policy agenda has taken shape and, unfortunately, has exacerbated political, ethnic, and racial schisms in Bolivian society. Most people who follow Bolivian politics agree that the MAS’s aggressive policies, particularly President Morales’s insistence that a simple, 50 percent majority—versus a two-thirds majority—of the Constituent Assembly approve each article of a new constitution, have polarized Bolivians more than ever before. Despite Bolivia’s moderate macroeconomic growth over the past year, Morales’s once soaring popularity has declined substantially since the government adopted controversial

approaches to land reform, drug eradication, and natural resource management.¹ Furthermore, fears that the government will enact additional redistributive economic policies have exacerbated long-standing tensions between the country's economically privileged and impoverished regions, prompting a series of violent protests and general political gridlock.

The threat to stability and democratic governance in Bolivia, however, does not come from the Morales administration alone. In early 2007, after over six months of debate, President Morales agreed to stand by the original two-thirds majority requirement for line-item changes in the new constitution, but insisted that if a new constitution is not finalized before July 2, 2007, the process revert to the simple majority requirement in order to meet the Constituent Assembly's August 6 deadline. The main opposition party, Democratic and Social Power Party (PODEMOS), refused to accept the MAS's compromise offer, appearing intent on halting the process unless given an effective veto over all proposed articles and amendments. Morales has placed another compromise offer on the table, proposing that issues on which no agreement is achieved in the Constituent Assembly by July 2 should be submitted to a popular referendum. The opposition has yet to approve this proposal. In this light, the most salient threat to democracy stems from the unwillingness of *all* parties involved to exercise good faith in a process of constitutional reform demanded in the 2005 elections by the majority of Bolivia's citizens.

Other issues present equally difficult challenges for President Morales. Several regional governors, elected directly by the population for the first time in 2005, are seeking a relative degree of independence from the central government, creating tensions over jurisdiction and autonomy issues. In some cases, ethnic divisions parallel these political divides. At others, members of the same ethnic group have clashed in labor disputes. In short, the fault lines dividing Bolivian society are many and varied.

As long as crisis persists, the United States will find it difficult to make progress on its traditional policy agenda in Bolivia. Indeed, should any of these tensions reach a boiling point, sparking widespread social unrest or violence, U.S. commercial, energy,

¹ According to a September 2006 Apoyo Opinion poll, 52 percent of Bolivians approve of the job Morales is doing, down from 81 percent in July 2006. A Gallup International poll, published by the Bolivian newspaper *El Deber* on December 31, 2006, shows that 52 percent of those surveyed do not agree with the reelection of Morales as president of the republic.

security, and political interests in Bolivia and in the Andean rim subregion may be threatened. Despite their differences, Washington and the Morales administration have maintained a relatively cordial relationship. U.S. officials should continue developing ties to both the government and the opposition in order to emphasize that any overt attempt at destabilizing the democratic system by either will not be supported. Yet by and large, current U.S. policy tools—namely, trade, counternarcotics, military, and development assistance—do not provide Washington with sufficient leverage to unilaterally influence the direction of the Bolivian government. A legacy of widespread anti-American sentiment in the country does not position the United States as the best interlocutor.

To support its own efforts, Washington must look to regional partners and open a transparent, multilateral dialogue about the implications of widespread social unrest in Bolivia. In particular, Bolivia's direct neighbors, Chile, Argentina, and Brazil, should be encouraged to approach the Morales government and the opposition in an effort to bring all sides to the negotiating table. With substantial economic and trade interests in Bolivia, each of these countries has the most to gain from a settlement of Bolivia's turmoil and the preservation of a democratic government that respects minority voices. Thus far, there have been little or no coordinated discussions as each country sought to secure its individual bilateral interests with La Paz. A broader regional exchange is urgently needed, and the United States can take a leading role in initiating that process.

As this regional agenda takes shape, Washington must prioritize conflict prevention over any individual item on the U.S.-Bolivia bilateral agenda. This involves using and even expanding current trade and development assistance to increase economic opportunity, bolster the professionalism of the Bolivian military, and deepen Bolivian civil society's commitment to democratic compromise. It also involves showing flexibility on counternarcotics issues, staying away from politicized rhetoric, and generally avoiding policies that would provoke Bolivia's ruling authorities and inhibit the ability of Bolivia's neighbors to help create a framework for domestic consensus. For the most part, U.S. authorities have wisely followed this strategy, and they should continue to do so.

If regional diplomacy fails, however, and the government opts for illiberal governance as a way out of its political difficulties, then there is no guarantee of

continued U.S. aid. But presently, attempting to articulate specific “red lines” or establish appropriate trade-offs is both premature and unwise. The actors in this conflict are still evolving, as are their intentions and motives.

The alternative options—presenting a struggling government with ultimatums, isolating and weakening Morales, not discussing conflict management strategies with Bolivia’s neighbors, and in general isolating Bolivia and the Morales government—will increase the potential for political instability and social unrest in the region. Although specific policies of the Bolivian government, particularly its community coca eradication programs, may contradict traditional U.S. approaches, an unstable, conflict-ridden Bolivia would be a bigger headache for Bolivia’s neighbors, Latin America, and the United States.

THE RISE OF EVO MORALES

The political rise of Evo Morales, which culminated in his election as president of Bolivia on December 18, 2005, is the product of a series of social, economic, and political factors over the past fifty years.

ETHNO-CULTURAL, RACIAL, AND REGIONAL DIVIDES

Bolivia stretches from the Amazonian basin in the east to the Andean highlands in the west, yet is landlocked by five neighbors: Brazil, Paraguay, Argentina, Chile, and Peru. Home to over 8 million people, and two times the size of France, Bolivia has thirty-six culturally distinct groups and nearly forty different mother tongues. Bolivia's natural resources—including energy, minerals, timber, and a wide variety of agricultural products—are as diverse as its territory and peoples. From this description of Bolivia, one can imagine its tremendous potential for economic development and prosperity; one can also imagine the potential for conflict along cultural, economic, and political lines.

President Morales's rise to power reflects the slow and tense integration of indigenous populations, primarily the Aymara, Quechua, and Guarani peoples, into the Bolivian political system. Bolivia's 1952 agrarian revolution, led by the National Revolutionary Movement (MNR), a loose coalition of mine workers, *campesinos* (farm workers), and middle-class *mestizos*, unleashed profound social and political changes, such as the nationalization of the mining industry, an extensive agrarian reform, and the adoption of universal political suffrage. Yet even though these reforms incorporated indigenous *campesino* sectors into the political system, they were tied into a party apparatus that subordinated their interests to those of the middle class and the MNR leadership.

Bolivia's subsequent eighteen-year period of intermittent military-based authoritarian rule (1964–82), especially the seven-year de facto government of General Hugo Banzer Suárez, saw the emergence of indigenous political parties and unions, including the Tupak Katari Revolutionary Movement of Liberation and the Unique

Confederation of Rural Laborers of Bolivia. These groups, which had previously been controlled by the MNR and the military, served as precursors for the indigenous mobilizations that are at the core of MAS's constituency today.

The MAS party has direct roots in the *cocalero* (coca grower) movement. With the closing of Bolivia's mines in 1985, layoffs forced some miners to join indigenous peoples in growing coca for a living. In 1995, a congress of *cocaleros* voted to build a political instrument to express their interests. This entity eventually became the MAS, and—in contrast to the 1950s—the party prioritized indigenous sectors' interests over middle-class concerns.

Any analysis of Morales's emergence must consider the significance of regional factors. Bolivia is one of the least integrated countries in the hemisphere. Despite the inordinate growth of the central government, state authorities retain virtually no control over Bolivian territory. Historically, La Paz has struggled to impose authority in remote corners of the country, particularly the resource-rich southeastern lowlands. Disputes over land ownership, control of natural resources, the central government, and ethno-cultural identity stimulate separatist aspirations in Santa Cruz, and, at times, the central valleys of Cochabamba.

In addition to the ethnic and racial divides in Bolivia, these regional conflicts contributed to a crisis of political legitimacy, weakened the state's ability to effectively govern the country's territory, and produced even more constituencies unhappy with the traditional elites in La Paz—fertile ground for coalition building by the MAS.

BOLIVIA'S COMPLEX TRANSITION TO DEMOCRACY AND LIBERAL MARKETS

Morales is a product, and beneficiary, of Bolivia's uneasy transition to democracy and its efforts to follow a market-oriented development model. Culminating with the election in 1982 of the weak coalition headed by Hernán Siles Zuazo (one of the four great leaders of the 1952 MNR revolution), democratic reforms brought hope to many Bolivians seeking progressive economic and social programs. Newly formed civil groups and political parties representing all sectors of society voiced their demands like never before.

Economic woes and political shortcomings, however, soon plagued the new government. Hyperinflation of historic proportions destabilized the economy, and political institutions were unable to channel the demands of citizen activists. Moreover, political parties failed to incorporate the new civil society opposition into the burgeoning decentralized democratic system. After the collapse of traditional labor unions such as the Bolivian Labor Central, informal sectors had few options for political action other than the coca growers' union. Additionally, interventionist state policies led to the collapse of the tin mining industry, further fueling discontent.

To stabilize the economy, three traditional political parties co-governed Bolivia between 1985 and 2005, alternating power under a “pacted democracy” scheme. Because of the pacted democracy arrangement, officials were able to push policies forward without inciting confrontations between the executive and legislative branches. During that same period, Bolivia's leaders worked to encourage development through a New Economic Policy (NEP). By favoring the role of the private sector and eliminating labor market controls deemed inappropriate for attracting foreign investment, the NEP fundamentally transformed the structure of the economy. The privatization of state enterprises, including hydrocarbons, airlines, railroads, electricity, and telecommunications, soon followed. As a result, foreign direct investment increased significantly; by 1999 more than \$1 billion had entered the national economy.

This capital-intensive strategy, however, had little impact on improving employment levels and erasing poverty, issues with particular significance in a country where more than 70 percent of the economically active population works in the informal sector.² The clientelistic nature of Bolivian democracy—with the perks and spoils of the pact system going to party supporters and traditional elites—deepened inequalities. By 2000, confidence in the party system was at an all-time low.

The great tragedy of Bolivian democracy is that despite some sincere efforts to incorporate the indigenous majority into mainstream politics these measures failed to foster equitable development. Poverty, unemployment, and institutionalized exclusion have resulted in two separate Bolivias: one urban, *mestizo*, and the beneficiary of the

² According to the Inter-American Development Bank (IADB), nearly 70 percent of Bolivia's population is involved in the informal economy, which ranges from the illicit coca-cocaine complex to the vast web of urban street vendors that dot the country's major cities.

process of democratization and economic reform; and the other indigenous and *mestizo* poor, urban and rural, and the bearer of the costs of economic development. A majority of Bolivians believe that poverty has grown and that inequalities have deepened since 1982. That belief is now the dominant accusation used by the MAS against the traditional parties of the pacted democracy and the economic strategy they imposed.³

MOBILIZATION OF CIVIL SOCIETY

The Bolivian government's moves toward decentralization and democratization in the 1980s and 1990s could have provided a common political space in which pro-government elites and civil society groups might coexist. By raising expectations among alienated indigenous and *metizo* groups, and then failing to meet them, this process led to greater instability in the countryside.

By the late 1990s, growing frustration with continued social exclusion, inequalities, poverty, and corruption led civil society networks to demand that a Constituent Assembly transform prevailing political, social, and economic structures. Groups also voiced more specific demands, such as the nationalization of water services. While all activists adopted these rallying cries, none did so more forcefully, and successfully, than Evo Morales. As a candidate of the MAS party in 1997, Morales scored the largest electoral success of any congressional deputy in Bolivia's lower house by winning the single-member, coca-growing district of El Chapare with more than 70 percent of the vote. Civil society groups, including *cocaleros* and other *campesinos*, made up the core of MAS's constituency.

Facing widespread protest by civil society groups, President Gonzalo Sánchez de Lozada was forced to resign his second term in office in October 2003. To many observers, Sánchez de Lozada's resistance to the demand for a new Constituent Assembly was the main factor responsible for his fall. Once unleashed, the forces that overthrew Sánchez de Lozada's government realized that they could have a major say in

³ Depending on which economist you ask, Bolivia either reduced poverty rates during this twenty-year period (1982–2002) or experienced a significant poverty rate increase and a parallel process of deepening inequality.

running Bolivia. For many citizens, Evo Morales embodied this newfound power, and his arrival on the political scene demonstrated that groups perceived as outsiders, such as union leaders, coca farmers, and indigenous peoples, could be included in the political process.

Carlos Mesa, the vice president who succeeded Sánchez de Lozada, essentially gave in to popular demands, believing that by modifying the constitution and convoking the Assembly his government would receive credit for transforming the country. But Mesa presided over a hapless government that combined almost comic populism with an open confrontation with the National Congress in an attempt to remain in office. In June 2005, another series of protests led to the resignation of Mesa.

The interim government of Eduardo Rodríguez was elected solely to preside over a new round of national elections to break what Vice President Alvaro García Linera today describes as the tie between the old system that refused to die and the new one that was yet to be born. The mobilization of civil society set up Morales to be the president under whose auspices a newly elected Constituent Assembly would “refound Bolivia.”

THE COCA-COCAINE COMPLEX

Coca-cocaine production remains deeply intertwined with social, economic, and political dynamics in Bolivia. Because coca remains a crop utilized by traditional indigenous cultures for medicinal purposes and in religious ceremonies, it is grown primarily by Bolivia’s indigenous population. Since the transition to democracy in the early 1980s, coca growers’ unions have substantially grown in strength and remained active in politics. Although Morales was the first coca grower to win a single-member district seat in the lower house, the unions sent representatives to the legislature under different party tickets as early as 1982. Along with pushing for more representation in the central government, coca growers’ union activism, characterized by road blockades, marches, and strikes, successfully resisted not only the imposition of U.S.-funded eradication efforts, but also the government’s neoliberal economic policies.

At the same time, there is no easy separation between those who grow coca for medicinal, cultural, and religious purposes and those who produce coca, the raw material

in cocaine, for narco-trafficking. Coca farmers, displaced mine workers, military officers, traffickers, and political parties all participate in the illicit coca-cocaine economy that disrupts Bolivia's politics and commerce. For example, the major roadway connecting eastern and western Bolivia runs through the geographically central, coca-producing Chapare region. When discontent, participants in the complex, including coca farmers, can halt the flow of goods and people from one side of the country to the other. The growth of this immense and intricate network, its concomitant web of corruption, and joint Bolivia-U.S. efforts to combat its proliferation all tax Bolivia's weak political system and have ramifications beyond a law enforcement or national security perspective.

The various actors in Bolivia's coca-cocaine complex have been a critical element of support in Morales's rise to power. In turn, Morales has not abandoned his role as coca union leader. Throughout his time as a congressional deputy, Morales worked actively on many legislative matters while still directing road blockades and other union strategies to protest counterdrug policies. Expectedly, such activities earned Morales the ire of traditional politicians, many of whom attempted to force the coca union leader out of the Chamber of Deputies. In 2000, authorities suspended Morales from Congress following a still unsolved incident that involved the kidnapping, torture, and execution of four police officers by coca growers, presumably under his orders. A definitive expulsion followed in February 2002, in the middle of national elections. Rather than hurting his public image, the scandal bolstered his 2002 presidential campaign.⁴ In June 2002, the MAS's leader placed second only to former President Sánchez de Lozada, proving to all skeptics that he had become a national political force.

Morales campaigned for the presidency on promises to encourage cultivation of the coca plant and, as president, Morales maintains a dual politician-*cocalero* activist role. On February 14, 2006, he was reelected head of the coca growers' federation and promptly announced that unless the opposition parties in Congress voted in favor of his law to convoke the Constituent Assembly, he would order the coca growers to march on La Paz. Morales may now be a national leader with widespread support, but the coca growers will always be a praetorian guard he can mobilize to obtain specific gains. At the

⁴ Morales was expelled from the National Congress because he was formally charged with the kidnapping, torture, and assassination of the four police officers. He could not be tried if he remained in the legislature, because, like all members of the National Congress, he was immune from prosecution for any crime.

same time, Morales has reportedly named two civil society leaders as the heads of the People's High Command, an organization intended to rally support for, and manage opposition to, the MAS.

OUTSIDE FORCES

Morales's friendships with Fidel Castro and Hugo Chávez have substantially aided his rise to power. Morales first traveled to Cuba in the late 1980s, where he began forging relationships with high-level Cuban officials. His initial contacts were established through the traditional parties of the Bolivian left that Morales now dismisses as corrupt. Over the years, members of the various coca growers' unions have benefited from academic scholarships for study in Cuba arranged by Morales. Current Cuban assistance, including scholarships and a highly publicized literacy campaign in Bolivia, should be seen as a logical progression of these early exchanges.

Since at least 2001, Morales has also benefited from a close relationship with Hugo Chávez. Chávez publicly supported the MAS and acknowledged that he advised Morales during the Bolivian presidential election.⁵ In many regards, he has served as Morales's political mentor—he counseled Morales in international affairs, introduced him to dignitaries, and flew him on the Venezuelan presidential plane to the inaugurations of other Latin American presidents, including Chilean President Michelle Bachelet.

As president-elect, Morales visited Havana and Caracas to thank his international supporters. In turn, Chávez attended Morales's inauguration and used the opportunity to announce the opening of an office of Venezuelan Petroleum, S.A. (PDVSA), the national oil company of Venezuela, in Bolivia. Chávez has also increased the presence of Venezuelan advisers in areas ranging from health and education to hydrocarbons and the national identification system. Castro followed suit with promises of ambitious literacy and health care programs, disaster assistance projects, and 5,000 scholarships for

⁵ Simon Tisdall, "Chávez the Bush Baiter," *Guardian* (London), November 25, 2005.

Bolivian students. David Choquehuanca, Bolivia's foreign minister, described these efforts as "integration of the people of these countries in all aspects."

Nevertheless, it would be a serious mistake to explain Morales's political rise by pointing solely to the influence of Cuba and Venezuela. Other Latin American states, particularly Brazil and Argentina, have a stake in Bolivian politics to meet their energy needs and protect business investments. It is accurate, however, to state that Morales was also, in part, the unintended creation of an aggressive U.S. counterdrug policy.

For nearly three decades, U.S. counterdrug policy in the Andean region has been driven by a supply-side crop eradication strategy. U.S. efforts in Bolivia have emphasized the forceful eradication of coca crops in the Chápare region, the subtropical region in which thousands of poor farmers produce most of the Bolivian coca, through the involvement of police and military units. The carrot components of the strategy include massive financial, development, and military assistance. However, if the United States uses its international drug certification process to judge the Bolivian government uncooperative with U.S. counternarcotics efforts, sanctions such as bilateral aid cuts, vetoes of loans from international financial institutions, and exclusion from market access agreements could be enacted.

In the late 1990s the policy achieved a dramatic short-term reduction in coca production, but at a very high cost. Aggressive eradication operations by security forces led to widespread human rights abuses, such as excessive use of force, arbitrary detention, and the suppression of peaceful demonstrations. Some economists calculated that the Bolivian economy lost as much as \$700 million annually, leaving thousands of coca growers unemployed but still tied to their unions. Furthermore, U.S.-funded alternative livelihood programs failed to convince farmers to give up growing coca.

This policy boosted Morales's popularity and catapulted him into the political limelight. Since at least 1988, U.S. ambassadors made extraordinary efforts to demonize Morales and accuse him of links to narco-trafficking. Regardless of the merit of these accusations, which Morales categorically denies, they helped the indigenous leader cultivate his now mythic reputation, consolidate his national political movement, and run a disciplined and successful presidential campaign.

Morales's well-executed campaign strategy, complete with an excellent set of television and radio spots, stands in stark contrast to the disorganized, reactive, and unimaginative campaigns of the establishment candidates. Jorge Quiroga of PODEMOS, Samuel Doria Medina of the National Unity Front, and Michiaki Nagatani of the MNR failed to capture voters outside of their reduced electoral bases. More importantly, they lost the middle class in droves. On December 18, 2005, Evo Morales easily defeated U.S.-educated Quiroga to become president of Bolivia.

Quiroga's defeat marked the last breath of Bolivia's traditional party system. In the end, corruption was the main theme in the election; surveys suggest that the average Bolivian opted for change with Morales even though they did not know what his presidency would bring. Winning 53.7 percent of the vote, Morales became the first president since the 1982 transition to have been elected without a congressional second round, as called for by the constitution. This factor alone gives Morales greater legitimacy than any of his predecessors.

CHALLENGES FACING THE MORALES GOVERNMENT

The Morales government clearly intends to restore the authority of the state in economic decision-making. This is evident in its push to “nationalize but not expropriate” the hydrocarbons sector and possibly other enterprises capitalized in the 1990s. But the government will face multiple challenges in reaching that aim and in empowering the country’s indigenous majority. Obstacles include building a coalition for constitutional change in the Constituent Assembly, addressing movements for regional autonomy, reconciling labor conflicts, implementing hydrocarbons, mining, and land reform policies, and managing international relationships. As events in recent months have shown, developments in each of these areas have the potential to damage Morales’s popularity, spark social unrest, and threaten democratic governance.

“REFOUNDING” BOLIVIA THROUGH THE CONSTITUENT ASSEMBLY

After Morales’s landslide presidential victory, the MAS government hoped to score another electoral triumph in the July 2 Constituent Assembly contest. An Assembly with a two-thirds majority of MAS followers would have furthered Morales’s plans to empower the country’s indigenous majority while creating a serious crisis for the Bolivian opposition. The MAS, however, won only 137 seats in the 255-member body, just over 50 percent of seats. The PODEMOS alliance won sixty seats; the remaining fifty-eight seats are divided among fourteen other political parties.⁶ As it stands, MAS does not control the two-thirds majority needed to exert absolute control and ease the passage of constitutional changes.

Under existing rules, both the MAS and the opposition should be forced to build coalitions in the new assembly to achieve their political goals. At the inaugural meeting of the Constituent Assembly, however, the MAS and President Morales insisted on a simple majority to approve each article of a new constitution. This move contradicted the laws and the spirit that led to the election and aggravated already serious tensions

⁶ “Bolivia Assembly Shows Vote Split,” BBC News, July 11, 2006.

between Morales and PODEMOS. In the months since the Constituent Assembly first assembled, PODEMOS, other opposition parties, and traditional elites from Bolivia's south and east fought hard against the simple majority rules of debate adopted by the pro-government constituent assembly members.

As described earlier, in January 2007 the MAS made a partial concession to the opposition's demands, agreeing to enforce a two-thirds majority for all line-item changes to the constitution until July 2, when a simple majority rule would take effect to ensure the speedy finalization of the process. When the main opposition party, PODEMOS, refused to accept the MAS's offer, Morales offered another concession, proposing that issues on which no agreement is achieved in the Constituent Assembly by July 2 should be submitted to a popular referendum. Although the opposition has yet to approve this proposal, the leader of PODEMOS, former President Jorge Quiroga, has welcomed the plan.

Part of the opposition's intransigence on the question of the Constituent Assembly stems from the way in which its mandate has been characterized by the Morales administration. In describing the process through which the government hopes to "refound" Bolivia's institutions, Morales has frequently used the term *originario* (original, native). While this term on the one hand refers to the idea of a new beginning, it also implicitly links the endeavor to Bolivia's indigenous roots. This symbolic association alienates and infuriates those members of Bolivian society who do not share the same perspective. For this reason, confrontation between indigenous Bolivians and the regional, *mestizo*, and white elites—despite all of the conflicts within both sides—have emerged in Constituent Assembly proceedings. Whether or not the Constituent Assembly can complete its task and accept minority party influence will have major repercussions for security and stability in Bolivia.

Outside of the Constituent Assembly, threats to transparent democracy exist. In November 2006, President Morales proposed disbanding the Senate after that body registered its opposition to the government's land reform proposals. Then, in late December, Morales appointed four MAS loyalists to fill vacancies in the Supreme Court, increasing the likelihood that judges will be subordinated to the imperatives of the

executive. These moves have intensified the anger of the opposition and raise serious concerns about the Morales government's commitment to pluralist democracy.

MANAGING REGIONAL DEMANDS

For Morales to maintain national unity, refound Bolivia in the Constituent Assembly, and preserve access to the energy resources in those regions that sustain the Bolivian economy, he, his administration, and the MAS must work to address the concerns of Bolivia's diverse regions. Primarily, President Morales must manage ongoing restlessness and pressure for greater autonomy from the lowland, eastern regions, or departments.

In the midst of the mobilizations against the Sánchez de Lozada and Mesa governments, the people of the Santa Cruz department launched a movement for departmental autonomy. In January 2005, pro-autonomy groups mobilized 500,000 people demanding that the Mesa government convoke a binding referendum on the question of departmental autonomy. Above all, those departments demand increased control over the collection and spending of revenues derived from their land and natural resources. Although departmental *prefectos* (governors) were directly elected for the first time in December 2005, and decentralization efforts have already vastly increased the size of public funds for those states, local authorities remain unsatisfied and anxious for greater power and greater access to state resources.

The government gave in and agreed that the referendum would be held on July 2, 2006, the same date as the vote for the Constituent Assembly demanded by highland indigenous groups. In the end, 57 percent of voters opposed granting departmental authorities more autonomy. Only four out of Bolivia's nine departments voted in favor of increased political and economic independence: Santa Cruz, Tarija, Pando, and Beni, the resource-rich parts of the country. Demands for autonomy, however, did not abate after the referendum. Rather, tensions have escalated as deliberations in the Constituent Assembly aggravate ethnic, racial, and regional differences.

As 2006 came to a close, these regional tensions, coupled with the discussion over the two-thirds vote, had effectively split the country in two. A hunger strike staged by

hundreds of members of the opposition, middle-class intellectuals, and the Santa Cruz, Tarija, and Beni departments' civic committees became the most serious social challenge facing the Morales government. The government's response was to stage its own countersocial mobilization, accusing the hunger strikers of undermining the agenda for fundamental change launched by the government. Throughout these conflicts, no internal mediating institution or force was visible, and Bolivians appeared headed toward an inevitable clash.

In early 2007 regional tensions reached new heights and raised serious concerns about the direction of sociopolitical conflict in Bolivia. In January, coca growers from the Chapare Valley joined MAS deputies and other labor activists in a government-sponsored march and demonstration in the city of Cochabamba to demand the resignation of Manfred Reyes Villa, the elected governor of the department, who had called for a second national referendum on regional autonomy. In the ensuing confrontation with the prefect's defenders, a coca grower was shot dead and a middle-class "white" teenager died as a result of being tortured and strangled by a mob of coca growers. Although Vice President García Linera refused to recognize a parallel departmental government elected by the marchers, the violent confrontations died down after European ambassadors expressed concern over the direction of Bolivian democracy.⁷

The Cochabamba incidents suggest that the traditional regional cleavages have deepened as a result of a racial-ethnic divide promoted in part by the government. The events also demonstrate a troubling reliance by the Morales administration on social organizations to control dissent of any kind. The overtly racial nature of both deaths is the most serious warning that Bolivia is headed toward a severe racially based confrontation that exacerbates existing regional tensions.

⁷ The U.S. Embassy made no public comment on the Cochabamba situation; as a result, it was only European messages to President Morales that apparently swayed the government to order the coca growers and other groups to abandon their attempts to topple Reyes Villa.

FULFILLING CAMPAIGN PROMISES

Morales's primary challenge was to translate his campaign pledges, particularly those that involve resource redistribution, into a formula that retains and encourages foreign investment, holds Bolivia's nine diverse states together, and simultaneously persuades the Bolivians who voted for him that he has not gone back on his promises.

Hydrocarbons Policy

During the Sánchez de Lozada government (1993–97), Bolivia embarked on a significant initiative that opened the hydrocarbons sector to foreign investment through a privatization strategy known as capitalization. Capitalization involved selling 50 percent of the Bolivian State Petroleum Agency (YPFB), plus management, to the highest bidder. The remaining 50 percent was used to privatize the country's pension system. By the late 1990s, YPFB had essentially disappeared, and foreign companies invested over \$1 billion in the hydrocarbons sector. Those foreign companies were responsible for developing the natural gas reserves that now rank second only to Venezuela.

One of President Morales's major campaign promises was to end what he called the looting of Bolivia's natural resources by foreign companies. To begin reforming the hydrocarbons sector, Morales imposed a law calling on foreign energy enterprises to pay significantly higher taxes, accept all terms of new legislation, and work with a resurrected YPFB. The strategy was to strengthen YPFB with revenues forthcoming from natural gas sales and the investments of foreign companies, such as PDVSA (Venezuela), Petrobras (Brazil), Repsol-YPF (Spain), British Gas and British Petroleum (Great Britain), Total (France), and Exxon Mobil (United States).

The rules of the game changed dramatically on May 1, 2006, however, when Morales announced the nationalization of the energy industry. Foreign companies operating in Bolivia were ordered to negotiate new contracts with the YPFB and cede the majority of control to the Bolivian government within 180 days. Bolivia is demanding that the previous mode of profit sharing be reversed, from 18 percent in royalties to Bolivia and the rest to principal energy companies, to an 82 percent share—in the form of

taxes and royalty earnings—and the rest for the companies.⁸ Companies were offered a buy-back scheme, but Morales stated publicly that he did not intend to compensate any company that has recouped its original investment. Under these new regulations, if by November 1, 2006, a company refused to accept the terms of the audit, the Bolivian state could have expropriated its assets and effectively forced it out of the country without any type of compensation. As this date came and went, all companies appeared to accept the terms as the government triumphantly announced that a number of new agreements had been settled upon.

The move was politically popular in Bolivia. Bolivian officials were always confident that their relationships with the energy corporations would continue to provide mutual benefits. Antonio Brufau, president of the Spanish-Argentine hydrocarbons consortium Repsol-YPF, announced in June 2006 that the company would continue negotiations with the Bolivian government following the nationalization decree, but has also made it clear that if the company was not wanted in Bolivia, it would leave: “Bolivia is not critical for the future of Repsol,” but Repsol is important for Bolivia.⁹ Repsol is the second-largest oil and gas company operating in Bolivia, accounting for approximately 27 percent of Bolivian gas reserves prior to nationalization, after Petrobras, which controls 46 percent.

Although Petrobras, Repsol, and other international companies did sign agreements with the Bolivian government that allow them to continue operations in Bolivia under state control, the nationalization decision has strained Bolivia’s relations with its neighbors and business partners. Bolivia-Brazil relations were temporarily damaged over the way in which Petrobras, Brazil’s state-owned energy company that has invested more than \$1.5 billion in Bolivia, was treated. Negotiations over the price that Brazil will pay for Bolivian gas have still not been completed, though the tone of discussion has improved of late. Bolivia’s cozy relations with Venezuela (which promises to invest) and Argentina (which agreed to pay higher prices for natural gas) created and exacerbated these serious tensions with Brazil. The Brazilian government announced that

⁸ Alma Guillermoprieto, “The New Bolivia: II,” *New York Review of Books*, Volume 53, No. 14, September 21, 2006.

⁹ Juliette Kerr, “Repsol YPF Considers Possibility of Exiting Bolivia,” Global Insight, World Markets Research Ltd., June 19, 2006; “Bolivia to Sign Nationalization Deals with Foreign Oil Companies,” Associated Press, October 28, 2006.

it would freeze all future investments in Bolivia and would not pay higher prices for gas. Even the goodwill developed between Bolivia and Chile during the inauguration of Chilean President Bachelet appears to have been lost as a result of the Bolivian government's conditioning of natural gas sales to Argentina on a prohibition to resell the fuel to Chile. Similarly, relations with Spain and Great Britain were affected by the Bolivian government's new hydrocarbons policy.

Internal difficulties have also surfaced. La Paz lacks the resources necessary to buy back the hydrocarbons industry from foreign investors. Bolivia's government was forced to call a "temporary suspension" to its plan to take a greater stake in the country's energy sector, citing lack of funds and expertise. Also in late August, Bolivia's Senate passed a motion of censure against Andrés Solíz, the hydrocarbons minister, for botching the nationalization and for alleged corruption at YPFB. Amid corruption allegations, Jorge Alvarado stepped down as the head of YPFB, which is charged with managing the nationalization policy. Then, in late September, Solíz presented his resignation, confirming the very serious strains in the government's hydrocarbons negotiating team. It was only under Carlos Villegas, a new, more pragmatic minister, that the Bolivian government moved toward signing agreements with the foreign companies.

Despite these problems, the prognosis for the Bolivian economy remains positive in the short run. High natural gas prices, restructured agreements with foreign entities operating within Bolivia, and new export contracts signed with Argentina have produced a windfall for the government. This revenue has in turn fueled those regional tensions discussed earlier, with gas-rich provinces demanding a greater portion of profits than other parts of the country. In this way, questions of regional autonomy and resource nationalism are closely intertwined. In the mid to long term, the industry's financial security is less assured. Without significant foreign investment, current revenue streams may disappear, along with Morales's domestic political strength.

Labor and Industry

Not all labor groups support Morales. The Bolivian Workers' Central, for example, has always doubted Morales's union credentials beyond the coca sector. In order to reach its

political goals and avoid further civil unrest, the Morales government must quickly find a formula to co-opt dissent, much of which now revolves around organized labor groups historically supportive of the MAS.

In early October 2006, rival groups of miners from Huanuni, Bolivia's largest and most lucrative tin mine, fought one another for two days using guns and dynamite, leaving at least sixteen dead and causing more than \$2 million worth of damage. The dispute centered on competing claims between employees of the state mining company, Comibol, and members of the newer cooperative miners union, Fencomin. Comibol members claimed that they earn far less for their labor than Fencomin. For their part, Fencomin workers demanded access to larger portions of the mine. Violence began when Fencomin attempted to stage a takeover of the entire facility. The Morales administration responded clumsily to the violence and has been widely criticized for allowing the battle to escalate before sending in security forces. Conflicts like that at Huanuni may be repeated if Morales follows through with stated plans to nationalize the mining industry in 2007.

Labor unrest may spill over into other sectors as well, particularly the coca industry. Morales's *cocalero* base resides in the Chapare, the La Paz Yungas Valley, and in the area known as Yacapani in Santa Cruz. These sectors have enjoyed a privileged relationship with the president and limited eradication efforts have been occurring in those areas. That is not the case in the Yunga de Vandiola reserves, where a clash between military police eradicating forces and *cocaleros* occurred on September 29, leaving two *cocaleros* dead and several soldiers injured. Rather than defending their rights to grow coca peacefully, the Morales government accused *cocaleros* in the reserves of working with narcotraffickers.¹⁰ After *cocalero* women there staged a hunger strike and set up a blockade on the old road linking the Cochabamba, Santa Cruz, and Chuquisaca departments, the Morales government brokered a compromise agreement. Nonetheless, *cocaleros* in the region are rethinking their relationship with the president.

As these examples show, the potential sources of instability in Bolivian society do not fall strictly along ethnic lines. The Morales administration's decisions regarding coca issues are creating rifts among indigenous *cocaleros*. The conflict at Huanuni pitted

¹⁰ "Muerte de lose cocaleros pone en vilo erradicación pacífica de Evo," *Los Tiempos*, September 30, 2006.

indigenous Bolivians against one another and presented the Morales team with a particularly difficult choice. Fencomin, the principal actor in the El Alto riots of October 2003 that forced President Sánchez de Lozada's resignation and an important supporter of Morales's campaign for the presidency, expected the president to back its demands. These expectations were heightened by the fact that one of its former leaders, Walter Villaroel, was serving as minister of mining. Employees of the state-owned company, on the other hand, justifiably hoped the government would take responsibility for their well-being.

These events suggest that Morales, despite the persona he has tried to cultivate, is in many ways a traditional Bolivian political actor who doles out patronage to major supporters while simultaneously condemning those who came before him for doing the same. Like previous regimes, the Morales administration and the MAS will face serious challenges in managing conflicting interests. Because MAS is still a very loose coalition of a wide variety of interests, achieving this balance will be challenging. Recognizing this, Morales and his strategic team increasingly see appeals to race and ethnicity as the only way to glue the MAS and Bolivia together.

Land Issues

In the five decades since the 1952 Revolution launched bold agrarian reforms, land tenure patterns in Bolivia have returned to prerevolution extremes. Land ownership in the western part of the country has reconcentrated. Bolivian military rulers and democratically elected leaders alike have doled out land holdings to political supporters and relatives.

Land reform was a major component of the MAS campaign platform, as the concentration of land ownership in Bolivia is among the highest in Latin America. On May 30, the government announced, on the basis of the 1996 Agrarian Reform Law, an ambitious plan to redistribute 20 million hectares of land to indigenous, *mestizo*, and *campesino* communities. A new law authorizing the National Institute of Agrarian Reform to expropriate land—once an official investigation has established the necessity and usefulness for doing so—was squeezed through Bolivia's Congress in November 2006. Although Bolivian government officials have been quick to point out that all of the

land redistributed thus far was state-owned, Morales has indicated that his government will eventually seize private holdings that are judged not to be in productive use.

Redistributing around one-fifth of Bolivia's total land area over the next five years—Morales's target—will prove difficult. Implementation involves disentangling centuries of real estate records, determining and acknowledging those landholders who claim legitimate rights to their property, finding seed money for new farms, and managing resistance from landowners. Land redistribution is a source of ongoing dispute between the central government and elites in eastern and southern Bolivia who fear the government will confiscate their land. Complicating the issue, the Morales government seems unable to control landless *campesino* and indigenous groups that believe the reform gives them carte blanche to invade private lands. Land seizures by itinerant farmers also pose a serious threat to large expanses of environmentally protected areas.

No matter how the Morales government pursues this issue over the next few months, it is likely to generate serious, perhaps violent conflict, shake private sector confidence in investments in Bolivia, and increase the fervor of movements seeking greater departmental autonomy.

MANAGING INTERNATIONAL RELATIONS

The Bolivian government has recently voiced its desire to formulate a multilateral foreign policy characterized by fruitful relationships with a variety of countries, such as Brazil, Argentina, Mexico, members of the European Union, and the United States. While openly recognizing Morales's friendship with Hugo Chávez and expressing gratitude for the extensive aid and "friendship" of Venezuela and Cuba, representatives of the Bolivian government firmly reject any suggestion that Caracas is "casting a shadow" over La Paz. Officials stress that their international agenda reflects the priorities of the Bolivian people, not any foreign government.

As evidence, officials cite a \$120 million loan pledged by the Argentine government in July 2006, ongoing negotiations with Mexico's national oil company to help industrialize the natural gas industry and acquire subsidized petroleum imports, and a continuing effort to secure equitable, long-term trade agreements with the United States

and Europe. Moreover, the Morales government hopes to work with Argentina and Brazil to provide technical assistance and training to impoverished Bolivian farmers. Negotiations with Chile to obtain pipeline access to the Pacific Ocean are pending, as are discussions about the possibility of Paraguayan entities purchasing Bolivian natural gas.

Developing such a diverse foreign policy agenda is indeed a worthy and appropriate goal. However, although the U.S. government has largely ignored Morales's incendiary anti-U.S. rhetoric and controversial policies thus far, a continued antagonistic tone from La Paz jeopardizes crucial elements of Morales's plan.

Trade Relations

Trade relations with the United States and the nations of the Andean community pose a difficult challenge for the Morales administration. In particular, the recently signed U.S.-Colombia Free Trade Agreement has endangered Bolivian soy exports. Soy is by far the single most important agricultural export commodity of Bolivia, accounting for 27 percent of total export revenues. In 2004, over 92 percent of Bolivian soy exports were sent to other Andean nations.¹¹ The U.S.-Colombia accord will permit heavily subsidized American soybean products to enter Colombia, knocking out Bolivian crops. Yet, because antitrade rhetoric was a significant component of his campaign platform, the new Bolivian president has few tools at his disposal with which to develop an effective response. Colombia has assured Bolivia that the agreement will not prevent Bolivian soy from entering the Colombian market.¹² Nonetheless, trade relations between the United States and other Andean countries could inhibit Bolivia's regional trade relations and severely damage its economy.

Morales uses any setback as an opportunity to respond aggressively. His unrehearsed response called for the immediate founding of a People's Free Trade Treaty (TCP), whereby participants would respect each nation's interests and promote "real" integration. Cuba and Venezuela signed on at the same time that Bolivia became part of

¹¹ Jan Maarten Dros, "Managing the Soy Boom: Two Scenarios of Soy Production Expansion in South America," AIDEnvironment (Amsterdam), June 2004, p. 19. The last year for which full data is available is 2004.

¹² "Colombian-U.S. Trade Deal Will Not Hurt Bolivian Soy Exports, Minister Says," BBC Worldwide Monitoring, April 18, 2006.

the Bolivarian Free Trade Area of the Americas (ALBA), an initiative led by Castro and Chávez. Chávez has pledged to buy all Bolivian soy production and work with Bolivia on energy integration schemes.

The implications of Morales's anti-U.S. rhetoric and Bolivia's increased reliance on trade with Venezuela and Cuba must be examined carefully. The Bolivian president seems to believe that he can denounce U.S. bilateral trade agreements, appear with Chávez at anti-imperialist rallies, and simultaneously ask Washington for an unconditional extension of preferential access for Bolivian products in the U.S. market through the Andean Trade Preference and Drug Enforcement Act (ATPDEA). Morales's contradictions belie the fact that the ATPDEA agreement is critical for the health of the Bolivian economy.

Under ATPDEA provisions, the United States lifts the barriers for goods from Bolivia, Colombia, Ecuador, and Peru to enter its market, in exchange for drug control measures taken in those countries. ATPDEA preferences were set to expire at the end of 2006. The White House asked the U.S. Congress to extend the agreement as it continues to negotiate free trade agreements (FTAs) with individual Andean states. On December 8, Congress renewed the duty preferences for another six months. After that, Congress will grant another six-month extension only to countries with bilateral trade deals in place with Washington.

Given that the Morales government endorsed Chávez's accusation that the United States' FTAs with Colombia and Peru have undermined the Andean Community of Nations (CAN)—and because Morales has been quoted repeatedly in the Bolivian press arguing that the only way that the CAN could be jumpstarted would be for Colombia and Peru to give up their FTAs—it is not likely that ATPDEA preferences for Bolivia will be renewed in mid-2007. There have been some indications that a long-term extension of ATPDEA is not completely off the table. In fact, the incoming chair of the House Ways and Means Committee, Charles Rangel (D-NY), suggested that he would pursue exactly this option. Still, securing the necessary legislative support for such a move may be difficult under the new U.S. Congress.

Aside from sending high-level delegations to the United States in July and September to lobby for the extension of the ATPDEA, the Bolivian government has done

little to prepare for offsetting the serious impact on the Bolivian economy of what appears to be its inevitable termination. Paradoxically, President Morales's own visit to the United States in late September and his incendiary speech at the United Nations undermined rather than supported Bolivia's case for long-term ATPDEA extension. If allowed to expire in 2007, the effects will be felt in sectors such as gems, textiles, and furniture exports. According to the U.S. Embassy in La Paz, approximately 150,000 jobs could be lost. The real number is probably closer to 80,000; nonetheless, this figure is three times the number of miners (23,000) who were fired in 1985 with the closing of the tin mines. Even on the off chance that Bolivia's demands are pushed through the U.S. Congress, the extension is likely to last only for an additional year, at which point La Paz would be compelled to negotiate a bilateral FTA with Washington or lose preferences. Also unclear is what the Morales administration will do if Caracas is unable to live up to its promises of increased trade and assistance.

One step Bolivia has recently taken to perhaps offset these potential losses is to seek admission as a full member of Mercosur (Bolivia is currently an associate member). However, a January 2007 summit of the trading bloc's leaders produced no definitive progress on this front. Though heavily backed by Venezuela, Bolivia's candidacy is controversial because La Paz also hopes to retain its membership in CAN, an unprecedented move. Both the economic implications of Bolivia's accession to Mercosur, as well as the willingness of the existing member states to accept Bolivia's candidacy, remain unclear.

Coca-Cocaine

Morales campaigned on promises to encourage coca leaf production and to pressure the international community to address the consumption side of the cocaine problem. In his dual role as president and head of the coca growers' federation, President Morales named a coca grower as Bolivia's drug czar, suspended all forceful coca eradication efforts, and vowed to continue to shift the focus of Bolivian drug control programs away from targeting subsistence farming families, dependent on sale of the coca leaf to feed their families, to the interdiction of cocaine in all stages of production. Morales's supporters

believe that the new approach, involving voluntary eradication of coca, communal interdiction, and efforts to industrialize the coca leaf, are having important and positive effects. They argue that coca production has dropped and that the government's focus is on promoting a genuine shift toward alternative sources of income.

From the U.S. perspective, the Bolivian coca-cocaine issue, with its ramifications for international narcotrafficking, is perhaps the most serious policy challenge posed by the Morales administration. Morales's pledge to end the "zero coca" campaign and shift to a "zero cocaine" strategy, has ruffled the feathers of staunch U.S. drug warriors convinced that Morales is opening the door to increased cocaine production. These U.S. officials believe that the original Law 1008, the 1988 U.S.-designed counternarcotics policy, should be maintained and that forced eradication programs should continue—even though under that program coca production in Bolivia increased steadily since 2000 and the U.S. street price of cocaine has gone down.

Remarkably, the Morales administration has permitted U.S. Drug Enforcement Agency (DEA) officials to continue exercising significant control over interdiction efforts in Bolivia under its new policies, and U.S. diplomats have forged a successful, if somewhat tenuous, working relationship with their Bolivian counterparts. In September 2006, the State Department's Bureau of International Narcotics and Law Enforcement announced that the United States had established "benchmarks" that Bolivia had to meet over the next six months in order to continue to receive U.S. counternarcotics assistance. By meeting its 2006 goal of eradicating 5,000 hectares of coca fields, one benchmark was met. Furthermore, U.S. authorities agreed that there has been a significant increase in interdiction efforts since Morales came to power.

Nonetheless, shortly after the Bolivians announced that they were reforming Law 1008 and increasing the size of legally permitted coca crops in the country to 20,000 hectares (from a previous maximum of 12,000), U.S. Ambassador to Bolivia David Goldberg reported that U.S. counterdrug aid would decrease in 2007 to \$33.8 million from a 2006 allocation of \$45 million.¹³ Despite assurances from the Bolivians that much of the increased production will be "industrialized" and incorporated into such products

¹³ "U.S. Government Reduces to \$33.8 Million Aid for Anti-Drug Activities in Bolivia 2007," AII Data Processing Ltd., December 22, 2006.

as tea, medicine, and shampoo, some U.S. officials doubt the reliability of the government's plan.

Development Assistance

Bolivia has one of the highest per capita dependencies on foreign funds in the hemisphere. As of 2005, for example, 11 percent of Bolivia's national budget depended on donor assistance and external financing.¹⁴ About eighteen multilateral and bilateral donors and some nine UN agencies annually provide an average of \$500 million in concessional loans and donations to Bolivia. While Bolivia has made important progress toward social and economic development, Bolivia's social indicators (poverty, education, health, and nutrition) are among the lowest in the hemisphere, ahead of only Guatemala, Honduras, and Haiti despite its natural resources and significant international assistance.

Morales is confident that his government can tackle Bolivia's development issues. He appears to believe that Venezuelan promises of monetary assistance and loans will materialize, that Bolivia can attract foreign investment, and that Bolivia can secure the nearly \$600 million of Millennium Challenge Account (MCA) funds for which it submitted a proposal to the U.S. government on December 1, 2005. Practically speaking, expanded Venezuelan support may materialize. However, if internal divisions escalate and domestic stability deteriorates, foreign investment may not. Moreover, at this point there is no guarantee that Bolivia will receive MCA funds. These uncertainties make continued international assistance important to Bolivia's long-run development.

¹⁴ USAID, *USAID/Bolivia Country Strategic Plan 2005–2009*, April 6, 2005, p. 10.

U.S. POLICY RECOMMENDATIONS

Bolivian elections have never aroused much interest in Washington. The 2005 vote was an exception due to the combination of indigenous factors at play and anxiety about Morales's policy stances. President George W. Bush's congratulatory phone call to Morales in late January 2006 was meant to signal that the United States would seek to work with the new Bolivian government regardless of their differences. Despite concern about Morales's ties to Cuba and Venezuela, at the recommendation of former U.S. Ambassador to Bolivia David N. Greenlee, the United States adopted a "wait and see" policy.

Since his election, Morales has publicly attacked the United States and its leadership, calling President Bush a terrorist, poking fun at Secretary of State Condoleezza Rice, and accusing the U.S. government of sending a terrorist to bomb Bolivian hotels. His approaches to the Constituent Assembly, land reform, and the hydrocarbons industry have infuriated major interest groups and brought Bolivia to the brink of violent conflict. U.S. government representatives at all levels have refused to respond with incendiary rhetoric or panic, but thus far Morales has deflected most levelheaded attempts to convince his administration that respecting minority parties is in its interest. The opposition has proven to be equally stubborn and has thus far pursued a strategy of confrontation meant to challenge the Morales administration's ability to govern.

To prevent a further escalation of violence and social unrest, the United States must prioritize conflict prevention over any particular item on the traditional U.S.-Bolivia policy agenda. It is vital that the United States work actively with regional partners to ensure the continuity of democratic governance and encourage a constructive dialogue between the government and the organized opposition.

In the best of circumstances, U.S. officials could leverage aid and trade benefits to encourage Bolivian officials and the opposition to settle their differences. Failure to renew a serious dialogue and pursue compromise through democratic, nonviolent

avenues would, in this scenario, prompt relevant cutoffs in development assistance and trade preferences.

Unfortunately, at this stage, the threat of sanctions by the United States alone is unlikely to have a short-term effect on the actions of either side. The biggest threat that Washington can deploy in economic terms, ending trade preferences, is already looming over La Paz. While Bolivian officials are undoubtedly worried about the economic consequences of losing benefits under ATPDEA, they will not be coerced to the negotiating table. In other words, external threats are unlikely to force the MAS to compromise its domestic agenda. Regardless, the Bush administration is currently bound to a country-by-country, bilateral FTA approach and appears unwilling to negotiate a conditional extension of preferences outside of this framework, even if it were to form part of a quid pro quo agreement with the Bolivian government. There have been limited indications that the new Democratic leadership in the U.S. Congress may seek to renew ATPDEA across the board. The chances of such a proposal to secure widespread legislative support, however, are uncertain. For its part, the Morales administration has firmly stated its opposition to the type of FTA that Washington might be willing to offer.

Other potential points of leverage are even more ill suited to securing U.S. interests. Continuing to withhold U.S. military aid will not help ensure that the Bolivian military remains an independent body that does not turn further to other powers, such as China, for assistance. Nor would threatening to cut off counternarcotics funding assist U.S. efforts to stem narcotrafficking in the region. Because Bolivia is so heavily dependent on foreign assistance, reducing U.S. Agency for International Development (USAID) and other development funding may very well send a message to the government, but it may also intensify the poor social and economic conditions that infuriate MAS's core constituency. Moreover, the Morales administration may believe that any shortfalls in U.S. aid could be countered with increased assistance from Venezuela and Cuba. In short, the main tools that the United States traditionally uses as leverage are not viewed by the Bolivian government as powerful, while widespread anti-Americanism in Bolivia makes it difficult for Washington to be seen as a trustworthy third party.

With limited instruments to shape Bolivian decision-making on its own, the United States must aggressively pursue talks with those allies that also possess a direct stake in the current crisis: Chile, Brazil, and Argentina. Continued flexibility on counternarcotics issues, sustained U.S. military, development, and democracy assistance, and a continued willingness to moderate the tone of U.S. diplomacy will help create an environment in which regional diplomacy can succeed.

At the same time, the United States can take bilateral steps that in the long run position Washington to act as a more credible regional player. Demonstrating a willingness to adjust dominant models of bilateral FTAs and working closely with international institutions to more aggressively tackle development and public health issues in Bolivia will not only support a tone of collaboration but also prevent La Paz from turning exclusively to Caracas and Havana for international support, an eventuality that would undoubtedly feed the Bolivian opposition's anger and decrease the likelihood of compromise.

Of course, U.S. commitments are not open-ended. If negotiation fails—either because of intransigence within Bolivia or because major stakeholders outside of the country fail to pursue a joint approach to conflict prevention—the United States can consider revoking aid, particularly if the MAS-led government violates human rights, dramatically limits civil freedoms, or dismantles an effective system of checks and balances within the government. For the moment, however, regional diplomacy is the best hope for preventing a deepening of Bolivia's crisis, and the United States should subordinate its own particular interests to that greater goal. Making threats to the Bolivian government about hypothetical punitive actions would at this early stage only antagonize the MAS's nationalistic base and decrease the potential for civil peace.

WORK WITH BOLIVIA'S NEIGHBORS

Brazil, Chile, and Argentina are significant U.S. allies in South America with vested stakes in a socially and politically stable and productive Bolivia. Each of these countries possesses large energy and trade interests in the country, and each is also likely to be affected by a Bolivian out-migration in the event of a crisis.

Unfortunately, despite these shared concerns, thus far Brazil, Chile, and Argentina have focused primarily on securing their own national commercial and diplomatic interests rather than engaging in a serious dialogue with one another about what could collectively be done to avert violent conflict in Bolivia. Since the nationalization of the hydrocarbons industry, Brazil's discussions with Bolivia have been dominated by the controversy over the takeover of Petrobras and the stalled negotiations over the export price of Bolivian gas. Home to almost one million Bolivian migrants who remit millions of dollars to their families each year, Argentina has perhaps the most to fear from an exodus prompted by crisis. Yet officials in Buenos Aires have focused mostly on securing contracts for the importation of badly needed Bolivian natural gas. Chile has argued that the long-term solution to an unstable Bolivia lies in greater communication and integration. With this in mind, the Chilean government is working with landlocked Bolivia through a joint committee for discussion on bilateral ties. Indeed, Chile has made important contributions to regional stability by reestablishing full diplomatic relations and appearing disposed to negotiate a resolution of the sea access issue that has long divided the countries. Nonetheless, there appears to be little coordinated or open dialogue among Bolivia's immediate neighbors about looming social unrest in the country and its consequences for the region.

The United States can take the lead in trying to convince all three states to develop concerted strategies for conflict prevention in Bolivia in the short and long term. All three countries are currently governed by market-oriented, left-of-center governments. Excluding Chile, with which tensions over the sea access issue still linger, this orientation gives them the legitimacy needed to be seen as credible intermediaries by both the MAS and the organized opposition in the event that Bolivian actors seek external arbitration. Although there are no indications that any faction in Bolivia currently wants to pursue formal mediation, such a safety net should exist.

Steps to put in place such a mechanism can be undertaken now. Chile, Brazil, and Argentina are best positioned to open channels of communication among the MAS, regional governors, and opposition parties in an effort to convince all sides that continuing unrest threatens the health of Bolivian democracy, foreign investment, the country's overall economic well-being, and the likelihood that the Bolivian government

will be perceived as a reliable partner in international trade and political forums. The United States should emphasize to all three governments the severity of the issues at stake and the need for contingency planning. While the Bolivian government may yet broker a solution that respects the dissenting voices of the opposition, the existence of a frank working discussion could in and of itself help persuade Bolivian factions to compromise on contentious issues.

- The United States should discuss contingency plans with Argentina, Brazil, and Chile bilaterally and as a group for addressing hypothetical situations of violence in Bolivia, potentially over land redistribution, the Constituent Assembly, or labor disputes. Issues for discussion include refugee flows, disrupted energy supplies, humanitarian assistance, and conflict mediation.
- Chile, Argentina, Brazil, and the United States should construct working relations and strong lines of communication with the Morales administration, opposition parties, and provincial leaders in an effort to convince all sides that compromise is vital for Bolivia's future.
- The same group of states should formulate a collective approach for encouraging equitable social and economic development in Bolivia—the best hope for long-term conflict prevention and stability.

MOVE AWAY FROM A COLD WAR FRAMEWORK

In the meantime, the United States should do all that it can to avoid antagonizing the MAS-controlled government and jeopardizing its willingness to compromise or participate in regional diplomacy. Nearly fifty years after the Cuban Revolution and eight years after Hugo Chávez came to power, the United States still appears to believe that ideological confrontation and punitive measures can help change political conditions in Cuba and Venezuela. Now that Bolivia appears to have joined the anti-U.S. bloc, the most serious mistake that the United States could make would be to measure this poor Andean republic with the same rod. Excluding Bolivia from key U.S. benefits such as trade, military training, development assistance, and counterdrug efforts is more likely to

push the government closer to Cuba and Venezuela and increase the likelihood of widespread sociopolitical turmoil in Bolivia. Conversely, de-linking U.S. policy toward Bolivia from Morales's relationships with Cuba and Venezuela can do more in the long run to achieve political stability. Thankfully, leading U.S. diplomats appear to have recognized this fact and are pursuing a pragmatic approach.

If the United States maintains a cooperative tone, then, ideally, the Bolivian government should reciprocate by assuming a less publicly hostile posture toward the United States. The Bolivian government should recognize that whatever the domestic political gains of incendiary anti-U.S. rhetoric, such rhetoric will make Bolivia's agenda with Washington—including maintaining critical trade benefits and development assistance—much harder. If, as it claims, the Morales administration is serious about maintaining strong relations with a variety of countries, including the United States, toning down its anti-American rhetoric will help clear a path toward programs of mutual interest with the United States.

Such an approach does not amount to unconditional support for the Morales administration. If the Morales administration does not reciprocate with a more cooperative tone, particularly given his domestic political constraints, U.S. long-term energy, security, and counternarcotics interests in Bolivia should not be held hostage to the anti-imperialist rhetoric of the Morales government. But in the short term, the United States should resist the temptation to impose sanctions in order to give regional diplomacy a chance to succeed.

- The Bush administration must maintain a diplomatic tone that minimizes the ideological differences between the Morales administration and Washington, DC, and focuses on trade, economic stability, development and poverty alleviation, human rights, and combating corruption and narco-trafficking. Failing to do so would likely provoke a defensive reaction on the part of the Morales government, one that would inhibit its willingness to discuss compromise solutions with regional partners.

- The U.S. government should clearly communicate to Morales that it will continue to work with Bolivia bilaterally and through multilateral channels independent of U.S. relations with Cuba and Venezuela.
- The U.S. government should reassure the Morales administration that it strongly supports Bolivian democracy, the pro-change agenda MAS has embarked upon, and that, following accepted hemispheric principles, the United States rejects any kind of unconstitutional or violent strategy of political confrontation by or against elected officials.
- At the same time, the United States should make absolutely clear to the Bolivian opposition that any attempts to force unconstitutional or violent change will also be opposed by the United States.

MOVE AWAY FROM THE CENTRALITY OF THE DRUG WAR

As noted, U.S. counterdrug efforts provided Morales, the MAS, and their followers with the ammunition to lead an anti-U.S. crusade in Bolivia. The important issue at this stage is that Bolivian cocaine is not reaching the United States. Counternarcotics practices in other parts of the Andes are apparently preventing the flow of the drug north, making Bolivian cocaine an Argentine, Brazilian, Chilean, Paraguayan, Uruguayan, and European problem. Despite the shift in cocaine trafficking toward Bolivia's neighbors, those countries appear to be less concerned about the issue than the United States and are instead seeking ways to expand the breadth of their relations with Bolivia.

This does not mean that the United States should withdraw from the counternarcotics arena entirely. Implementing Morales's community-based coca eradication objectives requires much more thought and trial and error; it would be premature to condemn his approach so soon and simply denounce Bolivian counterdrug efforts. Thus far, the United States has prudently recognized this fact. The DEA retains a strong presence in the country and continues to work closely with Bolivian authorities on cocaine interdiction. This flexibility has helped decrease tensions between Washington and La Paz that would otherwise distract from immediate efforts to forge domestic

political compromise and involve Bolivia's neighbors in an open dialogue about the country's future.

- The United States should continue collaborating with the Morales administration's experiments with community-based drug eradication.
- The United States should work with Bolivian authorities to define, refine, and measure the success of community-based eradication efforts and then clearly and jointly define the penalties to be enacted if Bolivia's self-established eradication goals are not met. These penalties could include reductions in economic assistance and the elimination of trade preferences, but these measures would only reinforce the desirability of coca production.
- The U.S. government should prepare its response to the results of the legal coca consumption report commissioned by Morales to determine the level of demand for traditional use of the leaf. The results of the study will be controversial and are likely to support the government's thesis that the demand for legal coca has increased. In this eventuality, the U.S. government should avoid an angry reaction and work as closely as possible with Bolivian officials to provide the economic opportunities that will foster voluntary eradication.
- As CPA's *Andes 2020* commission report recommended in 2004, the United States should use this moment to shift away from the strictly military and police dimensions of counterdrug efforts toward social and economic strategies with expanded alternative development programs. A significant amount of nondrug-related industry has been created in the Chapare and other areas that can benefit from U.S. assistance.

MAINTAIN AND DEEPEN SUPPORT FOR DEMOCRATIC INITIATIVES AND CIVIL SOCIETY

U.S. policy toward Bolivia must be built on the premise that support for pluralist democratic institutions and leaders is a long-term proposition. To strengthen the quality of democracy in Bolivia, the United States, through the USAID, should continue its support for democratic institutions in Bolivia, including the legislature, the electoral

system, the judiciary, political parties, and civil society groups. Within either its democracy or the integrated development pillar, USAID needs to allocate more funds for professional training programs, particularly for indigenous peoples. At the same time, the United States should closely monitor the work of USAID, its grantees, and U.S.-backed democracy promotion organizations so that U.S. democracy assistance does not become a means for solely strengthening the opposition or influencing short-term electoral results. This will inevitably lead to comparisons with the controversial U.S. approach in Venezuela. Continued assistance on these fronts is vital as Bolivia's democracy confronts serious divisions and institutional conflicts with the potential to expand into generalized violence. Though these programs in and of themselves will probably not prevent a conflict from spreading, they represent an important symbolic commitment to the preservation of democratic ideals in Bolivia.

- The U.S. government should focus its bilateral assistance, channeled through USAID, the Bureau for Democracy, Human Rights, and Labor at the Department of State, and government-funded democracy promotion organizations, on supporting civil society organizations and their commitment to conflict resolution.
- USAID should allocate funds to provide more educational and training opportunities for Bolivia's future leaders, especially for indigenous populations that comprise more than 60 percent of the population.

RENEW BILATERAL MILITARY ASSISTANCE

The transformation of the coup-prone Bolivian military into an institution that respects civilian authority is in no small part a result of the U.S. Southern Command's work with the Bolivian armed forces. The United States has been the principal foreign source of military assistance to Bolivia since 1985, in part through International Military Education Training (IMET) programs. IMET provides professional military education to key Bolivian military personnel, principally through attendance at U.S. military command and staff colleges, focusing on civil-military relations, resource management, and democratic institution building.

But the Bush administration altered the conditions for this partnership with the 2002 American Service Members Protection Act, which prohibits U.S. military assistance to countries that have not signed “Article 98” agreements, bilateral pacts wherein countries pledge not to seek the prosecution of U.S. citizens in the International Criminal Court. Without such an agreement, U.S. military personnel and other citizens could be tried at the court for severe human rights violations. By April 2006, the United States had cut down foreign military assistance and IMET programs to twelve Latin American countries, including Bolivia, to punish their refusals to sign Article 98 agreements.

In October 2006, however, President Bush issued a partial waiver of the law, freeing up IMET aid to eleven of the Latin American countries that had seen their aid frozen. (Only Venezuela was unaffected by the waiver.) Although it is not likely to ratify an Article 98 agreement, the United States should continue to waive the law and revive military assistance in order to support Bolivia in developing and strengthening democratic civilian rule of its armed forces. A professional, highly trained military can provide an important moderating effect in a country prone to civil conflict.

- The United States needs to continue military-to-military relations with Bolivia, particularly through IMET and other programs that emphasize civil-military relations and resource management.
- The United States should oppose any and all coups under all circumstances.

EXPAND AND PUBLICIZE SOCIAL PROGRAMMING

In the long run, U.S. officials can do much more to ensure that the United States is seen as a trustworthy, committed, and well-intentioned partner in Bolivia’s quest for sustainable development. USAID is the largest bilateral donor in Bolivia, and the fourth largest overall donor, after the Andean Community Fund, the World Bank, and the

IADB, all of which provide concessionary loans as opposed to grants. USAID spent about \$95 million in fiscal year 2004 and \$85 million in fiscal years 2005 and 2006.¹⁵

Despite these sizable U.S. resources dedicated to popular participation, economic opportunity, natural resource management, health, education, and food security programs in Bolivia, few Bolivian citizens realize that these efforts even exist. Laudable programs implemented through nongovernmental organizations (NGOs) sometimes receive extensive praise without ever giving credit to the USAID for funding them. With fewer resources, Cuba and Venezuela are achieving enormous public relations benefits from their literacy campaigns and health assistance. The United States must do a better job of publicizing its significant social programming in Bolivia. Grass-roots efforts that foster face-to-face interaction and trust building are preferable to public relations campaigns, which may alienate NGO partners.

- USAID should continue its work to expand the public profile of its programs in Bolivia that aim to improve basic living conditions among the country's poorest sectors, where the MAS has won its greatest support. This might be achieved by interacting with religious, diplomatic, and community leaders in Bolivia, and expanding the recently begun branding and marketing initiative at the USAID mission in La Paz.

PROMOTE TRADE AND INVESTMENT

The Bolivian government's decision to pursue the still nascent ALBA and TCP with Cuba and Venezuela, to assume the pro tempore presidency of the Andean Community with the intention of asking Colombia and Peru to abandon their free trade agreements with the United States, and to reject the possibility of a FTA with the United States leaves Washington with restricted policy options regarding trade.

Lawmakers who have historically been active in U.S.-Latin America policy areas and who have significant influence in the U.S. Congress may be offended by Bolivia's

¹⁵ USAID, Congressional Budget Justification, Fiscal Year 2007: Bolivia, <http://www.usaid.gov/policy/budget/cbj2007/lac/>.

friendship with Cuba and Venezuela. Moreover, the anti-U.S. tone of the ALBA and TCP makes it even more difficult to build support for Bolivia among U.S. policymakers.

Yet, the United States should not overreact to Bolivia's agreements with Cuba and Venezuela. The Bolivian government may soon realize that \$100 million in credit and \$30 million in gifts from the Venezuelan government will not be enough to replace the over \$350 million per year that the U.S. market represents to the Bolivian economy. Cuban scholarships and medical assistance will also mean little in the medium term if the Bolivian economy begins to take a downturn in the absence of significant foreign investment. While negotiating a mutually agreeable FTA with Bolivia may not be feasible in the near future, the United States can indicate its willingness to do so in the medium term and, at a minimum, listen to the conditions under which the government of Bolivia would consider undertaking FTA talks over time.

- The United States should discuss with La Paz some type of compensation for the loss of the Colombian soybean market that will result from the U.S.-Colombia FTA.
- The United States should provide trade adjustment assistance for Bolivia and other Latin American states as part of bilateral trade agreements under negotiation with Colombia, Peru, and Ecuador, especially for labor-intensive sectors such as agriculture, where displacement is particularly destabilizing and can contribute to greater anti-U.S. sentiment in the Andean region.
- If serious conflict persists in Bolivia beyond the current six-month extension of ATPDEA, the United States should consider re-extending the legislation. Abruptly ending preferences may provoke economic difficulties that aggravate social tensions.

WORK WITH EUROPEAN DONORS AND MULTILATERAL ORGANIZATIONS

Closely coordinated efforts by the United States, European donors, and multilateral agencies are needed to address some of the shortcomings of the neoliberal model's focus on macroeconomic stability. While the United States has taken a cautious approach to the

Morales administration, representatives of European donor states and multilateral organizations have begun working with the new government in tackling its enormous challenges. In fact, a World Bank official interviewed for this project claimed that his organization's relations with the Morales government are far better than with any recent previous government, despite Morales's repeated anti-World Bank rhetoric. In a surprisingly generous move, in 2006 the World Bank canceled \$1.53 billion of Bolivia's external debt, while the International Monetary Fund canceled \$232.5 million.

The Organization of American States (OAS) and the UN Development Programme (UNDP) also play a role in Bolivia. Units of the OAS are helping organize the Constituent Assembly and will again monitor the electoral process. UNDP is working to address Bolivia's public health and equitable development challenges.

- United States should work closely with European donors, UNDP, World Bank, and the Andean Development Corporation to coordinate donor programs in areas, such as rural development, public health, and democratic institution building, that are compatible with USAID programs and goals.
- The United States and its allies must guarantee adequate funding for the OAS units charged with implementing electoral monitoring and other mandates if the OAS is to play a critical role in Bolivia and the hemisphere.

PROVIDE THE OPPORTUNITY TO ACCEDE TO THE MILLENNIUM CHALLENGE ACCOUNT

During the brief presidency of Eduardo Rodríguez, Bolivia prepared an impressive MCA proposal. Secretary of State Condoleezza Rice left open the possibility of MCA funding for Bolivia during her meeting with Morales in Santiago, Chile, at the inauguration of Chilean President Michelle Bachelet in March 2004. The \$598 million for which Bolivia is eligible could have an almost immediate effect on rural development and on the way Bolivia's poor perceive the United States.

The MCA is meant to reward those countries that have demonstrated real policy change. Given the record of the last nine months, where perhaps only in health care and education does the government show a positive record—and with Cuban and Venezuelan

intervention in Bolivian affairs—it is difficult to make a case for MCA funding for Bolivia. To continue to qualify for MCA funds, Bolivia will have to demonstrate that the government is fighting corruption, respecting human rights, embracing the rule of law, investing in health care and education, following responsible economic policies, and enabling entrepreneurship.

At the same time, because other sources of development assistance are not available, and taking into consideration that widespread social unrest has significant repercussions for stability in the Andean region, the United States should consider granting Bolivia MCA funds in order to establish greater leverage in this now embattled country. Such a sizable influx of assistance, if targeted and administered correctly, could significantly help temper some of the social tensions that are currently fueling conflict and violence.

- The United States should resist the temptation to link drug eradication programs to the MCA. Rather, the MCA should be linked explicitly to the continuity of a pluralist democracy, defined as a system of government where minority parties and organizations are not subjected to unrestricted majority rule. The principal example of this dangerous majoritarianism was the Morales government's attempt to reform the constitution by a simple majority vote that technically excludes the opposition from having a say in the process.
- The United States should be seen as wanting to help Bolivia qualify for MCA funding and therefore should target technical assistance to Bolivian institutions to facilitate the meeting of MCA prerequisites and standards.

CONCLUSION

Evo Morales was elected president of Bolivia with a historic mandate to address Bolivia's core dilemmas of social exclusion and poverty by restoring the authority of the state in economic decision-making, challenging the country's traditional political class, and empowering the nation's poor. Yet his promise of justice contains the threat of instability.

Sadly, in the name of ending the exclusion of indigenous sectors, the Bolivian government may take steps that exclude social or political actors identified with the traditional party system or other opposition. Underlying tensions surrounding the realignment of racial and ethnic relations are dangerously drifting toward ever-more-violent confrontations between pro-government forces and those—the political opposition, business leaders, and regional governors—that are attempting to stay in the political game.

As long as the crisis persists, the United States will find it difficult to make progress on its traditional policy agenda in Bolivia. Indeed, should any of these tensions reach a boiling point, sparking widespread social unrest or violence, U.S. interests in Bolivia and in the Andean rim subregion may be threatened. But at the same time, the tools once wielded by the United States as levers to influence Bolivian political actors, namely, trade, counternarcotics and military assistance, and development aid, do not seem sufficient to compel an accommodation between Morales and the political opposition. For that reason, working with Bolivia's neighbors to develop a coordinated approach for preventing widespread violent unrest is the best way to secure U.S. interests in Bolivia.

In the short run, the priority for U.S. policy toward Bolivia must be conflict prevention. The United States should encourage an active dialogue among critical regional actors that may be in a better position to foster dialogue among Bolivia's dissenting factions and garner commitment by all parties involved to exercise good faith in a process of constitutional reform demanded by the majority of the electorate. Regional

diplomacy will only succeed, however, if Washington demonstrates continued flexibility on counternarcotics and trade issues.

Such a strategy does not amount to unqualified support for the Morales government. Rather, this approach appropriately takes into account the fact that in this particularly problematic social context, actively attempting to isolate Bolivia, weaken Morales, or set conditions for continued U.S. assistance could create a vacuum of influence that will be filled mainly by Cuba and Venezuela and could significantly increase the likelihood that widespread social unrest will erupt.

In the long run, the United States faces a unique opportunity to help facilitate significant social change in Bolivia as it did, in some measure, during the country's first major social revolution in the 1950s. Despite some of the Morales government's controversial policy decisions, verbal assaults against U.S. leadership, and its relationship with Cuba and Venezuela, U.S. efforts should continue to promote the strengthening of democratic institutions and the construction of a polity where minority political and social actors maintain a voice in the political system. Furthermore, the United States must work with the Morales administration, in conjunction with Bolivia's neighbors, European donors, and multilateral institutions, to create the conditions for long-term sustainable growth and stability.

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