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Report RL32580

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

Clare Ribando Seelke, Foreign Affairs, Defense, and Trade Division

November 14, 2008

Abstract. Concerns regarding Bolivia in the 110th Congress have largely focused on counternarcotics and trade issues. Bolivia received an estimated \$99.5 million in U.S. foreign aid in FY2008, including roughly \$47 million in counternarcotics assistance, significantly lower than in previous years. An enacted continuing resolution (H.R. 2638/P.L. 110-329) will provide funding for U.S. programs in Bolivia at FY2008 levels through March 6, 2009. H.Res. 1483, introduced in September 2008, would express outrage over the expulsion of U.S. Ambassadors to Venezuela and Bolivia, and call for these countries to resume full counternarcotics cooperation with the United States. In October 2008, Congress enacted legislation to extend ATPA trade preferences for Bolivia until June 30, 2009 (P.L. 110-436).

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

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November 14, 2008

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Summary

Bolivia has experienced a period of political volatility, with the country having had six presidents since 2001. Evo Morales, an indigenous leader and head of Bolivia's coca growers' union, and his party, the leftist Movement Toward Socialism (MAS), won a convincing victory in the December 18, 2005, presidential election with 54% of the votes. Early in his term, President Morales moved to decriminalize coca cultivation and nationalized the country's natural gas industry. His efforts to reform the Bolivian constitution have, until recently, been stymied by a strong opposition movement led by the leaders (prefects) of Bolivia's wealthy eastern provinces who are seeking greater regional autonomy.

In December 2007, the Constituent Assembly elected in mid-2006 passed a draft constitution without the presence of opposition delegates. In late August 2008, President Morales, buoyed by the strong support he received in a national recall referendum held on August 10, 2008, proposed to convoke a referendum on the draft constitution in December 2008. He later agreed to seek congressional approval for that referendum. Several opposition prefects were angered by Morales' proposal, and launched protests and blockades, which turned violent in mid-September. On October 20, 2008, after multiparty negotiations on the draft constitution's text, the Bolivian Congress approved legislation convoking a constitutional referendum to be held on January 25, 2009.

U.S.-Bolivian relations have been strained by the Morales government's drug policy and its increasing ties with Venezuela. Bilateral relations hit their lowest point in recent memory on September 10, 2008, when President Morales accused the U.S. Ambassador to Bolivia of supporting opposition forces and expelled him from the country. The U.S. government responded by expelling Bolivia's U.S. Ambassador. On September 16, 2008, President Bush designated Bolivia as a country that had failed to live up to its obligations under international narcotics agreements. That decision was closely followed by a Bush Administration proposal to suspend Bolivia's trade preferences under the Andean Trade Preferences Act (ATPA). President Bush has yet to announce a final decision on when (and if) the proposed suspension will take effect. On November 1, 2008, Bolivian President Morales announced an indefinite suspension of U.S. Drug Enforcement Administration (DEA) operations in Bolivia after accusing some DEA agents of espionage.

Concerns regarding Bolivia in the 110th Congress have largely focused on counternarcotics and trade issues. Bolivia received an estimated \$99.5 million in U.S. foreign aid in FY2008, including roughly \$47 million in counternarcotics assistance, significantly lower than in previous years. An enacted continuing resolution H.R. 2638/P.L. 110-329 will provide funding for U.S. programs in Bolivia at FY2008 levels through March 6, 2009. H.Res. 1483, introduced in September 2008, would express outrage over the expulsion of U.S. Ambassadors to Venezuela and Bolivia, and call for these countries to resume full counternarcotics cooperation with the United States. In October 2008, Congress enacted legislation to extend ATPA trade preferences for Bolivia until June 30, 2009 (P.L. 110-436).

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Recent Developments

On November 10, 2008, Bolivian officials delivered a formal request asking the U.S. government to extradite former President Gonzalo Sánchez de Lozada to stand trial for civilian deaths that occurred when he ordered government security forces to respond to violent civilian protests in the fall of 2003.

On November 1, 2008, Bolivian President Evo Morales announced an indefinite suspension of U.S. Drug Enforcement Administration (DEA) operations in Bolivia after accusing some DEA agents of espionage.

On October 21, 2008, after a multiparty congressional commission agreed to over 100 changes to the draft text passed by the Constituent Assembly in December 2007, the Bolivian Congress ratified the new draft constitution and passed a law that will enable a referendum on that constitution to be held on January 25, 2009.

On October 16, 2008, President Bush signed the Andean Trade Promotion Extension Act (H.R. 7222) into law. As enacted, P.L. 110-436 extends Andean trade preferences until December 31, 2009 for Colombia and Peru, and until June 30, 2009 for Bolivia and Ecuador.

On September 26, 2008, President Bush directed the United States Trade Representative to publish a public notice proposing to suspend Bolivia's Andean Trade Promotion Act (ATPA) benefits because of the Morales government's failure to cooperate in counternarcotics matters. As of the date of this report's publication, President Bush has yet to announce a final decision on when (and if) the proposed suspension of Bolivia's ATPA benefits will take effect. If a suspension of Bolivia's trade benefits are imposed, they may be lifted as soon as the U.S. government determines that Bolivia has improved its performance under the ATPA criteria.

On September 16, 2008, President Bush determined that Bolivia had failed demonstrably to live up to its obligations under international narcotics agreements, but waived sanctions so that U.S. bilateral assistance programs could continue.

On September 15, 2008, Chilean President Michelle Bachelet convened an emergency meeting of the presidents from the countries composing the newly-formed Union of South American Nations (UNASUR) to discuss the crisis in Bolivia. UNASUR issued a declaration expressing its full support for the Morales government and offering to help mediate between the government and the opposition.

On September 11, 2008, the U.S. State Department announced that it had declared Bolivia's U.S. Ambassador, Gustavo Guzmán, persona non grata and asked him to leave the United States immediately.

On September 11, 2008, opposition protests turned violent, with at least 18 demonstrators killed during a shootout in Pando, Bolivia's northernmost department, the vast majority of whom were Morales supporters. According to the Morales government, the attack on protesters was planned by Pando's departmental prefect, Leopoldo Fernández. In response, President Morales called a state of emergency and sent troops in to restore order in the province whereupon Fernández was arrested.

Also on September 10, 2008, opposition protestors temporarily shut down a major natural gas pipeline near Bolivia's border with Argentina. Their actions interrupted Bolivia's natural gas exports to Argentina and Brazil and caused millions of dollars in damages to the pipeline.

On September 10, 2008, President Morales accused the U.S. Ambassador to Bolivia, Philip Goldberg, of supporting opposition forces, declared him *persona non grata*, and expelled him from the country.

On September 6, 2008, in response to a national electoral court ruling that challenged the legality of his earlier decree calling for a constitutional referendum, President Morales sent a bill to the Bolivian Congress seeking its approval to schedule a vote on the constitution and land reform. He moved the proposed date of those referendums from December 7, 2008 to January 25, 2009.

On September 3, 2008, opposition prefects issued a statement announcing roadblocks in five eastern provinces and threatening to interrupt gas supplies to Argentina and Brazil if President Morales proceeded with his plans to hold a referendum on the constitution in December 2008.

On August 28, 2008, President Morales issued a decree scheduling a referendum on the constitution passed by the Constituent Assembly in late 2007 for December 7, 2008, a move that prompted widespread protests from the opposition.

On August 10, 2008, some 67% of Bolivian voters reaffirmed their support for the government of Evo Morales in a national recall referendum. Of the eight prefects (departmental governors) that were also subject to a recall vote, four opposition prefects and two government-allied prefects were also approved with more than 50% of the vote. Two opposition prefects were voted out of office.

On June 24, 2008, coca growers unions in the Chapare region of Bolivia announced that they would no longer sign new aid agreements with the U.S. Agency for International Development (USAID).

On June 9, 2008, a few thousand protestors surrounded the U.S. Embassy in La Paz demanding the extradition of former president Gonzalo Sánchez de Lozada and his ex-defense minister. The two have been charged in Bolivia with responsibility for civilian deaths that occurred during protests in September and October 2003. After the protests, the U.S. Ambassador to Bolivia Philip Goldberg was called back to Washington for consultations on security issues.

Throughout May and June 2008, departmental referendums on whether to implement autonomy statutes were held in the four eastern provinces of Santa Cruz, Beni, Pando and Tarija, despite the lack of congressional approval for them to be convened. Notwithstanding relatively high abstention rates, the statutes received strong popular support from those who voted in each of the referendums.

Background

Bolivia is a country rich in cultural diversity and natural resources, whose political and economic development have been stymied by chronic instability, extreme poverty, pervasive corruption, and

deep ethnic and regional cleavages.¹ In 1825, Bolivia won its independence from Spain, but then experienced frequent military coups and counter-coups until democratic civilian rule was established in 1982. As a result of the War of the Pacific (1879-1883) with Chile, Bolivia lost part of its territory along the Pacific coast and has no sovereign access to the ocean, a source of lingering resentment among Bolivians. Bolivia does have preferential rights of access to the Chilean ports of Antofagasta and Arica and the Peruvian port of Ilo. As a result of the Chaco War with Paraguay (1932-1935), Bolivia lost access to the Atlantic Ocean by way of the Paraguay river and significant territory. Bolivia is rich in natural resources, with the second-largest natural gas reserves in Latin America after Venezuela and significant mineral deposits, yet 64% of Bolivians live in poverty and 35% earn less than \$2 a day.²

Bolivia's population of 9.1 million people is among the most ethnically diverse in South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 30% of the Bolivian population are Quechuan, 25% are Aymaran, 30% are mestizo (mixed), while 15% are of European origin.³

Bolivia has been a major producer of coca leaf, the main ingredient in the production of cocaine. Although coca leaf is legal in the country for traditional uses and is grown legally in some parts of the country, its cultivation for illegal purposes increased in the 1970s and 1980s. Cultivation levels have decreased to half of the levels of the 1990s in response to policies to eradicate illicit production, according to the U.S. State Department. These policies, and the way in which they have been implemented, have caused social unrest and economic hardship in the two main coca-growing regions. One consequence has been the rise of coca growers' trade unions and an associated political party, the Movement Toward Socialism (MAS).

Role of Indigenous Groups

Despite the National Revolution of 1952, in which the Bolivian indigenous benefitted from land reform and expanded suffrage, indigenous groups have historically been under-represented in the Bolivian political system and disproportionately affected by poverty and inequality. In 2002, some 74% of indigenous Bolivians lived in poverty as compared to 53% of the general population.⁴

In the 1980s, indigenous-based political parties and movements emerged in Bolivia, and by 2006 some 17% of members of the Bolivian Congress self-identified as indigenous.⁵ In recent years, indigenous representatives have used the legislature as a forum to advocate for indigenous rights, equitable economic development, and the preservation of indigenous land and culture. Some assert that indigenous groups may gain more strength in the Bolivian political system if there continues to be an alliance between leftist and indigenous struggles, as has occurred since 2000.

¹ For historical information on Bolivia, see Herbert S. Klein, *A Concise History of Bolivia*, New York: Cambridge University Press, 2003.

² U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America*, 2007.

³ U.S. Department of State, "Background Note: Bolivia," last updated in May 2008.

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

⁵ *Country Reports on Human Rights Practices 2006*, U.S. Department of State, March 2007.

For example, an indigenous woman presided over the Constituent Assembly and the draft constitution it produced recognizes indigenous autonomy.⁶

The issues of land tenure and coca cultivation have been long-standing sources of conflict. An Agrarian Reform Law passed in 1996 allows indigenous communities to have legal titles to their communal lands. However, these communities argue that their lands have not been legally defined or protected, and that outsiders have been allowed to exploit their resources. Coca leaf is used legally by indigenous communities for spiritual and medical purposes, and its use is considered an important indigenous cultural right. Previous U.S. and Bolivian policy to eradicate illegal cultivation forcibly was met with violent protests. The Morales government has sought to help resolve these issues by promoting land reform and decriminalizing coca cultivation.

Political Instability: 2003-2005

Political protests led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, just 15 months after he was elected. The 2003 protests were led by indigenous groups and workers concerned about the continuing economic marginalization of the poorer segments of society. The protesters carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops.⁷ These events occurred against a backdrop of opposition to U.S.-funded coca eradication programs and to the government's implementation of austere fiscal reforms backed by the International Monetary Fund (IMF).⁸ The final spark that preceded Sánchez de Lozada's resignation was his plan to export natural gas via a port in Chile, a historic adversary of Bolivia.

Succeeding Sánchez de Lozada as president was his former vice president, Carlos Mesa, a popular former television journalist and political independent. Mesa appointed a new cabinet, also largely of independents, and demonstrated a sensitivity to indigenous issues. He carried out his promise for a referendum on the export of natural gas. Acceding to demands of indigenous and opposition groups, he also overturned a 1997 decree that had given oil companies ownership of the natural gas they extracted. Mesa also shepherded legislation through Congress that allowed more popular participation in elections. Further, he announced plans for a constituent assembly to consider a new constitution.

Despite these measures, President Mesa, like his predecessor, proved unable to resolve continuing discord over issues related to the exploitation of Bolivia's natural resources, coca eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. In June 2005, Mesa resigned in favor of Eduardo Rodríguez, head of the Supreme Court, in response to continuing street protests that at times paralyzed the country. Upon taking office in June 2005, President Rodríguez promised to convoke early presidential and legislative elections, which were then not scheduled to occur until June 2007.

⁶ Jeffrey R. Webber, "Left-Indigenous Struggles in Bolivia," *Monthly Review*, September 2005; Hilary Burke, "Bolivia Split Over New Multicultural Constitution," *Reuters*, January 29, 2008.

⁷ Human rights organizations and the Morales government believe that former president Sánchez de Lozada, who currently resides in the United States, should be held legally responsible for the civilian deaths. For more information, see the section on the "Case Against Former President Sánchez de Lozada" at the conclusion of this report.

⁸ Jeffrey Sachs, "Call It Our Bolivian Policy of Not-So-Benign Neglect," *The Washington Post*, October 26, 2003; Emad Mekay, "Politics: Activists Trace Roots of Bolivian Turmoil to IMF," *Inter Press Service*, October 20, 2003.

Political Situation

Morales Administration

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

While some analysts forecasted a Morales victory, few predicted that he would win by such a decisive margin. That margin proved that Morales had broadened his support beyond rural, indigenous, union, and lower-middle class voters. Some factors that likely contributed to his victory included the perception that most Bolivians had not benefitted from pro-market economic reforms adopted by previous governments, the corruption of the traditional parties, and the tough, nationalistic stances he had taken against foreign investors and U.S. counternarcotics programs.⁹

The December 2005 elections were also significant because they included the first direct election of governors (prefects) in Bolivia. Department prefects have traditionally been appointed by the executive and have not been held directly accountable to citizen's demands. Although MAS dominated the presidential and legislative elections, candidates from the new center-right

Social and Democratic Power Party (PODEMOS), won most of the gubernatorial races. Ongoing conflicts have since occurred between the Morales government in La Paz and departmental governments regarding the distribution of resources and political power in the country.

More than halfway through his five-year presidential term, Evo Morales and the MAS have already had a profound effect on Bolivia's political system. Supporters maintain that, despite entrenched opposition to many of his policies, the Morales government has implemented some significant social and economic reforms, such as nationalizing the country's gas industry and starting to enact land reform. Critics argue that the Morales government has used anti-democratic methods, such as encouraging the Constituent Assembly elected in mid-2006 to approve a draft

Morales Biography

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

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

⁹ Kent H. Eaton, "Bolivia at the Crossroads: Interpreting the December 2005 Elections," *Strategic Insights*, Vol. 5, Issue 2, February 2006.

constitution despite a boycott by opposition delegates, in order to impose his will on the country.¹⁰

Despite these differing interpretations, most analysts agree that the Morales government has benefitted from high energy prices and that, despite ongoing cycles of civil unrest, President Morales continues to enjoy strong personal approval ratings. Morales recently received the support of 67% of Bolivian voters in a national recall referendum held on August 10, 2008. His governments' position has been strengthened vis-a-vis the opposition prefects by the support he has received from fellow Latin American leaders, the Organization of American States (OAS), and, most recently, the newly-formed Union of South American Nations.

Constituent Assembly

Since 1990, there have been repeated calls from Bolivian civil society—particularly the indigenous majority—for a new constitution to increase the recognition and participation of the indigenous and other traditionally excluded groups in the political and cultural life of the country. The convocation of a constituent assembly to reform the Bolivian constitution has been a key demand of social protests since 2000.¹¹ A constituent assembly was originally planned for 2004, but disagreements with the Congress on the subjects to be considered and other logistical considerations postponed it until 2006. In March 2006, President Morales secured passage of legislation establishing elections for a constituent assembly. Elections for assembly delegates were held on July 2, 2006. The MAS captured 50.7% of the popular vote and 137 of 255 seats in the assembly but lacked the two-thirds majority necessary to pass constitutional reforms. Any constitutional reforms approved by two-thirds of the delegates present were then to be voted on by Bolivians in a national referendum. On August 6, 2006, the Constituent Assembly was installed in Sucre, the colonial capital of Bolivia.

President Morales and his supporters urged the assembly to draft a constitution that would redefine Bolivia as a “multinational state made up of indigenous groups,”¹² and incorporate indigenous institutions within the national structure. They also favored measures in support of agrarian reform and state ownership of the country’s natural resources. Many opposition delegates, particularly those from Bolivia’s wealthy eastern provinces, maintained that the MAS proposals could result in a “radically ethnic” governing model that is not representative of the entire country.¹³ They argued that President Morales was trying to dominate the assembly, as occurred in Venezuela under President Hugo Chávez. Opposition delegates in the assembly pushed for increased regional autonomy from the central government.

Throughout the assembly process, neither side appeared willing to compromise its positions in order to move negotiations forward.¹⁴ For the first eight months of its deliberations, the assembly was bogged down in a protracted debate over voting procedures. As a result, most of the constitutional commissions did not begin to consider reform proposals until the spring of 2007. In

¹⁰ “Bolivian President Faces Challenge in 2nd Half of Term,” *Xinhua News Agency*, January 23, 2008; “2 Years After Morales’ Win, Bolivia’s Divisions Deepen,” *South Florida Sun-Sentinel*, January 6, 2008.

¹¹ Kathryn Ledebur and Evan Cuthbert, “Bolivia’s Constituent Assembly: Essential for a Peaceful Transition and National Unity,” *Andean Information Network*, January 2007.

¹² Monte Reel, “A Road Paved With Hope,” *Washington Post*, August 6, 2006.

¹³ “Bolivia’s Reforms: The Danger of New Conflicts,” International Crisis Group (ICG), January 8, 2007.

¹⁴ “Bolivia’s New Constitution: Avoiding Violent Confrontation,” ICG, August 31, 2007.

August 2007, the Bolivian Congress reached a last minute agreement to extend the assembly until December 14, 2007.

By the fall, both sides' positions were becoming deeply entrenched and increasingly divergent. In October 2007, the MAS government introduced a decree, which was approved by the Congress that November, to divert a significant portion of the direct hydrocarbons tax (IDH) revenue that had gone to the departments to pay for a national pension payment for seniors. This provoked heated resistance from the opposition prefects and assembly delegates. At the same time, opposition delegates supported Sucre residents' proposal to move the capital from Laz Paz to Sucre, a seemingly inviolable proposal opposed by most of the MAS delegation. Recurring protests in Sucre, which turned violent, kept the assembly suspended for most the fall. Violent clashes between police and opposition protesters in Sucre in November 2007 resulted in three deaths and dozens of injuries.

The Constituent Assembly passed a draft constitution on December 9, 2007, but many opposition delegates did not attend the final sessions during which it was approved and have denounced it as unlawful. The draft constitution provides for indigenous rights, communal justice, land redistribution, presidential reelection, and increased federal government control over the country's oil and gas resources. It does not resolve the issue of what size of private land should be considered excessive and therefore vulnerable to government expropriation. President Morales put his plans to convoke a national referendum on the draft constitution on hold until after a national recall referendum was held on August 10, 2008 to determine whether he and the prefects should remain in office.

After securing some 67% of the votes in the recall referendum, President Morales decided to push forward with constitutional reform. In late August, he issued a decree scheduling a referendum on the constitution passed by the Constituent Assembly for December 7, 2008, a move that prompted widespread protests from the opposition. Then, in a conciliatory response to a national electoral court ruling that challenged the legality of that decree, President Morales sent a bill to the Bolivian Congress seeking its approval to schedule referendums on the constitution and on the question of land ownership.¹⁵ He moved the proposed date of those referendums from December 7, 2008 to January 25, 2009.

After weeks of protests and confrontations between MAS and opposition supporters, a multiparty commission in the Bolivian Congress took up consideration of the draft constitution passed in December 2007. In order to assuage opposition legislators, the commission made more than 100 changes to the original text of that constitution, including adding a provision that will limit President Morales to one possible reelection. On October 22, 2008, the Bolivian Congress voted overwhelmingly in favor of two laws which, taken together, approved the draft constitution, called for referendums on the constitution and on the land issue to be held on January 25, 2009, and scheduled the next general elections for December 2009. While some observers have praised the recent congressional compromise as a victory for both the Morales government and for moderate legislators in the Bolivian Congress, others have criticized the ambiguity of the agreement.¹⁶

¹⁵ The referendum on land ownership will enable voters to decide what size of private land should be considered excessive and therefore vulnerable to government expropriation. This issue was left unresolved by the Constituent Assembly.

¹⁶ "Bolivia's Evo Morales to Pass on Third Term," *Miami Herald*, October 20, 2008; "Bolivia: Constitutional (continued...)"

Regional Autonomy

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

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

Notwithstanding the results of the autonomy referendum, the Morales government, including the MAS delegates in the Constituent Assembly, has resisted devolving power or resources to prefects in the four departments that voted in favor of the autonomy measure. President Morales has asserted that gas-producing departments will not receive higher percentages of revenue at the expense of the national government. In November 2006, he proposed legislation that would allow the Bolivian legislature to impeach elected prefects. These moves prompted six of the country's nine prefects to break ties with the MAS government in November 2006 and to launch massive protests in December 2006.

Conflicts between the eastern prefects and the MAS government in La Paz continued throughout 2007. In mid-January 2007, after the opposition prefect from Cochabamba hinted that he would seek greater regional autonomy, MAS sympathizers launched protests demanding his resignation. Those protests led to violent clashes that left 2 people dead and more than 100 injured.¹⁷ In July 2007, the four eastern prefects commemorated the anniversary of the autonomy referendum by announcing draft autonomy statutes. In late November 2007, the prefects were deeply angered when the Morales government was able to push its proposal to redirect the IDH hydrocarbons revenues from their departmental budgets to pensions for seniors through the Bolivian Congress. They also vehemently opposed the draft constitution passed by the Assembly in early December 2007.

In response to the draft constitution, four prefects issued autonomy statutes on December 14, 2007. The statutes, though varying by department, generally seek greater departmental control

(...continued)

Compromise Boosts Morales," *Oxford Analytica*, October 22, 2008; George Gray Molina, "El Acuerdo Boliviano," *Argumentos*, October 23, 2008; "Morales Defies Court, Arrests Pando politicians," *Latin American Weekly Report*, October 30, 2008.

¹⁷ Monte Reel, "Bolivia's Political Fissures Force Morales to Shift Course," *Washington Post*, January 22, 2007.

over taxes, land, security, and natural resources than is currently allowed under the current or proposed Bolivian constitutions.¹⁸ Whereas plans for a national referendum on constitutional reforms have stalled until recently, departmental referendums on autonomy have been held in four provinces, despite the lack of congressional approval for them to be convened. The statutes received strong popular support from those who voted in each of the referendums held in May and June 2008. The Morales government has used the high abstention rates in those autonomy referendums to minimize their results.¹⁹ According to the constitutional accord approved by the Bolivian Congress on October 22, 2008, the autonomy statutes drafted by the eastern departments will have to be brought into compliance with the new constitution.

Economic Situation

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

Bolivia posted faster growth rates of roughly 4% in both 2004 and 2005. Strong international demand for Bolivian mining products and gas, as well as high tax revenues from the natural gas sector, fueled growth of about 4% in 2006. Bolivia's GDP grew by close to 4% again in 2007, despite significant flooding that damaged much of the country's agricultural production. Economic growth was driven by strong performance in the construction, financial services, manufacturing, and hydrocarbons sectors.²⁰ Despite that growth, some 63% of Bolivians live in poverty with 34.3% earning less than \$2 a day.²¹ Future growth will likely be constrained by declining foreign investment and the country's high debt burden, among other things.

President Morales opposes free market economic policies and supports more state involvement in economic policy-making and greater government spending on infrastructure, health, and education. In June 2006, the MAS unveiled a five-year national development plan (2006-2010) calling for \$6.9 billion in government investment complemented by \$6 billion of private investment, particularly in the housing, infrastructure, and small business sectors. The plan aims to increase GDP growth to 7.6% by 2010, create 90,000 jobs annually and reduce the percentage of the population living in poverty to below 50%. Critics of the plan argue that it lacks a clear financing plan and is overly ambitious.²²

¹⁸ "Bolivian Departments Aim to Control Taxes, Land, Natural Resources," *BBC Monitoring Americas*, December 15, 2007.

¹⁹ "Bolivian Assembly Approves New Constitution; Prefects Declare Autonomy," *Andean Group*, January 2008; "Country Report: Bolivia," *Economist Intelligence Unit*, June 2008.

²⁰ "Country Report: Bolivia," *Economist Intelligence Unit*, February 2008.

²¹ U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America*, 2007.

²² "Bolivia: Going Pretty Well," *Latin American Economy and Business*, June 2006.

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

With respect to trade, Bolivia is a member of the Andean Community (CAN), with Peru, Ecuador, and Colombia. The members of the Andean Community have requested an extension of trade benefits from the United States and started negotiating a free trade agreement with the European Union. The future of the CAN had been in question after Venezuela suddenly quit the trading block in April 2006 because it opposed free trade agreements negotiations conducted by Peru, Ecuador, and Colombia with the United States. Bolivia is also an associate member of Mercosur, the trading block composed of Brazil, Argentina, Uruguay, Paraguay, and, as of July 2006, Venezuela.²³ In May 2006, the Morales government signed a trade and cooperation agreement with Cuba and Venezuela. Morales and the MAS opposed the Free Trade Area of the Americas (FTAA) and have been critical of the type of bilateral and sub-regional trade agreements reached by other countries in Latin America with the United States.

Investors are concerned about the ad-hoc nature of the Morales government's economic policy. They are also worried about Morales' stated goal of increasing state control over mining, energy, transport, and telecommunications.²⁴ Inflation, which reached 11.7% in 2007, has become a major challenge for the government to address. Some predict that the global financial crisis could reduce demand for Bolivia's commodity exports and weaken remittance inflows from Bolivians living abroad, thereby causing economic growth to slow in 2009. Some maintain that the job losses and lost revenue that would likely result from a suspension of Bolivia's ATPA trade benefits could also dampen growth in some sectors.²⁵ The most controversial components of the Morales government's economic and social development plans have been its efforts to nationalize the natural gas sector, to industrialize the coca leaf for licit uses while using cooperative means to eradicate excess crops, and to enact large-scale land reform.

Gas Exports and Nationalization

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

Despite these limitations, most Bolivians believe that their government needs to assert greater control over its natural resources in order to ensure that the revenues they produce are used to benefit the country as a whole.²⁶ In a June 2004 referendum, more than 92% of Bolivians support

²³ For more information, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

²⁴ "Country Report: Bolivia," *Economist Intelligence Unit*, June 2008.

²⁵ "Bolivians Worry Spat with U.S. Could Kill Jobs," *Christian Science Monitor*, October 28, 2008.

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

an increased state role in gas exploration and production, while stopping short of nationalization. As a result of the referendum, then-president Carlos Mesa sent legislation to the Congress to replace the 1996 Hydrocarbons Law, which had opened Bolivia's hydrocarbons sector to private investment. The state-owned energy company Yacimientos Petroliferos e Fiscales Bolivianos (YPFB) would resume a more active role in oil and gas operations. The proposed legislation raised taxes on oil and gas production and reestablished state ownership of oil and gas "at the wellhead."

In May 2005, the Bolivian Congress enacted its own version of hydrocarbons legislation that created a non-deductible 32% Direct Tax on Hydrocarbons (IDH) that would apply to production and maintained the current 18% royalty rate. Foreign oil companies vehemently criticized the law, but most elected to comply with its terms, at least in the short-term. As a result of the tax hikes, some companies initiated legal action over having their existing contracts rewritten and investment reduced, and predicted that new investments would not be feasible in Bolivia.²⁷

On May 1, 2006, President Morales fulfilled his campaign pledge to nationalize the country's natural gas industry. As a result of the May 2006 nationalization measure, the Bolivian government's income from gas and oil rose to an estimated \$1.57 billion in 2007 (compared to \$173 million in 2002). The nationalization measure significantly raised energy costs for neighboring Argentina and Brazil and raised tax and royalty rates to a level that some investors perceived to be unprofitable. As a result, Brazil's Petrobras and Spain's Repsol-YPF—the largest foreign investors in Bolivia's energy sector—halted new investments in the country through the end of 2007. Owing to a lack of investment in production, Bolivia is currently unable to fulfill its domestic needs for natural gas and meet the contract demands of Brazil and Argentina. State oil companies from a number of countries (including Petrobras and Repsol) have pledged to make \$1.5 billion in investments in Bolivia in 2008, which should enable it to boost production by 2009. Critics of the nationalization measure assert that, even with new investments, YPFB still lacks the capacity to develop Bolivia's gas resources.²⁸

Coca Cultivation

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

Since the 1980s, successive Bolivian governments, with financial and technical assistance from the United States, have tried various strategies to combat illicit coca production. In 1988, Bolivia passed legislation criminalizing coca growing outside 30,000 acres (12,000 hectares) in the Yungas region that was set aside to meet the country's traditional demand for coca. During the

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

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

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

1990s, the Bolivian government tried to implement that drug control law by paying coca growers to eradicate their crops. After this policy produced only modest results, the Banzer-Quiroga administration (1997-2002), implemented a forced eradication program focusing on the Chapare region.³⁰ Although the program dramatically reduced coca cultivation in Bolivia, human rights abuses were committed by security forces during its implementation.³¹ In addition, the government failed to implement viable alternative development programs to benefit coca growers and their families. Forced eradication caused economic hardship and fueled social discontent in the Chapare region. Frequent clashes between coca growers and security forces, which occasionally turned violent, de-stabilized the region and the country as a whole.

This ongoing conflict continued until October 3, 2004, when Chapare growers, led by Evo Morales and others, signed a one-year agreement with the Mesa government, which permitted limited coca production in the region and replaced forced eradication with a more cooperative, voluntary approach. Under the agreement, each family is allowed to produce one cato (1,600 square meters) of coca, but any coca grown beyond that is subject to eradication. U.S. State Department figures found that drug cultivation in Bolivia increased by 8% in 2005 compared to the previous year, but the United Nations Office on Drugs and Crime (UNODC) reported an 8% decrease in cultivation for the same period. UNODC credited that reduction largely to the success of the Chapare agreement.³² Regardless of its merits, the Chapare agreement was only supposed to remain in place if a European Union-funded study, which just got underway in 2007 after a long delay, concluded that the “traditional” demand for coca in Bolivia exceeds the current 12,000 hectares allowed by law. Critics argue that since, according to police sources, some 99% of the coca grown in the Chapare goes to the cocaine industry, it is not going to meet traditional demand for coca and must therefore be eradicated.³³

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

President Morales has sought to decriminalize coca growing and his government is trying to develop alternative uses of the coca plant for products such as coca tea. Venezuela is funding the restoration of two factories in the Yungas region for the industrialization of coca products—such as baking flour and toothpaste—for export. In June 2006, President Morales announced a plan to end the current division of the Yungas region into legal and illegal coca growing zones, to allow licensed growers to sell coca directly to consumers, and to permit each family in the Yungas to grow one cato of coca. In July 2006, his government then targeted some 3,000 hectares in the Yungas for cooperative eradication, marking the first time that the Bolivian government has attempted eradication in that region.³⁴ According to the U.S. Department of State’s International

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

³¹ Gretchen Gordon, “The United States, Bolivia and the Political Economy of Coca,” *Multinational Monitor*, January/February 2006.

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

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

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

Narcotics Strategy Control Report covering 2007, the Morales government met its coca eradication targets for 2007 and seized more cocaine base, marijuana, and precursor chemicals than in 2006.

Proponents of the “coca yes, cocaine no” policy argue that it is a culturally sensitive approach to coca eradication that is widely accepted in Bolivia. For those reasons, they believe that, although it may take time to show results, it stands a much better chance of being successful than previous forced eradication programs. They assert that Morales’ experience as a coca grower has enabled him to negotiate agreements with producers in regions where prior governments were unable to limit coca cultivation.³⁵ Critics of Morales’ coca policy argue that it is based on the false premises that traditional demand for coca exceeds the current legal threshold, and that there are viable markets outside Bolivia for licit coca-based products. They assert that both the “rationalization” policies and the December 2006 MAS proposal to expand the areas allowed for licit cultivation may encourage further increases in illegal drug cultivation and processing in both the Chapare and Yungas regions.³⁶

Land Reform

Extreme land concentration and the lack of indigenous access to arable land has been a long-standing cause of rural poverty in Bolivia. In 1953, Bolivia enacted a large-scale land reform program, distributing some 2 million acres to indigenous and peasant communities. Nevertheless, as of 2005 some 100 families reportedly owned 12.5 million acres of land in Bolivia, while 2 million survived on 2.5 million acres.³⁷ In 1996, Bolivia passed an Agrarian Reform Law 1996 that allows indigenous communities to have legal title to their communal lands. However, these communities argue that their lands have not been legally defined or protected and that outsiders have been allowed to exploit their resources. Previous land reform efforts in Bolivia and other countries in Latin America reportedly have been incomplete, because they have failed to provide land recipients the access to credit and technical assistance needed to use the land efficiently.³⁸

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

This land redistribution policy has been vehemently opposed by the agro-industrial sector and other large landowners in the Santa Cruz region, who see it as a threat to their livelihoods.⁴⁰ It is

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

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

³⁷ Helen Barnes, “Conflict, Inequality and Dialogue for Conflict Resolution in Latin America: The Cases of Argentina, Bolivia and Venezuela,” 2005.

³⁸ Alain de Janvry and Elisabeth Sadoulet, “Land Reforms in Latin America,” *University of California at Berkeley*, June 2002.

³⁹ Douglas Hertzler, “Bolivia’s Agrarian Reform,” June 28, 2006.

⁴⁰ “Bolivian Landowners See Politics, Chávez Behind Reform,” *Reuters*, June 5, 2006.

also likely to affect hundreds of Brazilian landowners who have acquired large tracts of land in eastern Bolivia for soya farming and other agricultural pursuits. In 2006, landowners reported an increase in peasant occupations of private land, actions which they say have been encouraged by the Morales government.⁴¹

On November 28, 2006, the Morales government secured passage of a new agrarian reform law with the support of two alternate senators from opposition parties. Although press reports have described the agrarian reform bill as “radical,” some observers maintain that it does not represent a dramatic departure from the land policy enacted in 1996. The new agrarian reform law stipulates that government land, unused tracts of private land, and land that was illegally acquired will be distributed to settlers, peasants, and indigenous peoples. Opponents of the law are concerned that it is likely to lead to arbitrary expropriations of private lands and will inhibit landowner’s ability to buy or sell existing holdings, but Bolivian government officials say they will take the steps necessary to avoid those outcomes.⁴²

U.S.-Bolivia Relations

For some 20 years, U.S. relations with Bolivia have centered largely on controlling the production of coca leaf and coca paste, much of which was usually shipped to Colombia to be processed into cocaine. In support of Bolivia’s counternarcotics efforts, the United States has provided significant interdiction and alternative development assistance, and has forgiven all of Bolivia’s debt for development assistance projects and most of the debt for food assistance. Bolivia, like Peru, has been viewed by many as a counternarcotics success story, with joint air and riverine interdiction operations, successful eradication efforts, and some effective alternative development programs. Others, however, view the forced eradication as a social and political disaster that has fueled popular discontent and worsened Bolivia’s chronic instability.

Prior to the December 2005 elections, most analysts predicted that a Morales victory would complicate U.S. relations with Bolivia. Although U.S. officials refrained from commenting publicly on their concerns about a possible Morales victory for fear of inadvertently swaying Bolivian support to his candidacy (as occurred in 2002), they expressed serious concerns about his position on the coca issue and his possible ties with Cuba and Venezuela.⁴³

After the election, U.S. State Department officials congratulated Evo Morales but noted that “the quality of the relationship between the United States and Bolivia will depend on what kind of policies they [Morales and the MAS government] pursue.”⁴⁴ Some analysts predicted that Evo Morales would become another Hugo Chávez, an outspoken, anti-American, leftist leader. Others disagreed, predicting that the United States could use foreign aid and trade preferences to exert some influence over the Morales government.⁴⁵

⁴¹ “Bolivia: A Country Report,” *Economist Intelligence Unit*, January 2007.

⁴² “Bolivia’s Morales Signs Sweeping Land Reform Bill,” *Agence France-Presse*, November 29, 2006.

⁴³ In 2002, then U.S. Ambassador to Bolivia Manuel Rocha stated that “if Morales was elected, the U.S. would have to reconsider all future aid [to Bolivia]. Most observers, and Morales, too ... say that [those comments] got him and MAS at least 20 percent more votes.” See David Rieff, “Che’s Second Coming?” *New York Times*, November 20, 2005.

⁴⁴ Sean McCormack, U.S. State Department Regular News Briefing, December 20, 2005; Interview with Secretary of State Condoleezza Rice on CNN, *Federal News Service*, December 19, 2005.

⁴⁵ “Don’t Do Chavez a Favor in Bolivia,” *Christian Science Monitor*, December 22, 2005.

Despite an initial openness to dialogue, U.S.-Bolivian relations became tense soon after President Morales took office. U.S. officials expressed concerns about the Morales government's commitment to combating illegal drugs, its ties with Venezuela and Cuba, and its nationalization of Bolivia's natural gas industry. In September 2006, President Bush expressed concern about the decline in Bolivian counternarcotics cooperation that had occurred since Morales took office.⁴⁶

In 2007, there continued to be periodic friction in U.S.-Bolivian relations. In September 2007, President Bush expressed concern about the reported expansion of coca cultivation in Bolivia that has occurred despite the Morales government's eradication efforts.⁴⁷ Tensions in U.S.-Bolivian relations flared during the fall of 2007 as Bolivian authorities (including President Morales) complained that some U.S. assistance was going to support opposition groups seeking to undermine the MAS government.⁴⁸ U.S. officials also expressed some concerns about the instability in Bolivia surrounding the constitutional reform process.

Tensions Increase in 2008

This year, U.S.-Bolivian relations have deteriorated from what analysts described as "tenuous" at best this summer, to extremely tense this fall.⁴⁹ Bilateral relations took a turn for the worse in June 2008, when the U.S. Ambassador to Bolivia, Philip Goldberg, was called back to Washington for consultations on security matters after protesters surrounded the U.S. Embassy in La Paz. The protesters were demanding the extradition of former president Gonzalo Sánchez de Lozada and his ex-defense minister Carlos Sanchez Berzain who have been charged in Bolivia with responsibility for civilian deaths that occurred during protests in the fall of 2003. The June protests occurred in response to Berzain's announcement that he had received political asylum from the U.S. government.⁵⁰ Also in June, coca growers unions in the Chapare region of Bolivia announced that they would no longer sign new aid agreements with USAID.

Bilateral relations reached their lowest point in recent memory in mid-September 2008, when President Morales accused U.S. Ambassador Goldberg of inappropriately supporting opposition forces, declared him *persona non grata*, and expelled him from the country. Within a day, the U.S. State Department followed suit, expelling Bolivia's U.S. Ambassador Gustavo Guzmán. These ambassadorial expulsions were followed by President Bush's September 16, 2008 determination that Bolivia had failed demonstrably to live up to its international narcotics commitments. Soon thereafter, a resolution was introduced (H.Res. 1483) in Congress expressing outrage over the expulsion of U.S. Ambassadors to Venezuela and Bolivia, and calling for these countries to resume full counternarcotics cooperation with the United States. On September 26, 2008, as a result of Bolivia's "demonstrable failure to cooperate in counternarcotics matters over the past 12 months," President Bush proposed to suspend Bolivia's ATPA trade benefits for the first time since the Andean trade preference programs began in 1991.⁵¹ Some analysts have asserted that

⁴⁶ White House, "Memorandum for the Secretary of State, Presidential Determination No. 2006-24," September 18, 2006.

⁴⁷ White House statement, text of presidential determination memo, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2008," September 17, 2007.

⁴⁸ "Morales Puts U.S. Diplomat in Sights," *Washington Times*, November 28, 2007.

⁴⁹ "As U.S. Presses Drug War, Bolivian is Antagonist and Uneasy Ally," *New York Times*, August 29, 2008.

⁵⁰ "Bolivia, U.S. Look to Improve Relations," *EFE*, July 4, 2008.

⁵¹ "United States Trade Representative (USTR), "U.S. Trade Representative Schwab Announces Proposed Suspension of Bolivia's Tariff Benefits," September 26, 2008.

these recent Bush Administration decisions regarding Bolivia are meant to punish the Morales government for expelling the U.S. Ambassador.⁵² Regardless of the reasoning behind them, most observers expect bilateral relations to remain tense, at least in the short to medium term.

Counternarcotics Cooperation

By the late 1990s, Bolivia, like Peru, was considered a counternarcotics success story and a close U.S. ally in the fight against illegal narcotics. As aggressive coca eradication programs in Bolivia resulted in significant reductions in illegal coca production, the bulk of U.S. concern (and counternarcotics funding) shifted to neighboring Colombia. At that time, some argued that Bolivia's earlier significant gains in reducing illegal coca production could be threatened by any successes in controlling production in Colombia through a "balloon effect," in which coca production shifts to other areas with less law enforcement presence. Those warnings appear to have some merit as, according to the State Department, coca cultivation in Bolivia increased 17% in 2003, 6% in 2004, and 8% in 2005. These findings, and the social discontent that has resulted from forced eradication, have prompted some critics to question the efficacy of existing counternarcotics programs in Bolivia and across South America.⁵³

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

At first, some U.S. officials expressed a willingness to engage in a dialogue with the Morales government on how to fight drug processing and trafficking while allowing some level of coca cultivation for traditional uses. This willingness has been replaced by increasing frustration on the part of the U.S. government with Bolivia's counternarcotics efforts. The State Department found that the Chapare agreement, rather than contributing to reductions in coca cultivation, actually "undercut the Government of Bolivia's commitment to its forced eradication policy and resulted in less eradication in 2005." U.S. officials are wary of President Morales' December 2006 policy to allow more coca to be grown in order to satisfy demand for traditional coca usage and coca-based products for export. The State Department asserts that "many suspect [that traditional coca usage] has declined as Bolivian society has urbanized."⁵⁴ In September 2007, President Bush expressed concern about the expanded coca cultivation in Bolivia that occurred in 2006 despite the Morales government's eradication efforts.⁵⁵

Figures from the United Nations Office of Drugs and Crime (UNODC) showed that the area under coca cultivation in Bolivia increased by 5% in 2007 (as compared to a 27% increase in Colombia). However, U.S. figures cited during the release of the FY2008 State Department report on Major Illicit Drug Producing Countries showed a larger increase in coca cultivation in Bolivia

⁵² "U.S./Bolivia: Relations Will Remain Tense," *Oxford Analytica*, September 30, 2008; "Bolivia-U.S.: Bolivia Expels U.S. Ambassador," *Latin American Regional Report, Andean Group*, October 2008.

⁵³ Colletta A. Youngers and Eileen Rosin, *Drugs and Democracy in Latin America: The Impact of U.S. Policy*, Washington D.C.: Lynne Reiner Publishers, 2004.

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

⁵⁵ White House statement, text of presidential determination memo, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2008," September 17, 2007.

of some 14% in 2007. Also during that report release, David Johnson, U.S. Assistance Secretary of State for International Narcotics and Law Enforcement Affairs, asserted that “cocacero syndicates—endorsed by the Government of Bolivia—expelled USAID from the Chapare region...and [and that] last week the U.S. Drug Enforcement Administration was similarly expelled from the Chapare.”⁵⁶ Bolivian officials have since denied those assertions.⁵⁷ On September 16, 2008, President Bush determined that Bolivia, along with Venezuela and Burma, had failed demonstrably to live up to its obligations under international narcotics agreements, but waived sanctions so that U.S. bilateral assistance programs could continue.⁵⁸

U.S. Assistance

For the past several years, Bolivia has been among the largest recipients of U.S. foreign assistance in Latin America. However, assistance levels have been declining since FY2007. Bolivia received \$122.1 million in U.S. assistance in FY2007, including \$66 million in counternarcotics assistance through the Andean Counterdrug Initiative account.⁵⁹ In FY2008, Bolivia received an estimated \$99.5 million, including roughly \$47.1 million in counternarcotics assistance. The FY2009 request for Bolivia is for \$100.4 million, not including P.L. 110-480 Title II food aid. A continuing resolution (H.R. 2638/P.L. 110-329) will provide funding for U.S. programs in Bolivia at FY2008 levels through March 6, 2009. **Table 1** provides figures on U.S. counternarcotics aid to Bolivia since FY2000, including how funds have been broken down between interdiction/eradication and alternative development.

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

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

⁵⁶ U.S. Department of State, “Remarks on the Release of the Annual Report on the Major Illicit Drug Producing Countries for Fiscal Year 2009,” David T. Johnson, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, September 16, 2008.

⁵⁷ Comments by Luis Arce, Bolivia’s Minister of the Economy, and Felipe Cáceres, Vice Minister of Social Defense, at an event co-hosted by the Inter-American Dialogue and the Washington Office on Latin America, October 24, 2008.

⁵⁸ White House statement, text of presidential determination memo, “Major Illicit Drug-Producing and Drug-Transit Countries for FY2009,” September 16, 2008.

⁵⁹ U.S. officials’ concerns about the Morales government’s commitment to combating coca production may have a direct impact on future counternarcotics funding levels for Bolivia. The House Appropriations Committee report to the FY2007 foreign operations appropriations bill (H.R. 5522; H.Rept. 109-486) cited concerns about reports that Bolivia has lessened its commitment to combating drugs and recommended cutting counternarcotics funding to Bolivia to \$51 million from the requested \$66 million.

Alternative development (AD) programs provide a range of assistance to help farmers as they stop relying solely on coca production and as their illicit crops are eradicated by law enforcement. U.S. programs supporting AD in the Chapare and Yungas regions of Bolivia have been linked to illicit coca eradication. AD includes economic development in coca-growing areas, demand-reduction education programs, and the expansion of physical infrastructure. For the past few years, USAID has been carrying out AD work in the Chapare in municipalities where some of the mayors are former coca growers. In June 2008, however, Chapare coca grower representatives announced that they would henceforth not sign any new AD agreements with USAID. Instead, USAID will focus its programs on the Yungas region.⁶⁰

Table I. U.S. Counternarcotics Assistance to Bolivia, FY2000-FY2009

(in historical U.S. \$ millions)

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

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

Andean Trade Preference Act (ATPA)⁶¹

The United States extends special duty treatment to imports from Bolivia, Colombia, Ecuador, and Peru under the Andean Trade Preference Act (ATPA; Title II of P.L. 102-182) which was enacted on December 4, 1991 and was originally authorized for 10 years. The purpose of ATPA is to promote economic growth in the Andean region and to encourage a shift away from dependence on illicit drugs by supporting legitimate economic activities. ATPA lapsed on December 4, 2001 and was renewed and modified under the Andean Trade Promotion and Drug Eradication Act (ATPDEA; Title XXXI of P.L. 107-210) on August 6, 2002. ATPDEA renewed ATPA trade preferences until December 31, 2006, with a retroactive date of December 4, 2001, and also expanded trade preferences to include additional products in the following categories: petroleum and petroleum products, textiles and apparel products, footwear, tuna in flexible containers, and others. Since that time, Congress has approved short term extensions of ATPA benefits.

⁶⁰ "More Rumbling with the United States," *Latin American Andean Group Report*, June 2008.

⁶¹ See CRS Report RS22548, *ATPA Renewal: Background and Issues*, by M. Angeles Villarreal.

On September 26, 2008, President Bush directed the United States Trade Representative (USTR) to publish a public notice proposing to suspend Bolivia's trade benefits because of the Morales government's failure to cooperate in counternarcotics matters. He reiterated his reasons for suspending Bolivia's trade benefits when he signed the Andean Trade Preference Extension Act (H.R. 7222/P.L. 110-436) into law on October 16, 2008. P.L. 110-436 extends trade benefits for Bolivia and Ecuador through June 30, 2009 and for Colombia and Peru through December 31, 2009.⁶²

A public hearing on the proposed suspension of Bolivia's ATPA benefits was held on October 23, 2008. At that hearing, witnesses examined the effects of the ATPA on Bolivia's economy as a whole, as well as its impact on specific sectors of the Bolivian economy. In general terms, most experts predict that the overall effect on Bolivia's economy if the ATPA benefits were to be eliminated would likely be small because exports under this program account for a small percentage of Bolivia's GDP. Despite having a small overall effect on the Bolivian economy, Bolivian officials have said that there are some 20,000 jobs, mainly in the textile and jewelry sectors, that would likely be lost without the ATPA benefits.⁶³ While some argue that Bolivia does not deserve to receive U.S. trade benefits because of its declining counternarcotics cooperation and recent expulsion of the U.S. Ambassador, others fear that the proposed suspension might result in more harm than good. In a recent statement, Representative Eliot Engel, Chairman of the House Subcommittee on the Western Hemisphere, predicted that a suspension of ATPA benefits "would empower champions of anti-Americanism and would make the United States less and less relevant in Bolivia."⁶⁴ As of the date of this report's publication, President Bush has yet to announce a final decision on when (and if) the proposed suspension of Bolivia's ATPA benefits will take effect.

Millennium Challenge Account (MCA)

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

In December 2007, a visit by the MCC Bolivia Transaction Team to Bolivia was postponed due to unrest in the country surrounding the Constituent Assembly process. On January 29, 2008, Philip Goldberg, then-U.S. Ambassador to Bolivia, stated that the MCC dialogue process with Bolivia has been put on hold for the time being.⁶⁵ The MCC is continuing to monitor developments in

⁶² United States Trade Representative (USTR), "U.S. Trade Representative Schwab Announces Proposed Suspension of Bolivia's Tariff Benefits," September 26, 2008; Office of the White House Press Secretary, U.S. "Fact Sheet: Creating New Opportunities for Businesses Around the World," October 16, 2008.

⁶³ "Bolivian Officials Urge Administration to Continue ATPA Benefits for Country," *Daily Report for Executives*, October 24, 2008.

⁶⁴ Press Release: Engel Objects to Suspension of Bolivia From Andean Trade Preferences," October 23, 2008.

⁶⁵ Transcript of Conference Call sponsored by the Bolivian-American Chamber of Commerce, January 29, 2008; Email (continued...)

Bolivia closely in order to determine when the proper political, economic, and social situation is in place that could enable the dialogue process to move forward.

Human Rights

Between 1996 and 2004, the implementation of forced eradication programs in Bolivia had been accompanied by charges of human rights abuses committed by Bolivian security forces. In 2003, violent clashes erupted between protesters and government troops in the Chapare and the La Paz departments that resulted in more than 80 deaths, prompting new allegations of abuses by security forces. The State Department's annual *Country Reports on Human Rights Practices* covering 2004-2007 recognized improvements from 2003, when it reported that serious problems existed with regard to deaths of protestors at the hand of security forces, the excessive use of force, extortion, torture, and improper arrests.

Congress has also repeatedly expressed concern with human rights abuses in Bolivia. Report language accompanying the foreign operations appropriations laws for FY2004 through FY2008 recognized the lack of progress in investigating and prosecuting human rights cases by Bolivian authorities and urged the Secretary of State to give higher priority to these issues. The Appropriations Committee required the Secretary of State to make a determination with regard to whether Bolivian security forces are respecting human rights and cooperating with investigations and prosecutions of alleged violations and to submit a report to the committee substantiating the determination. Funding for FY2004 and FY2005 was not made contingent on the determination, but funding for FY2006 and FY2007 was contingent on that determination. The FY2008 Consolidated Appropriations Act (H.R. 2764/P.L. 110-161) includes provisions stipulating that aid to Bolivian military and police be contingent upon the Secretary's determination.

Case Against Former President Sánchez de Lozada

Human rights organizations and the Morales government believe that former President Sánchez de Lozada, who currently resides in the United States, should be held legally responsible for the civilian deaths that occurred in Bolivia during September and October 2003. The 2003 protests were led by indigenous groups and workers concerned about the continuing economic marginalization of the poorer segments of society. The protesters carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. In September 2007, the Bolivian Supreme Court issued a new extradition decree for the former president. That extradition request was translated into English and sent to the U.S. State Department on November 10, 2008. A separate civil lawsuit was filed in the U.S. court system in September 2007 by human rights lawyers seeking compensatory damages for ten families of those killed in the protests. A ruling on that case is expected to be delivered during the spring of 2009.

(...continued)

from MCC official, January 29, 2008.

Figure I. Map of Bolivia



Source: Map Resources. Adapted by CRS.

<http://wikileaks.org/wiki/CRS-RL32580>

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