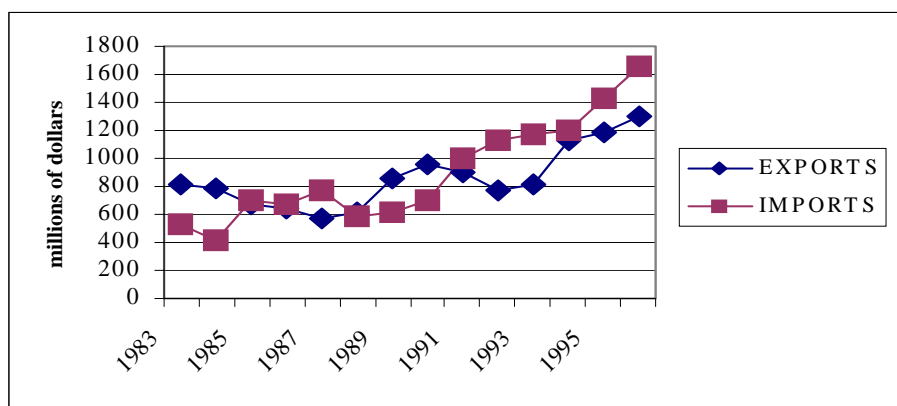


6. U. S.- BOLIVIA TRADE AND INVESTMENT RELATIONS

*Jorge Crespo-Velasco and Gonzalo D. Bernal-Brito**

Bolivia is a comparatively small economy, whose trade in a worldwide context is modest. However, since the 1960s, exports have steadily increased, although not at the same rate as other countries of the region. In 1960, Bolivian exports totaled \$66 million while imports were \$71 million. By 1996, exports had grown to \$1.2 billion and imports had risen to \$1.4 billion. Figure 6.1 shows the evolution of Bolivia's total exports and imports from 1983 to 1996.

FIGURE 6.1. BOLIVIA: TOTAL EXPORTS AND IMPORTS, 1983 - 1996



Source: U.S. Department of Commerce

For much of its recent economic history, Bolivia pursued an inward-oriented economic program that established many barriers to foreign trade and investment. Examples of such policies can be found in the resource extraction sectors, where nationalization programs acted as a brake on potential foreign investment. Bolivia's private sector also failed to establish external links. By the 1980s, the negative effects of government policies started to become increasingly evident. Policies aimed at centralized state control of economic activity resulted in political and social unrest. Buffeted by hyperinflation and poor economic growth, Bolivia returned to democratic rule in 1982. This change ushered in a new direction in economic policy. As noted by the World Bank, "currency and fiscal stabilization programs were initiated, attracting foreign private investment, the public and financial sectors were improved, tax reforms were implemented and the tax payment system simplified, establishing programs to privatize small state-owned companies" (World Bank, 1996).

Although important economic and social reforms have been implemented, the rate of economic growth has not exceeded four percent since 1985. One of the greatest challenges has been the determination of the correct policy mix to attract foreign investment. Investor confidence has been diminished by weaknesses evident in the legal framework, the social situation and the lack of modern infrastructure. In response the government has concentrated on increasing capital investment and, in some cases, privatization of important economic sectors such as hydrocarbons, electricity, telecommunications, air transport, railroads and mining.

Bolivia's land-locked position puts it at a distinct disadvantage in relation to other Andean countries. As Jeffrey Sachs has indicated, "landlocked countries grew more slowly than coastal economies and being entirely landlocked was found to subtract roughly 0.7 percentage points from a country's annual growth" (Sachs, 1996) as such, Bolivian trade is subject to rules imposed by Chile regarding the use of ports, passage of Bolivian goods through Chilean territory, moving goods and warehousing payments, cargo handling at the ports, toll payments,

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consular services and others. Rising prices and a lack of access to the sea may also have caused foreign investors to shy away from Bolivia.

BOLIVIA-U.S. TRADE AND INVESTMENT RELATIONS

Bolivia and the United States have maintained cordial diplomatic relations since the beginning of the century. In the 1960s and 1970s, U.S. policy in Latin America concentrated on supporting military regimes in order to suppress the spread of communism in the region. At that time, Bolivia's economic policies, like those in the rest of the Latin American region during this period, blocked the flow of foreign investment, especially from the United States. With the exception of the mining sector, trade with the United States was negligible. Political instability between the 1940s and 1970s also frustrated foreign investment. During this period the United States remained wary of nationalistic rhetoric and government efforts to nationalize any private investment that made large profits. In more recent times there have been concerns that terrorism and guerrilla movements elsewhere in the region may spread to Bolivia. In addition, signs of social unrest and labor strife have affected Bolivia's economic potential.

The United States has historically been Bolivia's main trading partner. Bolivia has traditionally been a supplier of raw materials to the United States, which has supplied manufactured goods to Bolivia. Trade flows between the two countries have steadily increased and, although Bolivian mineral exports fell in quantity and in value, they have maintained their relative importance in the bilateral trade relationship. U.S. exports to Bolivia have remained concentrated in manufactured goods. Since World War II, Bolivia has exported high quantities of tin to the United States. However, due to competition from tin substitutes such as aluminum, in addition to the low international price of minerals, the quantity of tin exports to the U.S. has drastically decreased in recent years.

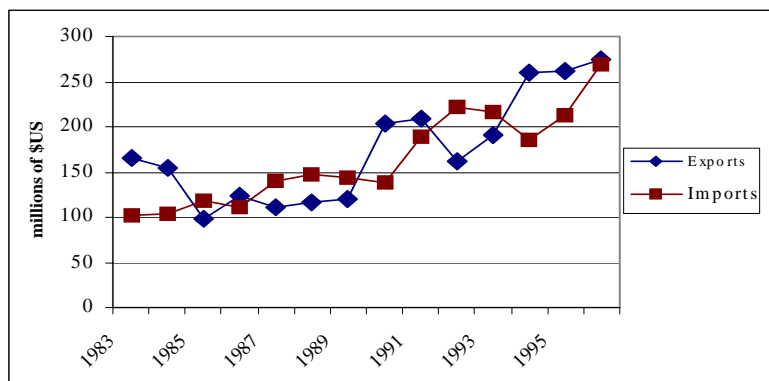
U.S. exports to Bolivia have remained concentrated in manufactured products. This trade has suffered somewhat due to competition from Japan and other Asian countries. During the last three decades, the majority of Bolivian trade has been aimed at Japan, Southeast Asia and Europe. For example, the majority of imported cars have been Japanese, although there has been a small increase in U.S. vehicles lately, due to their competitive price and quality.

Figure 6.2 shows the pattern of trade between Bolivia and the United States during the time period between 1983 and 1996. During this time, the Bolivia trade balance with the United States was positive. This was largely due to the influence of the mining sector, with exports such as tungsten, gold, aluminum and tin. The liberalization of Bolivia's economy, starting in 1985, was not sufficient to offset falling prices in the international tin market and, as a result, exports to the United States suffered. In 1989 and 1990 gold, wood, wood by-products, jewelry and clothing became important Bolivian exports.

During the 1990s Bolivia has managed to diversify its exports to the United States, due to the emergence of new export sectors such as agriculture, forest products and forest byproducts, base metals, gemstones, clothing, jewelry and arts and crafts. During this period, United States exports to Bolivia were mostly composed of finished products, machinery, medicines, electronics and others.

The terms of trade between Bolivia and the United States are largely complementary. An exception to this is found in Bolivian exports of sugar, the price and quantity of which has been regulated through quota allotments since the 1980s. These quota restrictions have constrained the growth of exports in this sector. More recently, Bolivia has begun to export other products such as flowers, textiles, leather and jewelry to the United States and elsewhere.

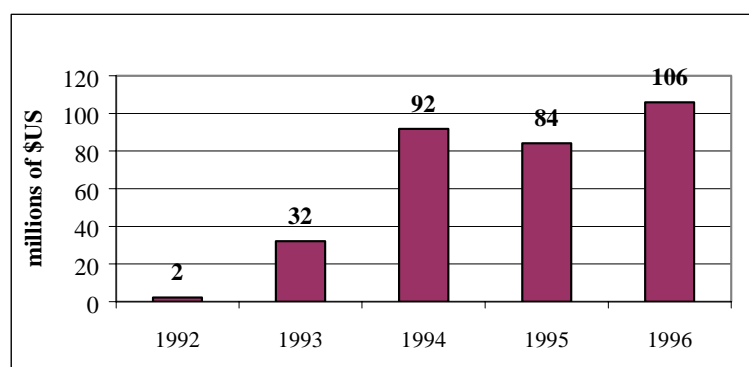
FIGURE 6.2. BOLIVIA'S TRADE WITH THE UNITED STATES, 1983-96



Source: U.S. Department of Commerce

With the passage of the Andean Trade Preference Act (ATPA) in 1991, Bolivia has benefited from growth in the export of items receiving preferential tariff treatment. Between 1992 and 1996, preferential exports to the United States increased steadily, (see Figure 6.3) with jewelry and gemstones benefiting the most. Exports of gold also saw an increase.

FIGURE 6.3. BOLIVIA'S PREFERENTIAL EXPORTS TO THE UNITED STATES, 1992 - 1996

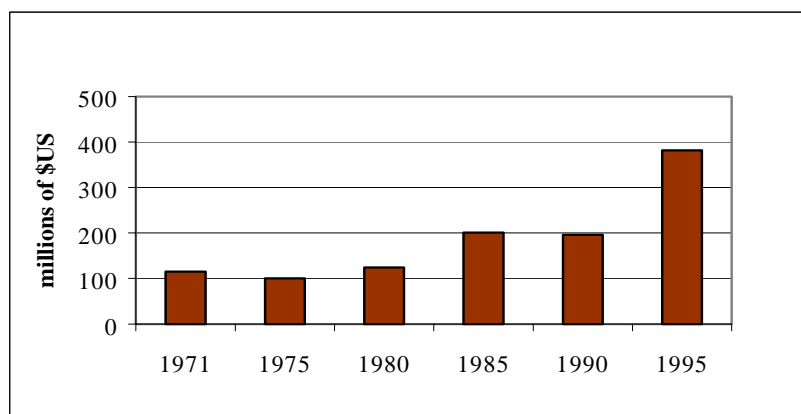


Source: U.S. Department of Commerce

Bolivia, perhaps more than other countries, has had difficulty in surmounting U.S. non-tariff barriers. This is especially true in the areas of technical regulations, sanitary and phyto-sanitary measures, packaging and labeling requirements. Due to the high costs involved in the approval procedures - required quality and marketing controls - Bolivian industry struggles to gain approval for products to enter the United States.

While remaining low during the 1970s a moderate flow of foreign capital was maintained during the 1970s and 1980s, with private U.S. investments in Bolivia concentrated in the mining and petroleum sectors. After the reforms of the mid-1980s began to take hold, private investment underwent marked changes through the ability to participate in the capitalization and/or privatization programs (see Figure 6.4 for U.S. investment in this period). During the first half of the 1990s, U.S. private investment was directed towards the oil, banking and mining sectors. U.S. participation in the capitalization program for the hydrocarbon sector was limited, with one company entering into partnership with the state-owned YPF oil company and another company entering the electrical power generation sector.

FIGURE 6.4 U.S. FDI IN BOLIVIA



Source: U.S. Department of Commerce

Efforts to promote U.S. private investment in Bolivia face many challenges. Information about Bolivia's recent structural changes is difficult to come by and the country is not well known to many small and medium-sized

companies. Nevertheless, continued government reform and increasing economic stability are starting to have an impact. For example McDonald's has begun to set up a small chain of outlets as have Subway (food), Millicom (cellular phones), Dominion Energy (power generation) and AMOCO and ENRON (petroleum and gas business).

BILATERAL POLICY INITIATIVES

A number of U.S. policy initiatives, along with mechanisms set up to stimulate economic relations with Andean countries, have played a significant role in Bolivia-U.S. relations. One such policy measure was President George Bush's 1989 Andean Initiative, which established a bilateral and multilateral framework for U.S. relations with the Andean countries. In it, "the United States offers to make a special review of the General System of Preferences, as well as to carry out special seminars on the subject; it proposes technical assistance for potentially competitive productive sectors and to carry out efforts in the textile area for a special regime on regionally manufactured textiles, except for Venezuela; it establishes the U.S. Council on Trade and Investment for Andean-U.S. cooperation; ... to consult with European Union countries, Canada and Japan, in order that these countries may cooperate with the Andean region. Finally, the U.S. promises that it will negotiate with the World Bank in order that proper reforms to trade policies may be promoted."

At a Summit in Cartagena de Indias, Colombia, in 1990, President Bush strengthened diplomatic, commercial and investment ties with the Andean countries, and adopted a more aggressive role in the fight against drugs. Among the most important aspects to emerge was a commitment by the United States to finance studies and grant lines of credit to projects in the agricultural sector. The United States also agreed to support the private sector in the creation of microenterprises and agroindustries. Since the Cartagena Declaration, the United States has fully supported Andean countries in the promotion of alternative development programs such as compensatory schemes for the eradication of excess coca leaf production. The Cartagena Declaration recognizes that "insofar as commercial initiatives are concerned, there is a need to increase private trade and investment in order to foster economic growth." There is also a need to convince the United States to grant technical and financial support for the import of agricultural products into its market, as well as to strengthen the promotion of Bolivian exports, including the identification, development and marketing of new products.

With United States encouragement, the February 1990 meeting of the Quad countries (Canada, the European Community, the United States and Japan) also discussed means for increased support to Andean countries. As a result, the European Community approved a preferential arrangement granting a zero duty on Andean imported products, for a period of four years.

Relations were expanded in May 1990, when then-President Jaime Paz Zamora visited the United States and signed an agreement creating the United States - Bolivia Council on Trade and Investment. This was the first such agreement to be signed within the framework of the Andean Initiative. The Council was to oversee trade and investment and relations and hold consultations on specific topics of particular interest. A number of other efforts were introduced with a variety of aims such as coordinated action on drug trafficking and increased opportunities in the agricultural sector.

In June of 1990, President Bush launched the Enterprise for the Americas Initiative, which included trade, investment and external debt initiatives for the countries of Latin America and the Caribbean. This program to a certain extent superseded the 1989 Andean Initiative, as the United States began to focus on economic-commercial dynamics with all of the countries of the Western Hemisphere. The Enterprise for the Americas Initiative included a new U.S. proposal to open up the economic and commercial borders of the Hemisphere. The new proposal included a "special regime of preferential rates which expands cooperation in agricultural development, introduces the special review of GSP and of the guidelines for a process to free trade and investments" (White House, 1990).

On December 4, 1991 the Andean Trade Preferences Act was approved, granting trade preferences to all Andean countries with the exception of Venezuela. These preferences are to last for ten years and cover over 6,000 products. Excluded from the ATPA are most textiles and clothing or garments, canned tuna fish, petroleum and petroleum byproducts, shoes, some leather, rubber and plastic articles, rum and cane alcohol and watches.

On July 2, 1992, Bolivia was named a beneficiary country under the ATPA. During the Congressional consideration of the Bill, Bolivia pushed for a number of amendments. Bolivia's wish list included a review of

the sugar quota allocation, the inclusion of llama and alpaca textiles as eligible products and extension to the Andean countries the provisions of Section 936. None of these proposals were approved. Bolivia's proposal regarding Section 936 was supported by Representatives Crane and Gibbons and would have “allowed 936 Companies domiciled in Puerto Rico, under Puerto Rican government control and its financial entities, to invest - partially or totally - with any Andean country, and that locally paid taxes be returned to the companies as a tax credit on a pro rata basis to the investments made.”¹ Nevertheless, the Andean Trade Preferences Act (ATPA) is one of the most important legal frameworks in the promotion of commercial trade relations with the United States. The ATPA has given confidence to Bolivian entrepreneurs to improve their exports and diversify their production.

Changes in the Bolivian and U.S. administrations and new priorities in bilateral relations sidelined the Bolivian-American Council on Trade and Investments. The Council, over the course of three sessions, came to a series of understandings and managed to resolve certain concerns in the trade sector which improved the bilateral processes. Under the Council's guidance, efforts were made, between 1991-93, to negotiate a Bilateral Investment Treaty (BIT). Despite good progress, the Treaty negotiations remain incomplete. However, the creation of the Bolivia - United States Chamber of Commerce has had a positive effect on trade and industrial relations between the two countries' private sectors. The Chamber has set up commercial and trade missions, encouraged the exchange of trade and investment information and encouraged the formation of joint ventures in services, mining, banking and other sectors.

An important component of Bolivia-United States cooperation is the issue of the drug trade. The priority of U.S. bilateral cooperation has been in drug interdiction, excess coca leaf eradication, alternative development and drug prevention programs. USAID has small programs to assist judicial reforms, alternative development support programs, and to set up health and democratic institutions. Alternative development programs have to a large extent been successful, especially in substitution of coca for banana, palm heart and pineapple plantations, and opening a small export market for these crops within Latin America.

Bolivia's recent trade relationship with the United States has been influenced by the liberalization measures undertaken since the mid-1980s and the completion of the Uruguay Round and the creation of the World Trade Organization (WTO). In recent years, the Andean countries have made great strides in liberalizing their economies. Andean countries have made adjustments in their financial systems, introduced privatization programs, and introduced changes in their legal systems in areas such as intellectual property protection and investment.

FUTURE POLICY APPROACHES

One opportunity that the Andean countries should take into account is the Free Trade Area of the Americas, to be negotiated shortly. The opportunities that would result from entering into such a free trade agreement -- either jointly with the other Andean countries and/or individually -- are significant. Trade would be opened to the United States, one of the world's largest consumer markets, as well as to the potential offered by the rest of the Hemisphere. The participation of Bolivia in such a Free Trade Agreement would require several industrial and trade reforms. To fully take advantage of the opportunities offered, the private sector will have to become more competitive, and labor-training would need to be improved to attract private foreign investment. The Bolivian government would also have to eliminate and/or reduce customs duties, do away with secondary taxes, diminish bureaucracy and initiate an aggressive program to promote foreign investment.

CONCLUSIONS

The end of the Andean Initiative by the current U.S. Administration had a significant effect on Bolivia. The Andean Initiative had given Bolivia the opportunity to improve trade relations, both with the U.S. government and the private sector. Not only did it try to improve bilateral trade, but it also recognized the need to cooperate with the Bolivian private sector in order to improve its productive capacity.

¹ Internal Revenue Code, 1986 Code - Subtitle A, Ch. 1N, Part IIID, Income Tax - U.S. Possessions, Sec. 936. Puerto Rico and Possessions Tax Credit”, Washington D.C.

Bolivia benefits from a number of trade advantages with the United States. It could be said that it has a “unilateral free trade treatment” through the General System of Preferences (GSP), the Andean Trade Preferences Act (ATPA) and other concessions offered through the World Trade Organization. As well, Bolivia has a number of advantages that should make it attractive to foreign investment. It is geographically diverse and rich in natural resources. It is estimated that only 10 percent of the mineral reserves have been mined in the western mountain range and in the pre-cambrian area of eastern Bolivia. The country’s hydrocarbon reserves are known to be rich, with reserves of approximately 18 million barrels of oil and 6 trillion cubic feet of natural gas. The diversity in climate and the large areas of land suitable for agriculture and farming are also important attractions for private foreign investment.

Bolivia has a free enterprise economy; and has strengthened the reforms of its economic and financial system. It has carried out stabilization and structural reforms aimed at freeing price controls, has simplified the tax regime and reduced the size of its bureaucracy. These, and other measures, show greater advances in economic and financial reforms than in other Andean countries.

In order for Bolivia to fully take advantage of all it has to offer, it needs to consider strengthening its productive apparatus, to generate conditions that attract foreign private investment in all potential export areas and improve the supply of services and facilities. Traditionally, Bolivia has been an exporter of raw materials, particularly in the oil and mining areas. In the past five years, the agricultural sector has witnessed a significant growth in exports. The country has also seen an advance in areas such as crafts, wood, clothing and jewelry. But current conditions are not enough for Bolivia to compete with the other Andean countries. It is important for Bolivia to attract foreign private investment in order to diversify production. This would lead to further industrialization, a dynamic economy, strengthened financial sectors and technological assistance. Industrialization, together with the exploitation of raw materials, would benefit the country’s productive infrastructure.

A number of public and private institutions have been set up in Bolivia, dedicated to trade promotion and private investment. The ‘Confederation of Private Enterprises’ groups together private federations, associations and chambers and the National Chamber of Commerce represents local Bolivian Chambers of Commerce. Chambers of commerce also exist with other countries; foundations, institutes, NGOs and centers dedicated to the promotion of trade and foreign investment. The public sector, aside from a National Secretariat of Trade, duplicates the same work through Bolivia’s numerous institutions. For example there is the Ministry of Foreign Affairs, the Ministry of Capitalization, the National Secretariat on Alternative Development, as well as Municipalities and Departmental Prefect offices, which represent the central government at a departmental level.

Considering the limited quantity of Bolivian trade and the reduced flow of investments, it is imperative that both the public and the private sectors carry out drastic reforms to reduce the excessive number of institutions dealing with trade and investment. These many entities have caused policy on the external financing for trade and investments to become diluted and loose track of original objectives, creating numerous directives and concepts on how to approach trade and investments in Bolivia.

During Bolivia’s June 1997 presidential elections approximately 70 percent of the population demonstrated support for the economic reforms which aimed to strengthen the open market model. In addition, both the political sector and public opinion agree that an improved infrastructure is required to address social problems such as poverty, educational reforms, the population’s health, retirement funds and housing deficits. It is undeniable that social disturbances, such as labor stoppages and strikes, are caused by these social shortcomings. The free market model must be adjusted to Bolivia’s population in order to reduce poverty. It must, at all costs, avoid polarization between the rich and the poor that would create problematic situation and jeopardize the model’s success. The model should also establish a formula that allows for the incorporation of the informal sectors of society into Bolivia’s productive process.

In this sense, Bolivia must continue with reforms that strengthen its economic model, and create an environment to attract foreign private investment. This would help production and trade growth in anticipation of entry into free trade agreements with its important trading partners.

While the Bolivian economy offers many opportunities and has great potential, it will take time to make this transition. In the past, Bolivia has benefited from preferential access to the large U.S. market. Recently, the U.S. Government has decided that the General System of Preferences should end or, at most, be renewed only for specific countries with small economies such as Bolivia. Although the country enjoys the benefits of the ATPA

until 2001, this preferential mechanism, by opening up a market for Bolivian products, has allowed Bolivian industry the opportunity to improve its international participation and to optimize its productive output.

In anticipation of the forthcoming Second Summit of the Americas- due to be held in April 1998, Trade Ministers from the countries of the Western Hemisphere have met various times to set the stage for direct hemispheric negotiations towards a free trade agreement. Although a number of subjects will be discussed in Santiago, such as the strengthening of democracy, economic integration, poverty relief, education, corruption and measures against drug traffic, the subject of free trade should have the highest priority.

The Andean Community must define its global or individual participation in the FTAA with the U.S. in this light, Andean countries should aim at economic-trade optimization, whereby all customs duties are eliminated, “origin rules” are modified and customs laws are unified. The fundamental principles of the World Trade Organization on “national treatment” should be incorporated into all Andean trade policy. Rules regarding duties on Andean and U.S. goods should be clearly laid out, considering that by January 2001 all duty exemption programs will have been eliminated.

Bolivia has met and implemented, since 1985, a series of economic reforms that make the country attractive for investment. In addition, Bolivia has sufficient natural resources and labor to meet the challenges of industrialization. Signing a free trade agreement with the United States, as part of the Andean group or individually, is the key to Bolivia’s participation in a global economy.

Participation in the FTAA will be the fastest way to strengthen and harmonize adjustment programs and define a common strategy among the smaller Andean countries, in the face of the challenges from an aggressive and highly competitive international market.

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