Multilateral Debt Relief Initiative cancelled $1.5 billion in debt to the World Bank, an action equivalent to a budget support of $43 million annually over the next 35 years. Morales's government sought future programs with the World Bank, such as the $140 million in support of government goals to foster social inclusion through fiscal year 2008, and a $30 million interest-free credit to improve services for Bolivia's urban poor and research projects on regional autonomy and natural resource management.[9] Since Morales's inauguration, the Inter-American Development Bank has approved 22 new projects, supporting multiple aspects of governmental reform and socio-economic development with a total value exceeding $48 million.

Future Balancing Act

For pragmatic reasons, Evo Morales will most likely continue to orchestrate Bolivia's international relations to obtain material support for Bolivia's needs and for his own political image without surrendering to Chavez's political direction. The latter's support has failed to enlist Morales as a tool for extending Chavez's anti-U.S. politics into the heart of South America, because Morales has repeatedly demonstrated a pragmatic independence intent on preserving most of his options, especially those concerning the United States.

He will continue to court both anti-U.S. coalitions and the United States simultaneously. His need to support short-term social and economic priorities as well as long term access to trade outlets and investment capital, all critical to his political priorities, demand a careful balancing of forces and influences. He will continue to respond to domestic constituencies that look favorably on a relationship with Venezuela for ideological and political reasons and accept Venezuelan technical support, especially in the oil and gas industries. At the same time, he seems to avoid open conflict with the United States and other international sources of capital and donor support that could make him fully dependent upon the relationship with Chavez.

Such a course makes sense, especially in economic terms. Depending solely upon ALBA trade outlets to expand Bolivia's exports at the expense of other trading partners would jeopardize Bolivia's objective of expanding its trade by 58% by 2009. Of Bolivia's $3 billion in exports, ALBA countries bought only 6% of Bolivia's exports in 2005. Meanwhile, other countries in the hemisphere – whether they adopt free trade agreements with the United States or not – bought 78% of Bolivia's exports.

Venezuela and its allies cannot provide adequate amounts of foreign direct investment to achieve the Bolivia's annual growth rate goal of 6% through 2011. Venezuela generated only 8% of the investment flowing into Bolivia since 2002, while the U.S. investment stood at a full 25% share.

Issues For Consideration

- Morales should also be especially motivated by the need to sustain adequate investment in the development of Bolivia's natural gas reserves, led almost entirely through $3 billion in private investment since privatization of the state company in 1996. Indeed, Venezuela's inability or unwillingness to make the necessary investment to sustain its own current and future oil production should warn Morales that sustaining the boom in Bolivia's natural gas production will require more than politically motivated one-year commitments.
- In terms of multilateral lending support, Morales will also do well to retain his government's broader international ties and not fall back on the Banco del Sur, an entity tied closely to Venezuela's international reserves (and the global price of oil). The Bank's total capital allocation of $7 billion is 40% less than the amount lent to borrowers by the World Bank in 2006 alone. Retaining a working relationship with the United States, including especially cooperating sufficiently in the counter-narcotics area to prevent designation as having "failed demonstrably," improves the chances that Bolivia can maintain access to far more robust sources of investment, trade and development assistance than potentially attainable through the "Bolivarian" option.
- While U.S. policy makers may be tempted to avoid engagement with Bolivia in the short term due to its political and ideological contacts with Venezuela and Cuba, the long term interests of the United States – especially those related to counter-narcotics cooperation – are best served by a policy of constructive engagement to sustain a relationship with Bolivia in mutually beneficial areas.
- U.S. engagement activities that benefit Bolivia help strengthen those sectors and voices within the Bolivian government that seek to strengthen relations with the United States. Therefore, U.S. policymakers should actively seek to engage and help support those pro-U.S. sectors.
- Regional defense and security specialists should take advantage of the Morales's government's willingness to strengthen regional relations designed to create consensus solutions to long-standing security issues and challenges.
- International actors committed to effective democratic governance, including the United States, have a fundamental interest in continuing interaction with Bolivian institutions and organizations that uphold democratic values. Efforts to engage the Bolivian government are positive steps to maintain and improve contacts at all levels of its government and society.

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REGIONAL INSIGHTS

#1, August 8, 2007

Prospects for Future U.S. – Bolivian Relations

By Dr. Richard D. Downie and Dr. Earl Richard Downes

Abstract *As a presidential candidate Evo Morales strongly opposed what he called U.S. neo-liberal imperialism. But once elected, he has adopted a more pragmatic approach, steering between populist rhetoric with a strong "Bolivarian" flavor and quiet collaboration with the United States. The authors argue that this pragmatism results from a conscientious effort to keep Bolivian and Bolivians' interests at the forefront of his administration. Morales' governing style provides an opening for improving bilateral relations and enhanced cooperation on issues of mutual concern.*

Introduction Has Bolivia entered into an ideological and political anti-U.S. partnership with Venezuela and Cuba founded on what President Hugo Chavez calls "21st Century Socialism"? Or can the United States still maintain constructive and cooperative relations with this traditional ally currently undergoing social and political transition? Not since the heights of the Cold War have U.S. concerns about the ideology of Bolivia's government been so intense. Current U.S. diplomats have protested the "demagoguery" and "erosion of democracy" occurring in Bolivia under President Evo Morales, echoing comments by their predecessors in 1953 warning of "strong concerns" that Bolivia was being "dominated by Communist influences."[1] Candidate Morales promised to become a "nightmare for the United States" with his opposition to neo-liberalism and imperialism. Yet, as president, Morales has adopted a more pragmatic approach that allows collaboration with the United States while accepting significant amounts of assistance from Venezuela, Cuba and other leftist governments in the region.

The Challenges for President Morales

Morales is a 47-year old coca growers' union leader who was elected to the Bolivian presidency in December, 2005, with 54% of the vote. Now in his second year in office, Morales has promised a revolutionary transformation of Bolivian society and an accelerated restructuring of his land-locked nation of 9 million into a land of "dignity and good living." But to do so, he must find the right formula to address the nation's dizzying socio-economic challenges. Bolstered by higher natural gas production, Bolivia is enjoying satisfactory economic growth, a fiscal surplus, and historically high levels of international reserves, though more than half the population lives in poverty. High rates of disease, malnutrition, and infant mortality, coupled with rampant social and economic inequalities, have provided fertile ground for political activism.[2]

Morales must also deal with fissures created by a long-term crisis of political legitimacy. Bolivia has experienced over 200 coups and countercoups and promulgated 18 constitutions since independence. In the last twenty-five years, the country has suffered a gamut of political ideologies, and political turmoil in 2003 opened the door for Morales' election.

Domestic Divisions Challenge The Bolivarian Option

Domestic Divisions Challenge The Bolivarian Option President Morales is a political newcomer but also a shrewd negotiator. He leveraged the discontent of coca growers into a national political power, transforming himself from a carnival musician to labor leader and then – in 1997 – congressman. Morales built his Movimiento al Socialismo (MAS, Movement Toward Socialism) party into a national force with the support of unions representing coca growers and other rural laborers and by appealing to the indigenous community. His presidential campaign's promises to abolish illiteracy, decriminalize coca, nationalize Bolivia's natural resources, and "refound" Bolivia through a constitutional assembly struck a cord with Bolivian voters. The obvious similarities with the approach used by Venezuela's President Chavez have caused some to conclude that Morales is adopting a "Bolivarian" model to reach his goals.

A major litmus test for his approach will be the product of the 255-member Constituent Assembly installed on August 6, 2006, to produce a new constitution within a year, now extended until December 14, 2007. Indigenous activists at the Assembly proposed creating a self-governed "Territories of Community of Origin," indigenous communities living in their own cultural traditions. This issue is significant; during the campaign Morales turned his back on a largely mestizo way of life to herald his Aymaran ancestry and make indigenous rights a cornerstone of his political appeal. Failure to include such a provision in the constitutional revisions could have strongly negative political repercussions.

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Challenging President Morales' new approach, agro-business and community business leaders from the nation's eastern provinces have pressed for increased autonomy for their own resource-rich territories. Working from their stronghold in Santa Cruz province, which produces almost half of Bolivia's tax revenues, protesters have mounted massive demonstrations in favor of increased provincial power and retention of local control over tax revenues. Morales has been able thus far to diffuse violence related to the protests, but disappointment with the Constituent Assembly's deliberations could escalate into large-scale confrontations with unpredictable results.

Regardless of his electoral majority, if the Morales administration cannot effectively balance the interests of the disparate groups that brought him to power and address problems the majority of the Bolivian people want solved, his government may be voted out of office at the next election. Alternatively, considering Bolivia's tumultuous history involving his recent predecessors, Evo Morales conceivably could even be forced out before his term ends. In short, his government must respond to the pressing social, security and economic needs of its citizens, and international actors can make important contributions toward the Morales government's success or failure.

Evidence of Morales' pragmatism can be seen on two levels. First, he pledged to "finish off the colonial state," nationalize and industrialize the nation's natural gas, petroleum, mineral and forest resources, make public investments in the economy, end latifundismo, and support a constitutional parliament to bring about the nation's "second independence." However, he also left the door open for the private sector by offering private investors the opportunity for profit – but only if based on the "principle of balance" and the creation of benefits for the state and people derived from the use of natural resources. Second, Morales's pragmatism has been especially obvious in his efforts to garner advantage with major international actors.

> ***"Morales strains to redefine relations with the United States and the international investor and donor community, including Venezuela and Cuba."***

Foreign Relations in Context

President Morales' approach to foreign relations has fueled competing judgments about his political orientation. On the one hand, his pragmatism has been apparent in efforts to deal with Venezuela and the United States. Morales hinted of an eclectic approach to international economic and political ties at his inauguration on January 22, 2006, even while reaffirming his anti-neoliberal message. Meanwhile, notions that President Morales is simply an indigenous version of Hugo Chavez gained strength from Venezuela's support for the Morales administration and by Morales's own actions. Morales's campaign reportedly received financial and moral support from Chavez.[3]

After the inauguration, Morales and Chavez undertook a marathon of signing cooperation agreements with important commercial and social benefits for Bolivia and increasing political stature for Chavez.[4] Morales soon traveled to Havana to sign on to Chavez's pet anti-U.S. projects, a comprehensive social and economic pact known as the "Bolivarian Alternative for the Peoples of the Americas" (ALBA, Bolivarian Alternatives for the American People), along with its accompanying Peoples' Trade Agreements (TCP, People's Commerce Treaty). Both seek creation of an "integrated" Latin America under Chavez's leadership that would counter U.S. efforts to create a Free Trade Area of the Americas.

By May 2007, Venezuela's public commitments Bolivia constituted a grab-bag of benefits, including:[5]

- $1.5 billion for energy projects
- Creation of a joint state-owned mining corporation
- A $23 million investment to industrialize products based on coca, quinine, dairy goods, honey, wood, and leather, and to promote tourism
- $1.4 million for a soybean processing plant
- Military-to-military cooperation
- $50 million in financing for micro-enterprise development
- Financial support through participation in the Banco del Sur (Bank of the South)
- $15 million in aid for flood relief in Eastern Bolivia
- Exchange of agricultural products for energy products.

Morales also increased ties with Fidel Castro's Cuba, showing his willingness to adopt some elements of the Bolivarian model as his own. Morales's first visit after the election victory was with Fidel in Havana; subsequently, Cuban support in Bolivia included 740 health specialists, an unidentified number of people in literacy programs, plus a package of 6,000 scholarships to study medicine in Cuba.[6]

Morales has reimbursed Venezuelan and Cuban through political rhetoric designed to warm the hearts of his donors, frequently questioning President George W. Bush's motives and responding in kind to criticism by U.S. officials. He regularly shares the podium with Cuban and Venezuelan dignitaries, stating that "neither Hugo nor Fidel stands alone," asking regional leaders to help him "curb the arrogance of the empire."

Retaining Political and Economic Options?

Morales strains to redefine relations with the United States and the international investor and donor community, including Venezuela and Cuba. While Morales has rhetorically indicated his intention to maintain "an open and sincere" dialogue and to strengthen U.S.-Bolivian relations, in practice his government has registered little progress on anti-narcotics cooperation, economic assistance, and U.S. trade.

The Morales government has maintained a working dialogue with the United States on the single most contentious issue, how to control the cultivation of coca. U.S. eradication and cultivation efforts conflict directly with Morales's political base. In 2004, Morales negotiated an agreement with the caretaker president that permitted each coca growing family to produce coca legally on a 1,600 square meter plot, while voluntarily eradicating plantings above that figure. This lead to an estimated 40% increase in legal coca production. Morales's proposed solution of "yes to coca and no to cocaine" would allow an additional expansion of legal coca cultivation from 12,000 to 20,000 hectares, for use in producing baking flour, soap, liquor, candy, toothpaste and coca tea. In March, 2007, the State Department expressed its concern about "the decline in Bolivian counter-narcotics cooperation since October 2005," and the 2006 eradication levels being "the lowest in 10 years," while seeking to build on positive results in decommissioning labs and seizing cocaine. The Report ominously warned that it will "review Bolivia's performance in these specific areas within 6 months," implying Morales risks the label of "failing demonstrably" to meet U.S. anti-narcotics expectations (formerly known as "decertification").[7] Barring a Presidential determination, Morales could lose all U.S. assistance and be subject to other sanctions. Nevertheless, cooperation and negotiation continues.

Programmatic requirements have reduced other U.S. assistance to Bolivia. Counter-narcotics and general economic and social development assistance is projected to total US$ 114 million for FY 2008. Meanwhile, Bolivia remains eligible for an allocation of US$ 598 million through the Millennium Challenge Corporation (MCC). Although the Morales government has endorsed the proposal, it has yet to name a technical team to advance the MCC process.

Destination of Bolivian exports (2005):

6%	ALBA countries: Cuba, Nicaragua, Venezuela
78%	Non-ALBA Hemispheric countries: Argentina, Brazil, Canada, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, USA
16%	Other

Despite the fact that Morales initially declared that he would "never" negotiate a free trade agreement with the United States, he has recently moderated his stance.[8] The Morales government has also sent ambiguous signals regarding the potential signing of a free trade agreement with the United States. Under the Andean Trade Promotion and Drug Eradication Act of 2002, Bolivian products have been entering the United States duty-free in exchange for cooperation in the anti-narcotics efforts. Congress extended the law's terms through February, 2008, to allow for additional time to conclude a trade agreement with the United States.

Beyond retaining independence in his relations with the United States, Morales has conducted a vigorous diplomacy with neighboring states without injecting anti-U.S. rhetoric into the process or adopting the Bolivarian model of building up armed forces and militias to challenge neighboring states or to defend against mythical invasion plans from the North. Morales has made a major effort to improve Bolivia's relations with its neighbors, even attending the inauguration of Chilean president Michelle Bachelet – the first Bolivian president to attend a Chilean presidential inauguration since 1978. His government approved a historic visit by the Bolivian army commander to Chile and a corresponding visit of the Chilean army commander to La Paz. His defense minister welcomed assistance from Argentina's Ministry of Defense in terms of promoting regional peace, and Paraguay's foreign minister and Armed Forces commander traveled to La Paz to sign several cooperation agreements. A seminar sponsored by the Minister of Defense and the Chief of the Armed Forces that involved the U.S. Center for Hemispheric Defense Studies also attests to the willingness to sustain U.S. ties on politically sensitive defense policy.

Morales' recommendations to the Constituent Assembly on revising the roles and missions of the armed forces have shown a similar eclectic approach. Morales has called for a "reformulation" of the military's involvement in economic, social, and political roles for the armed forces similar to those recently assumed by Venezuela's armed forces. Morales proclaimed the need for a "structural transformation" to overcome the "collapse of the exclusive and denigrating neo-liberal model" of the previous 20 years. However, the Minister of Defense's February 8, 2007, recommendations to the Constituent Assembly focused on security – not social – missions: controlling drug trafficking, terrorism, smuggling, and other emerging threats – a far cry from Cuba's Prensa Latina's reporting of a "new military doctrine."

Morales's actions with respect to the major international oil companies operating in Bolivia have also displayed his pragmatism within nationalistic parameters. Following Chavez's get-tough stance, Morales announced the "nationalization" of the country's oil and natural gas companies on May 1, 2006, and ordered a dramatic takeover by Bolivian troops. However, as the potential consequences elicited angry responses from Brazil, Spain and the owners of international investment enterprises, this approach was reformulated, and negotiations led to changes in ownership percentages by Yacimientos Petroliferos Fiscales Bolivianos, (YPBF, the state energy company) and an increase in profit sharing revenues in Bolivia's favor to 82% in the largest fields and 60% in the smaller fields. Morales apparently found that such actions create an unpredictable investment climate and scare away much-needed foreign investors.

Finally, Morales's relationships with international financial institutions also exhibit a pragmatism consistent with Bolivia's need for additional resources to overcome its socio-economic deficits. Bolivia uses a World Bank support grant of $200,000 to support the Constituent Assembly's secretariat, and a $212,000 grant to strengthen the Congressional Budget Commission. The

[1] Javier Blas and Richard Lapper, "Watchdog warns of 'Dangerous' trend on energy," *The Financial Times* (May 3, 2006); Alex Kennedy, "Bush Warns of 'Erosion of Democracy' in Venezuela, Bolivia," www.bloomberg.com, May 22, 2006.

[2] See letter, H.E. Mario Gustavo Guzmán Saldaña, to Eduardo A. Gamarra, March 8, 2007, posted at http://www.cfr.org/publication/bolivia-letters.html; World Bank, *En Breve*, "Bolivia Poverty Assessment: Establishing the Basis for Pro-Poor Growth," May 2006, p. 1. http://siteresources.worldbank.org/INTENBREVE/Newsletters/20943040/89-MAY06-BoliviaPA.pdf

[3] All figures are in U.S. dollars. Chavez promised a $30 million donation for ''social projects,'' later changed into a US$100 million standing credit. Interviews in La Paz, October 2005, International Crisis Group, "Bolivia at the Crossroads," - No 15, December 8, 2005, p. 14.

[4] Simon Romero, "Venezuela Rivals U.S. Aid in Bolivia," *New York Times* (February 23, 2007): A3.

[5] Ibid.

[6] Various official and unofficial reports indicate that there are 1,700 Cuban doctors in Bolivia. See Ana Kovac, "Cuba & Bolivia Sign Cooperation Accords in Health," *Medic Review*, 7 (#1, March-April, 2006): 25.

[7] U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, "International Control Strategy Report: Volume 1, Drug and Chemical Control, "March 2007, pp. 100-104.

[8] U.S. Congress, Congressional Research Service, "Bolivia: Political and Economic Developments and Relations with the United States," January 26, 2007, p. 21.

[9] International Monetary Fund, *IMF Country Report* No. 06/270, July 2006, p. 52; World Bank, International Development Association, International Finance Corporation, *Interim Strategy Note for the Republic of Bolivia*, October 24, 2006, p. ii.