



Bolivia's Deepening Crisis

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OVERVIEW

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The United States has redline concerns that drive policy in Bolivia: the preservation of democracy, respect for human rights and the rule of law, cooperation against illegal drugs, and the maintenance of regional stability.

Bolivia is in the midst of a deep political crisis that may be further exacerbated by results of the December 18 elections. The manifestations of this crisis have been readily apparent during the past three years, highlighted by the forced departure from office of two presidents, but its roots go back much further. The crisis is marked by a sharp decline in the prestige and authority of the state, the weakening of an already debilitated rule of law, the near collapse of traditional political parties, increased ethnic and regional tension, and a clash between rival visions of Bolivia's future that differ fundamentally. Politics have become both fragmented and polarized. The very real prospect of a deepening crisis in Bolivia, with negative implications for regional development and security, poses a serious challenge to Bolivia's neighbors, especially Argentina and Brazil, and to the United States.

The elections are shaping up to be a duel between two presidential candidates neither of which is expected to

come close to winning a majority of votes: Evo Morales, at the head of a network of civil society organizations and local political groups with a strongly populist/leftist orientation; and former president Jorge "Tuto" Quiroga, a U.S.-educated conservative who inherited office from the ailing Hugo Banzer and served from 2000 to 2002. Polls show Morales in the lead, with an advantage of some 5 points but with no more than 33 percent support. Large numbers of voters are still undecided. The two are miles apart ideologically, the former a throwback to the leftist "anti-imperialism" and state capitalism of the 1960s, with a base of support among politically mobilized indigenous populations in La Paz, Oruro, Cochabamba, and Potosí departments, and the latter promoting a market-oriented approach to development, with an especially strong following in the resource-rich departments of Santa Cruz, Tarija, and the northern lowlands. Because neither candidate will likely gain an

absolute majority of votes, Bolivia's newly elected Congress will decide among the two largest vote getters, a situation where deal-making by supporters of the presidential also-rans could tip the scale. Beyond the presidential race, an entirely new Congress and, for the first time, regional *prefectos* (governors) will be elected. Regardless of which presidential candidate wins, it will be very difficult for an effective government to emerge from this election, leaving the door open to a prolonged, even deepened state of crisis.

The Unraveling of Reform

Little more than a half decade ago, Bolivia was Latin America's poster child of political and economic progress. Since 1982, Bolivia has enjoyed a quarter century of uninterrupted democracy, perhaps the longest stretch in a national history pockmarked by military coups. The "New Economic Policy" put in place by President Víctor Paz Estenssoro in 1985 moved Bolivia into the front lines of economic liberalization in Latin America, initiating a reform process further broadened by subsequent administrations, especially the first government of Gonzalo "Goni" Sánchez de Lozada (1993–1997).

These reforms put an end to Bolivia's inflationary cycles, vastly downsized the public sector, stabilized the currency, liberalized trade and investment, linked a new pension system to the "capitalization" of former state enterprises, and established a new hydrocarbons regime that attracted unprecedented levels of foreign investment and led to the discovery of enormous natural gas reserves. Economic reforms were accompanied by large public investments in health and education. Under Sánchez de Lozada, a series of important laws were passed that fundamentally altered political life in Bolivia. In 1994, the "Law of Popular Participation" decentralized public authority by creating municipalities around the country, providing them with resources, and allowing for the direct election of mayors and municipal authorities. A further Decentralization Law the following year broadened the powers of local government, and the constitution was amended to lower the voting age from 21 to 18 years, which, coupled with energetic voter registration campaigns, nearly doubled the number of registered voters between 1987 and 1999.

Bolivia's liberal reformist regimes between 1985 and 1998 produced some impressive results. The disastrous hyperinflationary cycle of the early 1980s was brought to heel, GNP rose during the late 1980s and reached a steady range of 4.3–5 percent growth during the 1990s,

unemployment was reduced, infant mortality fell sharply, life expectancy increased, child immunization rose impressively, illiteracy plummeted, major gains were made in access to education and potable water, poverty rates fell, and large numbers of indigenous peoples became bilingual by learning Spanish. Stimulated by the liberal 1996 Hydrocarbons Law, foreign investment in exploration and production of petroleum and natural gas resulted in a tripling of proven petroleum reserves and a four-fold rise in proven gas reserves. Investment in hydrocarbons increased by 600 percent between 1996 and 1998. By 2004, taxes and fees related to natural gas constituted some 37 percent of overall Bolivian tax revenues. With the conclusion of a major gas pipeline to Brazil in 1999 and with plans to resume gas sales to Argentina and expand markets to other countries in the Southern Cone and in North America, the door appeared open for a long-term role for natural gas as a motor for future economic development.

By 2002, the liberal reform process in Bolivia had ground to a halt and moved into reverse with the passage of the Hydrocarbons Law of 2005. The dismantling of reform was both caused and accompanied by a breakdown in effective governance that became manifest soon after the election of Sánchez de Lozada for a second term in 2002, led to his being chased from power in October 2003, and produced the similar demise of his successor, Carlos Mesa in June 2005. A commonly held view outside of Bolivia credits the turmoil of the past three years as the product of widespread poverty and the exclusion of indigenous people from national political and social life, boiling over into majority rage against traditional elites and the "Washington Consensus." The explanation, as always, is more complex, linked to political changes that resulted in the large-scale participation of indigenous peoples rather than their exclusion.

Economic factors helped trigger the political crisis that has continued unabated since 2003, but its underpinnings are political and social in nature. A severe downturn in Bolivia's economy in 1999 accompanied a trend toward increased unemployment that had begun a year earlier, with unemployment in the formal sector nearly tripling between 1997 and 2003. Long-term trends of lower infant mortality and improved life expectancy in Bolivia that began in 1952, coupled with high fertility rates that only began falling in the mid-1970s, resulted in a large gap between new jobs generated and the size of the potential workforce. While Bolivia's economy grew at

a good clip during the 1990s, it failed to produce enough jobs. Other highly negative factors persisted, such as pockets of extreme poverty among largely indigenous rural populations, deep disparities in income distribution, and a rigid class structure based on ethnic origin, with the indigenous majority at the bottom.

The clearest manifestations of the crisis, however, have been political. The system of government based on coalitions of Bolivia's traditional political parties put in place by Paz Estenssoro in 1985 ran out of gas by the time of Goni's second, truncated presidency, with no replacement in sight. At the head of the once-powerful Movimiento Nacional Revolucionario (MNR), Sánchez de Lozada won the 2002 presidential election with a mere 22 percent of the vote, besting Evo Morales's coalition of coca growers, labor radicals, and civic groups by about 2 percentage points. With support from other traditional groups, Sánchez de Lozada was able to form a government whose mandate was weak from the start, in an environment where political power was dispersed among splinter parties, civil society, and pressure groups, many of them "anti-systemic" in their criticism of liberal democracy.

Ironically, the decentralization of government and state spending during Goni's first administration made a large contribution to the decline of traditional national parties, including his own MNR. Popular participation and decentralization stripped important sources of political patronage—the lifeblood of Bolivia's traditional parties—from the central government, while fostering a dramatic increase in the number of locally based political parties. In rural areas, especially on the Aymara-speaking *altiplano*, the rise of municipalities rivaled the political power of local *campesino* authorities, triggering resentment, while in other areas, indigenous leaders used the reforms to strengthen their political base in small municipalities. Liberal reforms that shrank the size of the state eliminated jobs that had previously gone to loyalists of the national parties, further reducing the patronage base. The dramatic increase in the size of civil society encouraged by domestic and foreign nongovernmental organizations added a decidedly antiparty bias to the environment, further undercutting the legitimacy of traditional politics. The government's own anticorruption campaigns reminded Bolivians of the glaring weaknesses in transparency and governance that marked the political system, driving down the prestige of the parties further. To be sure, the traditional parties had a major role in their own demise by adhering to

authoritarian, exclusionary, and elitist practices that distanced them from the rest of society.

In place of a weak, but functioning representative democracy, Bolivian politics after 2002 morphed into an ongoing conflict between the national government and regional, often ethnically based, political and social groups making direct demands on the state. This became a corporatist version of "participatory" democracy gone haywire, with a vocal minority using all manner of tactics, including force or the threat of force, to achieve their demands. With the debilitation of political parties, Congress lost influence and prestige, culminating in the political drift during Carlos Mesa's brief term in office (2003–2005), with neither the executive nor the legislative branch capable of governing effectively. On occasion, members of Congress huddled in session, while mobs in the streets demanded their resignation. The rule of law—habitually weak in Bolivia—was swept aside by the protests and road blockages used by an active political minority, above all in the cities of El Alto and La Paz, to impose their will over the state. Political turmoil further exacerbated economic woes. One scholar who traced the close relationship between protests and growing unemployment reached the conclusion that the stronger statistical relationship between the two variables is that of increased protests causing deeper unemployment.

The vocal, but always minority, opposition that drove Goni and Mesa from office and triggered the new round of elections scheduled for December 18 espoused a mix of strongly populist and nationalistic demands—ranging from broadened indigenous rights to the nationalization of hydrocarbons. Evo Morales and other "non-systemics" to his left both promoted and rode a tide of economic nationalism that sealed Goni's fate in October 2003 and eventually translated into the Hydrocarbons Law (3058) passed by Congress in May 2005. Law 3058 repeals Goni's 1996 law, declares gas a "strategic resource," claims all hydrocarbons as state property at the wellhead with a recapitalized state hydrocarbons corporation (YPFB) as the holder of such property, imposed new taxes on production, and ordered the renegotiation of all previous shared-risk contracts. It marks a full-circle return of economic nationalism in Bolivia, similar to the circumstances under which Standard Oil and Gulf Oil were nationalized in 1937 and 1969, respectively.

The December 18 Election and Beyond

Bolivia's elections are taking place a year ahead of schedule, convoked by interim president Eduardo

Rodríguez as a means of reshuffling the political deck in the aftermath of Carlos Mesa's forced departure from office in June 2005. This bought the country six months of breathing space from the protests, but it is just a pause. Though it is reassuring that Bolivia has taken the path of elections and not extra-constitutional means, it is unlikely that the state of crisis will be resolved by the outcome of the elections, since there is little chance that an effective government will emerge—regardless of who wins. The new president will enjoy only minority popular support and will likely not have control of Congress. Also looming large is the pressure from the populist left and other sectors as well to convoke a constituent assembly to produce a new national constitution and the call from Bolivia's energy-rich eastern departments for a referendum on the topic of greater regional autonomy, both divisive issues.

There are many possible outcomes from the election. Polls indicate that Evo Morales leads in the race for president but with more than 10 percent of voters undecided. Morales's party, the Movement to Socialism (MAS), is a conglomeration of unions, civic groups, and regional organizations—a “confederation of alliances” in the words of a leading political observer—rather than a political party. Although the MAS enjoys strong support from Aymara and Quechua-speaking people in the western and central departments of Bolivia, it cannot lay exclusive claim to the indigenous vote. Many MAS supporters are of *mestizo* background, with a smattering of intellectuals and leftists of European descent. Reflecting its diverse and disunited base of support, the MAS proposes a vision rather than a program, clearer in terms of what it opposes (the “Washington Consensus,” “neoliberalism,” “imperialism,” and “exclusion”) than what it supports. Beyond a call for the nationalization of hydrocarbons and for holding a constituent assembly, the MAS's campaign rhetoric wanders between moderately populist and nationalist positions to virulently leftist appeals, with Morales himself fluctuating and often at odds with the rhetoric of his running mate, Alvaro García Linera.

Former president Jorge “Tuto” Quiroga is in second place in the polls. As it now stands, he and Morales would move to a second round of voting by the new Congress to determine who will be president. That vote will not take place until the second or third week of January 2006, with the inauguration of the new president scheduled for January 22. Quiroga's campaign platform tries to thread the needle between nationalist aspirations on key issues (“nationalize the

benefits of gas,” “respect for traditional coca”), support for market-based economic policies including Bolivia's participation in a free trade agreement with the United States, and a tough stance on crime and drug trafficking (“zero cocaine”). In terms of style and ideology, Tuto and Evo are at opposite poles. Tuto's electoral vehicle “PODEMOS” is a self-described “grouping of citizens” drawing away supporters of traditional parties and a series of grassroots civic organizations rather than a coherent political party. Quiroga runs strongest in the departments of Santa Cruz and Tarija, but with a considerable following elsewhere, drawing votes from a variety of social and ethnic groups.

Cement magnate Samuel Doria Medina, a self-described candidate of the “popular center” is running in a distant third place, with some 10 percent of votes in recent polling. Although his support base may differ little from Tuto's, from the beginning he has tried to distance himself from Quiroga by criticizing his rival as a rightist sellout to the oil companies and the United States. Though outsiders observe that the moderate/centrist combined vote of Quiroga and Doria Medina would easily outdistance Evo Morales, there appears to be little chance that Doria Medina will abandon the race or join with his rival. He has stated that he would support neither Evo nor Tuto in a congressional vote, but he may find it difficult to avoid attempting to play the role of king-maker.

All realistic outcomes of the vote are fraught with difficulty. A near tie between Morales and Quiroga is perhaps the most worrisome outcome, with both sides claiming victory and demanding a recall, and Evo almost certain to call out shock troops in El Alto and La Paz to pressure electoral authorities to rule in his favor. If Morales wins by an indisputable margin, Congress will decide between him and Quiroga. Should no victor emerge in the first two rounds of voting, the candidate with the most votes in the first round automatically becomes president. Months back, Quiroga stated that he would not accept the presidency without winning the most votes in the first round, but he has since neither repeated nor denied that claim, and it is unclear what his position would be. Morales's supporters would likely mobilize a show of force to demand that Congress ratify their candidate. Should Quiroga win the most votes and the balloting go to Congress, pressure by the MAS would be intense for Congress to elect Evo, not Tuto. One MAS senator is on the record as stating that “Evo Morales will be president no matter what” (“por las buenas o por las malas”), which, although rejected by Morales himself,

certainly reflects the thinking of the most radical wing of the party.

If Morales is elected president, he will likely be faced with a divided Congress, disjointed political base, strong regional opposition in the lowland departments, and highly mobilized elements to his left goading him toward radical change. Expectations for higher standards of living, quick improvements in the lives of Bolivia's poor, and stridently nationalistic positions will be difficult to meet and still govern. Aggressively applying the terms of the 2005 Hydrocarbons Law could result in legal demands against the government for breach of contract. At the same time, Evo faces pressure from his own campaign promises to fully nationalize the hydrocarbons industry. Should Quiroga win, he will face the active enmity of the MAS and far-left opposition in La Paz, El Alto, and in the towns and countryside of the *altiplano*. Holding onto power, let alone governing effectively, could be a large challenge. He also confronts the perhaps insurmountable task of ameliorating the negative effects of the Hydrocarbons Law without provoking a nationalist reaction. Given the state of polarization, a *rapprochement* between Evo and Tuto allowing for a consensus government appears highly improbable. The politics of confrontation will likely continue.

Challenges to the United States and Bolivia's Neighbors

Bolivia presents a difficult policy conundrum for the United States. Evo Morales has based his campaign on the premise that the United States ("imperialism") is contrary to all that he stands for. Should he win the election, the extent to which he pursues this rhetoric and follows it with action will be a determining factor for the United States. He is under pressure from key supporters—the coca growers of the Chapare lowlands of Cochabamba Department—to reopen the gates to large-scale production of coca, crossing a red line in the U.S. effort to combat illegal drugs in the Andes and causing a serious problem for Brazil and Argentina, where much of Bolivia's cocaine transits or is consumed. Morales will feel intense pressure between the expectations he has unleashed and the demands that will be made on him to deliver. Carrying out his platform requires large public expenditures, but with an economic program that holds out little promise for sustainable growth. He over-milks the hydrocarbons cow at the risk of completely drying up foreign investment and alienating Brazil and Argentina. Bolivia is already heavily dependent on foreign aid. An intense anti-U.S. campaign by Evo would certainly be a factor for present and future donors. International

public opinion will portray a victory by Evo Morales as the harbinger of indigenous revolt throughout the Americas. To what extent will Evo believe in and act on this perception? Evo is a favorite of Fidel Castro and Hugo Chávez, triggering speculations that Chávez may be financing the MAS campaign. The degree to which Morales allows himself to come under the influence of Chávez will be another indicator of the direction in which he is heading. The question then remains, what sort of Evo Morales would Bolivia get as president?

From the get-go, the United States will have difficult decisions to make should Morales be elected. It would likely adopt a "wait-and-see" approach to Evo in power, but it should at the same time be open to engagement, in the hope of moderating his behavior. Evo would probably desire and seek a benign relationship with the United States, and the extent to which he takes key U.S. interests into consideration will play a large role in determining that relationship. In 1952, the United States embraced rather than rejected the revolutionary government of Paz Estenssoro, in hindsight the right decision to have made. But the United States has red-line concerns that drive policy in Bolivia: the preservation of democracy, respect for human rights and the rule of law, cooperation against illegal drugs, and the maintenance of regional stability. Bolivia's participation in a regional free trade agreement is also in play. The vast majority of Morales's supporters want jobs, food, education, and dignity—not a Trotskyist dream. The United States must remember that.

Likewise, a victory by Quiroga presents a difficult but different challenge for the United States. Tuto's window of opportunity to consolidate his government will be short, and he will be under intense pressure. In this regard, the United States and the international community must stand up in defense of democracy and the rule of law in Bolivia and support policies that promote economic growth, poverty reduction, and social investment. Bolivia's proposal for support from the Millennium Challenge Account is pending U.S. consideration, a potentially key resource in furthering economic development.

In any case, the United States should work closely with Argentina and Brazil in promoting democracy, development, poverty reduction, and stability in Bolivia. The three nations share many concerns, including a key interest in preventing a revival of illegal drug production and trafficking and seeking formulas to promote democratic consensus. The Organization of American States, guided by the Inter-

American Democratic Charter, should also stand ready to assist Bolivia to emerge from its deep political crisis.

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