Bolivia in the new Latin American political scenario

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ABSTRACT

The economic, social, cultural and political storms Bolivia is experiencing do not begin or end in this country, says the author of this article. Instead, they are the manifestation of region-wide changes, which he reviews by looking at the emergence of new political trends, Latin American integration and the issue of energy.

The political storms sweeping the continent converge in Bolivia. Ideological, cultural and ethnic storms, and those caused by poverty, all arrive here. It is as though they were attracted and intensified by the telluric force of the high plateau and the green expanse of the Amazon and Plata river basins.

These are not local storms. They do not begin or end here. They are manifestations of regional and global processes in this country. That is why it is always timely to look again at the context to reach a better understanding of what is happening in Bolivia.

In the pages that follow I will try to analyse the latest developments in certain issues that are undoubtedly relevant to the course of events in Bolivia. These include the expansion of the region’s range of action, the emergence of new political trends, the shift in the forces driving Latin American integration, and the importance of energy as the issue now at the top of the political and economic agenda in South America.

An expanding range of action

Latin America’s place in the world today is characterised by the fact that the region’s political processes are relatively autonomous from global strategic conflicts, together with the reduction – probably circumstantial and temporary – in its vulnerability to shifts in the world economy and consequently its dependence on external debt and the international financial institutions.

1 This article was published in July 2007 in issue 22 of the journal Tinkazos, edited by the Strategic Research Programme in Bolivia (Programa de Investigación Estratégica en Bolivia - PIEB).

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The expansion in South America’s capacity for action is the result, firstly, of the decline in the influence of the United States, and secondly of the improvement in the economic and social situation, itself a consequence of the price rises in the market for raw materials.

In the 1970s Latin America was at the centre of the global conflict between socialism and capitalism. This is no longer the case. The region is not a key player in the strategic confrontation unleashed on the world by the September 11 terrorist attacks. This is concentrated in Iraq, Palestine, Lebanon, Israel and the Middle East, with repercussions in Europe and the United States. South America has no connections with the West’s war against Islamic terrorism. The Revolutionary Armed Forces of Colombia (FARC) clearly do not have that global reach, despite their incursions into Paraguay and their friends in Peru, Bolivia and Ecuador.

With its sights set on the Middle East, dealing with those issues that define the major world power’s relationship with Latin America – drugs, migration, development, democracy – has been pushed into the background. Furthermore, as Richard Lapper correctly points out, the US has repeatedly failed to address the region’s main problem: inequality and poverty.\(^1\)

Also, the United States’ unipolar moment has passed. It is still by far the main economic, military and technological power in the world, but after its setbacks in the Middle East it is no longer able to impose solutions by force and by itself, either there or in any other region of the world. It needs to have the support of other powers. It has had to go back to using diplomatic and political channels to safeguard its interests and prevent the expansion of conflicts. This is illustrated by the active role played by China, Russia, Japan and South Korea in negotiating the agreement signed in Beijing to keep North Korea’s nuclear power under control. The handling of conflicts in the Middle East is also going in this direction, with the increasing participation of Saudi Arabia, Iran and Syria in the discussion about how to stabilise Iraq and Lebanon and take forward the talks between Palestine and Israel.

The same thing is happening in Latin America. There was a strong resurgence of anti-imperialist sentiment in the streets of the region after the invasion of Iraq, and the image of the United States suffered irreparable damage in public opinion (which had sympathetically supported the first steps in the fight against terrorism following the September 11 attacks). Its political capacity to influence events in the region deteriorated. The regional leadership and credibility of the United States declined. This is why it now has to re-start talks with Mexico and seek support from the progressive democracies of Brazil, Argentina, Uruguay and Chile to safeguard political stability in the continent. It may not be too late, but it is clear that the nature of the region’s relationship with the United States will no longer be the same. The situation has changed. Monica Hirst describes this shift very well when she writes that Brazil no longer defines its links with Latin American countries in the light of its ties with the United States. Now it is the other way round. Relations with Latin American countries determine Brazil’s dealings with the hemisphere’s main power.

Similarly important developments have taken place in the economy. The situation today is in stark contrast to what it was at the beginning of the 1980s, when the price of raw materials plummeted and the region consequently found itself unable to pay the external debt. Mexico’s banking system collapsed at the beginning of the 1990s. This was followed by financial crisis in Asia and Brazil, culminating in the systemic crisis in Argentina at the start of this century.

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Overall, things have improved over the last few years. Latin America doubled its growth rate between 2004 and 2007, with an average of 5.1%, compared to 2.2% between 1980 and 2002. Per capita GDP increased by 3.7% between 2004 and 2007.

This growth was helped by the fiscal discipline that countries applied to tame inflation and contain the balance of payments crisis. Above all, however, the improvement is due to positive changes in the region’s involvement in the world economy. Remittances sent by Latin American migrants living in Europe and the United States (US$63 billion in 2006, expected to rise to US$100 billion by 2010), on the one hand, and the growth in the demand for raw materials in China and India, on the other, have together produced a significant financial surplus, thus reducing the region’s dependence on flows of money controlled by western industrialised countries.

In the words of the Economic Commission for Latin America and the Caribbean (ECLAC), “With the international environment remaining favourable, the volume of goods and services exports was up by 8.4% for the region as a whole. In addition, higher prices for the region’s main export products translated into an improvement in its terms of trade equivalent to over 7%.” Combined with the increase in the remittances sent from abroad, the rise in national income has again exceeded GDP growth. “Another distinctive feature of Latin America’s current growth pattern is that it has become significantly less vulnerable to external shocks. First, the shift towards floating exchange rates facilitates adjustment in the event of such shocks. Second, the countries are taking advantage of their more buoyant position to pay down external debt. (…) In line with what has been happening in other parts of the world, albeit on a smaller scale, the countries of the region have been replenishing their international reserves.”

As a result, the World Bank and the International Monetary Fund (IMF) are no longer able to impose on their clients the conditionalities that used to be part of their loan packages, which enabled them to define Latin America’s economic policies in structural adjustment programmes. The substantial increase in sales to Asian countries and the consequent rise in the price of Latin America’s export products has reduced – at least for now – the ability of the industrialised nations to impose their own conditions when dealing with the region.

**Changing trends**

In this situation of relative autonomy, a huge wave of social and political change has been sweeping the region. Its nature and depth obviously varies, depending on each country’s specific history and economic, social and political structures.

In a previous essay, I described the synchronicity between the political cycles of liberalism, nationalism, military authoritarianism and democracy in Bolivia and South American political processes.

This coincidence of events and phenomena is repeating itself now, in a new stage in South America’s political history marked by the emergence of different leaderships and party-political and social movements of a clearly nationalist and popular bent.

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4 Raw material prices increased by 59% between 2001 and 2004, according to The Economist, and by 20% between 2003 and 2006, according to ECLAC. Latin America’s debt-to-exports ratio fell from 203% in 1997 to 83% in 2006.

5 ECLAC. *Preliminary Overview of the Economies of Latin America and the Caribbean*. Santiago, Chile, 2006.

Over the last decade, rejection of the Washington Consensus policies, particularly the privatisation of public services and strategic state enterprises, has been the common factor in the coming together of a broad opposition movement across Latin America, including grassroots groups, the local business community, indigenous organisations, the impoverished middle classes, nationalist politicians and the military, with the support of ecological and anti-globalisation non-governmental organisations. In the words of Tom Shannon, Assistant Secretary of State for Western Hemisphere Affairs, this volatility – which “we should not under-estimate” – was “created by growing social resentment and bitterness among the poorest and most vulnerable sectors” in Latin America.7

Little by little, this originally protest-based social movement grew to the point where it could take the initiative and define the region’s political agenda, as the consequences of applying the prescriptions of the Washington Consensus became clear.

The movement denounced the social fractures caused by the concentration of income and the parallel increase in inequality, and the replacement of the values of collective solidarity with those of unregulated, unrestrained competition. People felt that the state had abdicated its responsibilities in education and health policies. Corruption and cronyism in political parties was seen to have disqualified them from representing the interests of citizens.

In addition to these factors, there were certainly others in each country – regional and cultural differences, changes in the internal correlation of power, political corruption, etc – which combined to unleash a particularly turbulent period in the region’s history, especially in Argentina, Ecuador and Bolivia, involving street protests, road blockades, congressional shutdowns, and parliamentary coups to overthrow constitutional governments and prevent them from finishing their term in office.8 In the midst of serious difficulties, Duhalde, Rodríguez and Palacios presided over short transition governments in Argentina, Bolivia and Ecuador.

The 2005 and 2006 elections in Uruguay, Chile, Bolivia, Colombia, Peru, Ecuador, Honduras, Costa Rica, Mexico, Nicaragua, Brazil, Venezuela and Haiti took place against this background. To some extent they were the legal culmination of this stage of the process.9

The presidents of Bolivia, Colombia, Uruguay, Venezuela and Brazil won the elections with clear majorities and mandates. In Peru, Costa Rica, Mexico, Ecuador and Nicaragua, in contrast, their margins of victory were narrow and citizens were divided between the political options up for consideration.

The political scenario in Latin America today is therefore very different to what it was in the last few decades of the 20th century. In those days, there was clearly a prevailing agreement about the open market economy as a form of economic organisation and representative democracy as a form of political organisation, both in their most orthodox versions. Market forces determined policy and the region’s alignment with the rest of the world. Economy ministers were the most important figures in government. The technocrats reigned.

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7 Hearing of the House International Relations Subcommittee on the Western Hemisphere, March 2007.
9 To complete the picture, the Republican defeat in the congressional elections in the United States and the start of the succession process in Cuba should be added to the list of changes.
Today, in contrast, politicians define the economic and social agenda. The economy yields to politics. In this respect, the shift represents the return of policy to politics. Another development taking place – with exceptions, of course – is the renovation of the political system. Political leaders in some cases, and the parties themselves in others, herald the arrival of a new, non-traditional elite, swept in by an electoral landslide.

The political system has proved flexible enough to take change forward within democratic institutions and abiding by the rules of democracy. Although in many cases the election results marked a profound break with very deeply rooted political patterns and traditions, democracy was not an obstacle for this change to take effect. On the contrary, it made it easier, by giving it the domestic and international legitimacy that democracy represents. This was not just an opening up to new, left-leaning options. The historical significance of the shift is revealed by the fact that a union leader in Brazil, an indigenous person in Bolivia, a woman in Chile, the Frente Amplio in Uruguay, and the Sandinista National Liberation Front (FSLN) itself in Nicaragua won the elections and took power.

Ana María Sanjuán (MS version) notes that what has taken place – especially in the Andean countries – is “an expansion of the public space, with the inclusion of sectors of society that were marginalised in the previous few decades, and this is why there is still tension caused by the demand for participation and new forms of political representation. The widening of political systems has not meant that they have become stronger, however. On the contrary, they have been de-institutionalised.”

There is no doubt about the changing trends. All the options keep their distance from the mistakes or excesses of the economic liberalisation model and stress that social policy is the priority, sometimes out of conviction, sometimes from political necessity. But it cannot be said that there is just one view of things. The old system has fallen apart and it will take time for the region’s political chessboard to settle down again.

A new scenario and new problems

Some have proposed to “found the country anew” in constitutional assemblies with full powers to alter the very foundations of the economic, social and political structure. This inevitably gives rise to foundational controversies and carries significant risks. The problem is aggravated because the forces promoting change – structural this time – behave with the messianic spirit of revolutionaries.

In this situation, there is a real possibility that the thin red line separating a democratic government from an authoritarian regime will be crossed. It is just that this time the danger is not the classic military coup d’état or a civil war culminating in the takeover of power, but a political organisation that won an election and can assert that it was given a mandate to push through these changes.

Thus, the challenge is no longer to open the way to change through democratic channels, but to make it compatible with the structure, institutions and principles of the democratic system. Just as the status quo ante (the privileges, social break-up and discrimination of the ancien régime) cannot

10 Analysts and politicians were wrong to concentrate their efforts on economic reform and forget about political reform. The main demands today are in the arena of political goods, without which the region will not find peace: the dismantling of inequalities, the legitimacy of the state of law, and equality before the law. *Latinobarómetro*. Santiago de Chile, 2005.
12 Tavaré Vasquez, 2004, ending 150 years of domination by the Blanco and Colorado parties.
be defended in the name of democracy, neither should democratic freedom be placed at risk in the name of change.

**The crisis in regional integration**

In this internal political process of “shifting the cargo around half way through the journey”, the structures and objectives of regional integration processes have also reflexively been affected.

Neither the Andean Community nor Mercosur ever became what they aimed to be. Their efforts to set up free trade areas turned out to be incapable of meeting today’s demands and tomorrow’s challenges, although they were very significant if their trade figures are compared with those of the past. And in both cases the building of a solid customs union proved to be an almost unattainable goal.

Colombia, Peru and Ecuador decided to consolidate the temporary and unilateral advantages they enjoyed with the Andean Trade Promotion and Drug Eradication Act (ATPDEA) by negotiating Free Trade Agreements (FTA) with the United States. These were seen as a way of encouraging investment, as well as securing market access for their main exports. Of course, this was a two-way process and posed serious problems for the economic, legal and institutional structures in these Andean countries, which were required to adapt to the demands of the new external environment in terms of competitiveness. The negotiation of the FTA therefore became a key issue in domestic politics, unleashing social protests and demonstrations against it. These were led by the farming and pharmaceutical sectors, which were the ones most threatened by the opening up to competition from the United States.

Beyond their effects on domestic politics, the FTAs caused tension in the trade structure of the Andean Community of Nations (CAN), as they affected the advantages that the Andean partners had agreed to give each other. Bolivian soya, which lost the trade preferences that had brought about the increase in its production, is a case in point. But there was something else. The incompatibility between the liberal economic policy of Colombia and Peru and the nationalist, statist and protectionist policy of Venezuela was made evident, and ultimately led to Venezuela’s withdrawal from the CAN.

Following the elections in Ecuador, the Andean Community is now divided between two contradictory views, with Peru and Colombia on one side and Bolivia and Ecuador on the other. The likelihood that they will manage to overcome their differences is remote.

Mercosur has dominated the Latin American geopolitical and economic landscape ever since it was set up. Its first critically important outcome was to end the strategic tension between Argentina and Brazil, around which the balance of power in South America, from Peru to Tierra del Fuego, had been structured. This on its own changed the nature of the regional diplomatic and political game. The economic and trade effects of Mercosur were almost as important. It linked the two largest South American powers and created an economic area of considerable size, certainly much larger than the one that the Andean countries had hitherto been trying to establish. It is not surprising that the world’s major trade powers turned their attention to the Atlantic side of South America. The United States, Europe and Japan all attempted to forge a special relationship with this emerging market and source of natural resources.
Half way through the first decade of the 21st century, however, this integration arrangement is showing signs of a crisis. Though not as serious as the one afflicting the Andean Community, it does raise issues that are difficult to resolve.

The first is a growing trade imbalance, as Argentina’s trade deficit with Brazil reached US$27 billion in 2005. To calm the waters, the two countries negotiated a Competitive Adaptation Clause, which allows each of them to suspend imports from the other if these are affecting domestic production. The number of products affected by these restrictions is relatively small, but their political impact is huge.

The second, larger issue is the emergence of a new division of labour in the region with the growth of the industrial hub in Brazil. This is obviously the result of the loss of competitiveness in Argentina’s industry compared with Brazil’s, and the culmination of a production relocation process by transnational corporations, which chose Brazil and Mexico as their main centres of operations in Latin America. Another similarly significant trend is the reduction in the trade importance of Mercosur for Brazil (its exports to the area have fallen from 17% to 9% of its global sales).

While these two powers are clearing up their differences and trying to reinforce their strategic alliance, Uruguay and Paraguay are expressing their disenchantment in various ways. They are exploring the possibility of negotiating bilateral free trade agreements with the United States and denouncing their disrespectful and less than intelligent treatment by Brazil and Argentina. They are upset by the move to expand Mercosur by bringing in Venezuela and Bolivia.

The entry of Venezuela as a full member is another major controversial issue. The stated intention is to add the logic of power to the prevailing logic of the market. But Chávez’s well-known rejection of any sort of integration based on the freeing-up of production factors and his insistence on economic cooperation between states, with private enterprise playing a secondary role, indicates a tension between two ideological viewpoints. It would also imply making profound changes to the original structure of Mercosur and the aims of its negotiations with the European Union. Furthermore, the Venezuelan economy, based as it is almost exclusively on oil and gas, has little in common with the structure and objectives of the economies further south.

During the January 2007 Mercosur Summit the entry of Bolivia as a full member was postponed for a year. The official argument was that the arrangements for applying the Common External Tariff and rules of origin needed to be discussed further, but in the corridors it was said that the real reason for the decision was to avoid strengthening Venezuela’s political position in Mercosur. Ecuador’s stated intention of asking to join the project did not come to anything either.

The fact that Venezuela has still not finalised the time schedule for the various essential steps that need to be taken to formalise its inclusion, and the invitation to rejoin the CAN that it has received from Ecuador and Bolivia, mean that Mercosur’s future remains uncertain.

The possibility of building regional unity based on the merger of the CAN and Mercosur trade integration projects was also discarded at the summit. Efforts will now focus on the idea of a system
of cooperation between Latin American states, with a much more political emphasis. This has much in common with the objectives and mechanisms of the Latin American Economic System.

The media that covered the Margarita summit have mentioned four infrastructure projects as the mechanism’s initial portfolio.

- The inter-oceanic highway linking Peru and Brazil, with a branch in northern Bolivia.
- The Colombia-Venezuela gas pipeline.
- The energy loop which proposed to supply Peruvian gas to markets in Chile, Argentina, Uruguay and Paraguay.
- The bi-national multi-purpose pipeline running through Colombia to export oil and gas to Asian markets.

Two of these projects – the Peru-Brazil highway and the Colombia-Venezuela gas pipeline – are already under way as bilateral initiatives. The energy loop idea has been shelved because Peru does not have sufficient reserves of gas to supply the target markets, and the multi-purpose pipeline to export Venezuelan oil and gas to Asia across Colombian territory is a long term project.

The Margarita meeting decided to postpone the discussion about setting up the Bank of the South and Opegasur, an organisation that proposed to bring together the region’s gas producers. The Southern Gas Pipeline has not been mentioned again.

Evidently, the real prospects for this process are not very promising either. The projects are vague and the political differences all too clear. In fact, active bilateral negotiations are filling the gaps left by the absence of collective integration and cooperation schemes.

The countries and governments involved are in no doubt that regional integration is almost inevitable, as it is clearly continuing to expand in all directions: commercial, social, economic, cultural and political.

Nevertheless, there are obvious discrepancies about the means and institutions to be used to take that integration forward. Some prioritise the leading role of politics and the State. Others, in contrast, stress the need to maintain and enhance the benefits of trade and economic interdependence built up in the CAN, Mercosur and the Latin American Integration Association (ALADI).

At some point it will be found that these two visions are not necessarily mutually exclusive and that they can coexist and even complement each other perfectly well. That will probably be the moment when countries get back on the road to unity, with more determination and less weighty rhetoric.

Energy

Energy is one of the major issues in integration and one in which Bolivia is very closely involved.

The energy market is in a state of flux. World oil reserves are falling while global consumption is rising, due especially to the expansion in Asian economies. The Economist cites a study by Deutsche Bank which predicts that China’s oil imports will increase from 91 million tonnes in 2005 to 1,860 million in 2020. Furthermore, the clash between the western powers and the Middle

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Eastern countries – in all its many ethnic, religious, economic, military and geopolitical dimensions – is disrupting the main channels of circulation and distribution of oil around the planet. September 11 undoubtedly had a dramatic impact on the struggle to control the world’s main oil producing regions and energy conduits.

There is another key factor that should be noted. During the 1990s it seemed that the market – i.e. the transnational corporations that dominated it – was able to balance the supply and demand for energy without states intervening. But that is no longer the case. States – especially those in oil-producing countries – have moved back into a space they seemed to have lost. State enterprises (in Saudi Arabia, Iran, Kuwait, Qatar, Algeria and Russia) dominate world reserves in what is now a seller’s market.

With regard to this, the Financial Times notes that:

“a new group of oil and gas companies has risen to prominence. They have consolidated their power as aggressive resource holders and seekers and pushed the world’s biggest listed energy groups (…) on to the sidelines and into an existential crisis.

The “new seven sisters”, or the most influential energy companies from countries outside the Organisation for Economic Co-operation and Development, have been identified by the Financial Times in consultation with numerous industry executives. They are Saudi Aramco, Russia's Gazprom, CNPC of China, NIOC of Iran, Venezuela's PDVSA, Brazil's Petrobras and Petronas of Malaysia.

Overwhelmingly state-owned, they control almost one-third of the world's oil and gas production and more than one-third of its total oil and gas reserves. (…)

Robin West, chairman of PFC Energy, an industry consultancy, says: "The reason the original seven sisters were so important was that they were the rule makers; they controlled the industry and the markets. Now, these new seven sisters are the rule makers and the international oil companies are the rule takers."”

The International Energy Agency calculates that 90 per cent of new supplies will come from developing countries in the next 40 years, in marked contrast to the past 30 years when 40 per cent of new production came from industrialised nations.

As control of the sector returns to state hands, the companies are no longer just a means to increase profits and revenue. They are a foreign policy tool and are used as such. Through their companies, states seek to control the production and distribution of energy and affirm their power and presence.

Gaining control over the centres of production and flows of oil and gas has become one of the key areas of global geopolitical struggle, where producer states compete with each other and states that produce energy clash with those that consume it.

Of course, the same thing is happening in Latin America. Petrobrás, PDVSA, ENARSA, YPFB, PEMEX and Petroecuador are regaining control of the regional oil and gas market. Energy policies have changed, as have the terms of the relationship between states with natural resources and the transnational corporations that have invested in exploiting them.

Genaro Arriagada notes that the energy debate has moved from its traditional focus on technical issues into the realm of politics.\(^\text{15}\) To prove this statement, he clearly describes the way in which Mexico, Venezuela and Colombia use oil as a weapon to achieve their foreign policy objectives and obtain a dominant presence on the political chessboard of Central America and the Caribbean.

In South America the issue is not oil but gas, and the epicentre of the struggle is Bolivia.

Argentina and Brazil are once again competing – as they did seventy years ago – for access to Bolivia’s gas resources. Brazil is in the better position at the moment, as it is the main buyer of Bolivian gas and because Petrobras controls about half of our country’s reserves. But all the signs indicate that Argentina will try to regain its own presence. Bolivia’s price negotiations with Argentina and Brazil showed that both buyers prioritise long-term political objectives over purely technical and commercial considerations, and that their goals and lines of action do not necessarily coincide.

The agreements signed in Brasilia in February, which went substantially further than commercial price negotiations, seemed to confirm Brazil’s strategic decision not to cede the ground it had gained and to maintain and increase its economic and political presence in Bolivia.

The bilateral meeting on 18 April in Margarita muddied the waters again, however. The discussion about the price of the refineries became more heated. Brazil threatened to suspend all its investments in Bolivia and resort to any means available to defend its position. Two days later it was announced that Brazil will increase its own production of gas by 70% and that it had struck deals to buy LNG from Algeria, Qatar and Trinidad and Tobago. With this in mind it has started work to build two gas processing plants, one in Ceará and the other in Rio de Janeiro, with the capacity to process 7 and 14 million cubic feet respectively. In fact, Brazil has already reduced its consumption of Bolivian gas since 1 May 2006. The proportion of Bolivian gas in Brazil’s total gas consumption has fallen from 40% to 25% since then, and is continuing to plummet.

Furthermore, Venezuela has been making visible efforts to enter this playing field. One of the ways it is exploring is through the Southern Gas Pipeline, which experts view with scant respect. The other, it seems, is to influence Bolivia’s energy policy through the alliance between YPFB and PDVSA. It would thus come to dominate the oil market and gain decisive ascendancy in the gas market.

The other player interested in Bolivia’s gas is Chile. It requires energy more than any other country in the region, but it has to pay a very high political price to sit down at the table where the issue is discussed and decisions are taken.

There are, of course, many other issues threading through the warp and weft of our country’s problems. One is the differing and sometimes conflictive nature of the political projects for change in the region. Another is the menacing shadow that drug trafficking and organised crime cast over regional democracy. Yet another is the arms race and the resurgence of historic territorial disputes.

But we will have to leave those for another time and further reflection.

Translated by Sara Shields
Translation from T'inkazos, La Paz, n.22, July 2007.