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## **Bolivia: Political and Economic Developments and Implications for U.S. Policy**

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# Bolivia: Political and Economic Developments and Implications for U.S. Policy

## Summary

In the past few years, Bolivia has experienced extreme political unrest resulting in the country having three presidents since 2003 and the election of a fourth at the end of 2005. All recent Bolivian presidents have been unable to resolve continuing discord over issues relating to the exploitation of Bolivia's natural resources, coca eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. Evo Morales, elected on December 18, 2005, was inaugurated on January 22, 2006.

Bolivia is one of the poorest countries in Latin America, with a sizeable and active indigenous population, a long history of coca cultivation, and weak political institutions. Despite these challenges, the country has made some social and economic progress over the past several decades. Coca cultivation has decreased from its peak production years in the 1990s, but is still a source of conflict between the government and coca growers.

On December 18, 2005, a record 85% of the Bolivian electorate voted in elections that were deemed to be free and fair. Evo Morales, an indigenous leader of the leftist Movement Toward Socialism (MAS) party, won a convincing victory in the presidential election with 54% of the votes as compared to 29% for former president Jorge Quiroga of the rightist Social and Democratic Power Party and 8% for cement magnate Samuel Doria Medina of the center-right National Unity Front (UN). The MAS won control of the lower chamber of the Bolivian Congress, 12 of 27 seats in the Senate, and two of the country's nine governorships.

President Morales has taken some positions that could complicate U.S. relations with Bolivia. Morales, a former leader of the coca growers union, has resisted U.S. counternarcotics policy in the region and vowed to decriminalize coca growing. Morales has also pledged to nationalize Bolivia's oil and gas sector, but has assured investors that his government will not confiscate foreign assets.

U.S. interest in Bolivia centers on its role as a coca producer and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries in the Andes. Some observers have criticized this focus for neglecting economic and social development issues, but the State Department defends it as necessary to promote licit economic development and democracy. The other potential U.S. interest in Bolivia involves its natural gas reserves, which are the second-largest in Latin America, after Venezuela.

For additional information, see CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette; CRS Report RL33163, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Carolina Navarrete-Frias; and CRS Report RL32770, *Andean-U.S. Free Trade Negotiations*, by M. Angeles Villarreal. This report will be updated as events warrant.

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# Bolivia: Political and Economic Developments and Implications for U.S. Policy

## Background

Bolivia is a land-locked country approximately three times the size of Montana. As a result of the War of the Pacific (1879-1883) with Chile, Bolivia lost part of its territory along the Pacific Ocean. Bolivia has preferential rights of access to the Chilean ports of Antofagasta and Arica and the Peruvian port of Ilo, but it has no sovereign access, a source of lingering resentment among Bolivians. The population of 8.4 million people is the most ethnically diverse on the continent of South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 30% of the Bolivian population are Quechuan, 25% are Aymaran, 30% are mestizo (mixed), while 15% are of European origin. A 2001 census recorded that about 62% of Bolivians 15 years of age and older identified themselves as indigenous. Sixty-three percent of Bolivians live below the poverty level with 34.3% earning less than \$2 a day, and the average per capita annual income was \$960 in 2004, according to the World Bank.

Bolivia has been a major producer of coca leaf, the main ingredient in the production of cocaine. Although coca leaf is legal in the country for traditional uses and is grown legally in some parts of the country, its cultivation for illegal purposes increased in the 1970s and 1980s. Cultivation levels have decreased to half of the levels of the 1990s in response to government policies to eradicate illicit production, according to the State Department. These policies, and the way in which they have been implemented, have caused social unrest and economic hardship in the two main coca-growing regions. One consequence has been the rise of coca growers trade unions and an associated political party, the Movement Toward Socialism (MAS), which now holds the political leadership of many municipalities as well as seats in the national legislature. Its leader, Evo Morales, finished a close second in presidential elections in 2002 and was elected president on December 18, 2005.

## Political Conditions

Bolivia has had five presidents since 2001 when Hugo Banzer handed the reins to Jorge Quiroga due to health reasons. Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, fifteen months after he was elected. Succeeding him as president was his former vice president, Carlos Mesa, a popular former television journalist, historian, and political independent. President Mesa resigned in favor of Eduardo Rodríguez, head of the Supreme Court, in June 2005 in response to continuing street protests that at times paralyzed the country. The 2003 change in leadership came about after months of

protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society, especially in response to government budget cutbacks and proposals to raise taxes. The final spark that immediately preceded Sánchez de Lozada's resignation was his plan to export natural gas via a port in Chile, an historic adversary of Bolivia.

In 2002, Gonzalez Sánchez de Lozada of the centrist National Revolutionary Movement (MNR) won the presidential election with 22.5% of the vote. Evo Morales of the leftist Movement to Socialism (MAS) who ran on a platform critical of free-market policies and advocating indigenous rights, came in second with 20.9% of the vote. As neither achieved a majority, the Congress, in accord with provisions of the Bolivian constitution, chose Sánchez de Lozada as President.<sup>1</sup>

Sánchez de Lozada faced many political and economic challenges upon taking office. His small margin of victory, by only 43,000 votes over Morales, and his unstable governing coalition did not provide him with a governing mandate. In order to secure an International Monetary Fund (IMF) agreement, with its strict budget deficit targets, he proposed unpopular measures, such as tax increases, that led to popular discontent. In February of 2003, violent worker demonstrations erupted at the same time as a police strike, the latter protesting reduced resources under the President's budget proposal. Worker protests, combined with the police strike, and student demonstrations, led to violent clashes with the military that left 31 people dead. Protests continued at varying levels during the summer of 2003, growing in strength throughout the country as two Indian leaders became involved: Evo Morales of the MAS and Felipe Quispe of the Bolivian Coordinator of Syndical Unions and Campesino Workers (CSUTCB) and an opposition legislator.

The trigger for the most violent protests in October 2003 was a presidential proposal to export natural gas via pipeline to Mexico and California by way of Chile. This sparked nationalist sentiment that recalled not just Bolivia's loss in the War of the Pacific, but past exploitation of the country's natural resources of silver and tin by foreign business interests. Just as most Bolivians do not believe that they benefitted from these earlier ventures, many present-day protesters believe that they will not benefit from the expected natural gas revenues, a sentiment fueled by a growing anti-globalization attitude.<sup>2</sup> These events occurred against a backdrop of growing opposition to U.S. policy that stressed coca eradication, affecting approximately 50,000 growers who make their livelihood from both its licit and illicit

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<sup>1</sup> The Bolivian electoral system stipulates that if no candidate receives a majority of the popular vote, the congress must decide between the top two candidates. See Robert R. Barr, "Bolivia: Another Uncompleted Revolution," *Latin American Politics and Society*, Fall 2005.

<sup>2</sup> Larry Rohter, "Bolivia's New Leader Takes Over a Chaotic and Angry Nation," *The New York Times*, Oct. 19, 2003; and Larry Rohter "Bolivian Peasants' 'Ideology of Fury' Still Smolders," *The New York Times*, Oct. 20, 2003.

cultivation. Other observers argued that Bolivian resentment had grown in response to the role of the IMF's requirements for additional loans.<sup>3</sup>

## Mesa Administration

Gonzalez Sánchez de Lozada was succeeded by Vice President Carlos Mesa, a newcomer to politics and an independent with no formal political party as a base of support, although the parties comprising the former government pledged their support for the new administration. Opposition party leaders, such as Evo Morales and Felipe Quispe, initially gave the new government some breathing room, but they both became vocal critics of Mesa's policies by March 2005.

Mesa appointed a new cabinet, also largely of political independents, and demonstrated a sensitivity to indigenous issues. He created the cabinet post of Minister for Indigenous Affairs and carried out his promise for a referendum on the export of natural gas. Acceding to demands of indigenous and opposition groups, he also overturned a 1997 decree that had given oil companies ownership of the natural gas they extracted. He also shepherded reform legislation through Congress that allowed more popular participation in elections. Further, he announced plans for a constituent assembly to consider a new constitution.

An initial test of party popularity and strength was the municipal elections in December 2004, the first elections since the resignation of Sánchez de Lozada. The elections were the first to benefit from passage of a new law that was designed to increase the participation of representatives of civil society and indigenous groups. The new law ended the requirement that only officially registered political parties could field electoral candidates. Bolivia's traditional political parties (MNR, MIR, AND) largely had been discredited in the eyes of the public. This left the MAS, the party identified with representing indigenous and coca growing groups, as the potential beneficiary in municipal elections. The MAS already controlled more than 300 municipal council seats prior to the election, and its leaders predicted that it would pick up another 250 in December.<sup>4</sup> In fact, the MAS did well, but did not pick up nearly as many seats as they predicted. However, what became apparent from the results is that the traditional parties had lost popular support in favor of independent candidates. The MAS, the most-voted-for party, won 15.8% of the vote, and its candidates were elected town councillors in most municipalities.<sup>5</sup>

Despite taking several proactive measures, President Mesa, like his predecessor, proved unable to resolve continuing discord over several key issues facing Bolivia. Those issues related to the exploitation of Bolivia's natural resources, coca

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<sup>3</sup> Jeffrey Sachs, "Call It Our Bolivian Policy of Not-So-Benign Neglect," *The Washington Post*, Oct. 26, 2003; Emad Mekay, "Politics: Activists Trace Roots of Bolivian Turmoil to IMF," *Inter Press Service*, Oct. 20, 2003.

<sup>4</sup> Interview, MAS Mayor of Villa Tunari, Felipe Cáceres, May 26, 2004.

<sup>5</sup> "Bolivia: As Big Parties Shrivels, New Actors Enter the Stage," *Latin American Weekly Report*, Dec. 7, 2004, and "Bolivia: Traditional Parties Do Badly in Municipal Elections," *BBC Monitoring Americas*, Dec. 9, 2004.

eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. Gradually, Mesa's popularity fell in many parts of the country. By 2005, with his lack of political experience, a highly mobilized opposition, and limited party support, the challenges to Mesa's success became insurmountable.<sup>6</sup> In June 2005, Mesa resigned in favor of Eduardo Rodriguez, head of the Supreme Court, in response to continuing street protests and road blockages that at times paralyzed the country.

## **Rodriguez Administration**

Upon taking office in June 2005, President Rodriguez promised to convoke early presidential and legislative elections, which were then not scheduled to occur until June 2007. Rodriguez scheduled elections for December 4, 2005, but had to overcome both congressional and legal challenges in order to fulfill that promise. Initially, some lawmakers from parties likely to lose seats in the December elections fought to maintain their seats by arguing that the early elections should only be held to select a president and vice president. After the lawmakers reluctantly agreed to allow both legislative and presidential elections to occur on December 4, 2005, the Bolivian Constitutional Court ruled in late September that congressional seats had to be reallocated prior to the elections to reflect the country's 2001 census, rather than the 1991 census. This decision prompted fierce opposition from leaders representing highland departments (Potosi, Oruro, and La Paz), predominantly composed of indigenous communities that support Evo Morales and stood to lose seats to the more prosperous eastern departments.

On November 1, 2005, President Rodriguez issued a decree that was subsequently ratified by the Congress to resolve the reallocation controversy. To do so, Rodriguez invoked his presidential authority to guarantee universal suffrage under the Inter-American Convention on Human Rights. The decree stipulated that three (out of 130) congressional seats would be shifted to Santa Cruz and one to Cochabamba at the expense of La Paz, Oruro, and Potosi, which had declined in population since the last census. After these issues were resolved, elections were pushed back two weeks to December 18, 2005.<sup>7</sup>

## **December 2005 Elections**

The three most popular candidates in the December 18, 2005, presidential elections were former president Jorge Quiroga, representing the Social and Democratic Power Party, a new center-right political party; Evo Morales, an indigenous leader of the Movement Toward Socialism (MAS) party and a former leader of the coca growers union; and Samuel Doria Medina, a cement magnate standing for the center-right National Unity Front (UN) party. In early December, Morales led the polls with approximately 33% of popular support, compared with Quiroga (28%) and Doria Medina (10%), but most analysts predicted that no

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<sup>6</sup> Kate Joynes, "President's Popular Approval Ratings Fall as Bolivian Crisis Continues," *WMRC Daily Analysis*, Mar. 21, 2005.

<sup>7</sup> "Country Report: Bolivia," *Economist Intelligence Unit*, Nov. 2005.

candidate would garner a majority in the general election and that the election would therefore be decided in the Bolivian Congress.<sup>8</sup>

On December 18, 2005, a record 85% of the Bolivian electorate turned out to vote in elections that were deemed to be free and fair. Evo Morales won a convincing victory in the presidential election with 54% of the votes cast as compared to 29% for Quiroga and 8% for Doria Medina. In the legislative elections, the MAS became the first party since Bolivia's return to democracy in 1982 to win both the presidency and a majority in the lower chamber of the Congress. The MAS has 72 seats in the 130-seat chamber. In the Senate, MAS now has 12 of the 27 seats while Quiroga's Social and Democratic Power Party has 13 and the UN and the MNR have one each. On January 18, 2005, an MAS senator won the presidency of the Bolivian Senate. While the MAS enjoys a majority in the lower house of the Congress and the presidency of the Senate, it does not have the votes to force changes to the Bolivian constitution and will have to negotiate, especially in the Senate, in order to enact Morales' legislative agenda.<sup>9</sup>

Although some analysts were forecasting a Morales victory in the days leading up to the December elections, few predicted that he would win by such a decisive margin. The large victory margin proved that Morales had broadened his support beyond rural, indigenous, union, and lower-middle class voters. He achieved significant support in urban areas and higher than expected support in the conservative eastern provinces. Some factors that may have led to Morales' victory include the perception that neo-liberal economic reforms had not benefitted the majority of the Bolivian population; the corruption of the traditional parties that had ruled since 1982; and the tough, nationalistic positions he has taken against foreign investors and U.S. counter-narcotics programs.

The December elections were also significant because they included the first direct election of governors (prefects) in Bolivia. Department governors have traditionally been appointed by the executive and have not been held directly accountable to citizen's demands. Although MAS dominated the presidential and legislative elections, candidates from traditional or the new center-right parties won most of the gubernatorial races. Some analysts fear that conflicts may arise between the Morales government in La Paz and departmental governments regarding the distribution of resources and political power. These conflicts may be particularly pronounced in the resource-rich areas around Santa Cruz if and when leaders in that region renew their calls for some semblance of regional autonomy.<sup>10</sup>

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<sup>8</sup> "New Poll Puts Evo Five Points Ahead," *Latin News Daily*, Dec. 5, 2005.

<sup>9</sup> "Morales Victory in Bolivia Confirmed," *Agence France Presse*, Dec. 21, 2005; "Bolivia: Final Election Results," *Latinnews Daily*, Jan. 5, 2006.

<sup>10</sup> "Bolivia at the Crossroads: The December Elections," *International Crisis Group*, Dec. 8, 2005.



## Evo Morales: A Profile

With Evo Morales' inauguration on January 22, 2006, he becomes Bolivia's first indigenous president in the country's 180-year history. Evo Morales, like most coca-growers, is descended from Quechua and Aymara Indians drafted by the Spanish to work in Bolivia's highland silver and tin mines and then driven to the jungle out of economic necessity when the prices of those commodities collapsed in the 1960s and 1970s. Morales is a former leader of the powerful Bolivian coca growers union. He was first elected to the Bolivian Congress in 1997 as a representative from the Chapare and Carrasco de Cochabamba provinces. In 2002, despite a limited budget and weak organizational structure, Morales and the MAS broadened their political base from coca growers and indigenous communities to the general public by capitalizing on popular resentment of the country's traditional parties, the United States, and globalization in general to finish a close second in the 2002 presidential balloting.<sup>11</sup>

Throughout the 2005 presidential campaign, Morales used fiery rhetoric to incite his political base and, since being elected, has visited Cuba and Venezuela where he publicly aligned himself with Fidel Castro and Hugo Chávez. Despite these moves, some analysts predict that Morales' rhetoric will be moderated into more pragmatic policies out of political necessity after he takes office.<sup>12</sup> Bolivia lacks the oil resources that Venezuela commands and is highly dependent on U.S. foreign aid and foreign investment from countries like Brazil, two factors that may force Morales to moderate his policies. On the other hand, other observers assert that "it may be hard for him to moderate his position because he has a political base that is a little bit more hardline, more populist, than he is."<sup>13</sup>

In recent weeks, Evo Morales has begun to clarify his position on some of the major policy issues facing Bolivia while traveling to China, Spain, South Africa, Brazil, France, and Argentina in order to shore up investment opportunities and political support for his administration. In general, Morales opposes neoliberalism and supports more state involvement in economic policy-making as a way of solving the country's seemingly intractable levels of poverty and social exclusion. Morales has reiterated earlier pledges to nationalize the oil and gas sector, but has assured investors that his government will not confiscate foreign assets. He has asserted that all companies must re-negotiate their existing contracts to comply with the hydrocarbons law passed in May 2005. Morales has also promised to convoke a Constituent Assembly by mid-2006 to reform the constitution and give more power

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<sup>11</sup> Daniel Kurtz-Phelan, "Coca is Everything: Hard Truths About Bolivia's Drug War," *World Policy Journal*, Fall 2005.

<sup>12</sup> "Calculated Contradictions; Evo Morales' Two Constituencies: Bolivia...and Brazil," *Newsweek*, Jan. 16, 2006.

<sup>13</sup> Joel Brinkley, "U.S. Keeps a Wary Eye on the Next Bolivian President," *New York Times*, Dec. 21, 2005.

to indigenous groups and other corporate bodies, a measure that is supported by some 75% of the Bolivian population.<sup>14</sup>

President Morales has resisted U.S. counternarcotics policies in the region, vowing to decriminalize coca production. When pressed, Morales has described his policy as “zero cocaine and zero drug trafficking, but not zero cocalers.” He is not for liberalizing coca cultivation altogether, but supports a ceiling of one *cato* (about 1,600 square meters) of coca bushes per family, which would produce enough coca to meet traditional demand. A European-Union funded study due to be released later this month should clarify how much coca is needed to meet that demand.<sup>15</sup>

## Role of Indigenous Groups

Despite the National Revolution of 1952, in which the Bolivian indigenous population held sway and benefitted from land reform and expanded suffrage, Bolivian indigenous groups have not been particularly politically active, with few of their members having served in elective office. In the 1980s, indigenous-based political parties and movements emerged, and there are now 84 members of the national legislature representing the pro-indigenous Movement Toward Socialism, or MAS. In recent years, indigenous representatives have used Congress as a forum to advocate indigenous rights and have become increasingly vocal in making demands for equitable economic development, including the demand to be able to cultivate coca, and the preservation of indigenous land and culture. Although indigenous representation has increased, some argue that the inefficacy of the Bolivian Congress — an institution plagued by corruption and clientelism — has impeded the success of such legislative initiatives.<sup>16</sup> Others have argued that indigenous groups may gain more strength in the Bolivian political system if there continues to be an alliance between leftist and indigenous struggles, as has occurred since 2000.<sup>17</sup>

The issue of land tenure has been a long-standing source of conflict. An Agrarian Reform Law passed in 1996 allows indigenous communities to have legal title to their communal lands. However, these communities argue that their lands have not been legally defined or protected, and that outsiders have been allowed to exploit their resources.<sup>18</sup> Sources estimate that 17% of the land slated for

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<sup>14</sup> “Bolivia Needs Relations With the USA, but Will Not be Blackmailed, Says Morales,” *BBC Monitoring Americas*, Dec. 23, 2005; “Bolivia’s Morales Backs Off Threat to Seize Refineries,” *Knight Ridder*, Jan. 14, 2006.

<sup>15</sup> “Laying Foundations for Relations with the US,” *Latin American Weekly Report*, Jan. 3, 2006.

<sup>16</sup> Barr, 2005.

<sup>17</sup> Jeffrey R. Webber, “Left-Indigenous Struggles in Bolivia,” *Monthly Review*, Sept. 2005.

<sup>18</sup> *Country Reports on Human Rights Practices 2004*, U.S. Department of State, Feb. 28, 2005.

regularization is complete and 29% is in the process of regularization.<sup>19</sup> There have been numerous land occupations by landless farmers, some resulting in confrontations with police forces. The cultivation of coca, which is legal in the Yungas region, is another source of conflict. Coca leaf is used legally by indigenous communities for spiritual and medical purposes, and its use is considered an important indigenous cultural right. U.S. and Bolivian policy to eradicate illegal cultivation aggressively has met with violent protests in recent years.

The two most prominent indigenous leaders are President Evo Morales of the MAS party, and Felipe Quispe, former Member of Congress from the Indigenous Pachakuti Movement (MIP) party and campesino union leader. An Aymaran Indian and former coca grower, Morales has based his rise in politics on the support of coca growers and has attracted other followers who are admittedly anti-American in outlook. Quispe, an Aymaran Indian and rival of Morales, considers Morales to be a mainstream politician who will continue free market policies. Both were highly critical of the Mesa Administration.

## **Constituent Assembly and Regional Devolution**

One of the pledges Carlos Mesa made upon becoming president in 2003 was for a constituent assembly to reform the constitution and the process for electing the president, vice-president, and congressional representatives. A constituent assembly was originally planned for 2004, but disagreements with the Congress on the subjects to be considered and other logistical considerations postponed it until mid-2006. Polls indicate that as many as 75% of Bolivian citizens, though unclear of its likely outcomes, have expressed support for a constituent assembly to resolve the country's seemingly intractable governability problems.<sup>20</sup> Indigenous and other groups are likely to push for more representation, based on ethnic quotas or corporatist affiliations rather than traditional political parties. At the same time, considerable attention is being given to a still undefined devolution of authority to Bolivia's nine departments. The constituent assembly and regional devolution have been further complicated by calls from the resource-rich areas around Santa Cruz for some semblance of regional autonomy, with implications for how central government resources are distributed. This movement is supported by four regions and opposed by the less wealthy regions, causing a further fracturing of Bolivian politics. Nine governors or prefects were elected on December 18, 2005; however, critics argue that without a plan for devolving power to the regions, these newly elected governors will have little authority.

## **Referendum and Energy Legislation**

Former President Mesa promised to hold a national referendum on the role of the state in the energy sector in response to the popular demonstrations that felled the

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<sup>19</sup> José Luis Alcázar, "Delays in Land Reform a 'Time Bomb,'" *Inter Press Service*, Nov. 15, 2005.

<sup>20</sup> Kathryn Ledebur, "U.S. Interests and Bolivian Elections: Demonizing Morales, Jeopardizing Stability," *Andean Information Network*, Nov. 18, 2005.

previous government. In the July 18, 2004 vote, Mesa received overwhelming support for what many observers characterized as ambiguously worded questions that support an increased state role in gas exploration and production, while stopping short of nationalization. The referendum also endorsed using “gas as a strategic resource for the achievement of a useful and sovereign outlet to the Pacific Ocean,” and the export of gas with profits to benefit Bolivian industrialization, education, health, roads, and job creation.

As a result of the referendum, Mesa sent legislation to the Congress to replace the 1996 Hydrocarbons Law, which had opened Bolivia’s hydrocarbons sector to private investment. The state-owned energy company Yacimientos Petroliferos Bolivianos (YPB) would resume a more active role in oil and gas operations. Under the 1996 law, YPB became an overseer of contracts with the private sector, rather than engaging directly in exploration and production. The proposed legislation raised taxes on oil and gas production, and reestablished state ownership of oil and gas “at the wellhead.” Existing contracts with oil companies, most foreign-owned, needed to be renegotiated. The legislation ran into opposition by those in the Bolivian Congress who wanted full nationalization, and the hydrocarbon sector, which believed the new law would reduce its competitiveness.

In May 2005, the Congress approved legislation that created a non-deductible 32% Direct Tax on Hydrocarbons (IDH) that would apply to production and maintained the current 18% royalty rate. Foreign firms were given six months to bring their current contracts into line with the new legislation. The legislation represents the middle ground between Morales’ call for a 50% tax and business interests who argued that gas reserves would go undeveloped. President Mesa opposed the bill, as amended by the Congress, because he argued it would put too heavy of a burden on foreign investors and would require, rather than make it voluntary for, foreign companies to renegotiate their prior contracts. However, instead of vetoing the measure, he returned it to the legislature for promulgation. Foreign oil companies vehemently criticized the law, but they are currently complying with its terms. As a result of the tax hikes, several companies have initiated legal action over having their existing contracts rewritten, reduced investment, and predicted that new investments would not be feasible in Bolivia. In the first six months of 2005, oil exploration in Bolivia fell by more than 80% compared with the previous year.<sup>21</sup> Oil industry experts say Bolivia needs technical assistance and billions of dollars in foreign direct investment to better exploit its natural gas reserves.

The November 15, 2005, deadline has passed for renegotiating old contracts to comply with the current law, but most international oil interests appear to be waiting until after the December elections to sign new contracts. Although Morales has softened his tone on the issue of nationalization in recent months, international investors remain concerned about the possible effects of a Morales administration on the viability of investing in the Bolivian gas sector.

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<sup>21</sup> “Morales Threat Hangs Over Bolivian Gas Talks,” *Financial Times*, Nov. 17, 2005.

## Human Rights

With increased rates of coca eradication begun in 1998 with then President Banzer's *Plan Dignidad*, charges of human rights abuses committed by security forces have increased. The State Department's annual *Country Reports on Human Rights Practices* for 2004 (issued February 2005) recognized improvements from the previous year when it reported that serious problems existed with regard to deaths of protestors at the hand of security forces, the excessive use of force, extortion, torture, and improper arrests.

Congress has also expressed concern with human rights abuses. Report language accompanying the FY2004 Foreign Operations Appropriations Act (P.L. 108-199) recognized the lack of progress in investigating and prosecuting human rights cases by Bolivian authorities, and urged the Secretary of State to give higher priority to these issues. The Appropriations Committee required the Secretary of State to make a determination with regard to whether Bolivian security forces are respecting human rights and cooperating with investigations and prosecutions of alleged violations, and to submit a report to the committee substantiating the determination. Funding for FY2004 was not made contingent on the determination.

The State Department submitted its congressionally mandated report on April 22, 2004. In a seeming contradiction of its annual human rights report, the department's April report to the committee stated that "the Bolivian military and police respect human rights and cooperate with civilian authorities in the investigation, prosecution and punishment of personnel credibly alleged to have committed violations." It also stated with regard to February and October 2003 protests that "despite unrest created by two episodes of major social upheaval, the military and police acted with restraint and with force commiserate [sic] to the threat posed by protestors." The April report has been criticized by human rights organizations for being factually incorrect and poorly written.<sup>22</sup> Those organizations argue that 31 civilians died in February and 57 in October, with most deaths resulting from gunshot wounds of high-caliber munitions used by security forces. The annual State Department *Country Reports on Human Rights Practices* for 2003 also states that the military and police were responsible for civilian deaths during protests in 2003. It made no qualifying statement that the use of lethal force was commensurate with the threat posed by protestors, as did the April report. The groups also refute the State Department's assertion in the April report that the Bolivian military and police cooperate in investigations of human rights abuses, citing numerous instances where the Bolivian Human Rights Ombudsman or prosecutors have stated that cooperation has not been forthcoming.<sup>23</sup>

Congress has continued to monitor the human rights situation in Bolivia. Report language in the FY2005 Foreign Operations Appropriations Act (P.L. 108-447) and the FY2006 Foreign Operations Appropriations Act (P.L. 109-102) required the

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<sup>22</sup> Kathryn Ledebur and John Walsh, "Memorandum: Flawed State Department Report on Human Rights in Bolivia," Andean Information Network and Washington Office on Latin America, July 9, 2004.

<sup>23</sup> Ibid.

Secretary of State to determine whether Bolivian security forces are respecting human rights and cooperating with investigations and prosecutions of alleged violations, and to submit a report to the committee substantiating the determination. Funding for FY2005 was not made contingent on the determination, but funding for FY2006 is contingent on that determination.

Human rights organizations have recently pointed out that more than two years have passed since the Bolivian Congress authorized a “Trial of Responsibility” to determine whether former president Sánchez de Lozada and eleven of his cabinet ministers should be held legally responsible for the civilian deaths that occurred in Bolivia in September and October 2003.<sup>24</sup> Sánchez de Lozada and two of these former cabinet officials currently reside in the United States. It remains to be seen whether and how the Morales administration will encourage Bolivian military, police, and former cabinet officials to cooperate with ongoing investigations of human rights abuses.

In June 2005, the U.S. State Department placed Bolivia on the Tier 3 list of countries not taking adequate measures to combat trafficking in persons. Bolivia was able to avoid U.S. sanctions, however, by taking significant counter-trafficking actions by September 2005.<sup>25</sup>

## Economic Conditions

Like much of Latin America, Bolivia pursued state-led economic policies during the 1970s and early 1980s. In the mid-1980s, however, external shocks, the collapse of tin prices, a major foreign revenue earner, and higher interest rates combined with hyperinflation forced Bolivian governments to adopt free market economic policies. Bolivia was one of the first countries in Latin America to implement economic shock therapy under an International Monetary Fund (IMF) structural adjustment program. In the 1990s, many state-owned corporations were privatized. Gross domestic product growth from 1990 to 2000 averaged 3.5%. Sluggish economic growth in 2001 and 2002 (1.2% and 2.5%, respectively)<sup>26</sup> fueled resentment that the benefits of globalization and free market economic policies were not reaching most of the impoverished population.

The IMF approved the fifth review of a one-year standby agreement on April 8, 2005, and extended the agreement for one year. This action authorizes the release of \$14.5 million in loan funds. The previously negotiated standby agreement provided about \$110 million to assist economic reforms and the continuation of support under

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<sup>24</sup> Kathryn Ledebur, “Continued Impunity Could Aggravate Pending Political Conflict,” *Andean Information Network*, Dec. 5, 2005.

<sup>25</sup> For more information on trafficking, see CRS Report RL30545, *Trafficking in Persons: The U.S. and the International Response*, by Francis T. Miko.

<sup>26</sup> Statistics are drawn from the World Bank *World Development Indicators 2003*, *Human Development Report 2003*, United Nations Development Program, and “Bolivia - Country Profile 2003,” *The Economist Intelligence Unit*.

the IMF/World Bank Heavily Indebted Poor Countries (HIPC) initiative. On September 25, 2005, the World Bank announced that all of Bolivia's foreign debt to the Bank and the International Monetary Fund would be forgiven. That debt forgiveness does not extend to debt owed to the Inter-American Development Bank, Bolivia's largest external creditor. A recent decision by the Group of 8 to forgive the multilateral debt of 18 countries will also benefit Bolivia. Under the plan, beneficiary countries will have to implement anti-corruption practices and commit to spending debt-servicing savings on health, education, and poverty reduction programs.

## **Coca Cultivation and Alternative Development**

Land-locked Bolivia shares no border with Colombia, but it has been a major coca producer in the past. Some argue that Bolivia's earlier significant gains in reducing illegal coca production could be threatened by any successes in controlling production in Colombia through a "balloon effect" whereby coca production shifts to other areas with less law enforcement presence. Once the world's foremost producer of coca leaf, Bolivia made great strides in reducing coca cultivation under the Banzer-Quiroga administration (1997-2002).<sup>27</sup> However, forcible eradication of coca has become a source of social discontent, exacerbating tensions over class and ethnicity that may foment political instability. Moreover, according to the State Department, coca cultivation increased 23% in 2002 and 17% in 2003. The United Nations Office on Drugs and Crime recently reported that cultivation increased 17% in 2004. The State Department had reported a 6% increase in 2004 and a slight increase of about 1,900 hectares from 2004 to 2005.<sup>28</sup> Nevertheless, Bolivia's coca cultivation is still about half of its 1995 levels. It should be noted that Bolivian law allows nearly 30,000 acres (12,000 hectares) of coca cultivation for traditional use in the Yungas region, and allows legal coca markets in both the Yungas and Chapare regions.

On October 3, 2004, Chapare growers signed a one-year agreement with the Bolivian government, which is reportedly still being enforced, to allow some 7,900 acres of coca to be produced in that region annually. In practice, the agreement has been interpreted to allow 1,600 square meters of coca per family to be produced legally each year. President Morales has supported this policy and may seek to make the agreement permanent.<sup>29</sup>

For some 20 years, U.S. relations with Bolivia have centered largely on controlling the production of coca leaf and coca paste, which was usually shipped to Colombia to be processed into cocaine. In support of Bolivia's counternarcotics

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<sup>27</sup> President Jorge Quiroga assumed the presidency on Aug. 7, 2001, when President Hugo Banzer, whom he had served as vice president, resigned because of illness. Quiroga could not, by law, subsequently run for election.

<sup>28</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, volumes covering the years 2002, 2003, and 2004.

<sup>29</sup> U.S. Office of National Drug Control Policy, "2005 Coca Cultivation and Cocaine Production Estimates for Bolivia," Press Release, Nov. 21, 2005.

efforts, the United States has provided significant interdiction and alternative development assistance, and it has forgiven all of Bolivia's debt for development assistance projects, and most of the debt for food assistance. Bolivia, like Peru, has been viewed by many as a counternarcotics success story, with joint air and riverine interdiction operations, successful eradication efforts, and effective alternative development programs. Others, however, view the forced eradication as a social and political disaster that has fueled popular discontent and increased the political support for opposition candidates.

U.S. programs supporting alternative development (AD) in the Chapare and Yungas regions of Bolivia are linked to illicit coca eradication. AD programs provide a broad range of assistance to help farmers as they stop relying solely on coca production and their illicit crops are eradicated by law enforcement. USAID now works in municipalities where, in most cases, the MAS political party won mayorships and council seats by overwhelming margins in the December 2004 municipal elections. Some of those mayors are former coca growers. Human rights organizations working in the Chapare region have supported USAID's decision to work with coca growers. They have also asserted that the October 2004 decision by the Bolivian government to allow each family to produce some coca to meet their subsistence needs has helped them to accept the inherent risks of alternative production without jeopardizing their families basic livelihood.<sup>30</sup>

## Gas Exports

According to the Energy Information Administration of the U.S. Department of Energy, Bolivia has the potential to become a natural gas hub for the Southern Cone of South America, and a major exporter of liquefied natural gas to Mexico and the United States. Bolivia's proven natural gas reserves are estimated to be as high as 55 trillion cubic feet (tcf). This would potentially make Bolivia a major world natural gas exporter with the second-largest gas reserves in South America, after Venezuela. A decision in 2001 by Repsol-YPF of Spain, British Gas, and British Petroleum to create a liquefied natural gas (LNG) export consortium had raised hopes to export gas via pipeline and tankers to Mexican and U.S. markets by 2005. As Bolivia is landlocked, the country, and the companies involved, had been planning the construction of an estimated 430-mile pipeline to a port in either Chile or Peru at a cost of an estimated \$5 billion.<sup>31</sup> A proposal to export gas through ports in Chile, a traditional adversary of Bolivia, sparked the protests in 2003 that led to the resignation of President Sánchez de Lozada. Since then, the issue of gas exports has come to dominate relations with its neighbors. While building a pipeline through Peru would be more expensive, it is the public's preferred option.<sup>32</sup> However, the

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<sup>30</sup> E-mail from Kathryn Ledebur, *Andean Information Network*, Jan. 20, 2006.

<sup>31</sup> "Bolivia: Country Analysis Brief," Energy Information Administration, U.S. Department of Energy, Oct. 2003.

<sup>32</sup> "Cerca del 70% de los Bolivianos Quiere Exportar Gas por Perú," *Europa Press - Servicio Internacional*, May 20, 2004; "Peru/Chile: Energy Exacerbates Strained Relations," *Oxford Analytica*, Aug. 24, 2004; "Bolivia Signs Agreement to Export Gas Through Peru," *IPR*



development of Bolivia's oil and gas sector, as well as related exports, are jeopardized by the new hydrocarbons law recently passed by the Bolivian Congress, judging by the reaction of foreign owned oil and gas companies.

## Trade Issues

Bolivia is a member of the Andean Community, with Peru, Ecuador, Colombia, and Venezuela, and an associate member of Mercosur, the trading block composed of Brazil, Argentina, Uruguay, and Paraguay. The main destinations for Bolivian exports are Brazil, Colombia, Switzerland, and the United States. The United States is its third most important source of imports, following Argentina and Brazil. Its principal exports are natural gas, soya, zinc and gold. Bolivia currently benefits from the Andean Trade Promotion and Drug Eradication Act<sup>33</sup> (ATPDEA), which offers access to the U.S. market for products from the Andean countries of Peru, Colombia, Ecuador and Bolivia. ATPDEA, an extension of the Andean Trade Preference Act (ATPA) that began in 1991, will expire in 2006. During 2004, the United States and the Andean Community nations of Colombia, Peru and Ecuador began negotiating an Andean Free Trade Agreement.<sup>34</sup> Bolivia is not directly participating; instead it has observer status. President Morales has indicated that he is not opposed to pursuing a free trade agreement with the United States, Colombia, Peru, and Ecuador.<sup>35</sup>

## U.S. Assistance

Bolivia is the third largest recipient of U.S. foreign assistance in Latin America, behind Colombia and Peru. In FY2005, Bolivia received an estimated \$129.2 million in U.S. assistance, and it is slated to receive \$123 million in FY2006. The largest portion of assistance consists of Andean Counterdrug Initiative (ACI) funds, the U.S. program to curtail drug production and trafficking in the Andean region. ACI funds programs to eradicate drug crops, interdict trafficking operations, as well as to support alternative economic development and democracy promotion. In FY2005, the State Department estimated spending \$90 million in ACI funds in Bolivia, of which \$41 million was for alternative development and institution building programs, and \$49 million for interdiction efforts. In FY2006, Bolivia will be provided with an estimated \$80 million in ACI funds. Alternative development includes economic development in coca-growing areas, demand-reduction education programs, and the expansion of physical infrastructure. Funds are also planned to support the enhancement of judicial capability to prosecute narcotics-related crimes, and to improve the quality of investigations into allegations of human rights violations.

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<sup>32</sup> (...continued)

*Strategic Information Database*, Aug. 9, 2004.

<sup>33</sup> For more information, see CRS Report RL30790, *The Andean Trade Promotion Act: Background and Issues for Reauthorization*, by J.F. Hornbeck.

<sup>34</sup> For more information, see CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn, and CRS Report RL32770, *Andean-U.S. Free Trade Agreement Negotiations*, by M. Angeles Villarreal.

<sup>35</sup> "Morales Not Opposed to U.S. Trade Deal," *Associated Press*, Jan. 20, 2006.

Interdiction funding provides operational support for specialized counterdrug police and military units, and is intended to improve data collection for law enforcement activities. ACI funds will also be used to support increased interdiction of precursor chemicals and cocaine products. The United States would also continue to provide support for a U.S.-owned helicopter fleet, and to maintain and purchase vehicles, riverine patrol boats, training and field equipment, and construct and refurbish antiquated counternarcotics bases.

Since 2003, the Bush Administration has sought bilateral agreements worldwide to exempt Americans from International Criminal Court prosecution, so-called "Article 98 agreements."<sup>36</sup> Bolivia has signed, but not ratified, an Article 98 agreement. Pursuant to the American Servicemembers' Protection Act, or ASPA, (P.L. 107-206, title II), the Administration terminated military assistance to nations that had not signed Article 98 agreements on July 1, 2003. Bolivia received a presidential waiver from these provisions until January 1, 2004, but lost FMF and IMET funding in FY2005 for failure to ratify that agreement. In separate legislation, the FY2005 Consolidated Appropriations Act (H.R. 4818/P.L. 108-447) bars Economic Support Funds (ESF) assistance to countries that have not signed an Article 98 agreement. USAID has notified Congress that, consistent with Section 574 of the FY2005 Foreign Operations Appropriations Act (Nethercutt Amendment), no FY2005 ESF will be used to directly benefit the Bolivian government.

Bolivia usually receives Foreign Military Financing (FMF) funds. FMF funds in FY2005 were to be used for equipment and training assistance to the Bolivian Armed Forces, military police units, and the Army's new Counter-Terrorism Unit to support their efforts to provide security for drug eradication and interdiction operations, to maintain control of remote areas, and to support their role as international peacekeepers. Bolivia has peacekeeping forces deployed in the Congo, and observers in Kosovo, Sierra Leone, Liberia, and East Timor. In FY2005, Bolivia lost nearly \$2 million in FMF funding. Some \$1.8 million in FMF funds have been slated for Bolivia in FY2006 but are also subject to ASPA provisions. Bolivia also generally receives small amounts of International Military Education and Training (IMET) funds. IMET funds are used for provide professional military education to Bolivian military personnel at U.S. military command and staff colleges. Bolivia lost \$800,000 in FY2005 but is slated to receive \$800,000 in FY2006.

In addition to ACI funding, Bolivia also benefits from other U.S. economic assistance programs. Bolivia received an estimated \$12 million in Development Assistance (DA) for FY2005, and a requested \$14.5 million in FY2006. This assistance will provide technical assistance to micro-finance institutions, micro-entrepreneurs, and technological services to farmers. Support will also be provided for strengthening democracy and anti-corruption programs. Bolivia received an estimated \$16 million in Child Survival and Health (CSH) funds in FY2005, and a requested \$15 million in FY2006. CSH funds are used for supporting health programs, HIV/AIDS programs, nutrition and vaccination programs for children, and

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<sup>36</sup> In July 2002, the Rome Statute that created the International Criminal Court (ICC) entered into force. The ICC is the first permanent world court with jurisdiction to try individuals for war crimes and other grave human rights abuses.

the Amazon Malaria Initiative. Economic Support Funds, estimated at \$8 million for both FY2005 and FY2006, will be used to strengthen municipal governments, improve congressional capacities, consolidate democratic values and practices by supporting civil service activities, and promote economic growth. The Peace Corps maintains a presence in Bolivia with a program totaling \$3 million in FY2005 and the same amount in FY2006.

Bolivia could also benefit from the new Millennium Challenge Account (MCA), a presidential initiative announced in 2002 that is intended to increase foreign assistance to countries below a certain income threshold that are pursuing policies to promote democracy, social development, and sustainable economic growth.<sup>37</sup> The program is administered by the newly established Millennium Challenge Corporation (MCC) in cooperation with USAID. Bolivia was named an eligible recipient in 2004 and 2005, but it did not meet the selection criteria required to participate in the program until FY2006. Eligible countries are responsible for designing national development strategies and individual projects, with the MCC acting in an advisory role. Bolivia has submitted a compact proposal worth \$598 million to the MCC in December 2005, but formal negotiations on the development compact have yet to begin.

## Implications for U.S. Policy

Recent developments in Bolivia offer challenges to U.S. policy with regard to coca cultivation, the policy of opening economies to free trade and free market principles, and regional stability. Until setbacks starting in 2001, Bolivia was considered a success story in the eradication of coca cultivation. It is legal to grow limited amounts of coca leaf in the Yungas province for traditional uses, but is illegal in all other parts of the country. A lessening in resolve on the part of the Bolivian government with regard to coca eradication has resulted in production increases, and could embolden coca growers in other nations to organize, especially in areas such as Peru where indigenous communities also use coca leaf for medicinal and cultural purposes. Leakages of coca from traditional uses to narcotics would be seen as a setback for U.S. policy. Some observers contend that U.S. drug policies may cause wider instability in the region and fuel anti-American sentiment. The re-emergence of the leftist Sendero Luminoso (Shining Path) guerrilla group in Peru's coca-growing areas is pointed to as a potential source of trouble, where growing opposition to U.S. policy makes inhabitants more amenable to violent protest, or to join the ranks of Sendero.<sup>38</sup> Opponents of U.S. antinarcotics policy argue that it is heavy handed and stresses eradication to the neglect of sustainable economic development. Proponents of U.S. policy argue that the drug trade promotes violence and corruption in source countries that destabilize democratic governments.

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<sup>37</sup> For more information on the MCA, see CRS Report RL32427, *Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative*, by Larry Nowels.

<sup>38</sup> Larry Rohter, "Bolivian Leader's Ouster Seen as Warning on U.S. Drug Policy," *The New York Times*, Oct. 23, 2003, and Mary Anastasia O'Grady, "Blame U.S. Drug Policy for the Bolivian Uprising," *Wall Street Journal*, June 17, 2005.

As the United States promotes free trade and continues negotiations of free trade agreements in the region, protests against globalization and the degree of foreign investment complicate these negotiations. Protests in Argentina during 2001 and 2002 were fueled by anti-IMF sentiment, and Brazil's President Lula da Silva ran on a platform of resisting globalization. The United States did not engage in dialogue on these issues with President Evo Morales prior to the December elections. As a result, President Morales may be less willing to work with the United States than previous Bolivian administrations on both drug and trade issues.

Recent developments in Bolivia have regional implications with regard to the role of indigenous movements and public attitudes toward free market policies and international financial institutions, such as the IMF and World Bank. The resignations of Sánchez de Lozada and Carlos Mesa have emboldened the loose coalition of workers, Indians, and students in Bolivia to make demands for concrete changes in government policy. As such movements exist at varying levels of strength throughout the Andean region, some observers have noted that they, too, could become more active, adopting the same tactics of demonstrations, strikes, and road blockages that have become the norm in Bolivia. Brazil has its own landless movement where groups have illegally occupied land. Peru and Mexico have also experienced dissatisfied indigenous groups, some of whom have resorted to armed confrontations with government authorities. Other governments in the region have experienced vocal opposition to Washington-backed economic policies of privatization and foreign investment, similar to the sentiment expressed by Bolivian demonstrators.

The re-emergence of tensions with Chile is another ramification of political discord in Bolivia. The proposal to export natural gas via a pipeline to Chilean ports has reignited nationalist sentiment and created calls by some Bolivians, including President Morales and Venezuela's President Hugo Chavez, to demand that Chile grant Bolivia sovereign access to the Pacific Ocean, something that the Chilean government rejects. A free trade agreement between Chile and Bolivia that was to be signed in November 2003 has been postponed, citing a number of outstanding issues that needed to be resolved. Bolivia and Chile do not have formal diplomatic relations, but high-level discussions on trade and border issues have been held. The situation has also created tensions between Chile and Peru; the latter must agree to any ceding of territory to Bolivia, according to the treaty that ended the War of the Pacific, while Chile insists that the dispute is a bilateral issue only.<sup>39</sup>

## **Future of U.S. Relations with Bolivia**

Prior to the December elections, most analysts predicted that a Morales victory would complicate U.S. relations with Bolivia. Although U.S. officials refrained from commenting publicly on their concerns about a possible Morales victory in the

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<sup>39</sup> Antonio Raluy, "Bolivian Revolt Reignites Demand for Return of Lost Land From Chile," *Agence France Presse*, Oct. 22, 2003; "Chile Will Not Grant Bolivia Sovereign Access to Pacific," *EFE News Service*, Oct. 20, 2003; "Peru/Chile: Energy Exacerbates Strained Relations," *Oxford Analytica*, Aug. 24, 2004.

December 2005 presidential elections for fear of inadvertently swaying Bolivian support to his candidacy (as occurred in 2002), they expressed serious concerns about his position on the coca issue and his possible ties with Cuba and Venezuela.<sup>40</sup>

After the election, U.S. State Department officials congratulated Evo Morales but noted that “the quality of the relationship between the United States and Bolivia will depend on what kind of policies they [Morales and the MAS government] pursue.” Secretary of State Condoleezza Rice said that “the issue for us is, will the new Bolivian government govern democratically? Are they open to cooperation that, in economic terms, will undoubtedly help the Bolivian people?...from our point of view, this is a matter of behavior.” On January 2, 2006, Evo Morales met with the U.S. Ambassador to Bolivia, David Greenlee, at which time the two agreed on the importance of “confronting drug-trafficking and respecting democracy in the region.” Thomas Shannon, U.S. Assistant Secretary of State for Western Hemisphere Affairs has also expressed a willingness to dialogue with the Morales government in order to continue “positive relations” between the two countries and attended President Morales’ inauguration.<sup>41</sup>

For some 20 years, U.S. relations with Bolivia have centered largely on controlling the production of coca leaf and coca paste. In FY2005, Bolivia received an estimated \$132 million in U.S. assistance, and it is slated to receive \$123 million in FY2006. The largest portion of assistance consists of Andean Counterdrug Initiative (ACI) funds, the U.S. program to curtail drug production and trafficking in the Andean region. On December 27, 2005, a Morales representative said that Morales will reject economic and military aid from the United States if it is conditioned upon reaching certain coca-eradication targets and will remove the Bolivian military from the fight against drugs. Thomas Shannon, U.S. Assistant Secretary of State for Western Hemisphere Affairs, though not mentioning specifics, has expressed a willingness for a dialogue with the Morales government on how to fight drug processing and trafficking while allowing some level of coca cultivation for traditional uses. Shannon has said that “Bolivia has waged an important war against the production of cocaine in Bolivia and eradication [of coca leaf] has been an important part of this. We’re going to have to talk to the new government to understand fully how we can keep on with this process.”<sup>42</sup>

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<sup>40</sup> In 2002, then U.S. Ambassador to Bolivia Manuel Rocha stated that “if Morales was elected, the U.S. would have to reconsider all future aid [to Bolivia]. Most observers, and Morales, too ... say that [those comments] got him and MAS at least 20 percent more votes.” See David Rieff, “Che’s Second Coming?” *New York Times*, Nov. 20, 2005.

<sup>41</sup> Sean McCormack, U.S. State Department Regular News Briefing, Dec. 20, 2005; Interview with Secretary of State Condoleezza Rice on CNN, *Federal News Service*, Dec. 19, 2005; “Bolivia’s Morales, US Discuss Drugs and Democracy,” *Agence France Presse*, Jan. 2, 2006; “Region: Shannon Conciliates While Chávez Rants,” *Latin News Daily*, Jan. 11, 2006.

<sup>42</sup> “Bolivia to Reject U.S. Aid if Conditional on Fighting Drugs,” *Dow Jones Industrial News*, Dec. 27, 2005; “Region: Shannon Conciliates While Chávez Rants,” *Latin News Daily*, Jan. 11, 2006.

Some analysts maintain that U.S. officials fear Evo Morales will become another Hugo Chávez, an outspoken, anti-American, leftist leader. Others duly note that the United States still exerts a lot of influence over Bolivia in terms of foreign aid, trade preferences, and influence over international finance. For example, some analysts assert that the Bush Administration may use the \$598 million in possible MCA assistance to attempt to persuade the Morales administration to adopt free market, pro-democracy policies. Those observers maintain that U.S. officials should not antagonize Evo Morales, but should “use that power, and rhetoric, sparingly, if at all” to urge him to maintain open-market and democratic policies.<sup>43</sup>

**Figure 1. Map of Bolivia**



Source: Map Resources. Adapted by CRS. (K.Yancey 8/24/04)

<sup>43</sup> “Don’t Do Chavez a Favor in Bolivia,” *Christian Science Monitor*, Dec. 22, 2005; “Morales Set to Challenge U.S. on Trafficking, Aid,” *Miami Herald*, Jan. 13, 2006.