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The Last Days of Bolivia?

By Mark Falcoff

Last October Bolivia experienced a social and political upheaval that forced the resignation of President Gonzalo Sánchez de Lozada and shook the capital, La Paz, to its very foundations.¹ The headquarters of all the political parties supporting the government were burned to the ground; toll booths and other symbols of government authority were destroyed or disabled; even the Ministry of Sustainable Development—a magnificent Art Deco building that once housed the business offices of the Patiño tin empire—was gutted. Although a measure of normality has been restored since then, there is no certainty that stability is here to stay. As recently as late April, the lobby and lower floors of the congressional office building were demolished by a suicide bomber, and the successor regime—led by Sánchez de Lozada's former vice president Carlos Mesa—is attempting to buttress its shaky legitimacy through a series of tawdry gimmicks. These include attempts to govern without parties; denying natural gas to Chile, Bolivia's hated neighbor; threatening to overturn long-standing contracts with international energy companies; and brandishing a plebiscite which may well take the country—or at least an important part of it—outside the world economy. Republics do not normally commit suicide, but Bolivia may be an exception. If current trends continue, we may witness the first major alteration of the South American political map in more than a hundred years.

A Political System in Crisis

Although Bolivia recently celebrated more than two decades of constitutional democracy—the

longest such continuous period in its entire history—its political system today appears to be in a state of terminal disintegration. Elections have reflected—but not resolved—deep, perhaps irreconcilable, divisions within the country. With one exception, no political party since 1982 has won a clear mandate to govern, and almost every president has assumed office with only slightly more than 20 percent of the popular vote. Indeed, the major political event in Bolivia every five years has been not elections themselves but the horse-trading afterwards among three or four leading contenders in the subsequent congressional runoff. The outcome has therefore been determined not by the particular position of candidates on the real problems of the country—education, communications, health services, job creation, and the like—but by the candidates' skill at manipulating other members of the political class after the ballots have been counted. The process itself is evidently an open invitation to corruption and has encouraged a radical disconnect—perhaps the most yawning in South America—between the political class and the electorate.

Bolivia has long been South America's poorest country. But a combination of corruption, mismanagement, and the threat of impending political chaos has made things even worse. The deficit of the public sector has almost doubled since 2000, foreign direct investment has fallen from \$647 million in 2002 to a mere \$160 million in 2003, and unemployment is steadily rising (5.7 percent in 2000, 6.8 percent in 2001, 7.0 percent in 2002). While the rates of economic growth and population increase have operated pretty much in tandem

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over the past fifty years, this is no longer the case; every year the country now produces a deficit of 70,000 jobs. A case in point is El Alto, an Indian slum in the high Andean plateau immediately above La Paz; there a population of 800,000 lives from moment to moment.

The subject of El Alto immediately calls to mind a fundamental fact about Bolivia, namely, that it is a society divided along two major fault lines—race and geography. The republic has two distinct regions: the high Andean plateau (departments of Potosí, La Paz, Cochabamba, and Oruro) and a crescent of departments lying at lower, tropical, or semi-tropical elevations (Pando, Beni, Santa Cruz, Chuquisaca, and Tarija).

The inhabitants of the highlands are largely Indian—Quechua and Aymara—while lowland Bolivia is principally mestizo, culturally if not always racially. The latter, referred to colloquially as the “half-moon” (*media luna*) has an impressively diverse economy, including not only oil and gas but also forest products and commercial agriculture. From the point of view of economic and cultural geography, one might regard the lowland departments, particularly Santa Cruz, eastern Chuquisaca, and Tarija, as extensions of the Argentine north, and in fact their living standard is slightly above the South American average. They have every reason to regard normal trade with the outside world as the key to prosperity.

A very different picture exists on the high Andean plateau. There the basic industry has been mining, first silver in the colonial period and then tin and other industrial metals in more recent centuries. Those Indians who did not work the mines labored on the great haciendas. The revolution of 1952 nationalized the mines, expropriated the great estates, and divided the land into family-sized parcels. These reforms, quite radical for their day, have run their course. A lack of capital to develop exhausted veins forced successive governments to conclude service contracts with foreign companies and put them into perpetual conflict with the miners’ unions. Meanwhile, the limits of agriculture on handkerchief-sized plots has forced many off the land and into the cities or encouraged them to engage in the cultivation of the coca leaf, the basis for, among other things, cocaine. Quite apart from the fact that coca has an international demand that brings in a price many times that of conventional crops, it has the additional charm of being something that can be produced on a relatively small land surface. Moreover, unlike potatoes, wheat, or corn, the farmer can hope to produce four full harvests in a single year, and with a minimum of agricultural labor.



The decision of the Bolivian government to suppress or limit the production of this crop (together with the support of the U.S. government in its war on drugs) has produced an enormous backlash in the Indian communities of the highlands. Moreover, it has brought forth a major political personality, Evo Morales, leader of the Movement toward Socialism (MAS). He and other indigenous leaders have discovered a volatile mixture of identity politics and economic self-interest, and their followers provided the shock troops for the riots that brought down President Sánchez de Lozada last October, egged on and to some extent financed by Scandinavian NGOs, local Trotskyites, and agents of Venezuelan president Hugo Chávez.

The most radical of these groups favor renationalizing all of the state companies that have been turned into joint ventures in recent years and turning Bolivia (according to Morales) into “another Cuba” (whatever that may mean). More important still, are the links to what might be called Inca nationalism, a movement to repeal four hundred years of Bolivian history. In the new dispensation, Indian languages are to be given official status; the curriculum of schools is to be altered to provide indigenous content (to the point that the medical schools are to include native healing arts); even the name of the country is to be changed to Kollasuyo. While the Indians can rightly claim that they have received far less than their fair share of the nation’s wealth and services over many centuries, they are

hardly likely to improve their lot by turning their backs on modernity altogether.

The characteristic forms of political expression of these communities are the riot (or the demonstration that turns into one—there were more than a thousand of these in La Paz alone in 2002) and setting up roadblocks to cripple the nation's transportation network. Paradoxically these roadblocks hurt the poor Bolivians the Indian radicals purport to benefit. Thanks to them, market women cannot get to town to sell their wares; farmers' produce rots in trucks or in the fields; and Bolivian agricultural suppliers—for both raw and processed foods—lose orders overseas because delivery contracts are not fulfilled on schedule.

Far from taking such matters into consideration, the radicals called a general strike of indefinite length in mid-May whose announced purpose is to pressure the government to nationalize its oil and gas reserves. They are working in conjunction with Felipe Quispe, leader of the Aymaras and one of four indigenous members of Congress, who has promised to gradually cut the land links of the Andean plateau to Chile and Peru. In good time, he predicts, "not even a fly will be able to move down the road" (*El Nuevo Herald* [Miami], May 18). One might say that the dominant spirit of Bolivian democracy nowadays is not John Locke but Robespierre.

Blaming the Foreign Energy Firms

Paradoxically, in the midst of all this Bolivia's new president, Carlos Mesa, is extremely popular, more indeed than any of his country's chief executives since democracy was restored in 1982. But the sources of this popularity in and of themselves do not inspire much confidence. Mesa is liked not so much because he represents any particular point of view or program but because he is *not* Sánchez de Lozada. He apparently benefits as well from the fact that he is a man above parties and indeed without them. (He cannot count on the support of a single member of either chamber of the legislative branch.) In addition, a demagogic decision to forbid the re-export of Bolivian gas from Argentina to Chile has won him praise from all sectors of the political spectrum, which are all apparently oblivious to the fact that the country's *oil* pipeline, operative since 1966, continues to transport between 3,000 and 5,000 barrels to the Chilean port of Arica on a daily basis.²

Besides exploiting anti-Chilean sentiment, Mesa has also sought to buy political peace by scapegoating the

foreign energy sector. Specifically, he promises a new hydrocarbons law, a referendum on whether Bolivia should export natural gas at all, and a new constituent assembly. If one or all of these initiatives moves in the wrong direction, the consequences for the republic could be catastrophic.

Here a bit of background is in order. During the first administration of President Sánchez de Lozada (1992–1997), massive private capital and expertise were attracted to the hydrocarbons sector through a new arrangement known as capitalization. In exchange for a thirty-year operating contract, foreign investors doubled the capital of state energy companies. This legislation encouraged, among other things, the Houston-based Enron Corporation to participate in the construction of a Bolivian gas pipeline to Brazil.

New joint ventures of this type provided the Bolivian state with taxes and royalties (50 percent for old, previously developed fields, 18 percent for newly developed fields), perhaps its largest single source of income. Moreover, under the existing contracts, Bolivia's pension funds are half-owners of the capitalized enterprises. Unless one believes—as many Bolivian "anti-imperialists," politicians, and journalists presently act as if they do believe—that oil and gas spring from the ground on their own recognizance and in the blissful absence of engineering and geological skills, financing, and complex market arrangements, it is difficult to see what was wrong with this arrangement. If the taxes and royalties paid by the foreign companies—\$560 million last year alone—are not in evidence in Bolivia's social infrastructure, citizens of that country might well ask themselves what people have been governing them these past few years and with whom they best might be replaced, rather than to blame those who generated the revenue in the first place.

Even if the Mesa government survives the threat of withdrawing entirely from the international gas market—a threat, be it noted, largely of its own creation—attempts to extort unjustified and unearned additional resources out of foreign investors by overturning the existing royalty arrangements and demanding a 50 percent tax on *all* fields regardless of the date of their origination will undoubtedly lead to arbitration and a massive investment strike by the multinationals. Even President Mesa himself, in a rare moment of candor, recently conceded that an act of expropriation would eventually saddle the country with \$4.5 billion in certified claims, "putting Bolivia in a very difficult international situation that might even lead to a suspension . . .

of international cooperation” (*La Razón* [La Paz], May 17).

What makes this whole episode fraught with tragedy is the fact that natural gas is one of the few products for which Bolivia enjoys a vast comparative advantage. Argentina has only enough reserves to last it another fourteen years, while Brazil’s size and dynamism virtually assure that it will have to be a net energy importer for decades to come. Bolivia’s reserves are probably good for centuries to come. Moreover, although prices for silver, tin, and other industrial metals have lately experienced an upturn, demand for these minerals is cyclical, as opposed to the virtually inexhaustible demand for natural gas. Thus, by threatening to turn against foreign participation in its energy sector, Bolivia may be cutting its own lifeline and missing a chance to be a major player in one of the world’s most important commodity markets.

Losing the Lowlands

Because of the weight of demographics and the fact that the political capital is located in La Paz, outsiders tend to confuse highland Bolivia with the rest of the country. Lowland Bolivia—the aforementioned “half-moon”—has its own identity and nourishes a strong sense of regional resentment. In Santa Cruz, for example, many people remark that if there is to be a new constituent assembly to redraft the Bolivian constitution, then the new charter must redress the need for decentralization of authority and resources. That department produces 51 percent of the gross income of the entire nation but receives a far smaller percentage of the royalties from natural gas and oil. If the plebiscite on the export of natural gas produces a negative result, neither Santa Cruz nor Tarija would likely have any particular interest in remaining within the republic, and they would probably threaten to form a country of their own. In this they might well be joined by Pando, Beni, and the hybrid

department of Chuquisaca, leaving La Paz and the highlands to drugs and politics, the two things—perhaps the only two things—they know how to do really well. In his effort to placate the people in the immediate vicinity of the seat of government in La Paz, Carlos Mesa may end up being Bolivia’s last president, at least in its current geographical configuration.

There is a way out, but it will require an entirely new approach to politics. Concretely, it will require a genuine attempt at a federal solution, with a regional redistribution of resources and a rational energy policy, not to mention a curtailing of corruption and a more transparent way of managing the national exchequer. These are tall orders, but only Bolivians can deliver them. While other countries—notably Argentina, Brazil, and at some remove, the United States—have an interest in the country’s progress, if Bolivians themselves make the wrong decisions nobody can rescue them from the consequences.

Notes

1. See December 2003 *Latin American Outlook*, “Bolivia: A Revolt That Leads Nowhere.” Available at <http://www.aei.org/publication19541>.
2. After the War of the Pacific in 1879, Bolivia lost its outlet to the sea. It has never reconciled itself to this event, and all political forces there heartily subscribe to the slogan “Bolivia will have its outlet to the sea.” Unfortunately, the most proximate Pacific port to Bolivian territory is Arica in northern Chile, which belonged not to Bolivia but Peru. Thus to satisfy Bolivian territorial aspirations, Chile must essentially agree to the creation of a Bolivian corridor through its territory—unless, of course, it is willing to return the province seized from Peru as well and accept the truncation of its own boundaries. It should be noted that Chile has long offered Bolivia a series of special customs and storage regimes at the port of Arica, which would give it effective access to the Pacific; what it will not do is to cede sovereignty, which in any case would presumably be disputed by Peru.