BOLIVIA'S DIVISIONS:

TOO DEEP TO HEAL?

6 July 2004

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ICG Latin America Report N°7 6 July 2004

BOLIVIA'S DIVISIONS: TOO DEEP TO HEAL?

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Bolivia is in the midst of its most dangerous power struggle since the mid-1980s and still smarting from the violence of 2003, which left nearly 100 people dead and forced the resignation and flight of President Gonzalo Sánchez de Lozada after barely six months in office. A series of highly divisive issues, particularly over the extraction and export of natural gas, demand swift resolution. Unless the Mesa government, with sympathetic assistance especially from the U.S., can forge a new public consensus, the country's hard pressed democracy, and perhaps its continued unity will be in doubt.

The social contract underpinning that democracy is shredded and further violence is a constant threat. In addition to natural gas, polarising issues include the country's economic model; regional autonomy; demands by the majority indigenous peoples for greater representation; and reconciling respect for traditional coca practices with international mandates, pressed by the U.S., against illicit drug trafficking.

Contentious debates on all of these issues allow little room for mediation and reconciliation. If middle grounds cannot be defined and agreed, Bolivia is headed for tumultuous times. The country's direction could change overnight with the 18 July 2004 referendum on the gas issue, the elections for a constituent assembly that is expected to write a new constitution in 2005 or, in the worst case, through non-democratic means.

The growing split between Bolivia's regions has been amplified by the confusion and conflict over the ownership, sale, and beneficiaries of the natural gas reserves. Santa Cruz and other commercially-oriented lowland cities often prefer to ignore the politics of La Paz, but radical movements in the highlands are determined to stop them from exporting the gas located in their region. Business interests in Santa Cruz and Tarija have little choice but to go on the political offensive if they want to open export markets for the gas. Until now, their calls for secession have been more rhetorical than real. If the referendum turns current laws, contracts, and policies upside down, however, the rhetoric may lead to action.

Indigenous movements are gaining strength throughout the Andes, and the Bolivian movement has already shown the potential for violence. Populist movements are taking issue with the current political and economic rules of the game, which have largely been written by foreign interests and domestic elites. Animated and angry, they are clear about what they oppose -- economic policies that are at best trickle-down and at worst exacerbate income inequality -- but they are not offering practical alternatives, and are shedding more heat than light on the important economic and social issues.

The challenges for the Mesa government are enormous. Keeping a political course that satisfies all sectors of society seems impossible. A major effort at making policy more transparent, including an effective public explanation of the hydrocarbon industry's complexities, seems the only way to prevent Bolivia from coming to blows or breaking up over its newfound treasure. Addressing multiple economic, ethnic, and social problems requires political parties, social movements, and business associations to forge a new national consensus on how to use natural resources for the development of the entire nation and substantial poverty reduction.

RECOMMENDATIONS

To the Government of Bolivia:

1. Invest political and financial capital in a nationwide grassroots communication effort to demonstrate to the Bolivian people how the production and sale of natural gas can be harnessed to jump-start economic development, and benefit the country's poorest citizens.
2. Create a high level commission on hydrocarbons management composed of recognised and respected personalities to:
   (a) supervise negotiations on gas issues, including exports, transparently;
   (b) ensure that all revenues are fully accounted for and not less than half are dedicated to social programs responsive to local needs, particularly in the highlands; and
   (c) study the feasibility of, and the steps necessary for, using natural gas for domestic industrialisation projects.
3. Promote political decentralisation by restoring popular participation in elected local governments capable of addressing local needs and able to obtain the resources (from federal revenue-sharing or local tax revenues) to finance their operations, but with mechanisms of transparency and accountability.
4. Reach out to business groups from Santa Cruz, Tarija, and elsewhere, and demonstrate that their fundamental interests are not threatened by changes in national legislation that regulates the natural gas industry.

To the MAS Party:

5. Play by democratic rules and publicly reject the possibility of coming to power by other means, strengthen internal party consensus democratically to establish a clear public position on core issues, such as natural gas, and shape the debate in rural and indigenous communities about what can realistically be done with that gas to promote both development and reconciliation.
6. Open the party to democratic, grassroots participation, including in the selection of its leaders and candidates and determining its platform.

To the Catholic Church:

7. Continue to promote dialogue and be available for mediation, reach out to extremist parties as well as the silent, moderate majority of Bolivians who desire peaceful and democratic solutions, and, if asked, join the high level commission on hydrocarbons management.

To the U.S. Government:

8. Support an independent study to determine how much coca is required to meet legal demand.
9. Ensure that USAID alternative development programs keep pace with coca crop eradication and complement support for Bolivian law enforcement and interdiction of drug trafficking, and Inter-American and United Nations drug control efforts, with greater emphasis on education and treatment programs to reduce domestic demand for cocaine and other illicit drugs.
10. Respect the outcome of the 18 July 2004 referendum and work with the government and civil society to help implement the gas management alternative that Bolivians decide to be most conducive to integral development on behalf of the poor.
11. Engage in dialogue with all parties -- including the MAS -- that respect democratic norms and reject violence.

To the IFIs (World Bank, IMF and IDB):

12. Undertake, in conjunction with the government and civil society, a communications effort to enhance the transparency and effectiveness of IFI programs, and explore additional ways to promote greater investment in human development, more emphasis on poverty reduction, and reduction of inequalities as part of economic development policy reform and lending programs.
13. Produce a rural poverty impact statement to help the international community and the government better understand the impact on the rural poor of proposed trade, macroeconomic, and natural resource policies; develop complementary programs; and encourage indigenous participation in the management of those programs.

14. Assess the adequacy of the current rural development and rural poverty reduction strategies and, by the end of 2004, review what is needed to achieve a 50 per cent reduction in rural poverty by the end of the decade.

To the COB, CSUTCB, and COR Labour Organisations:

15. Respect and work within democratic institutions, limit street protests to instances when other channels have been exhausted, and ensure that they are peaceful.
16. Offer explicit and constructive alternatives, rather than general and negative rhetoric, to Mesa government policies.

To the Business Associations of Santa Cruz and Tarija:

17. Work constructively with actors in other parts of the country to maintain national unity and to pursue policies that not only promote growth, but also respond directly to poverty reduction concerns.

Quito/Brussels, 6 July 2004

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BOLIVIA'S DIVISIONS: TOO DEEP TO HEAL?

I. INTRODUCTION

Bolivia is South America's poorest country, and its class and ethnic divisions are widening. Popular uprisings have been frequent since early 2000, culminating in the events of October 2003 that forced the resignation and flight of President Gonzalo Sánchez de Lozada. That year was particularly violent and disorderly: close to 100 Bolivians were killed in street protests and several hundred were wounded. The potential for still more turmoil is widely acknowledged.[1]

The country has a long history, indeed a culture, of social protest by militant, organised miners and other mass movements. But the protests of the past few years have been noteworthy for their intensity, pro-indigenous tenor,[2] and opposition to U.S. counter-narcotics policies and the nearly two-decade-old neo-liberal economic agenda. Such uprisings, and the rhetoric that envelops them, are threatening to outside investors as well as Bolivia's minority white and mestizo elite.

Indigenous and popular movements in the western highlands, frustrated by decades of neglect and tasting power for the first time, are calling for new ways of doing business and practicing politics. Newly wealthy cities in the eastern lowlands, sitting on huge natural gas reserves, are increasingly defiant of the national government and suspicious of popular movements. With the possible exception of the Movement to Socialism (MAS), headed by *cocalero* (coca-grower) leader Evo Morales, political parties are highly fragmented and unpopular, having engaged in years of corrupt and self-serving practices during which they displayed little ability to address serious problems with a national vision.[3]

The most pressing question is whether the new claimants to power will abide by democratic rules or instead rely on their traditional weapons of violent protest and blockades. A second question, no less important, is whether wealthy Bolivians, in the east or west, will resort to military and police repression to defend their privileges -- and how today's military and police would respond if asked.[4] A third is whether portions of the lowlands, anchored by the cities of Santa Cruz and Tarija in the east and south, will claim autonomy from the central government in La Paz.

For the time being, President Carlos Mesa, completing the remainder of his predecessor's term (until 2007), has placated most of the nation's elite, middle class, and workers, who are willing to give him time to heal some of the wounds from 2003. However, the president, who lacks party support and thus depends on delicate relations with Evo Morales and the MAS, is struggling to bypass an obstinate Congress that seeks to block his program.

The centrepiece of his presidency is the "October Agenda", which calls for a July 2004 referendum on the uses of natural gas, a new hydrocarbons law, and a constituent assembly to write a new constitution in 2005. They are all contentious items, and the results

[1] See Eduardo Gamarra (Director), "Conflict Vulnerability Assessment Bolivia", prepared for USAID, 2003. The study highlighted five categories in which conflict was possible or likely: political institutional matters; problems of economic development; patterns of land use and tenure; concern for public insecurity; and an array of issues related to coca and the cocaine industry. Available at http://lacc.fiu.edu/research_ publications/working_papers/working_ paper_08.pdf.

[2] For discussion of the indigenous issue, see section V. B below.

[3] Recently, however, fissures over corruption allegations have developed within the MAS as well. See section IV. A below.

[4] ICG interview, La Paz, 31 March 2004.

of the referendum, in particular, may determine his political fate.

Intransigent and radical opponents, including indigenous groups and trade unions, still command loyalty. If Mesa takes a wrong step on any one of several sensitive issues, particularly the sale of natural gas, demands for his ouster are probable and widespread mobilisation possible. At the same time, he must keep right-wing business groups from the eastern *media luna* region, where most natural gas reserves are located, content. Powerful figures among them question his determination to protect their interests and have openly threatened secession.

If Mesa were to step down in the face of any of these pressures, as his predecessor did, renewed and possibly large-scale violence and institutional destabilisation would be certain.[5] The international community, particularly the U.S. and the international financial institutions (IFIs), should help Bolivia avoid this worst case scenario and forge a consensus around the core issue on which its stability hinges: the extraction and sale of natural gas for national economic and social development.

[5] Several experts have voiced this concern. Because Mesa has no vice president, they are troubled by the prospect of a power vacuum and the lack of solid institutional mechanisms to deal with succession. Officially, the president of the Senate would be next in line.

II. HISTORICAL SYNOPSIS

Bolivia's striking landscapes and physical remoteness have long captured the imagination of foreign travellers.[6] Politically, it has often been removed from global trends, maintaining a rugged independence, even isolation, in the wake of rapid cultural and technological changes elsewhere in Latin America.

At the same time, foreign capital and international trade have been decisive in its development. Its mining history is the stuff of legend. Cerro Rico, South America's largest deposit of silver, was discovered in 1545. The mining city of Potosí that sprang up around it fed the Spanish crown with its riches. A slave economy developed to extract silver from the bowels of the mountain. One seventh of the indigenous male population from cities throughout the Andes were forced to work in the mines, and up to 9 million perished during Spanish rule.

After international silver prices collapsed in 1890, a growing demand for tin revitalised the mines and allowed a few men with strong connections to foreign capital to concentrate ownership of the mines. Simón Patiño alone controlled 50 per cent of the tin industry by 1920. Unlike the silver oligarchy, the tin barons had little interest in political office. La Paz, however, quickly became the leading service centre for the mines and developed a professional class that grew frustrated at its inability to take power through elections that were always rigged. In 1899, they led the "Federal Revolution", which overthrew the conservative regime and established La Paz as the seat of the national government, replacing Sucre.

Bolivia's historical grievances with Chile stem from the War of the Pacific (1879-1883), which ended with the latter in possession of territory previously considered Bolivian, including the port of

[6] Much of this section is derived from the following: FES-ILDIS, *Bolivia: Visiones del futuro* (La Paz, 2002); Fernando Campero Prudencio (ed.), *Bolivia en el siglo XX: La formación de la Bolivia contemporánea* (La Paz, 1999); PNUD/FES-ILDIS/ASDI/Plural Editores, *Tenemos pechos de bronce…pero no sabemos nada* (Homenaje a los cincuenta años de la Revolución Boliviana) (La Paz, 2003); Herbert Klein, *A Concise History of Bolivia* (Cambridge, 2003); Catherine M. Conaghan and James M. Malloy, *Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes* (Pittsburgh, 1994).

Mejillones that many Bolivians believe rightfully belongs to them. To this day, Bolivians point to the incident as one of the country's most humiliating episodes, and it has been the source of much diplomatic friction since.

After the disastrous Chaco War with Paraguay in the early 1930s, in which Bolivia again lost territory, many were appalled at the corruption and incompetence of the military high command.[7] The country became more willing to consider radical left-wing ideas, and the traditional parties faded. Mineworkers formed the Mineworkers Federation of Bolivia (FSTMB) in 1944 and lent support to the Nationalist Revolutionary Movement (MNR), a new party that favoured nationalisation of the mines. By the late 1940s, as the military put down strike after strike in the mines, rebellion seethed throughout the highlands. The MNR's radical populism caught on, and by 1949, it had launched a revolt in all major provinces and cities. Although the revolt was repressed, it strengthened ties between the MNR and the FSTMB, which, under the leadership of the charismatic Juan Lechín, turned mining camps into hotbeds of communist activism.

On 9 April 1952, the National Revolution came to La Paz. After three days of fighting and 600 deaths, the army surrendered, and the MNR leader, Víctor Paz Estenssoro, took power. To keep its hold on power, the new government made a series of commitments to miners and peasants. It expanded public education and instituted universal suffrage, which instantly increased the electorate five-fold and brought the indigenous peoples into political life. It created the Bolivian Workers Central (COB), a powerful confederation headed by Lechín; the COB and mineworkers became the MNR's political base for three decades. In October, the government nationalised the holdings of the three biggest mining companies but did not touch medium-sized mines or those owned by U.S. companies out of fear of being perceived as communist. Two thirds of the mining industry thus came under the control of a new state company, COMIBOL.

In the countryside, Aymara and Quechua peasants began forming unions and militias, invading large estates and driving out their owners. Though it had not been part of their original agenda, the MNR government responded with an ambitious agrarian reform in which large estates were turned over to indigenous groups to be managed collectively through community organisations.

The MNR's ride ended in 1964, when a military coup set the stage for eighteen years of authoritarian rule. The coup leader, General René Barrientos, cracked down on the left and formed a pact with the peasantry by promising not to undo the agrarian reform.

Democracy returned only in 1982, with the election of Hernán Siles, who stepped aside in 1985, however, as economic problems became too much to manage. Facing plummeting tin prices and hyperinflation that reached almost 26,000 per cent annually, newly re-elected President Victor Paz Estenssoro implemented a radical neo-liberal blueprint, the New Economic Policy.[8] Working closely with then Minister of Planning Gonzalo Sánchez de Lozada, U.S. adviser Jeffrey Sachs and other technocrats, he boldly executed economic reforms that changed the government's role in managing the economy and Bolivia's relationship with foreign capital.[9] The country became a poster child for neo-liberal reforms encouraged from abroad and enacted under a strong-willed president and his economists. Since then, Bolivia has complied with almost all IFI demands.

Paz Estenssoro's government was followed by that of Jaime Paz Zamora (1989-1993). Although his party, the MIR, had a leftist history, while in power it mostly respected commitments to free trade and foreign investment, in part because of its alliance with the centre-right Nationalist Democratic Action (ADN) (which had played a similarly supportive role in the previous government).

Four years later, it was the turn of the MNR's Gonzalo Sánchez de Lozada. (popularly known as Goni). He was raised in the United States, speaks

[7] 65,000 soldiers, most of them indigenous conscripts, died out of a national population of 2 million.

[8] Decree 21060, issued on 29 August 1985, set the tone for the project. It devalued the currency; established a floating exchange rate; eliminated wage and price controls; restricted government expenditures; and reduced the real wages of government employees.

[9] For example, the government began dismantling COMIBOL, firing 23,000 of its 30,000 workers within two years. Such actions were probably not indiscriminate: tin workers were traditionally the most rebellious and most willing to resist the neo-liberal reforms. By firing so many, the government undermined their ability to fight back and sent a symbolic message to the nation that the reforms were for real. ICG interview, Washington, 16 March 2004.

Spanish with an American accent, and is particularly close to leaders in Washington. A fervent supporter of free trade and, in some ways, an originator of the alternative development component of anti-narcotic policies, he is also Bolivia's richest person, with family wealth derived from the mining industry. In his first term (1993-97), he not only deepened the reforms, but also initiated important changes in administrative decentralisation, popular participation, and an expanded political role for the indigenous majority.

General Hugo Banzer, who in the 1970s had taken power by a coup, won the 1997 election.[10] His government attempted to maintain the economic reforms precisely as the global (and regional) economy took a turn for the worse, and it faced stiffened domestic resistance to its drug policies when anticipated income from alternative crops did not materialise.

The recent wave of popular mobilisation got its start in the "Water War" in Cochabamba in April 2000, following the auction of the city's water system.[11] The only bidder was a consortium, Aguas del Tunari, whose controlling partner was International Water, a British engineering firm that was then wholly owned by Bechtel. Despite lack of competition, the $2.5 billion[12] deal went ahead, water prices rose dramatically, and citizens took to the streets in protest. The Banzer government declared a state of siege on 8 April 2000 but, as events got out of hand, it informed Aguas del Tunari executives that it could not guarantee their safety and broke the contract. The episode drew worldwide attention, especially from anti-globalisation activists, who cited it as an example of foreign capital exploiting the poor (and the latter's ability to resist).

[10] He resigned for health reasons before finishing his term and was replaced by his vice president, a young technocrat named Jorge "Tuto" Quiroga.
[11] William Finnegan, "Leasing the Rain", *The New Yorker*, 8 April 2002.
[12] Unless otherwise noted, all figures denoted in "dollars" refer to U.S. dollars.

III. THE MESA ADMINISTRATION

By February 2003, Goni was six months into his second term. Although many political analysts regard his first term as successful, the context had changed. Under the constitution, if no candidate captures a majority of the popular vote, the Congress chooses the president. Goni won a bare plurality (22.46 per cent), and he was selected by a Congress wheeling and dealing behind closed doors in the Hotel Presidente in downtown La Paz one month after the general election. A senior politician said Goni "went down the moment he announced his candidacy" -- his approval rating was 9 per cent as he entered office.[13]

When he unveiled a new income tax in February 2003 (the *impuestazo*, the "big tax") that was interpreted as unfair to the poor, riots in La Paz electrified the nation. Thousands took to the streets in protest against the measure and a president who seemed out of touch with average Bolivians. Large numbers of police joined in an attack on the presidential palace on 12 February.[14] In total, 31 people died (including sixteen civilians) and at least 100 were seriously injured.[15] When Goni asked the military to stop fighting the police, 24 hours of mob rule followed. The headquarters of the ADN, MNR, and MIR parties were attacked, as were the ministry of labour and a television network. Four soldiers will be tried in a civilian court for participation in some of the killings.[16]

Six months later, a host of factors provoked more protests. The most volatile spark was the announcement that Bolivia would sell natural gas to the U.S. and Mexico through a port in Chile, the historical foe.[17] Opposition leaders in the city of El Alto roused a public that was hurting economically and primed for revolt by the February violence to block the roads into La Paz.[18]

[13] ICG interview, La Paz, 21 April 2004.
[14] The police also mutinied in Tarija and Cochabamba.
[15] "What Will the IMF Say Now?", *The Economist*, 22 February 2003; "Rescued, For Now: Bolivia's Democracy", *The Economist*, 22 March 2003.
[16] "4 militares serán juzgados en la justicia ordinaria", *La Razón*, 12 May 2004.
[17] Jon Jeter, "Bolivians Fume Over Gas Plans", *The Washington Post*, 28 September 2003.
[18] El Alto is a poor, dusty, sprawling, recently-built city of 650,000 perched on the lip of La Paz that receives indigenous (mostly Aymara) migrants from throughout the

The initial prostesters were from indigenous and labour organisations, which declared a general strike at the end of September 2003. As the government bickered with political parties over the distribution of ministerial posts and ignored what was happening on the streets, discontent grew. Within days, and as the government refused dialogue, organisations representing teachers and coca-growers joined demonstrations, which sprang up around the nation.

Events escalated, particularly in El Alto, and the military opened fire on prostesters on 12 and 13 October. Such repressive measures ultimately brought the middle class and elites out into the streets as well, some of whom engaged in hunger strikes. Even after Goni offered to retract the gas deal, the demand for his removal increased. Indigenous leader Felipe Quispe announced that "the blood that has been spilled is sacred. So we can't negotiate and we're not even going to talk".[19]

After he lost the support of his cabinet, Goni resigned on 17 October, fled on a clandestine flight to Washington, and was replaced by Vice President Carlos Mesa, a 50-year-old historian and television journalist. Senate President Hormando Vaca Díez called this "a solution that is not ideal, but which preserves the constitutional order, which had been at risk".[20] The protests left at least 56 people dead and hundreds injured, mostly from bullet wounds.

Goni has not publicly returned since, and he blames his forced departure on outsiders and NGOs:

They don't believe in democracy. Very radical elements that can't believe the Berlin Wall came down and two, very identified with the poor and with ethnic groups that have been marginalised over centuries. And what happened to me in October was simply the classic Soviet coup. They blocked the roads. They did barricades and violent manifestations.[21]

The ex-president hinted that foreign governments, such as Libya and perhaps Venezuela, were involved as well as drug traffickers, and he chastised the U.S. for not doing enough to help the country financially.[22]

Some officials within the U.S. embassy do not differ much in their assessment. While acknowledging that the unrest was the product of 500 years of exploitation and more recent economic frustrations, they also told ICG that a "loose association of external actors" who "wanted trouble", such as Colombian and Peruvian terrorists, drug traffickers and some NGOs, "orchestrated and paid for" the October uprising.[23] That view is not shared by senior officials in Washington, however.[24]

Because of the violence of the October 2003 protests, some politicians would like the government moved to the official capital, Sucre, which is not as vulnerable to blockades. This reflects not only fear about the indigenous majority in the La Paz area but also geography: the civilian and military airports are in El Alto, a rapidly growing area 500 metres above the canyon in which La Paz is located; helicopters cannot operate well at such a high altitude (La Paz is at 3,500 meters), so blocking the few roads leading into the city can be very effective; if events turned very violent, there would be few means of escape.

Many Bolivians continue to direct their anger over the country's woes at Goni personally -- 92 per cent believe he was most responsible for the October events and should be held accountable.[25] Some suspicions have also stuck to Carlos Mesa, but he has mostly been able to distance himself from his predecessor's legacy. He had no real political experience or even a clear party identification before taking office. That clean image alone, however, will not resolve the complicated problems facing the country.

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altiplano (high plateau). It is one of the fastest growing cities in all Latin America (5 per cent annually), although there are very few new jobs being created. The city has become a hotbed of resistance to the white and mestizo establishment, hosting the likes of labour leaders Felipe Quispe (CSUTCB) and the COR's Roberto de la Cruz.

[19] Larry Rohter, "Bolivia's Poor Proclaim Abiding Distrust of Globalization", *The New York Times*, 17 October 2004.

[20] Larry Rohter, "Bolivian Leader Resigns and His Vice President Steps In", *The New York Times*, 18 October 2004.

[21] "Free Market Backlash", *Online NewsHour*, 31 December 2003.

[22] "After the Uprising; Bolivia", *The Economist*, 25 October 2003.

[23] ICG interview, La Paz, 21 April 2004.

[24] ICG interviews, La Paz, 15-17 June 2004 and Washington.

[25] The same survey found that 48 per cent also hold Morales and Quispe responsible. "Juico de responsibilidades", *Datos*, April 2004.

After eight months in office, President Mesa is caught between competing interests, notably the U.S. and IFIs, which continue to push unpopular policies, a wilful domestic business class with similar values, and an increasingly radicalised populace opposed to those policies.

Balancing these apparently irreconcilable demands is so difficult that not committing to anything is a tempting option. Until recently, some felt Mesa was more interested in protecting his image and maintaining public tranquillity than making tough decisions involving public sacrifice.[26] In April 2004, however, he showed signs of leadership by extending a hand to MAS representatives in Congress and introducing a referendum on the natural gas issue.

Nonetheless, the life of Mesa's presidency is in constant doubt. In April, there were rumours of an intended military coup.[27] The commander of the armed forces, Admiral Luis Aranda Granados, and Minister of Defence General Gonzalo Arredondo denied them on 14 April[28] but talk persisted for more than a week, encouraged by Evo Morales and at times irresponsible media coverage.[29] A range of groups were reputed to be behind the coup, most notably Manfredo Reyes Villa and Santa Cruz business interests.[30] A business representative told ICG that many prominent people favoured Senate President Hormando Vaca Díez, a wealthy Cruceño and MIR member, as a replacement for Mesa.[31]

Many party leaders in Congress are hostile toward the government, in large part because Mesa's inner circle disdains them.[32] Party leaders complain they have been shut out of decision-making. Only the MAS engages in serious dialogue with the president. After Mesa made several accommodating gestures toward that party in early April, political observers have spoken of "co-governance" and "partnerships of convenience", although neither side has advertised an alliance.

Mesa shook up his cabinet on 13 April 2004, replacing four ministers. Two new appointees were apparently a concession to the MAS, although the party made it clear that this did not make it part of the government. Indeed, the MAS distanced itself from the minister of indigenous affairs, Ricardo Calla, a former adviser, in order to continue in public as opposition.[33]

Mesa circumvents the Congress on many issues and tries to connect directly with a public that is fed up with politics. One analyst said Mesa buys himself months of support at a time through such direct appeals.[34] This unnerves the political parties and members of Congress because they are depicted as troublesome. Mesa's governing strategy, they believe, is to use the public's distaste for parties to make it seem as if he and the public must work together around the meddling and corrupt Congress to move the country ahead.[35]

Mesa's cabinet is non-partisan, but that is also the source of its weakness. According to many analysts, it is inefficient and lacks "political operators" who understand how to work with the legislature. Congress wants respect from the cabinet, and the president wants professionalism from the parties.[36] As of now, only the MAS gets that kind of respect. However, if the Mesa government is to survive until 2007, it cannot rely on public opinion polls alone or even the MAS, but must eventually work more broadly with Congress. Because Mesa has no party of his own to work with, it is particularly difficult for him to form coalitions.

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[26] ICG interview, La Paz, 1 April 2004.

[27] There have been roughly 500 coup attempts in Bolivian history, and there were ten successful coups between 1964 and 1981. The country has been formally democratic since 1982, however, so younger military officers have no experience with coups.

[28] "Palabra de militares: ‘Todo el sistema está bajo control'", *La Prensa*, 15 April 2004.

[29] A television newscast showed a list of possible coup plotters on the screen, one by one. After presenting about ten options, it asked the viewer to decide for him/herself who was really behind it all.

[30] Spreading rumours is an important part of Bolivian politics. The UNDP has even published an analysis of the role of rumours in Bolivian political history. See Ximena Medinaceli and María Luisa Soux, *Tras las huellas del poder: Una mirada histórica al problema de las conspiraciones en Bolivia* (La Paz, 2002).

[31] ICG interview, La Paz, 22 April 2004.

[32] ICG interview, La Paz, 1 April 2004.

[33] Some indigenous leaders protested his selection, arguing that he was not a legitimate representative. The Consejo Nacional de Ayllus y Markas del Qollasuyo (Conamaq) said he was a "wolf in sheep's clothing", and Felipe Quispe called him a mestizo racist and traitor. See *La Razón*, 15 April 2004, p.A13. Dozens of indigenous peasants took over his office, went on a hunger strike, and pledged not to leave until he resigned. After several days, they were forcibly removed in the middle of the night.

[34] ICG interview, La Paz, 14 April 2004.

[35] ICG interview, Washington, 19 May 2004.

[36] ICG interview, La Paz, 1 April 2004.

Although many factions -- from political parties, labour unions, and business groups -- oppose him, the president is a skilled communicator, with the ability to appeal directly and clearly to the public on live television, unmediated by parties or talking heads. That is a powerful weapon in a time of cynicism and dissatisfaction with politics. It is also an element of a new form of Latin American populism.

IV. THE POLITICAL AND SOCIAL OPPOSITION

A. EVO'S EVOLUTION AND THE MAS TODAY

Evo Morales was born in the mining town of Oruro in the western highlands in 1959, although his family relocated to the Chapare when he was young. He rose to lead the coca-growers (*cocalero*s) of the region and became the nation's most visible indigenous spokesperson (he is of Aymara ancestry).

During the 2002 presidential campaign, Morales made it a point to visit neglected and remote highland towns, even those without any particular sympathies for the *cocalero* movement.[37] Since then, he has travelled internationally as an informal ambassador for the country, sharpening his profile for a presidential bid. He won trade concessions from Venezuela, for example, for which President Mesa told Santa Cruz soybean growers that they should be thankful. At a 2004 EU-Latin America summit in Guadalajara, he was received separately from the Bolivian delegation by several Latin American and European leaders. Supposedly, President Luis Inácio da Silva (Lula) of Brazil has been a particular mentor.[38]

Since Morales nearly won the presidency in 2002 and has become prominent in Congress, his tone has mellowed. He says that "we have decided to reach power by means of the vote, not by arms or insurrectional means".[39] He claims since late March 2004 that his support of President Mesa is "unconditional".

Nonetheless, the MAS has dealt in a nuanced way with Mesa. In Congress, it often is his most important source of support. In the streets, however, the MAS loses no chance to criticise him. It quietly builds

[37] Days before the election, U.S. Ambassador Manuel Rocha declared that a Morales presidency would lead to a decline in U.S. economic assistance. Many observers credit his comments for giving Morales a late boost in popularity, perhaps as much as 5 per cent. However, it is important to note that most polls are limited to the three major urban centres (La Paz, Santa Cruz, and Cochabamba). They thus tend to underestimate the standing of parties with strong rural followings, such as the MAS.
[38] ICG interview, La Paz, 21 April 2004.
[39] "A Political Awakening", *The Economist*, 19 February 2004.

legislative capacity while retaining freedom to win popularity by acting as outsiders.[40] The party has good advisers, mostly academics, and some MAS leaders are acknowledged as well-informed on issues. Morales himself is not policy-focused but has instinctive political savvy, media smarts, and organisational capacity.

Although he is the most important opposition leader and is widely viewed as co-governing with Mesa on key issues, Morales also has a high unfavourable rating.[41] Should he only win an electoral plurality in the next presidential election, it is unlikely he could forge enough support to be selected by Congress.

In late May 2004, fissures emerged between Morales and MAS Senator Filemón Escobar, who, Morales alleges, among other wrongdoings, accepted a $50,000 bribe to support an agreement freeing U.S. soldiers from the jurisdiction of the International Criminal Court for actions in Bolivia.[42] Since then, MAS senators have backed Escobar against Morales.[43] It is unclear how deep the rift is and what its ultimate impact on party unity will be.

The MAS is still widely perceived as the only party untainted by the corruption that most people believe accompanies political office. It is also the only party that shows signs of expanding its support base -- in its case beyond the Chapare and the highlands (for example, in the rural areas of Santa Cruz and other parts of the *media luna*) -- and could win future elections. With the MNR in decline, confused over the Goni debacle and its ideology, the MAS is poised to replace it as the dominant party. However, it cannot become fully legitimate nationally, not to mention internationally, if it is perceived as bound by *cocalero* aspirations exclusively. To the extent that it can channel popular and grassroots frustration with existing economic policies while being regarded as legislatively responsible, it has great growth potential. Even the U.S. embassy has apparently changed its tune,[44] apparently recognising that without MAS support, the Mesa government would fall.

[40] ICG interview, La Paz, 14 April 2004.
[41] "La mayoría de los líderes tiene una imagen negativa", *La Razón*, 9 May 2004.
[42] See below and "Cocaleros expulsaron de sus filas a Filemón Escobar", *La Prensa*, 7 June 2004.
[43] "Mentor y líder del MAS rompen por su cercanía a Mesa", *La Razón*, 7 June 2004.
[44] ICG interview, La Paz, 21 April 2004.

B. LABOUR ORGANISATIONS: THE STREET-BASED OPPOSITION

The Bolivian Workers' Central (COB) remains the most important umbrella organisation of the organised labour movement, which has suffered serious setbacks since the mid-1980s. The COB, like many grassroots and leftist bodies, received a boost from the October 2003 events, when, however, its angry rhetoric -- a permanent feature of its approach -- matched a public anger that was only temporary.[45]

The COB's long-term viability is in question given the structure of the economy. The mines have seen their heyday, and as the informal economy grows, organised labour has a diminishing attraction. The COB's decline complicates governance, since there is no longer a strong interlocutor, such as it used to be, to facilitate a government dialogue with organised labour.[46] In its stead, sectoral interests have flourished. Rural unions and women have growing power, but the union movement is generally confused and divided.[47]

Bolivia suffers from a shortage of sophisticated political leaders but the dearth of good ideas is most apparent in the Confederation of Peasant Workers of Bolivia (CSUTCB) and the COB. Labour leaders were analytically and strategically more sophisticated in the 1970s. At their peak, labour organisations had libraries and conducted research, and their leaders held cabinet positions. Today's leaders, according to one analyst, are "small leaders for big times". The COB's role, he said, has been erratic, because its leadership lacks a clear vision for itself and the country[48] and has been more interested in staging rallies than holding serious debates. It has also failed to expand its base and recruit workers from the informal sector.[49] Its chief, Jaime Solares, is a pugnacious and controversial figure who has been

[45] ICG interview with a former COB adviser, La Paz 19 April 2004.
[46] ICG interview, La Paz 19 April 2004.
[47] ICG interview, La Paz, 7 April 2004.
[48] Because of the racial composition of the country, Bolivian labour movements have always had an indigenous element. It has often been difficult to parse what is class-based and what is grounded in indigenous concerns, because from mining to agriculture, the indigenous peoples have constituted the majority of workers. The 1952 revolution was class-based rather than ethnic, and that legacy still affects the labour movement.
[49] ICG interview, La Paz, 13 April 2004.

widely criticised, even within his own ranks, as unsuitable for a time when the average citizen has little interest in the declarations of organised labour's radical wing.[50]

A common criticism is that labour leaders who helped bring down Goni, such as Solares and the CSUTCB's Felipe Quispe, are still trying to bask in the October afterglow. Although Goni is long gone and gas sales are being discussed openly, they remain quick to make truculent declarations for the sake of press coverage. They have lost credibility where they might normally expect sympathy and are now reaching for help from their movements' most radical elements.

For months, the COB, the CSUTCB, and other labour organisations had been threatening the Mesa government with large-scale demonstrations if their many demands were not met. Those demands included a presidential decree nationalising the gas industry and abrogation of Supreme Decree 21060 of 1985 (the foundation of the country's free market policies).[51]

Following five days of student protests in La Paz in late April 2004, the COB declared a national strike on 3 May. It was not as successful as hoped: few organisations joined, and calls for Solares's resignation became more common. After three weeks of sporadic protests and roadblocks, the Human Rights Ombudsperson, Waldo Albarracín, called on COB to talk with the government. "You have to work for social peace, and not simply desire it and demand it", he said.[52]

Rather than play the policy game responsibly, with careful research and ideas, however, the most radical voices have elected to stay in the streets and increasingly isolate themselves from political influence. Miners, pensioners, transport workers, health workers, and teachers have continued to stage events or gone on strike throughout the country, which has also led to roadblocks and violent standoffs. This is typical behaviour in Bolivia, even predictable in its regularity, and it is how policies were often "negotiated" in the past.[53] But it seems out of touch with current political realities, unlikely to be productive, and at risk of further emboldening the far-right.

President Mesa has apparently enhanced his credibility by working without parties but without the endorsement of parties such as the MNR, the MIR, and the MAS, labour unions are creeping out on a weakening limb.

C. OTHER POLITICAL PARTIES

Party politics in Bolivia can look like a confusing list of acronyms, with constant changes of personal loyalties, names, and coalitions. Several parties are similar to those elsewhere in Latin America -- patrimonially-focused, personal vehicles for powerful figures. Bolivian parties, however, are particularly fragmented, existing mostly to secure jobs for their supporters.[54] Few parties have made sincere efforts to incorporate the indigenous majority, decentralise internal decision making, or develop effective policies to respond to Bolivia's multiple crises.[55]

Since the resumption of civilian rule in 1982, elites from three parties (MNR, MIR, ADN) have formed alliances at one time or another to protect their interests and govern together. Today, Bolivia is witnessing this "pacted democracy" unravel.[56] Surveys indicate that public support of parties is at a record low. They have been thoroughly discredited because of their corruption and patronage procedures,[57] and frustration with them is palpable everywhere. They are seen as selfish, focused on their survival and self-enrichment at the expense of public

[50] Solares acknowledges that he sometimes does not know the content of legislation he opposes. For example, in an April 2004 television interview, when asked if he had read the newly proposed hydrocarbons law, he said he had not, but it did not matter, because Mesa was merely an incarnation of Goni, was willing to sell out the country, and should step down.

[51] "COB instruye cerco a La Paz, pocos sectores se adhieren", *La Prensa*, 20 May 2004.

[52] "Defensor del Pueblo exhorta a la COB a dialogar con Mesa", *La Prensa*, 24 May 2004.

[53] ICG interview, La Paz, 21 April 2004.

[54] See Donna Lee Van Cott, "From Exclusion to Inclusion: Bolivia's 2002 Elections", *Journal of Latin American Studies*, 35 (2003), pp.751-775.

[55] Donna Lee Van Cott, "Party System Development and Indigenous Populations in Latin America: The Bolivian Case," *Party Politics*, 6 (April 2000), pp.155-174. http://www.partypolitics.org/volume06/v06i2p155.htm

[56] ICG interview, 1 April 2004.

[57] Transparency International gave Bolivia a Corruption Perceptions Index (CPI) of 2.3 in 2003 (ten being the cleanest possible score), tying it for 106 out of 133 countries measured. In Latin America and the Caribbean, only Ecuador, Paraguay, and Haiti scored worse. See www.transparency.org.

values and responsible governance. President Mesa has publicly condemned their congressional antics.

Party leaders provide daily fodder for the press, spreading unfounded rumours and engaging in name-calling, accusations, and insults. There is precious little cooperation among them in the interest of governance: they seem not to view their work as a public service, but rather as a vehicle to promote private interests. Because they have such low public standing and have been shut out of the Mesa government, they feel desperate. They seem to have lost any long-term vision and spend much energy plotting against the government.[58]

The December 2004 municipal elections could be the most hotly contested in twenty years and lead to major realignments. Several parties that did badly in recent elections will be attempting comebacks and seeking influence over the following year's constituent assembly.[59] Several big city mayors running for re-election, such as El Alto's José Luis Paredes (MIR), are dropping party affiliations to run as independents.[60]

The MNR cannot be counted out in December, given its historical legacy and ability to secure benefits for its supporters. Former President Jorge Quiroga may try to turn his ADN into a force at the municipal level.[61] The MIR, too, under former President Zamora, will be fighting hard.[62] Due to a break with Zamora, Samuel Doria Medina, a wealthy cement magnate who also owns the country's Burger King franchises, created his own party, the Frente de Unidad Nacional (UN) in December 2003.[63] The New Republican Force (NFR), under the leadership of Manfredo Reyes Villa, will also be important. Reyes Villa, a former army captain and mayor of Cochabamba, was third in the 2002 election. He claims that fraud cost him the presidency, and he has been calling for early elections to challenge Mesa. There are strong indications he has been plotting to bring down the government and may ally with the COB to push for nationalisation of natural gas.[64] Other party leaders call him an opportunist.

D. THE CATHOLIC CHURCH AND NGOS

The Catholic Church is the most highly respected institution in the country.[65] For more than ten years, it has been an independent peace broker, arranging dialogues among squabbling *cocalero*s, miners, and peasants. However, it stepped back somewhat in October 2003. The Church believes that political parties and other social actors are not keeping their promises, and it has largely lost its faith in them.[66] It will have to be asked to take part in future negotiations.[67]

The Bolivian Church, like many in Latin America, has focused its advocacy on inequality and poverty. It condemned the government's recent decision to protect U.S. soldiers in Bolivia from International Criminal Court jurisdiction.[68]

There are several hundred foreign and national NGOs registered and operating in Bolivia, most dedicated to economic development.[69] Like the IFIs, foreign NGOs have focused on Bolivia because it is the poorest country in the region and a good place to try out new ideas and projects.[70] Yet, there is serious concern, even among long-time Bolivian activists with NGO experience, that foreign donors do not

[58] ICG interview, La Paz, 31 March 2004.
[59] Goni captured 22.46 per cent of the popular vote in the 2002 presidential election, and his party, the MNR, holds eleven Senate seats (of 27 total) and 36 House seats (of 130 total). Morales earned 20.94 per cent of the vote, and his party, the MAS, holds eight Senate seats and 27 House seats. Manfred Reyes Villa won 20.92 per cent of the vote, and his party, the NFR, holds two Senate seats and 24 House seats. Jaime Paz Zamora won 16.32 per cent of the vote and his party, the MIR, holds five Senate seats and 26 House seats.
[60] New election laws will allow candidates to run as independents beginning in December.
[61] ICG interview, La Paz, 25 March 2004.
[62] However, the party has a legacy of alleged corruption and is now widely seen as devoted only to the distribution of patronage. ICG interview, La Paz, 25 March 2004.
[63] The UN was the first party to determine its leadership by direct vote among its members. See "Unas 20 mil personas eligen a Doria Medina líder de UN", *La Prensa*, 5 April 2004.
[64] "Lluvia de críticas cae a NFR", *La Prensa*, 10 June 2004; "NFR quiere elecciones para que Reyes Villa se postule", *La Prensa*, 9 June 2004.
[65] See UNDP, *Informe de desarrollo humano en Bolivia 2002* (La Paz), p.138.
[66] ICG interview, La Paz, 25 March 2004.
[67] ICG interview, Santa Cruz, 30 April 2004.
[68] The U.S. has made a concerted effort to secure such guarantees from all the countries in which its soldiers are posted. In many cases, it has threatened to withdraw aid if a country does not comply.
[69] The U.S. embassy believes there are 1,700-2,000 officially registered foreign and domestic NGOs.
[70] ICG interview, 15 April 2004.

understand how NGOs operate on the ground in the country.[71]

NGOs have filled many of the social gaps that a faltering economy and unreliable government programs have been unable to address. But many on the political right are suspicious of NGO motives and believe they played a role in recent demonstrations and may unintentionally support subversion.[72] One embassy analyst said, "the embers of communism are still smouldering here. When the Berlin wall fell, they had nowhere to go but the NGOs. The conditions Che [Guevera] didn't find are here now. Outsiders want to exploit it".[73]

[71] ICG interview, La Paz, 6 April 2004. Also see Lesley Gill, *Teetering on the Rim: Global Restructuring, Daily Life, and the Armed Retreat of the Bolivian State* (New York, 2000).
[72] ICG interviews, La Paz, 22 April 2004 and Santa Cruz, 29 April 2004.
[73] ICG interview, La Paz, 21 April 2004.

V. SPARKS THAT COULD SET THE COUNTRY AFLAME

Mesa took office promising three things: a new hydrocarbons law, a constituent assembly to rewrite the constitution, and a national referendum on the gas issue. Goni had proposed similar policies but Mesa has made this October Agenda very much his own, and could even be betting his presidency on it.

In April 2004, the media, like much of the country, reviewed his first half-year with impatience. The country wanted action and, although Mesa's approval ratings were over 70 per cent, few felt he was addressing the urgent issues contained in the October Agenda.

After several difficult months writing a new hydrocarbons law, Mesa announced on 13 April that a national referendum on gas sales would take place on 18 July.[74] This was a means of getting around an obstructionist and unpopular Congress and appealing directly to the citizenry. Mesa apparently believes that the referendum will pave the way for the hydrocarbons law, rather than the other way around, as originally planned.

The government is now crafting its message and intends to spend a lot of energy convincing the public that gas deals are important for the country's future, as long as the terms benefit Bolivians. Considering that many Bolivians are illiterate, and some do not speak Spanish, the government plans to reach out by radio and television, and in native languages, to ensure that all citizens are aware of what is at stake.

The referendum contains five questions to which citizens will answer either "yes" or "no". All five questions will have to receive a majority for the referendum to be approved. They are:

1. Do you agree with the abrogation of Hydrocarbons Law 1689 promulgated by Gonzalo Sánchez de Lozada?

[74] This is partly because Mesa has had trouble keeping ministers of energy and mines. His first, Álvaro Ríos, lasted 142 days until he quit due to differences with the polemical Xavier Nogales (at that time, the minister of economic development). Antonio Araníbar, questioned for his relationship with oil companies while he was foreign minister in the mid-1990s, quit after 31 days, and his replacement, Xavier Nogales, quit on 24 May 2004 after 42 days.

2. Do you agree that all wellhead gas should be owned by the Bolivian state?
3. Do you agree that YPFB [the state oil company] should be recreated, thus returning Bolivians' shares in capitalised businesses to the state, in a manner that allows it to participate in the whole hydrocarbons chain?
4. Do you agree with President Carlos Mesa's policy to use gas as a strategic resource to achieve useful and sovereign access to the Pacific Ocean?
5. Do you agree that Bolivia should export gas within the framework of a national policy that covers Bolivians' consumption of gas, promotes the industrialisation of gas within national territory, charges taxes and/or royalties on energy companies up to 50 per cent of the value of the production of gas and oil in favour of the country, [and] dedicates the resources from the export and industrialisation of gas primarily for education, health care, roads, and jobs?

The questions attempt to do the following, according to an analyst: distinguish Mesa from Goni; make nationalisation, but not expropriation, possible; reconstitute YPFB, the state oil and gas company; keep Chile as an option through which to export; and ensure that 50 per cent of the proceeds from gas sales are made available for social development.[75]

No matter the outcome of the referendum, President Mesa claims that the existing 78 contracts with foreign companies will be respected.[76] That seems impossible, however, as some contracts are good for 40 more years.

It is uncertain whether the business community will ultimately support the measure. One business representative in Santa Cruz asked ICG: "We've never had a referendum on minerals. Why should we have one on gas?"[77] Its position may hinge on the final form of the questions, but most likely, politics will become most intense after the referendum when its meaning will be contested. In early June, business groups were generally opposed to the referendum in part at least because there is no precedent or clear legislative authorisation. On 22 June, thousands of inhabitants of Santa Cruz took to the streets in support of the departmental council's demand for the holding of a referendum on regional autonomy prior to the end of the year.[78]

Another major element of the October Agenda is a constituent assembly, planned for May 2005, to write a new constitution.[79] The method of its creation has not been fleshed out but in principle, the idea seems to hold both great promise and some danger. A new forum in which opposing interests can engage in dialogue could lead to negotiations and understandings that are currently out of reach. However, if not designed properly, it could also bring all the national divisions to a dangerous flashpoint.[80]

Representation in the assembly could be on the basis of functionally defined economic groups. Seats could also be apportioned on the basis of ethnic identity. There might be measures to ensure that lightly populated regions rich in natural resources have extra weight. Popularly elected delegates might better represent the demographic makeup of the country. One analyst fears that the first option would disastrously recycle the zero-sum game that has long plagued Bolivia's interest group politics,[81] while another calls the ethnic option "an atrocity."[82] A Santa Cruz business representative said the city's elite would not accept "radical groups claiming old debts".[83] A high profile politician said some groups will want to "codify their economic aspirations" in the constitution, which would be a mistake.[84]

Those on the left interviewed by ICG tended to view the assembly as more urgent -- a means of making politics more representative and participatory. One of the key issues expected to be discussed by the constituent assembly is decentralisation -- the allocation of resources and responsibilities between the central, departmental and municipal levels of government. The popular participation program

[75] ICG interview, Washington, 8 June 2004.
[76] Many foreign companies are involved in gas exploration and production. The biggest are Repsol-YPF-Maxus-Andina (a Spanish-Argentine consortium), British Gas (UK), Petrobrás (Brazil), and Exxon-Mobil-Arco (U.S.).
[77] ICG interview, Santa Cruz, 29 April 2004.
[78] *La Razon*, 23 June 2004. President Mesa rejected the action, stating that only the constituent assembly could decide on matters related to regional autonomy.
[79] Bolivia has had eleven constitutions since 1826. The current document dates to 1967, although major amendments were made in 1994.
[80] ICG interview, La Paz, 19 April 2004.
[81] ICG interview, La Paz, 19 April 2004.
[82] ICG interview, La Paz, 4 April 2004.
[83] ICG interview, Santa Cruz, 29 April 2004.
[84] ICG interview, La Paz, 21 April 2004.

initiated by President Sanchez de Lozada during his first term (1993-1997) gave local governments real money and power. The subsequent Banzer administration made efforts to regain greater central government control over the revenue-sharing funds allocated to the municipalities by shifting resources to the appointed departmental governments.

However, the popular participation program remains a critically important means for indigenous communities to have real control over their own futures. Bolivia's challenge is to maintain local autonomy and participation, particularly in rural municipalities -- which need reliable access to resources to meet local needs -- at the same time as it achieves more financial accountability and ensures compatibility of local projects with health and sanitation sector and infrastructure policies.[85]

A. NATURAL GAS

The sale of natural gas is the hottest political issue, all the more difficult because of its technical complexity. Too often, it is manipulated by public figures who invoke the national patrimony and cite centuries of foreign exploitation as a reason for opposing any sale to private interests.[86] If they support extracting the gas at all, they argue it should be used for domestic industrialisation, not exported.[87]

Some arguments against specific terms for gas sales are valid but the debate has often been shallow and partisan, driving an unnecessary wedge especially between lowlands and highlands. There have also been racial elements to it. The issue, an analyst claims, is not about nationalism, but chauvinism.[88] Elites often view the masses as manipulated by corrupt, opportunistic leaders, who play upon deep ethnic resentments. Indigenous leaders often disparage fair-skinned Bolivians as exploiters. ICG found racial bias a recurring, if sometimes veiled theme in interviews. Mistrust is clearly rampant, among ethnic groups, regions, social classes, and political parties.

The gas deal through Chile, however, brought out nationalist sentiments in a tangible and violent way. Bolivia holds the second largest reserves of gas in South America, after Venezuela.[89] Between 1997 and 2002, its proven and probable reserves grew by 362 per cent, to an estimated 55 trillion cubic feet. Given the current rate of domestic consumption, this could satisfy the country's needs for 650 to 1,242 years if exploited only for domestic use.[90] Prior to the October 2003 events, selling the rights to extract the gas was expected to earn the government some $500 million annually. Also prior to October, the IMF estimated that the oil and gas sector could provide 1 per cent GDP growth over the next five years.[91]

The only certainty about the gas is that there will be a national debate ahead of the referendum. Some analysts believe it will define the future of the Mesa government and even the Bolivian state.[92] Others think nationalisation will be taken very seriously now that neo-liberal prescriptions have lost some appeal, and the MAS has become a national force.[93] There is even talk of joining a giant regional energy company, Petroamérica, controlled by the governments of Venezuela, Argentina, Brazil, and Bolivia.[94] The MAS has made clear that gas sales are a national priority, and although it has wavered on the sale terms it would be willing to approve, these would surely have to benefit ordinary Bolivians visibly.

Many business leaders in the eastern lowlands do not want a referendum on the issue because a higher proportion of the population lives in the western highlands, which, in 2003, demonstrated clear

[85] World Bank, "Embracing Popular Participation", at http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20020985~menuPK:34460~pagePK:64003015~piPK:64003012~theSitePK:4607,00.html. See also IADB, Bolivia Country Strategy Paper, 2003, pp. 9-11.

[86] Unlike in Peru and Ecuador, where indigenous groups have opposed gas and oil exploration on environmental grounds, there is little such concern in Bolivia.

[87] This, according to one expert, is a misleading option. Only 5 per cent of the world's natural gas, he said, is converted into industrial liquids and plastics; such projects are still not commercially viable, and Bolivia does not have the resources for such experiments. Gas, he said, should be sold abroad and the profits invested toward traditional industrialisation. ICG interview, 14 April 2004.

[88] ICG interview, La Paz, 1 April 2004.

[89] The legal framework for the gas business is Hydrocarbons Law 1689, written in 1996 while Goni was president the first time. It created two categories of gas deposits -- "existing" and "new". Foreign companies paid royalties, from 18 per cent to 50 per cent, based on the category their deposits fell under.

[90] Mario Napoleón Pacheco Torrico, *En defensa de la racionalidad* (La Paz, 2004).

[91] "Highly Flammable: Bolivia", *The Economist*, 13 September 2003.

[92] ICG interview, La Paz, 1 April 2004.

[93] ICG interview, La Paz, 13 April 2004.

[94] "La nueva ley y el referéndum dirán si YPFB entra al plan Petroamérica", *La Razón*, 14 May 2002.

opposition to foreign sales. The residents of Tarija (with 87 per cent of the natural gas and 4 per cent of the population), in contrast, work directly in the industry and stand to profit most from foreign sales. Moreover, they regard it as their gas, not the Bolivian people's[95] -- a sentiment that at times amounts to a cry for political independence.

The internal gas market is very small and if some is not sold abroad, growth and poverty reduction prospects are limited.[96] Brazil, according to a prominent analyst, is the biggest future market and a potential windfall. The relationship is likened to Canada's with the U.S.: a country with large reserves and little domestic demand bordering an economic powerhouse with a high demand for natural gas.[97]

Argentina could also be important. It is among the world's highest users of natural gas per capita, needs gas now and could very well need much more in the next few years. In late April 2004, the Mesa government agreed to provide gas for an emergency period of six months, on condition it not be sent through, or sold to, Chile. The deal raised many eyebrows but no protests and is probably meant by Mesa to prepare the way for a long-term agreement.

President Mesa has set out to use gas to bargain for access to the sea. Since April, he has repeated that "not a single molecule" of gas will end in Chilean hands without negotiations. Chile has responded that with such an attitude, Bolivia will never see "a single drop of ocean" and has pursued agreements with Indonesia to meet its demand for gas.

Landlocked Bolivia regularly demands that it be given access to the sea, and President Mesa, during the last week of March 2004, which marked the 125th anniversary of the loss of that access, declared that there were unresolved matters (*temas pendientes*) with Chile. These comments were made, in part, to appease a restive population. Throughout a week of marches and speeches in La Paz, even schoolchildren demanded that Chile give back Bolivians their sovereign access to the sea. In La Paz, it is common to see signs on private establishments exhorting Chile on this. In April 2004, nine major newspapers, including *La Prensa* (La Paz), *El Deber* (Santa Cruz), and *Los Tiempos* (Cochabamba) distributed a 95-page book, *Chile: Bolivia's Enemy Before and After the War of the Pacific*.[98] Although its potential material benefits are slight, sea access is a matter of national pride and serious import to the Bolivian psyche.[99]

B. CAMBAS AND COLLAS

Bolivians are often divided into western highland dwellers ("Collas") and those from the eastern and southern lowlands ("Cambas").[100] While the axis of economic power used to flow south to north through the highlands, from Potosí to La Paz, now the line is from east to west, from Santa Cruz to La Paz.

The rift between lowlands and highlands is economic, cultural, and ethnic. One's position on economic and political issues is linked, in large part, to where one lives.[101] Santa Cruz, for example, is more entrepreneurial, competitive, and fast-growing, while business in La Paz is more traditional, familial, and closed.[102] Santa Cruz is the economic powerhouse, while La Paz is the seat of national government. And while Santa Cruz fancies itself a risk-taking modern melting pot, conservative indigenous culture in the highlands is strong and taking increasingly radical forms. The differences between these regions shed light on why issues such as natural gas and foreign investment have turned so divisive and threaten national stability. Radicals in both regions have fed off their local climates and cultivated separatist sentiments.

The *media luna.* The *media luna* (half moon), is the economic counterbalance to La Paz's political power. With the city of Santa Cruz as its spiritual and physical heart, the *media luna* includes the city of Tarija and the departments of Beni and Pando, all growing in economic strength and culturally distinct from La Paz and the highlands. It is not uncommon for the elites of Santa Cruz to express their desire to secede or to be annexed by Brazil. Business groups from Tarija have emphatically stated that they will

[95] ICG interview, La Paz, 1 April 2004.
[96] The country consumes 50 billion cubic feet of gas per year, or 12.6 per cent of current production.
[97] ICG interview, La Paz, 14 April 2004.
[98] Roberto Querejazu Calvo, *Chile, enemigo de Bolivia antes y después de la Guerra del Pacífico* (Publicaciones Literarias Líder, 2004).
[99] ICG interview, La Paz, 1 April 2004.
[100] The terms have Incan roots.
[101] "Informe de Lunes", *La Razón*, 5 April 2004. The report found regional divisions in five areas: hydrocarbons, decentralisation, security, land, and taxes.
[102] ICG interview, La Paz, 25 March 2004.

not be bound by the referendum on sale of natural gas and will declare independence if necessary.

The Santa Cruz business community, composed of agro-industrial interests, loggers, gas companies, and bankers, is often dismissive of La Paz and the highlands.[103] It regards the national government as antiquated and protectionist, filled with rent-seeking bureaucrats afraid to face the free market and constantly meddling in its affairs.[104] As a challenge to the Aymara and Quecha nations, some Santa Cruz elites have created *Nación Camba*, an attempt to paint themselves as a distinct people with a particular mindset very unlike those of the indigenous.[105] This "liberation movement" was formed to "confront the abuse, the authoritarianism, and the internal colonialism that the Andean-Kolla state has imposed on us, the same state that appropriates our economic surplus and utilises our lands to promote human colonial settlements".[106]

Such sentiments are not limited to extremists: even mainstream Santa Cruz business organisations argue that Bolivia is predominantly mestizo, and indigenous discourses are self-serving and divisive.[107] Miss Bolivia (Gabriela Oviedo of Santa Cruz), caused a stir in late May at the 2004 Miss Universe pageant in Quito when she made what were interpreted as regionalist and racist remarks.[108]

In some ways, business is the very identity of Santa Cruz. Its most visible representatives speak for business interests, most notably the local chamber of commerce (CAINCO) and the *Comité Pro Santa Cruz*.[109] Both organisations strongly support local development and express city pride with a fervour that can sometimes seem nationalistic or religious. They speak of work, modernity, and most of all, "production" as the keys to progress and lament that few in the western part of the country apparently share those values, preferring to erect roadblocks for short-term political gain.[110]

There is a double discourse at work in the region: while many Santa Cruz and Tarija elites have separatist tendencies, they also stress that their mission is nationalist.[111] Santa Cruz elites paint themselves as the productive, internationally minded mestizo part of Bolivia. In some ways, they regard the indigenous as less than Bolivian: separatist, obstructionist, and backwards. To deflate the appeal of radical indigenous messages, CAINCO attempted a public relations campaign. In April 2004, it released two national television spots. The message was unity and productive work: *Somos Bolivianos* ("We Are Bolivians") and *Manos Productivas* ("Productive Hands").

Santa Cruz elites are uncertain about President Mesa. Some fear he is more interested in appealing to the highlands than in protecting their concerns. In response to a government tax proposal, the president of CAINCO, Zvonko Matkovic, asserted that Mesa is "fomenting class warfare."[112] Lowland business concerns have drifted away from their colleagues in the highlands: The Federations of Private Businesspeople of Santa Cruz and Tarija have formally broken with the CEPB, the primary national business confederation in La Paz, and hope to recruit counterparts in Beni, Oruro, Pando, and Potosí to their regional cause.[113]

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[103] Rice, sugar, soybeans, cotton, corn, and cattle ranching have become its agricultural mainstays.
[104] ICG interview, La Paz, 7 April 2004.
[105] The concept was the brainchild of two men in particular: Sergio Antelo Gutiérrez, an architect who is a former prefect of Santa Cruz, and Carlos Dabdoub Arrien, a medical doctor who is a former president of the *Comité Pro Santa Cruz*. Other adherents, though not necessarily in an official sense, are Arturo Mendivíl, a radio commentator, and Branco Marinkovic, the president of the Federation of Private Businesspeople of Santa Cruz. ICG interviews, Santa Cruz, 29 and 30 April 2004.
[106] See www.nacioncamba.net.
[107] ICG interview, Santa Cruz, 29 April 2004.
[108] "Um...unfortunately, people that don't know Bolivia very much think that we are all just Indian people from the west side of the country, it's La Paz all the image that we reflect, is that poor people and very short people and Indian people...I'm from the other side of the country, the east side and it's not cold, it's very hot and we are tall and we are white people and we know English so all that misconception that Bolivia is only an 'Andinan' Country, it's wrong. Bolivia has a lot to offer and that's my job as an ambassador of my country to let people know [how] much diversity we have." See "'Tall, White' Bolivian Beauty Faces Calls to Quit", Reuters, 28 May 2004.

[109] The Comité was formed in 1950. Today, it acts as an informal government, a forum for resolving local conflicts and promoting civic and business interests in the city. A business representative told ICG that the Comité is "the moral government of Santa Cruz".
[110] ICG interview, Santa Cruz, 29 April 2004.
[111] See "Entrevista: Luis Saavedra Bruno", *Escape*, No. 151, 4 April 2004.
[112] "Rebelión en Santa Cruz", *Datos*, March 2004.
[113] "¿Los próximos rebeldes?", *Santa Cruz Económico*, 11-17 April 2004.

Although some liberal groups have criticised these business organisations for "hijacking" public discourse and acting as de facto regional ambassadors, Santa Cruz had little national importance prior to the 1960s. Its economic power today can be attributed, in part, to its business climate, its strategic location, and the ambition of its people, who arrive from all corners of the country. It provides most of the country's tax receipts and is by far its largest exporter. The central government in La Paz is indeed reliant on its budget contribution, a fact ordinary Cruceños are quick to point out.[114]

Still, Santa Cruz did not develop on its own. It was targeted as a pole of economic growth as early as 1942, when little more than an isolated backwater. The central government began investing heavily there in the early 1950s, followed by USAID in the 1960s, as infrastructure and agro-industrial projects became a central element of the "march to the east."[115] Were it not for La Paz's guiding hand, Santa Cruz would not be where it is today.

Indigenous issues in the highlands. The indigenous Aymara and Quechua peoples are 62 per cent of the population, dominate the cultural life of the rural highlands and are majorities in La Paz and El Alto.[116] Despite their numbers, they have rarely held the positions of government or business authority that the fair-skinned, mestizo elite, descended from European colonisers, has traditionally dominated.[117] The highlands are extremely poor: in rural areas, over 90 per cent of households cannot satisfy basic needs.[118]

Like some within the *media luna* business community, highland indigenous leaders such as Felipe Quispe ("el Mallku") have taken radical and inflammatory ethno-political stances.[119] Quispe is secretary general of the CSUTCB, the labor union formed by indigenous peasants in 1979. He also leads the MIP party, which holds six seats in Congress. He himself placed fifth in the last presidential election with over 6 per cent of the vote.[120]

The Aymara people, of which he is a part, are generally regarded as more uncompromising and more prone to direct action against the government than the Quechua.[121] Land has historically been the most political issue for them. The traditional Aymara domain is large, extending well into Peru and Chile, and Bolivian Aymara leaders maintain particularly strong links with communities in the former.

Many indigenous people view the gas issue as yet another example of trans-national exploitation. They frequently cite 500 years of colonialism and tend to look back in time for inspiration. Centuries of mistreatment and profound racism perpetrated by whites have created feelings of shame and inferiority, though political and cultural repression have kept their anger mostly muted. Now that they are sensing their own political strength, however, their anger is spilling into non-productive, even destructive, behaviour. Some take joy in blocking roads and invading lands to prevent the sale of natural gas.[122] Some white Bolivians and foreigners fear that indigenous people might soon seize La Paz in a violent, racially inspired act of vengeance.[123]

While indigenous people cite their historical exploitation as a grievance, some leaders, like Quispe, have even called for a return to pre-colonial forms of government. Quispe wants to create an independent Indian republic, called Kollasuyu after a segment of the Incan empire. He says, "We want to have our own army, flag, constitution, and education".[124] Even Evo Morales, whose objectives are hardly messianic, says

[114] In 2000, Santa Cruz represented 42 per cent of the nation's agricultural output, 34 per cent of industrial GNP, and 25 per cent of the extractive GNP. See UNDP, *Informe de desarrollo humano en Santa Cruz 2004*, p.53.
[115] Ibid, pp.35-61.
[116] In La Paz, 50 per cent of the residents are Aymara, while 10 per cent are Quechua. In El Alto, 74 per cent are Aymara and 6 per cent are Quechua. Together, the indigenous constitute more than 90 per cent of the rural highland population. See Xavier Albó, "222 años después: La convulsionada Bolivia multiétnica", *Artículo Primero*, No. 16, April 2004.
[117] The most notable exception is perhaps Víctor Hugo Cárdenas, whose party, the MRTKL, represented a moderate strain of Katarism (an ideology that advocates struggle against ethnic and class oppression). Cárdenas served as vice president during Goni's first term.
[118] Things are slowly improving, however: in 1976, that number was 98.6 per cent. See Mario Napoleón Pacheco Torrico, *En defensa de la racionalidad* (La Paz, 2004).

[119] See Xavier Albó, *Pueblos indios en la política* (La Paz, 2002).
[120] In early June 2004, he announced that he was renouncing his position in the Congress to face embezzlement charges. He expects to return to prison, where he previously spent time for armed rebellion. "Felipe Quispe: 'No soy candidato a alcalde, yo soy candidato a la cárcel'", *La Prensa*, 5 June 2004.
[121] ICG interview, La Paz, 22 April 2004.
[122] ICG interview, La Paz, 21 April 2004.
[123] ICG interviews, La Paz, 21 and 22 April 2004.
[124] "A Political Awakening", *The Economist*, 19 February 2004.

"There is a confrontation between the two cultures -- the culture of death, represented by the culture of the West, and the culture of life, represented by the indigenous people".[125]

The highlands, like the eastern lowlands, are confused by separatist and nationalist impulses. While many Aymaras would prefer to gain their own political space, manage their own affairs, and turn their backs on the rest of Bolivia, some leaders have taken strident positions on the natural gas issue -- a resource that is psychically and physically far removed from the daily life of the altiplano. After fuelling the conflicts of 2003, the production and sale of natural gas is now an inescapable part of political debate, requiring tough decisions. If people in the altiplano want to alleviate rural poverty, they have to take advantage of the natural gas reserves, and it seems unlikely sufficient markets could be found without selling abroad.

C. THE COCA LEAF

The 1980s saw the rise of coca cultivation in the Chapare region and subsequently a growing U.S. military and political presence in the country. In the public perception -- and at times in reality as well -- U.S. interests have been single-mindedly focused on coca eradication, with much bilateral aid dependent on Bolivian cooperation with counter-drug objectives.[126] U.S. ambassadors have managed that process with varying levels of subtlety. All too often, distinctions have been lost between coca-growers linked to illegal international drug trafficking and those producing for traditional and legal internal use.

The Chapare, north of Cochabamba, is one of the two primary coca-growing regions. Historically, it has been the source of most illegal coca, and it is where most alternative development programs are in place. Many of its 50,000 families who depend on coca cultivation for their livelihood had, until the mid-1980s, worked in the tin mines of Potosí. When the mines closed, some 300,000 people migrated to the Chapare, bringing with them revolutionary political values and a propensity to engage in mass protest.

Evo Morales controls the Six Federations, the coca-growers union, comprised of some 35,000 small-scale farmers and a natural MAS constituency -- in fact the heart of MAS.

U.S. Ambassador Manuel Rocha drew the ire of many Bolivians in 2002 with comments like: "Evo [Morales] is a *cocalero* leader whose *cocalero*s sell coca paste to the narco-traffickers. There's not any innocent activity going on in the Chapare"; and, before the presidential elections that year, his warning against electing "those who want Bolivia to be a major cocaine exporter again", a clear reference to Morales.[127]

The Chapare has witnessed regular and often violent *cocalero* protests during the past decade. Prior to 2003, in fact, it hosted most of the violent confrontations with security forces but it has been quiet in recent months. Some analysts do not believe this is likely to change before the December municipal elections, in large part because the *cocalero*s do not want to harm the MAS electoral chances. After the elections, however, they will likely make additional claims on the government, especially if Mesa tightens the military grip on the region.[128]

The eradication campaign has been accompanied by serious human rights abuses. Since 1987, Bolivia's Permanent Assembly for Human Rights has documented dozens of *cocalero* deaths at the hands of the police and military. It also has reported many indiscriminate arrests and unlawful detentions, arbitrary searches and seizures, abuse of Chapare residents, and suppression of peaceful demonstrations.[129] Some decline in reports of human rights abuse occurred in the mid-1990s. A resurgence of violence accompanied "Plan Dignity" in 1998, a forced-eradication operation that aimed at ridding the region of all illicit coca within five years. Between 1998 and 2003, 33 coca-growers and 27 members of government security forces died in confrontations.

[125] "Free Market Backlash", *Online NewsHour*, 31 December 2003.

[126] The State Department, for example, has a difficult time disentangling what is democracy assistance and what is counter-narcotics-related funding. See United States General Accounting Office (U.S. GAO), "Foreign Assistance: U.S. Democracy Programs in Six Latin American Countries Have Yielded Modest Results", March 2003.

[127] Juan Forero, "From Llama Trails to the Corridors of Power", *The New York Times*, 6 July 2002.

[128] ICG interview, Cochabamba, 26 April 2004.

[129] See Kathryn Ledebur, "Coca and Conflict in the Chapare", WOLA Drug War Monitor, vol. 1, no. 1, Washington D.C., July 2002.

Between 1997 and 2000, an estimated $655 million in drug trafficking revenue was eliminated, much of which, of course, would have gone to middle men and transporters rather than the farmers. Some 59,000 jobs linked to the illegal narcotics industry were estimated to have been lost directly and indirectly, which played a part in the national economic slide that began in 1997.[130]

The military-police feud is an old one but has been accentuated by U.S. financing of the drug war. Because the institutions compete for funds, mostly from the U.S., rivalries have developed and disputes over turf have become more cut-throat.[131]

Although the U.S.-led drug war is much maligned in Bolivia and the eradication process has few fans, some have applauded USAID for its work on municipal government.[132] In recent years, however, as MAS influence grew, USAID was not willing to pursue such projects in the Chapare since it did not want to support mayors whom it considered illegal drug producers. Even today it has difficulty deciding which communities to support.[133] Other parties are said to be making inroads into the Chapare to get their hands on alternative development funds. The MNR, MIR, and NFR are working in municipalities with little MAS presence, particularly with businesspeople who receive U.S. support.[134]

U.S. officials routinely point to alternative development in the Chapare as a success. There are positive signs, notably the steep decline in coca production (from 20,000 hectares a few years ago to 4,000). That success hides, however, that overall coca production has not changed significantly in the Andes over twenty years. While Bolivia was a large producer during the early 1990s of coca leaf that was mostly processed into cocaine in Peru and Colombia, the actual growing of coca then moved directly to Colombia. A "balloon effect" is widely acknowledged by economists: the demand for coca is so high that cultivation will move to meet the demand, despite risks. The first regional decline in Andean coca production -- how sustainable it is remains unclear -- occurred only in 2003.

The other coca-growing region, the Yungas, east of La Paz, has become a serious concern for the government and the United States. Under Law 1008 of 1988 (the country's most important anti-drug legislation, which made most coca cultivation illegal), 12,000 hectares can be cultivated every year for traditional domestic uses; this legal coca has been confined to the Yungas. *Cocalero*s there are demanding that an independent survey be taken to determine how many acres are required to meet legal domestic demand and to supply new tea markets, such as China.

Recent satellite observations suggest that more than 23,550 hectares are being grown in the region.[135] The U.S. embassy believes the excess is being sold to drug traffickers.[136] The U.S. has had difficulty establishing a presence in the Yungas, and some believe the region will be the source of future conflicts in the way the Chapare has been until recently.[137]

D. THE ECONOMY

Nowhere in Latin America, with the possible exceptions of Venezuela and Brazil, is free trade so imperilled by popular movements and so questioned by portions of the nation's elite. After nearly twenty years of economic restructuring, with no noticeable improvement in living standards, many Bolivians no longer believe in the promises of free trade and privatisation. But it is unclear to most what a preferable alternative is. Outside of universities and think tanks, the only substitutes are isolationist and inward-looking ideas proposed by radical leaders that have little resonance with most Bolivians. Nevertheless, a majority of Bolivians appears to believe that some

[130] Pacheco Torrico, *En defensa de la racionalidad*, op. cit. Another estimate puts the losses at between $500 million and $700 million. See "Free Market Backlash", *Online NewsHour*, 31 December 2004.
[131] ICG interview, La Paz, 31 March 2004.
[132] ICG interview, La Paz, 1 April 2004. A study by the United States' own internal auditor, however, shows that USAID's work has yielded only modest results in the country. See U.S. GAO, "Foreign Assistance", op. cit.
[133] The U.S. embassy has announced a change in how it promotes alternative income generation in the Chapare, or at least its terminology. It is now encouraging "integral" development rather than "alternative" development, the difference being, it explains, that the region has been mostly rid of coca and there is no need to promote "alternatives" to the crop. The new emphasis will be on continued infrastructure development.
[134] ICG interview, Cochabamba, 27 April 2004.
[135] "La FELCN dice que la coca de los Yungas sirve para fabricar droga", *La Razón*, 13 April 2004.
[136] ICG interview, La Paz, 21 April 2004.
[137] ICG interview, La Paz, 21 April 2004.

kind of state-centric economic model would lead to overall improvements.

Bolivia's economy is largely based on natural resources such as metals (gold, silver, tin, and zinc), logging, natural gas, and oil, as well as agriculture.[138] There is little domestic production of capital goods. Agriculture is only mechanised and large-scale in the eastern lowlands, while the highlands are mostly devoted to small-scale, subsistence farming. Very few products enjoy comparative advantage at the international level, and even those identified by the Inter-American Development Bank as products with potential (lumber and furniture, meat, and jewellery) have limited possibilities.[139] The country has one of the most open economies in Latin America, but exports are concentrated in a handful of products and firms and particularly vulnerable to international shocks.[140] The economic downturn since 2000 has not helped matters.[141]

There has been some promising economic news in the past few months, however. Metal prices have climbed, and a few large mines have, for the first time in years, expanded output and hired new workers. Growth is expected to reach 4 per cent in 2004, buoyed by soybeans and other agricultural exports. Yet, beyond these primary products, there are few positive economic prospects, and many businesspeople argue that foreign investment is necessary to create jobs and growth, and to diversify the economy. One of the biggest problems is lack of investment in technology. Neighbouring Peru is "light years" ahead in that respect, even though it shares many of Bolivia's economic characteristics.[142]

The country faces chronic fiscal difficulties and has been submissive to the IMF on budgetary policy. The Mesa government was able to stave off the worst of what appeared to be a terrible fiscal situation in April 2004, when the deficit was estimated at 8.5 per cent. Due to a renewed stand-by agreement with the IMF in early May and belt-tightening measures, this has been reduced to a still unwieldy 6.5 per cent.[143] Bolivia cannot rely on the international community to resolve its budget deficit forever.[144]

GDP of $7.7 billion in 2003 shared among 9 million people amounted to $855 per capita, the lowest in South America. External debt is $5.3 billion. Open unemployment is above 13 per cent, while over 70 per cent work in the informal economy. The infant mortality rate is Latin America's second highest, and an estimated 800,000 children work. Two thirds of the people live on less than $2 a day and nearly 30 per cent on less than $1 a day. The income of the richest 10 per cent is 90 times greater than that of the poorest 10 per cent.[145] Although increasing numbers of young people are earning university degrees, there are too few jobs, many are frustrated by lack of opportunities. Given that 60 per cent of Bolivians are under 25, the potential for conflict will likely climb as aspirations go unfulfilled.

IFIs such as the World Bank, the International Monetary Fund, and the Inter-American Development Bank have played controversial roles. One analyst called Bolivia a "laboratory" for neo-liberal experiments, where IFIs get "more bang for their buck".[146] A variety of World Bank debt reduction pilot projects have been initiated. Bolivia was a test case for its Poverty Reduction Strategy Program (PRSP) and now qualifies for the Highly Indebted Poor Country (HIPC II) program.[147]

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[138] Its most important exports in 2003 were natural gas ($263.8 million), soybeans ($179.4 million), zinc ($111.3 million), and gold ($89.7 million). See Economist Intelligence Unit, "Bolivia Country Report", May 2004.

[139] ICG interview, La Paz, 13 April 2004.

[140] In 2000, 71.1 per cent of the value of the nation's exports were from ten companies. See Silvia Escóbar de Pabón and Lourdes Montero, *La industria en su laberinto: Reestructuración productiva en Bolivia* (La Paz, 2003).

[141] Part of the problem lies in Bolivia's late response to the Asian crisis of 1997. Many economists felt Bolivia would be protected from any contagion, and hence did not act with sufficient alacrity. This deepened the domestic emergency. ICG interview, La Paz, 1 April 2004.

[142] ICG interview, La Paz, 13 April 2004.

[143] Wealthy Bolivians, unsure of the country's future, have been sending their money out of the country. Since 1999, bank deposits have been shrinking, especially in times of crisis such as in 2002 and 2003. From 1 February 2004 through 14 March 2004, $135 million were removed from bank accounts and sent abroad. Even savings accounts are shrinking. ICG interview, La Paz, 1 April 2004.

[144] For example, public officials in La Paz are receiving their pay twenty days behind schedule, while in other cities, the delays can be up to 30 or 40 days. ICG interview, La Paz, 1 April 2004.

[145] See Juan Forero, "As Bolivian Miners Die, Boys are Left to Toil", *The New York Times*, 24 March 2003.

[146] ICG interview, La Paz, 13 April 2004.

[147] To some degree, the PRSP backfired politically, as it failed to meet the expectations of indigenous communities after widespread national consultations and press reports of a new rural poverty focus. This exacerbated indigenous alienation.

At least partial privatisations of state industries, under IFI tutelage and mainly after 1995, have included state-owned railways, the national airlines, the telephone system, the electric company, and the tin mines of Oruro and Potosí.[148]

The IFIs draw the ire of a broad civil society coalition. Even many sympathetic economists have grown frustrated after years of austerity and fiscal discipline, with scanty results. The common belief is that the IFIs have failed to take adequate account of the social consequences and political fallout of the economically orthodox policies they recommend.

The World Bank has changed its approach somewhat in recent years in response to criticism. For example, it has tried to make its development projects more transparent, and it provides written reports on its projects in Aymara, Quechua, and Guaraní. It has also tried to connect more with civil society organisations and pay closer attention to poverty.[149]

Bolivia also has been selected to be one of sixteen beneficiaries worldwide of the Millenium Challenge Account proposed by the Bush administration and now in law with a first-year fund of $1 billion. The conditions for acquiring this assistance are still unclear but if the fund were divided equally, it could mean a five-fold increase in U.S. aid.

[148] Instead of calling it "privatisation", the government preferred the term "capitalisation", meaning that the sale of state-owned assets would provide much-needed capital to the Bolivian state, supposedly for the benefit of all Bolivians. The early sale of the national oil company resulted in direct payments to individuals.

[149] The World Bank held four meetings with a range of civil society organisations in 2003, in Santa Cruz, Tarija, Potosí, and Amazonia. The meeting in Tarija was held before October 2003, and at that time, grassroots groups did not express concern about the sale of natural gas. ICG interview, La Paz, 6 April 2004.

VI. CONCLUSION

As the social controls based on old corporatist and clientelist arrangements have unravelled, and as the traditionally powerful political parties and labour unions have declined, many Bolivians are uprooted, uncertain, and stirring. Bolivia's democracy is being tested because its parties have little public credibility, traditional labour organisations have fallen from grace, and little government help is available. The divisions can be healed, but it will require commitment from all sides.

The country is in a state of social decomposition with few institutions currently capable of establishing order. If Evo Morales and the MAS do not productively channel this restless energy into systemic support or President Mesa is not able to appease the masses while remaining acceptable to the business community, events could move in unpredictable directions, including widespread protest and violence. With too many actors willing to destabilise and undermine democracy for personal gain, the natural gas issue has taken centre stage in the power struggle.

The rising political party is the MAS, which until a few years ago was a rural social movement, and which the U.S. has consistently maligned for its defence of coca-growers. Despite recent signs of an internal rift, it is showing itself to be a creative, constructive political opposition, with leaders who may be able to negotiate with the country's more polarising figures. The MAS also shelters many frustrations of the indigenous people and has been able to tap into this source for electoral purposes. It can serve as an important, moderate link with indigenous communities. By taking on the role of mediator, the MAS could also expand beyond its *cocalero* base.

Bolivia's very identity is in flux, as its citizens choose from options that narrow down what it means to be Bolivian: indigenous, labour, Camba, mestizo, and so forth. As its people relate less and less to the concept of a unified nation-state, the country could succumb to separatist impulses. If it aims to enshrine its multicultural history in its politics, as President Mesa claims, it will have to do so with cooler heads than those of 2003, and it will have to do so around profoundly divisive issues, such as natural gas, foreign investment, and coca cultivation. If the gas issue, in particular, is not handled well, the possibility of a peaceful, united, and truly democratic Bolivia could be put off for years.

Bolivia's differences are regional, ethnic, and economic. The economic malaise, in particular, is encouraging people to engage in radical forms of struggle, either for or against globalisation. If such divisions are allowed to fester, the country's democracy, which is not safely institutionalised, could come under threat.

The solution to these divisive problems that can only be ignored at the risk of more violent conflict lies in dialogue, moderation, and tolerance. Too many groups are talking past each other without common points of reference. A mixture of decentralisation and pragmatic recognition of traditional customs and authorities may be able to satisfy indigenous as well as *media luna* business demands without undermining the central government and the unity of the nation-state.

President Mesa has certain advantages that recent presidents have not enjoyed. First and foremost, he is very popular. Although many foes want his downfall and may even be plotting to achieve it, they are doing so mostly out of motives of personal gain, which are not shared by the larger population. The middle class is still on edge from the events of 2003 and supports Mesa because he offers stability. Many Bolivians may welcome a firm hand against protesters precisely because of last year's violence.

The political parties should adopt more democratic internal practices so that they are accountable to their supporters and better able to represent them. Without such changes, it is hard to imagine them regaining popularity or even relevance in the policy-making arena anytime soon.

Labor unions such as the COB and the CSUTCB must abide by the current political and economic context to stay relevant. Fundamentalist rhetoric not only falls on many deaf ears and marginalises workers from the policy-making process, but also reopens the nation's wounds and hinders a reasonable solution to complicated issues.

Given the fragility of the political situation and the historical propensity of *cocaleros* to engage in protest, it is important to avoid antagonising them unnecessarily. The U.S. could be helpful by accommodating their demands for a new independent study to determine how much coca is needed to satisfy traditional uses and supply new legal markets.

Bolivians must decide in a democratic fashion whether gas will be sold and on what terms. The 18 July 2004 referendum provides just such an opportunity to establish the basic parameters of future legislation. The government is right to educate the population about what benefits gas can bring -- the debate is too often manipulated by dogmatic and populist figures.

Natural gas should be sold on terms that clearly and transparently promote the economic and social development of Bolivia as a whole. Guarantees should be made that the country's least privileged citizens receive the most benefits from any deal. A clear strategy is needed for reducing poverty by half during the next decade, with definition of the milestones along that path as well as a joint domestic and international investment plan to achieve this objective.

Quito/Brussels, 6 July 2004

APPENDIX A

MAP OF BOLIVIA

Map No. 3875 Rev. 2 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section

APPENDIX B

GLOSSARY OF ACRONYMS

AND	Nationalist Democratic Action
CAINCO	Chamber of Industry, Commerce, Services, and Tourism of Santa Cruz
CEPB	Confederation of Private Businesspeople of Bolivia
COB	Bolivian Workers' Central
COMIBOL	Bolivia Mining Corporation
COR	Regional Workers' Central
CSUTCB	Confederation of Peasant Workers of Bolivia
FSTMB	Mineworkers Federation of Bolivia
MAS	Movement to Socialism
MIP	Pachakuti Indigenous Movement
MIR	Revolutionary Left Movement
MNR	Nationalist Revolutionary Movement
MRTK	Tupak Katari Revolutionary Movement
NPE	New Economic Policy
NFR	New Republican Force
PRSP	Bolivian Poverty Reduction Strategy
UDP	Popular Democratic Unity
UN	National Unity Front
UNDP	United Nations Development Program
USAID	United States Agency for International Development
YPFB	Yacimientos Petrolíferos Fiscales Bolivianos (the former state oil company)

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.icg.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

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Colombia's Elusive Quest for Peace, Latin America Report N°1, 26 March 2002 (also available in Spanish)

The 10 March 2002 Parliamentary Elections in Colombia, Latin America Briefing, 17 April 2002 (also available in Spanish)

The Stakes in the Presidential Election in Colombia, Latin America Briefing, 22 May 2002 (also available in Spanish)

Colombia: The Prospects for Peace with the ELN, Latin America Report N°2, 4 October 2002 (also available in Spanish)

Colombia: Will Uribe's Honeymoon Last?, Latin America Briefing, 19 December 2002 (also available in Spanish)

Colombia and Its Neighbours: The Tentacles of Instability, Latin America Report N°3, 8 April 2003 (also available in Spanish and Portuguese)

Colombia's Humanitarian Crisis, Latin America Report N°4, 9 July 2003 (also available in Spanish)

Colombia: Negotiating with the Paramilitaries, Latin America Report N°5, 16 September 2003 (also available in Spanish)

Colombia: President Uribe's Democratic Security Policy, Latin America Report N°6, 13 November 2003 (also available in Spanish)

Hostages for Prisoners: A Way to Peace in Colombia?, Latin America Briefing, 8 March 2004 (also available in Spanish)

Venezuela: Headed Toward Civil War?, Latin America Briefing, 10 May 2004 (also available in Spanish)

Increasing Europe's Stake in the Andes, Latin America Briefing, 15 June 2004 (also available in Spanish)

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