

BTI 2010 | Bolivia Country Report

Status Index	1-10	5.98	# 54 of 128	
Democracy	1-10	6.50	# 47 of 128	➔
Market Economy	1-10	5.46	# 67 of 128	➔
Management Index	1-10	4.72	# 72 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Please cite as follows: Bertelsmann Stiftung, *BTI 2010 – Bolivia Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

Key Indicators

Population	mn.	9.5	HDI	0.73	GDP p.c.	\$	4014
Pop. growth	% p.a.	1.7	HDI rank of 182	113	Gini Index		58.2
Life expectancy	years	66	UN Education Index	0.89	Poverty ²	%	30.3
Urban population	%	65.1	Gender equality ¹	0.51	Aid per capita	\$	50.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the review period, Bolivia continued the trajectory of political and economic transformation begun with the election of Evo Morales and the attainment of an absolute legislative majority by his Movimiento al Socialismo (MAS) in December 2005. His government broke with the elitist politics of negotiated parliamentary pacts (which had given the country unprecedented institutional stability from 1985 to 2003, and allowed liberal democracy and a market economy to gain footing), substantially changing the course of Bolivian politics and policies. The goals of securing democratic institutions, the rule of law and market-based economic foundations were no longer given categorical priority over the competing objectives of substantial economic and social reforms, which are often aligned with socialist, anti-liberal, anti-globalist, anti-imperialist and state-interventionist programs. Some of these reforms, such as nationalizing mines and gas and oil reserves, establishing new contracts on royalties or taxes, and land reform reflect in part the tradition of the national revolution of 1952. Others, such as those that aim to build a “new” Bolivia by empowering indigenous communities, furthering decentralization and initiating constitutional reform reflect a desire to go beyond tradition and extend the achievements of the revolution to the indigenous communities by combining basic elements of liberal democracy with, inter alia, elements of direct or plebiscitarian democracy, new forms of social participation and control, indigenous customary law, and territorial autonomies. While these new policies emphasize the mechanisms of participation, they have compromised institutional stability and compounded significant democratic deficits.

Bolivia has remained a defective – illiberal and also delegative – democracy with clear deficits in stateness, separation of powers and rule of law, though the balance of political participation has improved. The structural limitations posed by Bolivia’s fragmented and poorly integrated society, geographic and ethnic heterogeneity, and its economic and social problems (particularly extreme poverty, exclusion, informality and dependency) have frustrated efforts to combat these deficiencies. In addition, regional disparities and cleavages have become highly politicized,

particularly between the traditional and poor Altiplano (highland) region and the coca-producing Cochabamba region on the one hand, and the four eastern lowland departments of the “Media Luna” (Half Moon) on the other. This latter group includes the modern, export-oriented departments of Santa Cruz and Tarija, which are rich in natural gas resources, successful in commercial agriculture and have demanded more political autonomy for years, as well as the modernizing departments of Beni and Pando.

During the last years, these cleavages have become more pronounced, and conflicts more entrenched. The government’s lack of conflict management has driven three more departments (Chuquisaca, Cochabamba and La Paz) into the camp of the dissenters, at least for the present. Politics in general have become more antagonistic, and violence has not been contained. The government has been continuously confronted by resistance and open rebellion on the part of regional, social and ethnic elites and movements in a climate of increasing polarization between (and even within) the two great social and political blocs: the indigenous and leftist movements, mostly of the Altiplano and the Chapare, supporting the government, and the mostly white or cholo farming and commercial elites and their followers in the Media Luna region and other urban centers, in the opposition. In institutional politics, deadlock, jurisdictional fights, disregard for procedure, and counterproductive friction have been abundant. Conflicts have emerged not only between the government and the autonomist departments or the nationwide opposition, but also between central government powers, including the judiciary, over the role and the rules of the Constituent Assembly.

Besides the struggle for regional autonomy, this protracted and often deadlocked process of framing the constitution was a central (and highly symbolic) issue in Bolivian politics throughout 2007 and 2008. Between the election of the Constituent Assembly in July 2006 and the final referendum on the document on 25 January 2009, it has gone through at least 19 different conflict-torn and often counterproductive stages, which were accompanied by cycles of popular mobilization and a number of tactical referenda, one on the performance or recall of the president and the prefects (which Morales won), and others on declarations of autonomy in the four dissenting departments of Santa Cruz, Beni, Pando, and Tarija. These latter votes were launched by the departmental governments, and were approved by clear majorities in May and June 2008. In October 2008, an agreement was reached on the inclusion of autonomy (at least in principle) in the constitution, as well as a rule allowing a president to serve a second consecutive elected term, enabling the text to be put to a referendum in January 2009. The new constitution “refounds” Bolivia as a plurinational, communitarian state with mechanisms to increase participation and social control and to empower the indigenous communities. It also tries to constitutionalize policies in many fields, particularly dealing with economic and social issues. The referendum resulted in a nationwide vote of approval of 61.4%, but also revealed the division of the country: The constitution was rejected in the departments of Santa Cruz, Beni, Pando, and Tarija, and approved by only a small margin in Chuquisaca. As many of its provisions need further implementation, some (e.g., on the electoral system and the new schemes for empowerment) even before the next general election scheduled for December 2009, the future development of Bolivian politics will very much depend on the capabilities of the political

actors, and particularly the government, to build alliances, find viable agreements and avoid further polarization, capabilities which most of them have not demonstrated during the last years.

Bolivia's economic situation during the review period was characterized by two continuities. On the one hand, the government continued its policy of giving social reforms priority over stability or market orientation. The country's human resources, its educational system and the welfare regime have been improved by domestic programs and bilateral aid, particularly from Venezuela, more so than by international schemes. The policies of nationalization in strategic sectors, state interventionism and land reform were extended, while competition and property rights were increasingly limited. The latter contributed to a decline in foreign direct investment flows from 2006 to 2007, and later slowed down recovery and diversification, despite growth in the traditional hydrocarbons sector and the spectacular El Mutún mining and processing venture. On the other hand, the government's new priorities have so far not been put to a severe test, because the country's economic performance has also continued to improve thanks to economic growth and a substantial increase in export earnings, particularly with regard to state revenues from natural gas exports. Despite higher government spending, fiscal budgets since 2006 have shown a surplus, for the first time in many years, and Bolivia has succeeded in reducing its foreign debt and debt service burden. It remains to be seen whether these trends will survive the recent worldwide economic recession, and the significant decline in demand, in commodity prices and remittances evident by the end of 2008. In addition, the suspension of the United States-Bolivia Andean Trade Promotion and Drug Eradication Act (ATPDEA) program, triggered by the Bolivian government's decision to openly confront the United States in late 2008, will bar many Bolivian exports from the U.S. market.

Seeking unnecessary confrontation with the United States, with an eye more toward populist mobilization than to particular issues, has been one of the mistakes of the Morales government during the last years; the too-close, uncritical alliance with the Hugo Chávez government in Venezuela has been another. The quality of the political leadership's governance performance has not on the whole improved, and in some sectors even declined during the review period. Its political management has improved only in the field of civil society participation, and with respect to policy learning. However, the increase in learning, in cases which left the leadership no choice, has often been due to its own earlier strategic mistakes and maximalist, erratic policies of trial and error. Political management has particularly deteriorated in the fields of steering capability, international cooperation, consensus building and conflict management. Even while in government, the ruling MAS party has continued its populist strategy of exploiting and emphasizing structural cleavages and conflicts for the sake of mobilization and polarization. The Morales administration either followed this course deliberately (as a "double strategy"), or at some point lost control over the movements. Hence the government, instead of taking positions that would allow it to integrate or mediate between views, has usually contributed, in the same way as the opposition, to a constellation of entrenched conflict and mutual exclusion in which increasingly radicalized opponents confront one another. In 2008, the most important examples of confrontational mobilization were provoked not by groups close to the government, but by (in part fascist-like) groups close to opposition-aligned leaders in the Media Luna.

Although significant actors have thus far refrained from measures that would seriously risk the unity of the state, the possibility of an advance in policies of conflict and the politics of brinkmanship in 2009 cannot be excluded.

History and Characteristics of Transformation

Bolivia is one of Latin America's poorest countries, although it is one of the richest in mineral resources and has good soils for productive agriculture (particularly in the east and south). The disparities between its geographically, ethnically and economically heterogeneous regions are enormous and have often led to strife and conflict. Thirty-six sizable indigenous communities have been counted in Bolivia, the largest being the Quechua, who make up 30% of the population, followed by the Aymara at 25%. About 30% of the population is mestizo (cholos). Though a historical asset, Bolivia's 1952 revolution of the Movimiento Nacionalista Revolucionario (MNR) – one of Latin America's few true revolutions in the 20th century – lies also at the root of a number of severe social and political problems: its legacy continues to manifest itself both in intense social or ethnic mobilization, protest and violent polarization, and in corporatist, exclusive elite agreements.

In an anti-imperialist, populist and “national-revolutionary” push, the MNR decreed agrarian reform and nationalized Bolivia's large mining companies that were dominated at the time by foreign capital. The MNR also introduced political and social reforms, including equal suffrage for all ethnic groups without literacy requirements, and state-interventionist policies directed at domestic development. The MNR regime, which remained civilian until 1964, and then a military regime until 1971, made significant progress in advancing participation, integration and social assistance, but it was unable to initiate steady economic growth and diversification. It also failed to reduce Bolivia's dependency on foreign capital and markets. Even under its two civilian presidents, Paz Estenssoro and Siles Zuazo, the MNR reflected a more traditional clientelistic and populist – rather than democratic – mode of government, and its policies were largely continued under the first three post-revolutionary military rulers between 1964 and 1971.

General Banzer's bureaucratic-authoritarian regime (1971 – 1978) was less repressive than the military regimes of the Cono Sur, but its potential for modernizing the country and solving its many problems remained limited. After an interlude of attempted democratization, factious strife within the military and a more brutal (if short) traditional dictatorship in alliance with the cocaine mafia (García Meza 1980 – 1981), the transition from dictatorship to democracy began in 1982. Short and negotiated, (1982 – 1985) the transition resulted in a restoration of the constitution and, for the first time in Bolivian history, a relatively long period of uninterrupted democratic institutional stability that lasted until President Sánchez de Lozada's forced resignation in October 2003 amidst severe popular protest, strikes and violence. Despite the civil

unrest, succession by Vice President Carlos Mesa was conducted in accordance with the constitution. Two years later in June 2005, once again amidst nationwide protests and riots, Bolivia's congress finally accepted Mesa's repeated wish to resign and set general elections for 18 December 2005. The outcome of these elections has marked a significant threshold in the trajectory of Bolivia's transformation: it ended two decades of efforts to stabilize democracy through agreements made among the parliamentary elites and brought to power representatives of those who had been excluded. The latter called for a "new" set of policies and politics meant to be more inclusionary, participatory and reflective of indigenous populations. They also advocated greater state intervention, arousing memories of the 1952 revolution.

Bolivian politics since 1985 have been characterized by continuous and explicit efforts to overcome the defects of democracy, to stabilize its institutions, to increase participation, and to make the market economy more effective; the latter particularly by deregulation and privatization as pursued during Paz Estenssoro's presidency (1985 – 1989). Progress, though limited, was made. Social and economic policies, however, have not been able to reduce significantly poverty, inequality and marginalization. Institutional stability, as well as political and economic reforms has, until 2003, been achieved largely through elite agreements between the traditional parliamentary parties. Though a great achievement against the background of Bolivian history this mode of governance has had an exclusionary bias. Most of Bolivia's poor and many of its indigenous communities have felt excluded and marginalized, underscoring the fact that the post-revolutionary strategy of "controlled inclusion" has not worked. In both ethnic and revolutionary traditions they have given voice to their growing demands for redress, immediate action and empowerment through protest, efficient mass mobilization in unions, peasant militias, local or regional civic action groups, strikes and road blockades which often became violent. Their impact had, however, remained for a long time contained due to rivalries, factionalism, and their more obstructive than constructive character. The 2005 victory of Evo Morales, the most moderate leader of the marginalized, seems to have changed things, even if factionalism persists.

Morales's victory has demonstrated that the reformist strategy of stabilizing democracy through parliamentary elite agreements could not continue indefinitely as it left too many problems unsolved. By 2002, the government's ability to act had become so limited by structural constraints (poverty, budget deficits, economic downturn, unemployment, debts), its own weak performance (inefficiency, corruption, unresponsiveness, exclusion) and foreign influence (IMF, banks and corporations, U.S. drug control and eradication policies), that it could no longer build viable and effective reformist coalitions. The government was often caught between the interests of the political elites and social movements on the one hand, and between the various factions of the business community (domestic and foreign, legal and illegal) and external actors like the United States and the international financial institutions on the other. It was within this context that Evo Morales's populist agenda advocating a return to anti-oligarchic (anti-liberal), anti-imperialist (anti-United States), jingoistic (anti-Chile) and state-interventionist policies found support, culminating in his electoral victory in December 2005. ("Populism" here refers to the particular strategies and politics of the heterogeneous populist movements in Latin America

advocating anti-imperialist, national revolutionary or reformist policies, directed towards a more autonomous development, basically by means of political and social reforms, state interventionism and the implementation of a mixed economy.)

Greater disparities have emerged between the more traditional and poor areas of the Altiplano (highland) region, the recently impoverished coca production enclaves near Cochabamba, and the more modern and export-oriented regions of the Media Luna (Half Moon) in the east and north, particularly Santa Cruz and Tarija. As boom towns, rich in natural gas resources and successful in commercial agriculture, these two are drawing vast numbers of internal migrants in search of economic improvement. Since early 2005, demands for decentralization and greater regional autonomy have been on the rise. A series of calls to secede culminated in “cabildos abiertos” (revolutionary mass assemblies) in the departments of Santa Cruz, Tarija, Beni and Pando. Policies that include strong provisions for regional autonomy (and a greater share in self-determination, taxes and, above all, royalties, have been continuously supported in these four departments by wide majorities of the voters in various referenda (July 2006, May and August 2008). In late 2007, the four departmental prefects even went to Washington to criticize the government in front of the OAS. The departments clearly rejected the draft of the constitution for a “new” Bolivia in January 2009 because its last-minute provisions on regional autonomy were considered to pay only lip service to the regionalists’ demands, while MAS land reform policies were seen as a threat to the interests of the dominant elites behind the autonomy movements. Protests and unrest have spread, and polarization has increased during the last two years, with particularly violent outbursts coming since September 2008. The four dissenting departments have come to be supported by three other departments: La Paz, Cochabamba and, particularly, Chuquisaca, where a severe indigenous critic of Morales, Savina Cuéllar, defeated the MAS candidate for prefect in June 2008 and embarked on an autonomist course.

Bolivia’s transformation has been marked by three subsequent processes. The first, beginning in 1985, produced stable democratic institutions and a liberalized market economy. The second, which began in the 1990s, built and extended the institutions guaranteeing the rule of law, improved the quality of democracy and began to increase the channels of participation. The third process was triggered by the various social protests and riots since 2000, which produced a situation of limited destabilization reaching its first peak with the ousting of Sánchez de Lozada in October 2003. Since then, destabilization continued, though the Mesa government could still contain it for some time. The electoral victory of Morales and the MAS in December 2005 changed the course substantially: since January 2006, the goals of securing democracy (in institutional terms), the rule of law and the market economy were no longer given categorical priority over competing objectives of substantial economic and social reforms. These reforms of the new “hegemonic project,” along the lines of “socialist,” anti-globalist, anti-imperialist and state-interventionist programs, follow in part the tradition of the 1952 revolution (e.g., nationalization of mines and of gas and oil reserves, new contracts on royalties and taxes, or land reform), but reflect in part an attempt to enhance indigenous communities’ inclusion and participation (e.g., empowerment, decentralization and drastic constitutional reform to build a “new” Bolivia). Democratization in Bolivia has thus triggered mobilization and participation,

which precipitated first a continuous institutional destabilization, then an alternative strategy to create new institutions, at the same time with autonomist and secessionist energies.

Conflict, social unrest and violence, however, remained undiminished in 2007 and 2008, although a break-up of the country has been avoided, mostly by last-minute compromise. Unions representing miners, coca growers, peasants, entrepreneurs and commercial farmers, along with organizations of ethnic, sectoral and regional interests have intermittently and in various parts of the country taken to the streets or set up barricades, blocking buildings, roads, or airports, protesting against or in favor of the Morales government. Order and security have been put at risk more often than in previous years. Confronted by violence, the president has at times had to cancel visits (even a summit scheduled for Tarija), and has sent in the military more often than expected.

Transformation Status

I. Democracy

1 | Stateness

Bolivia has a number of stateness problems. The state's monopoly on the use of force does not always extend to all parts of the country. In the judicial system, inefficiency and corruption are common, even aside from its more recent sabotage by the executive. The loyalty of the civil service and of the police is often questionable. Some regions are home to parallel power structures of local landowners, narcotics traffickers, or ethnic community organizations (like the militias of the "Ponchos Rojos" in El Alto). In addition, since 2005, the often violently articulated and broadly supported demands for regional autonomy in the departments of Santa Cruz, Tarija, Pando and Beni have led to continuous, increasingly bitter confrontations between the well-organized groups of the autonomist insurgents (civic committees, vigilantes, militias, youth groups such as the Unión Juvenil Cruceñista) and the forces of the central government. In some cases, the government has enforced the state monopoly on the use of force with a high cost in terms of blood (as in the mines of Oruro and Huanuni in September 2007, and in Sucre in November 2007). However, in many other cases government forces have been more restrained, and in Santa Cruz, a competing power center has been established. Some authors have already identified "polycentrism" in Bolivia. If the government continues to be unable to curb centrifugal tendencies, a fundamental split of the country, even in terms of real power, may be possible. Nevertheless, outright secession appears to be rather unlikely, because the neighboring states support the central government.

Monopoly on the use of force

There is fundamental agreement on the legitimacy of the nation state, and on who qualifies as a citizen. Since 1952, all citizens have had the same rights, even if many were de facto excluded from making use of them for many years. However, many ethnic groups identify primarily with their own community, considering that allegiance to be more important than their Bolivian citizenship. The more accentuated regional disparities and discrepancies in wealth and opportunities in some of the more developed (Santa Cruz, Tarija) or developing (Beni, Pando)

State identity

departments – which collectively represent about 60% of the population – have led to strong demands for more autonomy or new federal structures, and eventually even to separatist tendencies. Their loyalties may increasingly depend on the government’s political performance. However, the new constitution drafted by the government’s followers and approved nationally, and which won majorities in five departments (but was rejected in the four that make up the Media Luna), shows a significant tendency towards favoring the indigenous communities (which constitute the majority of the Bolivian population) vis-à-vis the rest of the population.

Church and state are separated, and religious dogmas have no noteworthy influence on politics or the law. Some of the traditional conflicts between religious and non-religious education have re-emerged; in such cases, the government has tried to mediate.

No interference of religious dogmas

There are functional administrative structures in Bolivia. Although the state’s physical infrastructure extends throughout the entire territory, its practical administrative reach is not complete.

Basic administration

2 | Political Participation

Bolivia’s leaders are determined by free and fair general elections in which universal suffrage and the right to campaign for elective office exists. On the whole, elections are conducted properly, and electoral reforms in 1996 have rendered their outcome even more representative. By mandating that half of the members of parliament be elected in territorial constituencies, the reforms improved the representation of highly populated regions (traditionally under-represented). Continued voter registration efforts since the mid-1990s have significantly enhanced a factual universality of suffrage (especially in rural areas). Reforms in 2004 broke up the monopoly held by parties in municipal elections and opened up candidacy opportunities for civic groups (Agrupaciones Ciudadanas, AC) and indigenous peoples (Pueblos Indígenas, PI), which turned out to be highly successful. Reforms in 2005 for departmental prefect elections yielded similar outcomes. Combined with the emergence of a viable political alternative to the “old” elites (i.e., MAS) these measures have contributed to the fact that the number of ballots cast in the 2005 elections surpassed those of 1997 by roughly one-third. This trend continued in the July 2006 elections for members of the Constituent Assembly, and in the January 2009 referendum on the new constitution, in which about 90% of the electorate participated. It remains to be seen to what extent new electoral legislation due in 2009, which will implement the new constitution’s provision for additional “special constituencies” for the indigenous communities, may affect the principle of equal suffrage. Irregularities in the voter registration process were reported in rural areas in 2007 and before the recall referendum of August 2008. Some of these may have had to do with the fact that the new identity

Free and fair elections

cards needed for registration were issued (in a nationwide crash project launched with Venezuelan money) by the police and the local MAS offices, instead of the electoral authorities.

Elected rulers in principle have the effective power to govern. There are no nationwide veto powers or political enclaves in the hands of the military or other groups. But, in certain cases, regional bosses or mafia can limit the government's power to govern, as can insurgent mass protest and violent riots. A more recent phenomenon can be observed in which elected regional authorities have sought to limit and check the jurisdiction of elected national authorities (and vice versa).

Effective power to govern

The freedoms of assembly and association are not limited in principle. However, when faced with intense mass protests and insurgency, all of Bolivia's post-authoritarian governments have tended to declare a state of emergency, suspend temporarily political liberties and the guarantees of the rule of law, and send in the military. By employing this tactic, the Morales government has been able to outlaw the activities of political organizations, unions and other groups and to send political opponents to jail for some time.

Association / assembly rights

Freedoms of opinion and of the press are generally guaranteed. The media are mostly private and pluralistic. Principally they can express opinions freely. There are eight national newspapers (four in La Paz, three in Santa Cruz) and many local ones. The number of private TV and radio stations has gone up substantially since 2000 and numbers in the hundreds (statistics vary for the last years: between 42 and 200 TV stations, between 480 and 825 radio stations). Investigative journalists covering corruption stories or criticizing the governments (national and departmental) are occasionally intimidated or attacked, but more often by political movement organizations than by officials. President Morales, his cabinet ministers and many political leaders and spokesmen have occasionally attacked "the media," among others, as part of their populist rhetoric against all kinds of intermediary organizations and institutions.

Freedom of expression

3 | Rule of Law

The separation of powers had improved in the years before 2005. Bolivia's "parliamentary presidentialism" between 1985 and 2005 gave the parliament more weight than before, though within limits. With few exceptions, the government has neither been subject to rigid parliamentary control, nor to effective control by the judiciary. The absolute majority won by Morales and the MAS in the 2005 presidential and parliamentary elections changed the situation in two respects: On the one hand, there has been an increasing tendency towards governance by executive decree in cases in which lawmaking would ordinarily be required, and, on the other, there has been a decisive move towards derision, neglect and marginalization of representative democracy's basic institutions, mechanisms, and

Separation of powers

procedures, including the judiciary. This reflects the anti-intermediary and anti-representative bias of the government's populist concept of "direct" democracy (governed by "plenipotentiary" assemblies), as well as the corporatist features of a "communitarian" concept of the state. A restoration of the balance of powers was not sought for more than two and a half years, until the government, in October 2008, had to come to terms with the institutional rules in order to proceed with its constitutional reform. Before that time, the conflicts over the functions and procedures of the Constituent Assembly, the various drafts of the new constitution, and the populist rhetoric and performance of the ruling elite have shown that the government and the parliamentary majority want a different kind of democracy, in which the usual checks and balances would be much less important than, in the words of the new constitution, "social control" of the public institutions by "organized civil society." During the last several years, procedural rules, quorums, institutional jurisdictions and court orders have often been disregarded or violated by the president and the government, by the congress, by the Constituent Assembly, and by some departmental prefects who (in pursuing their autonomy projects and statutes) have openly abandoned any institutional or constitutional foundation for action.

The judiciary continues to be the weakest branch of the Bolivian government. There have been important reforms since the mid-1990s which have increased institutional differentiation and theoretically enhanced the independence of the judiciary (e.g., reforms affecting the penal code, the code of criminal procedure, a reorganization of internal administrative controls, the establishment of a Tribunal Constitucional, and the Office of the Ombudsman). Since 2000, particular efforts have also been directed toward developing an alternative *justicia comunitaria* with elements drawn from the traditions of the various indigenous communities. However, political patronage is still persistent in the judiciary, and the executive branch and the parties continue to control the judiciary council (Consejo de la Judicatura) and the appointments of public prosecutors and judges. In addition, the situation has significantly deteriorated since the advent of the Morales government in 2006 which, instead of deepening the reforms, not only exploited the existing problems of the judiciary for populist campaigning purposes, but also actively contributed to marginalize it even more by disregard, contempt, and open contestation. When, in June 2007, the Tribunal Constitucional ruled that the four Supreme Court justices whom Morales had unconstitutionally appointed by decree (in order to speed up the trial against former President Sánchez de Lozada) should yield their seats, the president called for an impeachment of the members of the Tribunal. In reaction, the judiciary called for a strike against the government's attempts to "throw out the Bolivian judicial system and implant a totalitarian regime" (as the Supreme Court put it). The members of the Tribunal Constitucional later all resigned, and have not been replaced since. The July 2008 suspension of a referendum ordered by the last remaining justice (before she also resigned) was also disregarded by the executive

Independent
judiciary

as was, a month later, the refusal of the Corte Electoral to organize a referendum scheduled only by executive order. The independence of the judiciary does not figure in the concept of “direct” democracy as advocated by the MAS. It will be further reduced by the provisions of the new constitution, which requires that all judges be popularly elected (and hence able to be recalled) and that equal status should be given to the (often informal) mechanisms of community justice for the 36 indigenous “nations,” without any right of appeal.

Corrupt officeholders are not systematically prosecuted, although they have been increasingly exposed to the publication of scandals by the opposition and the media. The October 2004 decision of Congress to prosecute former President Sánchez de Lozada was a political decision. Since taking office, President Morales has often launched selective anti-corruption campaigns that served as grist for populist rhetoric, even against members of his own party and close collaborators. However, he has not tried to reform the lack of transparency and the patronage structures behind the scandals. The problem of conflicts of interest, in addition, has not been addressed in any systematic way; at times, in convenient cases, its existence has been explicitly denied. The new constitution stipulates that anti-corruption laws can be applied retroactively.

Prosecution of
office abuse

Civil liberties are guaranteed in principle. Since the judicial reforms of the 1990s, citizens have been able to claim their rights through due institutional channels. However, civil rights are still violated occasionally, and they are not implemented in some parts of the country. The new constitution even tries to extend the scope of civil, political and social rights beyond those guaranteed by the 1967 constitution. It introduces as third-generation civil rights the rights to collective identity and culture, and to access to collective goods (water, electricity, gas, communication services, etc.). Yet it remains to be seen whether and how far the provisions of the (collectivist) indigenous community law, which according to the new constitution can be applied “exclusively” within delimited indigenous autonomous regions, may infringe the classical individual civil rights also guaranteed by the constitution. In contrast to the countries of the Cono Sur, Bolivia has not systematically addressed human rights violations by the previous authoritarian rulers, in part because they were comparatively less repressive than elsewhere and dramatic excesses were few, except for the brutalities of the regime under García Meza, who was in fact sent to jail for decades.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, and, on the whole, democracy does not seem to be at stake in Bolivia despite undergoing a process of profound institutional restructuring (via the Constituent Assembly). But gridlock, deadlock, antagonistic rivalries, fights over jurisdiction, disregard for procedure and deadlines, and counterproductive frictions between the institutions have been

Performance of
democratic
institutions

abundant in recent years, despite the fact that the electorate vested Morales and the MAS with a comfortable absolute majority. Conflicts have emerged not only between the government and the nationwide opposition, which still dominates the Senate, but also between the main democratic institutions, between central government and the departments, and within the departments. Misconceptions about the dimension of the government's mandate and conflicts over the role and the rules of the Constituent Assembly are only two examples. The frictions have been basically due, on the one hand, to the government's unmediated and "direct" concept of democracy and its disdain for representative and intermediary institutions; while on the other hand, the government has been continuously confronted with insubordination, illegal actions and at times open, violent rebellion on the part of regional, social and ethnic elites and movements, and their respective institutions. This has been part of a climate of increasing polarization between (and even within) the two great social and political blocs: the indigenous and leftist movements, mostly of the Altiplano and the Chapare, supporting the government, and the mostly white or cholo farming and commercial elites and their followers in the Media Luna and other urban centers, in the opposition.

Institutional conflict, inefficiency, and deadlock have become abundantly clear in the long and somewhat intermittent process of framing the constitution for the "new" Bolivia, which from the election of the Constituent Assembly in July 2006 to the final referendum on 25 January 2009, has gone through at least 19 different conflict-ridden stages. Many of these were constitutionally questionable, and most proved dysfunctional and counterproductive. Most of the time, the Assembly was deadlocked either on procedure or on the highly symbolic question of where the state capital should be (La Paz or Sucre). In two crucial votes in November and December 2007, the opposition was not present. Talks between the government, the opposition and the prefects of the dissenting departments went through periods of stop and start, often accompanied by violent mobilizations; negotiations were interrupted more often than they were conducted; tentative pacts were designed and then denied. The dates set for the referendum on the text were several times contested, declared illegal, postponed, and traded off with those of other (at times tactical) referenda: one on the performance or recall of the president and the prefects (which Morales won with 67% of the vote, and two out of nine prefects, in La Paz and Cochabamba, lost in August 2008), and others on declarations of autonomy in the four dissenting departments of Santa Cruz, Beni, Pando, and Tarija, which were launched by the departmental governments in a legally questionable way (but were all approved with clear majorities in May and June 2008). In the end, in October 2008, an agreement was reached in congress that the president would be able to stand for a single additional consecutive term, and that the renegotiated text of the constitution which now (at least principally) endorsed the demands for more departmental autonomy, would be put to the voters on 25 January 2009.

The text, like many recent Latin American constitutions, is long and full of (often ambivalent) populist rhetoric aiming at identity-building and reassurance. It tries to constitutionalize substantial policies in many fields, particularly with respect to economic and social issues, by setting ambitious norms and binding policy objectives. This mechanism for lifting expectations will most likely produce disappointment. Among the document's most important characteristics are: the refoundation of Bolivia as a plurinational, communitarian state, operationalized by empowerment mechanisms for the 36 indigenous "nations" at all levels, including the right to self determination, the establishment of special electoral constituencies and communitarian justice; an extension of human rights ("third generation"); an unbalanced mix of representative and direct democracy, which introduces initiative, referendum and recall voting procedures; the election of justices; a fourth power of social control by organized civil society; and autonomy for departments, regions and municipalities. The parliamentary tie-breaking vote in case no presidential candidate reaches a 50% majority in a popular election has been replaced by a run-off between the two frontrunners, or the award of the office to the candidate with a total of at least 40% of the vote, who also has a lead of at least 10% of the votes compared to the next-highest competitor. The president can be re-elected for one consecutive term.

The results of the referendum on the constitution showed a high turnout of about 90%, with a nationwide approval rate of 61.4%. However, the country was clearly divided. Despite the late-hour compromise on autonomy, the constitution was rejected by a two-thirds majority of the voters in the departments of Santa Cruz and Beni, and by almost 60% in Pando and Tarija, and was only approved by a small margin in Chuquisaca. As the (often contradictory) provisions of the new constitution have not yet been implemented by legislation (*leyes marco*), it remains unclear how or whether the new institutions will be put into operation before the general elections scheduled for December 2009. This uncertainty includes provisions concerning the electoral system; the special constituencies for indigenous communities; the new judicial institutions; the implementation of departmental, regional and municipal autonomy; the transfer of powers, taxes and funds; the language requirements; the schemes for empowerment; and a definition of exactly which groups will be empowered under the ill-defined category of "naciones y pueblos indígena originario campesinos." The government's ability to build alliances within this new institutional structure will be crucial in the future.

All relevant political actors accept democracy, but they usually have different concepts in mind. When the mayor of Santa Cruz called in autumn 2008 for a military coup against the government, the military clearly refused even to discuss it. The existing institutions of representative democracy receive support from the traditional elites and their diminished and restructured parties, now in the opposition. The majority now in government wants a different type of more direct

Commitment to
democratic
institutions

and mobilized democracy, with an imperative mandate, powers of initiative and recall, and also a number of corporatist and collectivist mechanisms as embodied in the constitutional provisions for the empowerment of indigenous communities (see “performance of democratic institutions,” above). The government’s performance up to 2008 showed a systematic lack of respect for many procedural rules and institutions, particularly the separation of powers and the judiciary, notwithstanding the acceptance of judicial and parliamentary veto powers in the process of constitutional reform. Among the more conservative new elites and autonomy movements in the eastern departments of the Media Luna, and particularly their militias and radicalized youth groups, an outright authoritarian, racist, violence-prone and even fascist-like potential can be found, much like that present in radicalized sectors of some ethnic movements.

5 | Political and Social Integration

For many years, Bolivia has had an unstable (and unbalanced) party system characterized by high fragmentation, substantial polarization and high volatility due to the parties’ limited anchoring in society. On the whole, the party system continues to be unstable and only weakly anchored, even if the governing MAS party, since 2005, appears to be socially rooted and to have relatively stable linkages with societal organizations. The party system in the national parliament is only moderately fragmented, and volatility has been lower in the elections and referenda since 2006. However, in the light of increasing factionalism within the MAS, changing loyalties at the local and regional level, a still-unconsolidated opposition party (PODEMOS) and emerging new independent movements, it is too early to tell whether or not the Bolivian party system has undergone significant change. The elections and referenda of 2009 and 2010 will provide further tests.

Party system

The traditional party system in place since 1985 finally collapsed in 2005. Its three main parties MNR, ADN, and MIR have all but disappeared, as have a number of smaller regional or personalistic parties (including the NFR of Cochabamba caudillo Manfred Reyes Villa, or radical ethnic leader Felipe Quispe’s MIP). Since the municipal elections of 2004, the winners have clearly been the Movimiento al Socialismo (MAS) under the leadership of Evo Morales, on the one hand, and some of the recently enfranchised civic groups and indigenous peoples’ groups, on the other. These new groups were so popular that many local caudillos and mayors refused to run on their traditional party tickets, and presented themselves successfully on AC or PI tickets. Thus, the traditional political parties have structurally lost some influence, even if they did make a somewhat stronger showing in the last nationwide elections, in 2005 and 2006. The more successful civic and ethnic groups have, to an extent, been integrated into the logic of party politics.

In the national elections of December 2005, the voters finally ratified the MAS' leading role, giving the party an absolute majority of 53.7%. The MNR shrank to 6.5%, Quispe's MIP to 2.2%, and the NFR and the MIR disappeared; some of the latter's votes may have gone to Doria Medina's UN, now the third-largest force (7.8%). Former president Jorge "Tuto" Quiroga's conservative PODEMOS coalition established itself decisively in second place, with 28.6% of the vote. Though it may have attracted a substantial number of former ADN votes, PODEMOS is nevertheless a new and much more complex entity. As these results were corroborated by the outcome of the elections to the Constituent Assembly in August 2006 (MAS 50.7%, PODEMOS 15.3%, UN 7.2%) it could be suggested that the crisis of the Bolivian party system may have led to a certain degree of restructuring and realignment. However, this may not last long; not only because electoral volatility remains high in Bolivia, but also because polarization and fragmentation have increased during the last two years, and are likely to increase even further due to the provisions of the new constitution. The country is structurally divided between the western highlands, which gives a majority support to MAS, the government and its new constitution, and the eastern Media Luna, which favors autonomy statutes and voting, as evidenced in its majority vote of about 60% against the constitution. The next general elections, scheduled for December 2009, will show whether the urban middle classes' support for Morales has continued to dwindle.

Both the government and the opposition camps are tending toward even more fragmentation. In government, the fissures between the various ethnic organizations within the MAS, particularly the radical Aymara movements and the more pragmatic "politicos," have become more noticeable. The opposition is divided between the parliamentary opposition embodied in the conservative party PODEMOS, which is not deeply rooted in society, particularly not in the four oppositional departments of the Media Luna, and the four regionalist departments' strong organizations and socially well-rooted civic committees (with some incipient, but regionally limited party structures), which lack representation at the national level. Though perhaps natural allies in terms of fighting the government's plans, they have not been able to come to terms. The compromise made by PODEMOS with the government on the final text of the constitution in October 2008 has even increased conflict and competition between the two groups, and reduced the chances for a united opposition in times of growing discontent with the government. The general elections in December 2009 will put this fragmentation to the test. Another conflict due to arise soon will be the establishment of additional uninominal parliamentary constituencies for each of the 36 recognized (indigenous) "nations," as foreseen by the new constitution. Thus, more polarized struggles over the required electoral legislation can be expected, the outcome of which may further increase the fragmentation of the party system.

Bolivia's networks of interest groups, particularly those representing capital and labor, agriculture and certain sectors and regions, have over the last two years become more fragmented and split along ethnic and regional lines. This is also true of the various organizations of coca growers and other peasants and small farmers. The growth of the strong regional associations of businessmen, allied with the regionalist movements in the rich departments of Santa Cruz, Tarija, Beni and Pando, has weakened the national organization of industrialists (CEPB) and limited the influence of Altiplano-based groups. Among the labor unions, the traditional Bolivian Workers' Central (COB), the miners' union and some peasant organizations recovered from their previous loss of leverage beginning in 2005, and have since demonstrated a high, though mostly ad hoc, capacity for mobilization. The COB has also regained structural political influence in the Morales government: Vice President Alvaro García Linera, a long-time intellectual and labor movement ideologue, has close union ties, and the president himself has (in defiance of the constitution) insisted on continuing in his role as president of the union of coca growers. However, this did not preclude the government from sending troops against insurgent Pando in 2008, or against violent strikes and manifestations with union participation, such as in the Oruro and Huanuni mines or the conflicts with the coca growers of the Chapare. After a long period of conflict, unions have been successful in their fights for a higher minimum wage, the universal "renta dignidad," and the re-nationalization of social security, which had been privatized since 1997.

Interest groups

The powerful neighborhood committees (Federación de Juntas Vecinales, FEJUVE), which are neither union nor party-related and have played a leading role in organizing the recent protests, blockades, and ultimately pro-government manifestations around La Paz and El Alto, still wield great influence, even though their former president Abel Mamami lasted less than two years in government. Highly influential neighborhood and civic committees of a similar type, in this case with close ties to the interests of regional industry and commercial farming, are located in the insurgent departments of the east, particularly in Santa Cruz and Tarija. Functioning and stable patterns of representation for mediation between society and the state exist in Bolivia for institutionally integrated groups at the national level (such as teachers, state bureaucrats or students), or for others at the regional level (where patterns of representation have also grown increasingly polarized along ethnic cleavages).

Consent to democracy in Bolivia in recent years has been moderate to high, although political protests have tended to call the constitutional framework into question. Issues of contention have included the particular type of democratic decision-making to be implemented and the institutions of territorial self government. The substantial revision of the constitution will at least solve some of the formal problems implied. However, the fundamental principles of electoral

Consent to
democratic norms

democracy have never been at stake. Support for democracy according to Latinobarómetro data has gone up continuously since its low in 2004 (45%) and 2005 (49%), reaching 62% in 2006, after Morales took over the government. During the last two years, support for democracy has reached and even surpassed the previous high of 1996 (64%). In 2007, levels reached 67%, and in 2008, 68%. However, after a euphoric rise from 20% in 2005 to about 40% in 2006, satisfaction with the way democracy is working in Bolivia fell into the upper 30s in 2008, indicating a moderate disenchantment. The authoritarian potential, in contrast, has been significantly reduced from 19% in 2005 and 2006 to 14% in 2007 and only 10% in 2008. This lies below the Latin American average. This does not preclude some cycles of dissatisfaction with the current government: President Morales's approval ratings fell significantly in the course of 2006, from more than 80% early in the year to around 60% toward the end. In the recall referendum of August 2008, however, in which 84% of the electorate participated, Morales and his vice president won an approval rate of 67.4% for their performance in government.

In terms of sheer numbers, Bolivia's systems of social self-organization and social capital formation are successful, as there are more than 13,000 registered civil society organizations in the country. However, they are not effective on a national scale and are highly fragmented along sectoral, regional and ethnic lines. Coalitions and alliances vary regionally and remain mostly spontaneous, temporary and limited to protest (as in the various "wars" on water, gas or against taxes, increased prices, etc.). Trust among the population is low. Many ethnic groups, such as the Quechua, Aymara and others, display rich and institutionalized communal and communitarian traditions, which have inspired the communitarian philosophy of the government and its efforts to explicitly empower and revitalize the associational traditions of the various indigenous communities (36 of which have now been recognized) by means of the new constitution.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Bolivia's level of development does not permit most of its citizens adequate freedom of choice. Social exclusion is quantitatively and qualitatively marked and structurally embedded. About two-thirds of the population (a proportion higher in rural areas) lives below the poverty line, and about 20% (World Bank data) to 35% (CEPAL data) live in extreme poverty, on less than \$1 a day. Open urban

Socioeconomic
barriers

unemployment has increased since the mid-1990s and is reported to be around 10%; more than 70% work in the informal economy. Infant mortality rates have been among the highest in Latin America for many years. The crisis at the end of the last century made structural problems worse, even if the country's economic performance in terms of macroeconomic indicators has continuously improved since 2003, largely due to a substantial increase in state revenues derived from natural gas exports. Growth was stable at between 4% and 5% between 2004 and 2007, around 6% in 2008, and is predicted to slow down to about 4% in 2009. GDP per capita has risen, from \$1.040 in 2005 to \$1.224 in 2006, and to \$1.379 in 2007. Nonetheless, this remains among the lowest such figures in South America. The real effects of the government's social and educational policies, particularly with regard to minimum wages, pensions, family subsidies, and literacy (see below 10.1, 12.2), will be better understood as newer figures, as yet unavailable, are released. The standard development indicators, despite some incremental improvement, still lie below — sometimes considerably below — the Latin American average: The HDI value was 0.723 (rank 111) in 2006, as compared to 0.695 (rank 117) in 2005; the Human Poverty Index (HPI) value was 12.6 (rank 56); the GDI value was 0.720 in 2006 (i.e., 99.6% of HDI, rank 44), as compared to 0.687 in 2004; and the Gender Empowerment Measure (GEM) value was 0.509 (rank 77). Inequality has not changed much (the Gini coefficient is at 60.1), and there are significant regional disparities.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	8773.2	9549.1	11451.8	13120.1
Growth of GDP	%	4.2	9.4	4.6	0.0
Inflation (CPI)	%	4.4	5.4	4.3	8.7
Unemployment	%	4.2	5.4	5.1	5.2
Foreign direct investment	% of GDP	0.7	-2.5	2.5	1.6
Export growth	%	16.6	9.9	9.6	3.3
Import growth	%	5.5	15.4	4.2	4.8
Current account balance	\$ mn.	337.5	622.4	1317.5	1799.6
Public debt	\$ mn.	4557.1	4568.2	3176.7	2149.6

		2004	2005	2006	2007
External debt	\$ mn.	6221.6	6907.8	5798.9	4947.0
Total debt service	% of GNI	6.2	4.8	3.5	5.7
Cash surplus or deficit	% of GDP	-5.4	-3.7	12.2	1.2
Tax Revenue	% of GDP	15.0	16.2	16.8	17.0
Government consumption	% of GDP	16.3	16.0	14.4	14.1
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.2	4.4	4.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.0	1.8	1.6	1.7

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The fundamentals of market-based competition were better secured in early 2005 than in 2009. This is because state intervention in and state control of strategic sectors has expanded. The hydrocarbons law passed in May 2005 not only raised the duties on gas and oil companies from 18% to 50%, but restored the traditional state-owned petrol company YPF as a major player in the sector. The expansion of state control has accelerated and intensified since the Morales government's ascension to power in 2006. There is substantial state intervention in and control of strategic sectors. Market-based competition was also limited by the Agrarian Reform Law of 2007, which allows for the expropriation of land "not fulfilling its economic and social function," and lays the groundwork for a more comprehensive and redistributive agrarian reform (see 9.1 and 9.2). The informal sector plays a major economic role. There are strong discrepancies between the relatively developed eastern Half Moon region and more traditional regions such as the Altiplano; that is, between the eastern region's export-oriented, modern sector, dominated by international companies, and a weak national industry. The internal market in rural areas is still underdeveloped.

Market-based
competition

In principle, Bolivia's laws call for resisting the formation of monopolies and oligopolies, but the regulations have for many years been implemented rather inconsistently. Between 1985 and 2005, many new monopolies or oligopolies have been formed at the regional or sectoral level, such as in the media sector or by the

Anti-monopoly
policy

processes of privatization (e.g., mining, social security). In addition, the return to stronger state interventionism since 2006 has manifestly favored state and parastatal monopolistic tendencies.

Foreign trade, which was deregulated after 1985 and liberalized and diversified throughout the 1990s, has since 2005 been affected by the renationalization of gas and oil production, and by the broader return to state interventionist policies. Trade has remained liberalized in principle, but significant exceptions can be found, including differentiated tariffs and special rules for individual companies or sectors. The new policies have included a rise in royalties and taxes (for some companies up to a temporary high of 82%); expropriation of substantial parts of companies' shares (to be handed over to the YPFB) with contested compensation procedures; unilateral decisions; and conflicts over plans for pipeline construction, export quotas, gas prices and capital returns. These policies helped slow FDI flows between 2006 and 2007 (from 17.2% to 9.8% of gross fixed capital formation) and reduced FDI stocks (as a percentage of GDP) from 61.8% in 2000 to 44.7% in 2006 and 40.5% in 2007. However, many foreign companies and states, particularly the neighboring Brazil, Argentina and Chile, as well as the United States, have come to terms with the Bolivian government and the YPFB on the basis of a compromise stating that nationalization would be accepted in principle, but that payments and prices would be agreed upon. Brazil even agreed to a significant rise in the gas price, and the YPFB bought a number of refineries back from Petrobras in an orderly procedure. There are also numerous differentiated tariffs and special rules or exemptions for individual sectors, countries or companies. Imports and exports are usually taxed, often heavily, even if the government has not always succeeded in putting its plans for exorbitant tax increases into practice (as in the case of the mining cooperatives in 2007).

Liberalization of
foreign trade

Bolivia is a member of the Andean Community (CAN) and an associate member of Mercosur, and it tries to use the market opportunities and openings associated with these two organizations, as well as those of the European Union and the United States, without investing too much. As Bolivia was excluded from negotiations over a free trade agreement between the CAN and the United States after the passage of the 2005 hydrocarbons law, the government opposed the subsequent treaty, instead joining forces with Venezuela and Cuba in 2006 (in the "Peoples' Trade Treaty"), and even sabotaged, until June 2007, the beginning of negotiations between the CAN and the European Union. Despite the conflicts over legalizing production of coca (an essential issue to the Morales government), Bolivia was initially a participant in the economic programs associated with the U.S.-Andean Trade Promotion and Drug Eradication Act (ATPDEA) which, among other things, gave Bolivian producers duty-free access to the U.S. market. This changed at the end of 2008, however. After Morales announced an extension of the area in which coca cultivation was legally allowed, and expelled U.S. Ambassador Philip Goldberg and

all Drug Enforcement Agency agents (alleging that they were cooperating with protest movements) in September and October 2008, the U.S. declared Bolivia as “non-compliant” in the war on drugs, revoked a number of trade preferences and stopped several USAID programs for the country.

Bolivia’s banking system and capital market are differentiated, open and internationally oriented, but still subject to fluctuations due to a lack of supervision and high dependency on foreign markets. Most domestic banks have some degree of foreign participation. As Bolivia’s integration with the international capital market is very limited and capital inflows have been negligible for many years except for foreign direct investment in hydrocarbons and mining, the worldwide financial crisis has not at the time of this writing significantly affected the country’s banking system. However, the expected declines in commodity prices and remittances will affect the country’s economic outlook in general.

Banking system

8 | Currency and Price Stability

The governments of the past two decades have, on the whole, pursued a consistent policy on inflation and an appropriate exchange rate policy. During the 1990s, the average annual inflation rate amounted to about 8%, and went down to less than 1% in 2001. It has gone up since, to just below 5% in the years from 2004 to 2006, and significantly more in the last two years, reaching 8.7% in 2007, and 17% in the first half of 2008. After that it fell again (2008 average: 12%); the Economist Intelligence Unit’s prediction for 2009 – 2010 is about 8%. Stable economic growth (between 4% and 6%), particularly export growth, the rising revenues from gas exports (and some other products), and a high foreign exchange and cash surplus (since 2006) have increased inflationary pressures on the economy (the “Dutch disease” of 2007) which the central bank (formally independent since 1995) has tried to contain by purchasing great quantities of foreign exchange and using the exchange rate as an anchor. Between May 2007 and May 2008 the boliviano, Bolivia’s currency, appreciated by 18.5% against the dollar, which contributed to a reduction in deposit dollarization. Between October 2008 and February 2009, the exchange rate remained constant. The money supply, which grew in 2007 and the first half of 2008, was somewhat cut down in the second half of 2008. The government tried to help, though not too convincingly, by decreeing some price controls, export bans and cuts in subsidies (e.g., on fuel). But as government expenditure has on the whole gone up (by 29% in the first quarter of 2008), fiscal policy has remained lax. A high level of liquidity has been in the interest of the government’s social programs, meaning that policies of austerity have had little chance of implementation. Inflation has not been efficiently contained so far, and the pressures for currency depreciation have recently increased.

Anti-inflation /
forex policy

Between the late 1980s and 2005, Bolivian governments were committed to fiscal and debt policies aimed at stability; they even implemented hard austerity measures during some periods. But institutional safeguards were limited, and always subject to populist policy changes under the pressures of violent mass protest. In a way, this has changed since 2006. The Morales government has generally given priority to the objectives of social reforms over those of economic stability; yet this about-face has thus far not been put to a severe test, thanks to the increased revenues from gas exports under the hydrocarbons law. The country's subsequently better economic performance has improved economic indicators, and the government has been able to combine an emphasis on social policies with a responsible fiscal policy. Despite higher government spending in a number of sectors, the budget deficit of 3.7% of GDP in 2005, which already marked a reduction from 5.4% in 2004, turned into a fiscal surplus of 12.2% in 2006, 2.6% in 2007, and an estimated 3.5% in 2008. In 2008 alone, Bolivia's export earnings rose by 45%. However, most of the government's other plans to increase taxes from non-extractive incomes, consumption or other sources have so far failed. Bolivia's external debt has also gone down, falling from around \$6.9 billion in 2005 to around \$5.3 billion in 2006. The estimates for 2007 and 2008 are respectively \$4.5 billion and \$4.9 billion. Accordingly, Bolivia's total debt service could be reduced from 14.3% of GNI in 2005 (18.4% in 2004) to 8.5% in 2006. It is as yet unclear whether these trends will survive the worldwide economic recession, the decline in demand (Brazil alone recently cut its gas imports by a third), the fall in commodity prices (particularly gas) and remittances (particularly from migrants in Spain), and the suspension of the U.S.-Bolivia ATPDEA program. The Economist has predicted that Bolivia's trade surplus will decline from 10.1% of GDP in 2008 to just 3.1% in 2009.

Macrostability

9 | Private Property

Guarantees of property and property rights are still not implemented consistently or safeguarded adequately against state intervention. Expropriation remains an instrument of everyday politics. Many private national and transnational companies in the oil and gas business, in mining, public utilities, basic infrastructure and energy have been partially or completely (51% to 100%) expropriated in the course of the government's policies of nationalization. State-owned corporations such as YPFB and Comibol have expanded. The government has also created new state-owned companies in a number of manufacturing sectors, and has declared it will continue to do so. In addition, the new constitution has weakened property rights, giving these policies the dignity of constitutionality. It has also ratified the provisions of the Agrarian Reform Law of 2007 (in many respects a renewal of the revolutionary model of 1952). The new constitution allows for the confiscation of unused or ill-managed land – admittedly a matter of concern for any functioning market economy, not only in Bolivia – which is then to be redistributed to the

Property rights

landless poor (of indigenous origin only) who will not hold it as property, but in usufruct, and often within the autochthonous traditions of communal or communitarian land use. Special problems have been presented by the various illegal land occupations, often by indigenous organizations. In the January 2009 referendum, a clear majority of almost 80% of voters set the maximum size for legally owned land estate at 5000 hectares. The new constitution also makes it compulsory for enterprises to reinvest their capital returns within the country and within the respective sector of their operation. Depending on the implementation legislation, this may severely limit the free use and transfer of profits.

Private companies can act freely in principle, but there are political limitations in many sectors. Beginning in 2002, the process of privatization of traditionally state-owned companies (which began in 1985), particularly in the mining and oil sectors and public utilities (most of them legacies of the revolution of 1952), has first been slowed and then reversed. This is particularly true in the fields of water supply, energy, gas and oil, and, since October 2006, mining. The July 2004 referendum cleared the way for renationalization, the reconstitution of the state oil and gas company YPFB, and a rule ensuring that 50% of the proceeds from gas sales were made available for social development. These provisions were implemented by the hydrocarbons law of 2005, which imposed an additional 32% tax on gas and oil production in addition to the 18% royalty already in place.

Private enterprise

Nationalization and reregulation have had a high priority on the government's agenda in various sectors, often very much along the lines of the 1952 revolution. After rewriting most of the transnational gas firms' contracts ("nationalization"), the new regulatory policies and politics have increasingly been extended to other sectors: particularly hydrocarbons, mining (and melting), public infrastructure and communications, but also to a number of manufacturing industries (including milk, food and paper production). Comibol, the former national mining corporation, was resurrected to take over (and renationalize) many of the mines privatized since the late 1980s. Several water, electricity, and telecommunication firms (Entel) were returned to the public sector, and the state secured decisive majorities for itself (between 51% and 100%) in a number of strategic oil and gas transport companies like Transredes (formerly Shell, Ashmore), CLHB (Oiltanking), Andino, and Chaco (BP). By August 2007, 20% of the Bolivian economy was already state controlled, as compared to just 6% a year before, and the process has continued since then. In some sectors and regions, the government's nationalization policies have met with strong and even violent resistance. During the last four years, this has repeatedly and almost continually been the case in the northern and eastern lowlands' commercial farming regions and in the mines of Oruro, where smaller and medium-sized mining cooperatives in particular have resisted the government's plans for nationalization and higher taxation, with some success.

On the other hand, the government has also proved willing to (re)negotiate adequate compensation and agreements for further cooperation with the expropriated companies, particularly with Petrobras, Repsol and Total in the oil and gas sector. It has also shown great interest in expanding joint ventures with strong foreign or transnational enterprises, particularly in non-traditional cases that involve the use of advanced technology. The government has tried to attract such partnerships, fundamental state control notwithstanding, by offering acceptable conditions and the necessary cooperation and guarantees. One spectacular example of this was the mid-2007 contract with India's Jindal Steel & Power Ltd., involving the exploitation of fully half the Mutún iron ore reserves in the eastern lowlands (at about 40 billion tons, the biggest such deposits in Latin America), as well as the construction of a smelter, a steel mill, a gas-fuelled power plant, a railroad and port installations. Jindal is expected to invest more than \$2.1 billion; YPFB will have to provide about 8 million cubic meters of gas per day from 2012 on.

10 | Welfare Regime

Social safety nets are fragmented, and coverage is not distributed equally. In recent years, the government has tried to address all three of the principal problems of the country's mechanisms of social provision: modernizing the theoretically well-developed, but highly inefficient traditional system of social security, particularly in the mines, in industry and urban employment; extending coverage to the great majority of people who are not yet included, most of them in rural areas; and fighting poverty among the lower-paid strata of workers (formal and informal) and marginal self-employed. In 2006, the Morales government tripled the minimum wage and set aside additional funds from its increased gas revenues for anti-poverty programs, schools and grants for students. In January 2008, further changes were introduced by presidential decree: the minimum wage was set at 575 bolivianos (\$76), and the minimum pension at 566 bolivianos. For those whose individual contributions to the pension funds did not add up to this minimum monthly payment, the government made up the difference. The requirement of minimum contributions was repealed, the minimum retirement age was lowered from 65 to 60, and new groups such as migrant agricultural workers were made eligible for the pension scheme. In addition, a tax-financed, non-contributive state pension of 200 bolivianos for all citizens over 60 years of age (*renta dignidad*) was introduced, replacing the universal Bonosol scheme established in 2002. Most of this new system was to be financed (according to a 2007 decree) by funds subtracted from transfers to regional authorities, with the funds coming originally from the tax revenue on hydrocarbons production (IDH) (as decreed in July 2007). This measure has intensified conflicts between the government and the departments.

Despite the government's rhetoric, the private pension funds which emerged after 1997 in the previous process of social security privatization, with catastrophic

Social safety nets

consequences for many of the insured, were not (yet) abolished. It was not until August 2008 that the government, under pressure by the unions of the COB, announced that it would take over responsibility for pension funds from companies which lost a considerable proportion of shares in the nationalization of gas and oil. In addition, the government confiscated \$10 million from accounts run by private pension managers for coverage of professional and accidental risk insurance, applying these funds toward the new pension benefits. It also made a 10% deduction from the pensions of the highest-paid workers, using the money to fill a pension solidarity fund, and proposed a new income tax for the highest-paid workers to raise funds for the *renta dignidad*. These measures, which affected only 0.1% of the population, turned out to be rather insignificant, but were seen as political instruments and intensified the conflicts between the government and the opposition. The idea of a new fuel tax for pension funds seems so far to have been abandoned. In late 2008, at the end of a three-year campaign for literacy drawing on funds provided by Venezuela's Chávez government, Morales stated that more than 820,000 people had learned to read and write, and that there was practically no more illiteracy in Bolivia (only 3% as compared to 14% in 2001). The land reform measures have provided some land for poor landless farmers. Public expenditure on health remained constant at a low level (4.3% of GDP) between 2003 and 2005. Bolivia still cannot combat poverty systematically on its own.

There are a number of domestic and international institutions and programs aimed at compensating for gross social inequality. Programs have been ongoing for some time in the context of the HIPC, the PRSP and Millennium Development Goals, as well as on the part of participatory social movements with communitarian and indigenous traditions. The number of agencies promoting the cause of women has increased. In urban areas, women (like men) have significantly better access to education than in rural areas. As many women are not aware of their legal rights, campaigns aimed at raising this awareness have multiplied. The MAS government has given stronger support to these activities and launched additional programs, aimed particularly at improving opportunities for the disadvantaged and previously excluded indigenous minorities. The new constitution, in addition to recognizing the right of self-determination for 36 indigenous peoples, has set high standards. However, legislation and government programs have been showing more exclusionary biases against non-indigenous citizens (white and cholo) than before, so that in the end the net inclusion rate may not have advanced much. In 2005, the adult literacy rate's female-to-male ratio was 0.87, and the female-to-male ratios derived from the gross primary and secondary education enrollment rates were respectively 1.00 and 0.97. On the whole, structurally embedded unequal opportunities continue. World Bank data has shown that existing programs compensating for major social differences have not had much impact on the gap between indigenous and non-indigenous poverty rates.

Equal opportunity

11 | Economic Performance

In terms of macroeconomic indicators Bolivia's economic performance has continuously improved since 2003, basically due to a substantial increase in state revenues from the export of natural gas. Growth was stable between 4% and 5% from 2004 to 2007, around 6% in 2008, and is predicted to slow to about 4% in 2009. GDP per capita rose from \$1040 in 2005 to \$1224 in 2006 and \$1379 in 2007. A number of important indicators have shown significant improvements: Based on strong export growth of between 30% and 40% per annum since 2004 (though this dropped from 41.4% in 2006 to 35.4% in 2007), the current account balance has been steadily rising, even doubling in some years. From 2006 to 2008, the budget balance was positive for the first time in many years. The non-financial public sector surplus in 2008 was at 5.8% of GDP. Tax revenues have remained at a relatively high level, and the external debt, and hence debt service, have gone down considerably since 2005. However, the economy retains a high dependence on external factors and global trends that makes the country extremely vulnerable.

Output strength

12 | Sustainability

Environmental concerns receive relatively little attention in economic planning at the macro and micro levels, lack an effective institutional framework and have usually been subordinated to the goals of growth and (since 2006) redistribution. However, efforts to build environmental awareness have been going on for some time, and the movements involved (among them a number of indigenous organizations in the eastern lowlands and in the coca production zones), despite their weakness, have continuously voiced their concerns. Internationally subsidized diversification of smaller commercial agriculture (aside from the agroindustry in the sugar and soy sectors, and the exploitation of tropical timber) has contributed to the creation of an export-oriented segment of organically cultivated tropical fruits, coffee, and other crops. The new constitution has set very high standards for an ecologically conscious and well-protected future. However, present-day politics are another matter, as the many violent conflicts of recent years have shown. For example, the government policy of settling landless indigenous colonos from the highlands in the eastern lowlands has not only often violated the established privileges and (mostly collective) land titles of the lowland indígenas, but has also made substantial incursions into protected territories, reservations and national parks, parts of which were savagely cleared and cut down (such as areas of the Madidi National Park).

Environmental policy

The public and private institutions for education, training, research and development are highly heterogeneous, and show clear deficits in research and development. They are unevenly distributed, essentially concentrated in urban

Education policy / R&D

areas, and often altogether lacking in rural districts. Public expenditure on education has improved from 2.4% of GDP in the early 1990s to 6.4% in the period between 2002 and 2005 (i.e., 18.1% of total government expenditure). More recently, a three-year literacy campaign financed with Venezuelan funds has successfully reduced illiteracy levels. Research and development expenditures have been clearly insufficient, at 0.28% of GDP from 2000 to 2005.

Transformation Management

I. Level of Difficulty

Formidable structural difficulties still constrain the leadership's governing capacity, and have not substantially changed during the last two years. However, their impact on the quality of governance has been intensified by the polarizing strategies of almost all political actors, particularly the uncompromising regionalist opposition of the "Media Luna," and the government's time-wasting tendency to start from maximalist (and also polarizing) positions and only slowly seek compromise later. The clusters of difficulties have not changed:

Structural
constraints

- First, economic and structural factors remain, including in particular underdevelopment, poverty and exclusion, insufficient infrastructure (exacerbated by natural disasters such as the flooding in Beni, which displaced 50,000 families in January 2008), high debt, dependency on foreign markets, donors and external veto players, an extensive informal sector, the peculiar coca economy, and structural migration with a high potential for conflict;
- Second, there is a set of institutional and political legacies, among them revolutionary traditions that set high expectations in terms of participation and social provisions; insufficiently consolidated democratic institutions and market economic structures; intense mobilizing and polarizing energies grounded in caudillismo; populism; frequent outbursts of violence; and chauvinistic obsessions that for a long time barred landlocked Bolivia from cooperating effectively with its neighbors, though these issues have now largely been overcome;
- Third, ethnic fragmentation, with all its social and political spin-offs, has placed limits on political loyalty and cooperation at local and regional levels, eroded trust and consensus, inflamed conflicts, and precluded civil society from developing at the national level; and
- Fourth, we have to account for the more recent economic disparities between the various regions, which have increased fragmentation and localism, and triggered separatist tendencies.

Nationwide civil society traditions are weak, despite high levels of mobilization and societal organization in certain sectors and regions. The increased mobilization along communal, regional and ethnic lines has weakened them still further. This

Civil society
traditions

tendency has been enhanced by the polarizing strategies both on the part of the government and the various groups of the opposition, particularly over issues of regional autonomy and the provisions of the new constitution.

Conflict levels, while always high in Bolivia, have risen during the review period both in terms of number of instances and intensity. Ethnic, regional and social cleavages divide the political elites and society at large into groups with opposing loyalties. The various movements and organizations are highly mobilized, and despite their fragmentation and rivalries, have always been able to destabilize institutional politics easily. Violent incidents have occurred more frequently since 2002, and despite hopes and promises, violence has not been reduced since the present government's ascension to power in 2006. Between February 2006 and February 2009, at least 47 persons were killed in violent political protests, manifestations, strikes or occupations. Conflict has even become more entrenched as the MAS, now in government, has continued to follow the populist strategy of mobilizing supporters not only for the ballot box but also for protest in the streets. At the same time, the government has lacked the strength or effectiveness to contain (or has refrained from repressing) the violent actions and reactions of separatist, ethnic or social protest organizations. There have been periods during the last two years when the president or other members of the government could not move freely in their country.

Conflict intensity

II. Management Performance

14 | Steering Capability

The capacity of the Morales administration to set and maintain strategic priorities has two aspects. First, the government, in part successfully, has tried to pursue long-term goals, but these goals do not generally correspond to the goals of representative democracy under the rule of law and a socially responsible market economy. The MAS and the government want a different type of democracy that is direct, participatory, continuously mobilized, without checks and balances (and hence open to oligarchic and authoritarian tendencies), and accountable – though in an unclear and counterproductive way – on a daily basis (although they were forced to compromise in the final round of drafting the new constitution). On the other hand (and long before the worldwide financial crisis made it attractive for many others), the government has sought a return to state economic interventionism, moderate nationalization, and (somewhat old-fashioned) socialist and

Prioritization

communitarian tendencies. This is considered to be in the interest of the previously neglected, marginalized and excluded sectors of the population, particularly the indigenous communities. The second aspect is that the government has indeed made some progress with respect to these priorities, with the destruction or marginalization of existing political and juridical institutions, the adoption of the new constitution (though with many procedural flaws), the policies of nationalization and agrarian reform, and in additional fields such as education and social security reform. At the same time, it has had to compromise on many issues, with transnational gas firms and foreign states, with unions and miners' cooperatives, with strong regional autonomists and dissenting indigenous organizations, and on details of agrarian reform and social policies. Hence, the government has not always been able to pursue its declared program consistently, and its energies have often been distracted by intervening clashes, the perceived need for symbolic politics, or self-afflicted new short-term priorities designed either to restore credibility or rekindle pro-government mobilization, as in the case of the functionally unnecessary recall referendum of August 2008.

The government's effectiveness in implementing reform policies has, on the whole, further decreased over the course of the review period. Its performance has often been characterized by inconsistencies and an improvisational style of decision-making. This has been due to many factors, among them significant strategic mistakes such as its fundamental opposition to regional autonomy (which has provoked vital resistance in many departments); unclear terminology and parameters, as in its many decrees for nationalization and agrarian reform, and most prominently in the text of the new constitution; the government's chiliastic and dichotomous concept of Bolivian society and strategies of polarization; unnecessary escalation of conflicts, provocation of resistance and obstruction; contempt for procedural rules; a lack of sense for what is politically feasible and a high capacity for antagonizing friends and foes; and the usual gridlock, corruption, inefficiency and disorganization. This last may partly have been a consequence of the fact that many of the achievements of the institutional and administrative reforms of the 1980s and 1990s were not preserved or further pursued. And, more important, many of the key implemented reforms of the Morales administration corresponded neither to the objectives of democracy as these relate to the rule of law nor to those of a market economy. Such has been the case with most of the "big" issues since 2006, including the nationalization of gas and oil resources and of large sectors of the mining, water, energy, and telecommunication sectors; the policies of the Constituent Assembly; and many of the provisions of the new constitution.

During the period under review, Bolivia's political leadership has continued to follow and further develop its strategy of starting out from maximalist, antagonistic and often polarizing positions, and looking for compromise and realistic solutions later, often much later. In a number of areas this strategy has been successful, but in others it has contributed to further polarization and entrenchment, and consumed

Implementation

Policy learning

much time and energy. Nor can it be said that the government has exactly considered its modifications of previous policies to be “learning from past errors.” Learning may have been involved, though, in the sense of revising and “softening” one’s own deliberately intransigent positions. The balance is mixed. On the one hand, the government has reacted in a flexible way, revised decisions, drafts and plans, and compromised whenever it has encountered the determined resistance of groups or foreign partners whose cooperation was necessary to break a deadlock, accomplish a high-priority objective, or avoid a break-up of the country. This has been the case in the negotiations with foreign companies and neighboring states after the nationalization of gas and oil production and transportation resources, in an understanding with a number of medium-sized mining cooperatives on ownership and taxes, in moderate distributive social policies, in the final breakthrough of October 2008 in the long and protracted deliberations on the proposal for the new constitution, and in the subsequent compromise at least on some of its most controversial issues (e.g., regional autonomy, the electoral system, reelection of the president) that helped to secure an impressive two-thirds majority for the reform project. On the other hand, the government and the MAS have continued to pursue their maximalist strategy aimed at refounding a “new” Bolivia with a different political order, different economic, social and cultural priorities and a constitution full of populist rhetoric and ambitious, ill-defined goals that will be hard to implement. They have continued to insist on polarizing (instead of integrating) mechanisms of political mobilization, and have established new exclusionary biases. It is true that the government has been confronted with a stubborn and intransigent opposition in the latently secessionist eastern departments, dominated by conservative latifundio and industrial interests, to which it has had to react without giving up its legitimate “nationwide” claims of redistributing power and welfare resources. However, the government may have committed one of its gravest strategic mistakes in refusing with equal stubbornness, for a long time, to discuss more autonomy for the Easterners. Instead of trying to mediate, integrate and look for solutions to the conflict (which a government might be expected to do), it has further antagonized these regions, radicalized their elites and movements, and eventually driven more departments into their camp (Beni, Pando, at times Cochabamba, and Chuquisaca). Thus the government has helped entrench conflicts, trigger violence and deepen the split between the “two Bolivias,” even in a territorial sense. On the international scene, the government has also shown less flexibility in the last two years than in its first year. This particularly affects the country’s relationship with the United States. Whereas the Morales government managed somehow to comply, despite great divergence of interests, with the essential rules of cooperation through 2007 and most of 2008, it deliberately antagonized the United States at the end of 2008, provoking the termination of ATPDEA and USAID programs and endangering about 30,000 jobs in Bolivia.

15 | Resource Efficiency

The government could have made more efficient use of available economic and human resources. Public administration is, on the whole (some sectoral and local exceptions notwithstanding), overstaffed, underprofessionalized, inefficient and still plagued with patronage and clientelism. Turnover of personnel is high, from cabinet posts down to the lowest ranks. The budget has been balanced since 2006, in contrast to earlier years, but is still vulnerable and highly dependent on hydrocarbon export prices and international demand. The dramatic surge in state revenue, from 2005 on, could have financed more structural programs; but public spending in most strategic fields, with the exception of social and welfare benefits, did not improve much. External debt has been reduced since 2005, due to international structural reduction programs and increased revenues, but remains high. Auditing is of low quality. The decentralization programs have continued to suffer from lack of controls over expenditure, scarcity of funds, misallocation, incompetence, political sabotage and corruption. A high turnover in patronage-based jobs since 2006 has increased institutional instability. The changes in the government's political priorities (among which efficiency and administrative reform do not figure very high on the list), and the growing antagonisms between the national government and the departments have more recently added to the problems.

Efficient use of assets

The government often fails to coordinate between conflicting objectives and interests. This is due to the various groups and factions within the governing MAS, the increased tendencies towards fragmentation, and the often erratic and unsystematic approach and idiosyncrasies of the president himself. Different parts of the government tend to compete with each other, dissent in the cabinet is frequent, and policies often have counterproductive effects with respect to other policies. A significant lack of coordination between various goals and provisions can also be observed in the many inconsistencies and contradictions of the new constitution's text. To make things worse, the moderating horizontal forms of coordination have almost ceased to exist in the increasingly polarized conflicts between the national government and departments.

Policy coordination

Corruption is still widespread and has not changed significantly during the review period, despite President Morales' various (often symbolic) anti-corruption campaigns. Among these latter have been a number of highly publicized cases in which "corrupt" officials have been dismissed, including a number of ministers, influential party leaders, and heads of state-run agencies such the YPFB president.

Anti-corruption policy

16 | Consensus-Building

As conflicts between the government and the opposition have become more intense and entrenched during the last two years, the opportunities for consensus among the major political actors as to the distinct forms and modes of democracy and market economic system to be implemented have further deteriorated. Agreement has been limited and fragile for some time, particularly after the strong and explicit consensus shared by the traditional parliamentary parties faded away and was finally rejected by voters in December 2005. This was corroborated in the 2006 elections for the Constituent Assembly, in 2008's various referenda on recall and autonomy, and in the referendum on the constitution of January 2009, all of which demonstrated that the country is politically divided between the Altiplano and the eastern lowland regions. In the highland, we find the majority of the (formerly excluded) ethnic and social protest movements (represented in the broad coalition of the MAS, now in government), advocating the "hegemonic project" of Bolivia's refoundation as a "unitary, plurinational, communitarian" state based on the principles of the new constitution, on both a centralism and indigenous localism, and with a high degree of regulation and nationalization of the economy. In the eastern departments, where the constitutional project has been rejected by in some cases impressive majorities, the dominant modern business elites have sought to protect their interests by advocating the traditional, and formerly de facto exclusive, government and economic institutions. These include representative democracy, decentralization with strong regional autonomy, protection of private property and a market economy. Both sides appear to have become more intransigent and uncompromising. Most leaders, the government as well as the opposition, have eschewed consensus in favor of polarization and entrenchment (the last-minute compromise on the wording of the new constitution notwithstanding). Portions of both movements have become more radicalized, calling their respective opponents "racists," "fascists," or "oligarchs." Vice President Álvaro García's statement of mid-2007, that Bolivia has "room for both capitalist and post-capitalist development" may be true, but this vision will not easily be implemented.

Consensus on goals

There are no significant anti-democratic veto actors in a strict sense at the national level. In recent years, the military in particular has explicitly refused to consider coups, which in this country had been the rule until the early 1980s, even when some civilian politicians invited them to take power. But violent social, ethnic and regional unrest, and the Media Luna regional opposition's radical demands for autonomy, as well as the deliberate policies and politics of the Morales administration and MAS parliamentary majority, have collectively had a destabilizing effect leading to the suspension and distortion of democratic institutions. This has been observed in the government's various conflicts with the judiciary, in the protracted and often (from an institutional point of view) highly

Anti-democratic
veto actors

problematic process of framing the new constitution, and in the increasing number of authoritarian statements or actions by representatives of the MAS and the opposition, particularly among the radicalized factions of the Aymara indigenous movement and the regionalist vigilantes and youth groups in Santa Cruz.

During the period under review, the quality of conflict management has declined. The political leadership has on the whole been unprepared to reduce existing divisions or prevent cleavage-based conflicts from escalating. One problem is that the rhetoric of the ruling MAS party, like that of its diehard opponents in the eastern departments, has always exploited structural cleavages for the sake of polarization and winning votes. MAS policies when in government have on the whole emphasized rather than reduced cleavages, often deliberately. In some cases this is because the government has lost control over the public mobilization aspect of its “double strategy.” Seeking to block the government’s redistribution of power and welfare resources, the traditional elites in the Media Luna region exploit regional identities, perceptions of threat among the middle classes, and racial prejudices, thereby contributing to polarization and conflict escalation.

Cleavage /
conflict
management

Poor, non-existent or even a deliberate absence of conflict management has characterized the protracted and often-interrupted process of writing a new constitution, leading frequently to confrontation and deadlock. The regional opposition’s intransigent demands and actions (such as launching unconstitutional referenda) and the government’s strict refusal to negotiate over regional demands for more autonomy or different forms of territorial governance for the four departments of the Media Luna have further radicalized both sides. Antagonistic instead of mediating or integrating strategies have also characterized the policies of other important actors like the unions, the miners, the cocaleros, and lowland indígenas. More often than not, violence occurred before compromise could be reached. Though to date all significant actors have refrained from measures seriously risking the unity of the state, the possibility of an advance in the policies and politics of brinkmanship in 2009 cannot be excluded.

The political leadership takes into account and accommodates the interests of civil society actors. It even assigns an important role in deliberating and determining policies to civil society actors, but only selectively, and often from a position of indecision and weakness. This is true for both the government and the stronger, regionalist sectors of the opposition. Whereas earlier governments used to consult organizations representing the established urban elites and the unions, the Morales administration has given more consideration to the various groups of the “popular” ethnic and protest movements representing the formerly excluded. The most prominent among these are the ethnic Aymara organizations in and around El Alto, among them neighborhood organizations like FEJUVE or militias like the Ponchos Rojos, the coca growers’ union and civic groups in Cochabamba, and the traditional miners’ union with its stronghold in Oruro. The latter has even successfully

Civil society
participation

resurrected its historic demands for “co-gobierno”, by which it means a system of semi-institutionalized joint governance by the authorities and civil society organizations. The present government’s concept of a more direct, participatory democracy voiced in assemblies, referenda and new bodies of “social control” (recruited from the groups of “organized civil society,” with their jurisdiction unclear, and yet to be defined by law), as outlined in the new constitution, also emphasizes the relevance of civil society and mechanisms for empowerment of population’s indigenous sectors. A similar situation exists in the eastern, oppositional departments, particularly in Santa Cruz: Here politics have been dominated for some time by the landowners’ and industrialists’ Civic Committee (with well-organized vigilante and youth organizations) whose President Branko Marinkovic can speak for the region with the same weight as might the prefect, Rubén Costas. The structural problem of civil society in Bolivia is that it is highly fragmented, with most of its richest organization limited to the boundaries of ethnic communities, regions, and/or social class. However, the ethnically and socially inclusive consensus behind the 1952 revolution demonstrated that these boundaries are malleable. Politicians able to tap the memories of this consensus and its achievements in a credible way have so far been more successful than those who have not. Morales clearly has been such a politician, otherwise he would neither have been elected with a clear majority nor have been able to win a number of referenda in the following years. In more recent years, due to intransigence, violent and antagonizing conflicts, an absence of conflict management, and growing polarization, these qualities seem to have begun to wear off.

With few exceptions, the problem of reconciliation in Bolivian society does not focus on the perpetrators and victims of military dictatorship. Rather, reconciliation in the Bolivian context concerns the injustices committed by colonizers against the indigenous population, as well as demands for structural integration of the majority of the population, which is still excluded on ethnic or social grounds. These demands have been officially recognized by the present government, and institutionally addressed in the new constitution. However, redress has only been envisaged for the future, basically by means of empowerment and a reversal of discrimination. Reconciliation, in 2009, is not a high priority for the political actors.

Reconciliation

17 | International Cooperation

During the period under review, the political leadership’s ability and willingness to use the support of international partners to improve its domestic reform policies has been somewhat less convincing than in previous years. By mid-2006, the Morales administration had already replaced the traditional internationally monitored poverty reduction schemes with a National Development Plan with new priorities, and a higher degree of state intervention. This was backed up in May 2007 by the

Effective use of support

consolidation of a number of state agencies into a National Development Bank. When the sixth stand-by agreement with the IMF ended in 2006, Bolivia refused to negotiate a follow-up, and in May 2007, it withdrew from the International Center for the Settlement of Investment Disputes (ICSID). In December 2007, along with Argentina, Brazil, Paraguay, Ecuador, Venezuela (and later Uruguay), Bolivia participated in the foundation of the Banco del Sur, designed to reduce the member countries' dependency on international financial capitalism (as embodied in the World Bank and IMF mechanisms). This did not preclude the country from profiting from a (reduced) number of sectoral and debt relief programs of the World Bank system, as it did from several Inter-American Development Bank debt relief programs in 2007. It also participated in Andean Development Corporation (CAF) development programs, and several programs operated under the auspices of the United Nations system (UNDAF, particularly UNICEF and UNDP, projected to run until 2012). Many bilateral programs (e.g., with German and other European agencies) have also been continued, in poverty reduction, decentralization, water, sustainable agriculture, irrigation, natural resources, microfinance, and other sectors.

By the end of 2008, Bolivia had succeeded in securing external concessions in crucial areas such as trade, and in winning external support, or at least toleration, for adjustments in specific programs or sectors such as hydrocarbons and coca eradication. But on the whole, multilateral development assistance for Bolivia has diminished in recent years. Instead, the government has mobilized new external funds from oil-rich Venezuela to support its new priorities by more targeted means. In spring of 2006, it concluded a number of selective bi- and trilateral assistance treaties ("Peoples' Trade Treaty") with Venezuela and Cuba, and joined the "Bolivarian Alternative for the Americas" (ALBA). Among other things, Venezuela's Chávez government has financed scholarships, a successful literacy campaign, a health program (paying for Cuban doctors in Bolivia), the program for issuing identity cards to every Bolivian citizen, and important local development programs for highland villages, which are the strongest support base of the MAS. In order to make things easier, these funds were not channeled through the Bolivian budget; rather, checks were made out (or advisors sent) directly to the local mayors by the Venezuelan embassy.

During the last two years, the government has not been able to build much confidence among international partners and donors (except Venezuela) for its reform policies on a way to a market-based democracy. This is basically because it has pursued a more "socialist" model, with a higher degree of state intervention, seeking to build a new, participatory and communitarian democracy that endangers the rule of law and mechanisms of horizontal accountability. Both the government and opposition have made erratic and often symbolic moves in the long and conflict-ridden constitution-making process. The subsequent entrenched conflict,

Credibility

violence and polarization, and the increasing territorial fragmentation, have all significantly lowered confidence in the country. The same can be said for the government's unpredictable policies of regulation, nationalization and expropriation, which have usually first been unilaterally decreed and then implemented in ways different than announced, often in a trial-and-error mode, at the cost of foreign companies, states and investors. This meandering has led many international organizations, NGOs, foreign states and investors in early 2009 to consider Bolivia a less reliable partner than two years before, despite the fact that the Bolivian government has in most cases finally committed itself to realistic solutions. IMF credits and loans have gone down dramatically, and multilateral development cooperation programs have shrunk. FDI flows diminished between 2006 and 2007 (from 17.2% to 9.8% of gross fixed capital formation), and the significance of FDI stocks (as a percentage of GDP) decreased from 61.8% in 2000 to 44.7% in 2006 and 40.5% in 2007. In mid-2008, according to *The Economist*, there were practically no new private investments of any substance in Bolivia. The traditional hydrocarbons and mining sectors have shown more stability. Here, due to high economic interdependency and vital needs on both sides, neither Bolivia nor its public or private foreign partners seem to have had any choice but to continue negotiating until a compromise was reached. In a way, this was reflected in *The Economist's* spring 2008 political risk assessment, which stated that Bolivia's political scene would remain unstable, but that the country's problems of governability were not expected to affect its creditworthiness in 2008 and 2009 (economic structure and country risk were given a B rating, while political risk was rated at CCC). Thus, Bolivia's loss of credibility has continued, but has been contained in a number of aspects.

Bolivia's political leadership cooperates with counterparts in many neighboring states, has intensified cooperation and is engaged in regional integration processes. It does, however, reject the rules set by (and has selectively reduced cooperation with) specific international organizations. In particular, it has opposed the traditional hemispheric programs dominated by the United States and by supposedly neo-liberal principles, including the programs of the World Bank system and the international financial institutions. In contrast, it has favored and supported many regional South (or Latin) American alliances (e.g., UNASUR and ALBA), particularly those involving countries with ideologically and programmatically similar governments such as Venezuela and Ecuador (eventually even paying respects to Cuba), but also with more moderate reform governments of neighboring or nearby countries such as Brazil, Argentina, Paraguay, and Uruguay. Even the traditionally highly conflict-prone relationship with Chile has improved considerably, in a multinational context as well as bi-nationally. A military pact and the opening of the port of Iquique for Bolivian transit (negotiated in June 2008) have contributed to the growth of confidence between the two countries. Bolivia has terminated many IMF programs and withdrawn from the ICSID, joining forces

Regional
cooperation

instead with Venezuela (and eventually Cuba) from 2006 on (in the form of the “Peoples’ Trade Treaty”), and participating in the foundation of the Banco del Sur. Close bilateral cooperation with Venezuela, including a military pact, intensified during the review period. As a member of the Andean Community (CAN), and as an associate member of Mercosur, the country has participated in many coordinated activities, but has also selectively reserved its right to dissent, particularly in matters referring to negotiations on trade agreements with the United States and the European Union. Here the balance appears to be mixed. In mid-2007, the Morales government reluctantly gave up its blockade of CAN negotiations with the European Union, which were later suspended again due to substantial differences between Bolivia and Ecuador on the one hand, and Peru and Colombia on the other; in the meantime the partners (without Bolivia) have begun to negotiate with the European Union. Within the hemisphere, after years of hesitation, compromise, and half-hearted ad-hoc renewals of relationships, the Bolivian government finally risked outright confrontation with the United States in late 2008 over a number of bilateral trade preference and development program agreements. In particular, cooperation under the ATPDEA program was terminated because the Morales administration refused to accept U.S. policy on coca production and eradication.

Strategic Outlook

Bolivia's evolving set of governing institutions has so far rendered the country a defective – illiberal and delegative – democracy. There are severe shortcomings, particularly in terms of stateness, horizontal accountability, and the rule of law. In addition, all previous governments have failed to enhance inclusion and social integration in an ethnically and regionally fragmented country with a high level of poverty; while an extraordinary revolutionary tradition has set high expectations among a population that is correspondingly easily disappointed and frustrated. In order to address its economic, social, ethnic and regional problems successfully, Bolivia needs a stable but flexible institutional environment capable of guaranteeing a minimum level of cohesion, consensus and delivery. It also needs political actors who, at least on a number of key issues, will look for imaginative and viable solutions, understanding and compromise on both the domestic and international fronts, and who can resist the populist temptations to further exploit the country's polarized cleavages and conflicts solely in order to mobilize supporters and win votes.

The immediate outlook does not appear promising, basically because 2009 and 2010 will be full of potentially critical referenda and elections. Referenda on autonomy in four departments (La Paz, Chuquisaca, Oruro and Cochabamba) have been scheduled for July, presidential and parliamentary elections for December 2009, and municipal and (highly contested) departmental elections for April 2010. A high capacity and willingness to build parliamentary alliances (including in the Senate, where the opposition still holds a majority) will be required from all significant political actors in order to implement institutional legislation. Among the crucial issues in that regard will be the electoral system, including the creation of the “special” constituencies for the indigenous communities; the rules governing the relationship between the institutions of (old) representative and (new) direct democracy, and between the various traditional and communitarian judicial institutions; and the various empowerment programs (including language requirements) that still require definitions of the groups to be empowered. The unclear and ambiguous constitutional term “naciones y pueblos indígena originario campesinos” refers to various groups with different, often conflicting interests (as in the case of the “campesinos” and “originarios” in the eastern lowland reservations). The conflicts that could arise will not only concern distribution, but also guarantees of equal suffrage and judicial independence— issues crucial to the functioning of democracy.

The most important and most pressing issues of institutional politics may be those of territorial administration, self-government and autonomy. The deeply entrenched antagonisms between the national government and the strong autonomist eastern departments, particularly Santa Cruz and Tarija (but also Beni and Pando), have become more radicalized during the last two years. The constitutional compromise, which introduced the possibility of a watered-down departmental autonomy (along with regional and municipal autonomies) has not addressed the substance of the matter (i.e., the extent and the dimensions of autonomy), and still needs to be implemented.

As the resource-rich eastern departments are ready to fight for the highest possible degree of autonomy with substantial transfers of decision-making, power, taxes and funds, while separatism is out of question (because the neighboring states are against it), the only viable solution may be either a federal order or a quasi-federal one (like the Spanish “state of the autonomies”). However, the government has thus far vehemently refused to consider this alternative. Much of Bolivia’s future will depend on the capacity of the political actors on both sides to find imaginative solutions for this controversial issue, to refrain from maximalist strategies, and to seek compromise and integration instead of conflict and polarization. Political actors may have difficulties convincing their followers of the value of such a changed strategy, but it could be done. Despite the government’s many flaws in performance, the damage done to institutions, and the deterioration in political management, the Morales administration may still have the clout to lead, define policies and shift resources. This is mainly due to its achievements in a number of sensitive fields, including the extension of participation and inclusion, empowerment of formerly excluded populations, social policies, increased state intervention in the economy, the redistribution of resources, and the highly symbolic issue of the new constitution.

However, the government would have to act soon, because the window of opportunity for institution building opened by the new constitution could quickly be closed by the popular mobilization of the upcoming electoral campaigns, by the consequences of the economic recession that as of this writing had only just begun to hit Bolivia, and by the fact that Morales’s support among the more radical groups in and around the MAS will likely dwindle over time. If the government does not use this opportunity, or if it meets intransigent resistance by the opposition, a negative scenario could be also imagined. If alliances for implementing the constitution’s most urgent points cannot be built, the government will try to implement by decree; some departments will resist, both sides will mobilize and be further radicalized, violence will occur, as will conflict and the ad-hoc politics of brinkmanship, and the polarization and fragmentation (of the country and of the political camps) will continue. Under this scenario, despite the euphoria of the “new beginning” in 2005 (the third such, after 1952 and 1985), a Bolivian government would once again have failed to build the broad reformist coalition necessary to address the country’s needs, or to deal with the outstanding problems of cultural, ethnic and regional heterogeneity, economic and social disparities, and the exclusion and marginalization of many (particularly the indigenous) sectors of the population.

The economic outlook appears to be mixed. On the one hand, the country has performed better than before. Growth has continued, as has the increase in export earnings, and particularly revenues from gas exports under the hydrocarbons law. The budget, despite higher government spending in a number of sectors such as the National Development Plan and social policies, still shows a surprising (albeit shrinking) surplus, while external debt has been reduced. On the other hand, the improvement of Bolivia’s economic output has depended on external factors and global trends. The economy is extremely vulnerable, unstable, and unable to address the country’s structural problems of poverty, inequality and underdevelopment on its own. Thus, it is an open question how much of the past performance will survive the worldwide economic

recession. Since late 2008, there has been a significant decline in demand (Brazil alone cut its gas imports by a third) and in commodity prices, for gas as well as for minerals. Many Bolivian migrants have returned from Spain, so remittances have shrunk; and the suspension of the U.S.-Bolivian ATPDEA program at the end of 2008 has also significantly cut into export markets. The Economist forecasts a decline in Bolivia's trade surplus from 10.1% of GDP (in 2008) to 3.1% in 2009.

On the whole, it is positive that the government has steered away from the neoliberal model and, under popular pressure, reinstated corporatist elements and state interventionist mechanisms in key sectors. This mixed economic model fits the country's needs better and is more acceptable to the population. Under the current conditions, this policy change has even dramatically increased state revenues. However, the often unpredictable and erratic changes in the government's policies of nationalization and expropriation, and the low efficiency of state-run administrations have scared away many foreign investors. As the government's principle that Bolivia has "room for both capitalist and post-capitalist development" (as articulated by Vice President García Linera) has not yet been translated into systematic, transparent and reliable sectoral policy strategies, potential investors have felt increasingly insecure and private foreign investment has slowed. The only exception is the hydrocarbons (and, to some extent, the mining) sector. Much will depend on the country's ability to generate sustained trust among investors, particularly in the traditional mineral extraction, agriculture and non-traditional industries. The plans for exploiting the lithium reserves and the joint venture with Jindal Steel in El Mutún indicate a new potential, but the latter has also demonstrated how slowly projects develop when the government has no defined policy and shows no leadership. In agriculture, soybean export (from the eastern lowlands) continues to be a success story; Morales's plans for the industrialization of the coca crop, however, seem to have been practically abandoned for the time being. Much will also depend on how U.S.-Bolivian relations develop after the clash and months of silence following the termination of ATPDEA and its associated assistance programs in late 2008, as well as on the dynamics of the Andean Community and Mercosur in a period of recession. Bolivia's relationship with its neighbors, particularly Brazil, Argentina and Chile, has improved considerably in the last several years, largely due to mutual commercial and trade interests. By contrast, the close alliance of the Morales government with Hugo Chávez's Venezuela may not exactly qualify as a confidence-building measure with regard to third parties and potential investors.