

**BOLIVIA AT THE CROSSROADS:
THE DECEMBER ELECTIONS**

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BOLIVIA AT THE CROSSROADS: THE DECEMBER ELECTIONS

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Bolivia is on the verge of national and social disintegration. Its elections on 18 December 2005 – for a president, Congress and department prefects – may be a final opportunity to start solving deep social and economic problems and profound ethnic divisions. The international community – especially the U.S. and key left-leaning governments in the region like Brazil – will need to show restraint, offer reasonable support and focus on areas of common interest. This is particularly so if the new government is led by the mercurial indigenous champion, Evo Morales, who may otherwise be tempted to join forces with Venezuela's populist president, Hugo Chávez, in a dangerous confrontation with the U.S.

After the ousting of President Gonzalo Sanchez de Lozada in October 2003 and the forced resignation of his successor, Carlos Mesa, in June 2005, the country is under enormous pressure. Interim President Eduardo Rodríguez, the former head of the Supreme Court, was initially able to steer away from the abyss that loomed when he took office. The honeymoon calm was broken, however, by a bitter fight over reallocation of congressional seats provoked by the relatively prosperous, business-oriented eastern department of Santa Cruz as part of the long-standing struggle with poorer, more statist-inclined and indigenous power centres in the western highlands and valleys that threatens to tear the country apart.

The latest surveys give Morales, the leader of the coca growers (*cocaleros*) in the Chapare region, and his Movement Toward Socialism (MAS) party a narrow lead over their main rival, former President Jorge Quiroga and his Democratic and Social Power (PODEMOS) citizen association. Neither candidate is likely to win an absolute majority, which means the election would be decided by the new Congress, a prospect that favours the more traditionalist and conservative Quiroga even if he polls fewer popular votes. If Morales becomes the next president, he will be under strong pressure from substantial sectors of the social movements to adopt radical policies, especially regarding nationalisation of the hydrocarbon industry and relations with the international financial institutions. Both scenarios almost certainly guarantee social upset and quite possibly violence.

The next government will have to deal with strong centrifugal forces challenging the unity of the nation-state, powered by autonomy claims from not only Santa Cruz but also the southern department of Tarija and radical indigenous and trade union groups in the western highlands. There are fundamental policy issues of hydrocarbon resource management, poverty reduction, equitable distribution of social and economic power, rural development and the building of a stronger and more inclusive state. All sides need to be willing to compromise on a policy consensus over a five-year period and beyond.

There is widespread expectation that the new government and Congress will prepare a constituent assembly to draft a new constitution and a referendum on regional autonomy, both to occur in mid-2006. These two measures, if based on a negotiated consensus, could form the foundation for the country to move toward democratic stability and socio-economic progress. Without that consensus, they could tear it apart.

The international community should provide effective election monitoring through the Organization of American States (OAS) and announce it will cooperate constructively with the new government, regardless of who leads it. U.S. unease over Morales remains strong, as he has spoken most harshly against the coca eradication aspect of its anti-narcotic drugs policy (proposing lifting all constraints on coca leaf production) and is close to Chávez. Washington remembers the counter-productive effect when its ambassador spoke out against Morales in the 2002 election, however, and has wisely avoided taking sides in the campaign. If Morales wins, it will need to move with care to avoid pushing him further into Chávez's embrace.

The transnational oil companies also can play an important role in helping Bolivia achieve stability and socio-economic development by agreeing to negotiate new contracts with the government and paying higher taxes and royalties on natural gas production.

RECOMMENDATIONS

To the Government of Bolivia:

1. Continue to take all necessary measures to hold the elections for president, Congress and department prefects on 18 December 2005, including ensuring that parties have equal access to media and that polling stations are run efficiently.

To the Political Parties and Citizen Associations:

2. Limit personal attacks in the campaign and concentrate on the core policy issues, particularly hydrocarbon management, job creation and poverty reduction, that the next government will need to implement.
3. Keep hardliners in the western highlands and eastern lowlands in check by campaigning on the basis that the unity of the Bolivian nation-state is not negotiable and that the results of the elections will be fully respected.
4. Reach out to women voters and women party and citizen association members, recognising their priorities and according them decision-making responsibilities in appropriate positions.
5. Pursue hydrocarbon sector reforms by amendments to the new hydrocarbon law – which brings greater revenues to the state – while ensuring that such amendments respect international legal norms with regard to investments of private transnational oil companies and include competitive arrangements to encourage further investment and sector efficiency.
6. Stop creating high expectations on the nationalisation of the hydrocarbon sector that could be the source of destabilising contention and social unrest in the first months of the new government.
7. Develop a clear strategy together with the social movements and trade unions on the form and specific objectives of the constituent assembly and the referendum on regional autonomy that are envisaged in 2006.

To the Social Movements and Trade Unions:

8. Take no action that could endanger free and fair elections on 18 December.
9. Put aside intransigent positions and contribute to building a minimum consensus (including women, youth and the elderly) on the reform agenda of the next government, in particular on the form and

specific goals of the constituent assembly and the referendum on regional autonomy.

To the Bolivian Congress:

10. In the interest of political stability, if no candidate wins an absolute majority in the popular vote on 18 December, elect as president the one who received the most votes.

To the U.S. Government:

11. Send a clear message through diplomatic channels that it will not question the legitimacy of the new government and that its priority will be to find common ground for tackling Bolivia's deep-seated problems in a constructive manner.

To the Governments of Venezuela and Brazil:

12. Provide clear public messages of readiness to support the next government in implementing its reforms.
13. Dispatch small observer missions in coordination with the OAS to reinforce the legitimacy of the election results.

To the OAS:

14. Prepare and implement the election monitoring mission agreed with the Rodríguez administration in good time and cover the entire country.

To the European Union, its Member States, the Inter-American Development Bank (IADB), the World Bank, the IMF and the Andean Community:

15. Increase contributions to the design of strategies for new hydrocarbon management, poverty reduction, more equality for indigenous populations and rural development.

To the Transnational Oil Companies:

16. Agree to negotiate new contracts with the government that entail higher taxes and royalties on natural gas production but also guarantee the continuation of business.

Bogotá/Brussels, 8 December 2005

BOLIVIA AT THE CROSSROADS: THE DECEMBER ELECTIONS

I. INTRODUCTION

Since 1997, Bolivia has had five different governments; since October 2003 it has witnessed the enforced fall of two presidents and the rise of ever more intense and frequent social protest. It urgently needs institutional stability and visible socio-economic progress or it faces political and social disintegration.

In the aftermath of the tense days of May and June 2005, which produced the resignation of President Carlos Mesa, a deceptive calm has settled in. Citizens are both exhausted and waiting for the general elections (presidential, congressional and departmental) on 18 December. A high-ranking Bolivian official told Crisis Group the polls called for by the interim president, Eduardo Rodríguez, are an “escape valve in the context of an aggravated social conflict”.¹ Representatives of the trade unions, political parties, civic associations, Catholic Church and international organisations sceptically described the situation as a “stand by”, an “artificial interim period”, or the “valium effect of the latest round of social agitation” and “fifteen minutes of calm before the storm”.²

These elections on their own cannot solve the deep-seated problems of South America’s poorest nation, which range from the chronic weakness of its state through widespread poverty and corruption, a lack of political representation, the demise of the political party system, and historic patterns of social exclusion, to ethnic tensions between the people of the western highlands and eastern lowlands. Radical groups in the departments of Santa Cruz and La Paz question Bolivia’s very unity.³

The political and social contenders, among them the parties (traditional and new), citizen associations, trade unions and social movements, perceive the fault lines and the challenges from different angles. Only a small minority are enthusiastic about the elections; many more see them

as “the lesser evil”.⁴ No consensus exists on what a likely subsequent constituent assembly should do with the constitution or on the holding of a referendum on regional autonomy in mid-2006 – demands respectively of Evo Morales’s Movement Towards Socialism (MAS) party and the social movements, and the powerful Santa Cruz Civic Committee. The election campaigns of Morales, Jorge Quiroga (Poder Democrático Social, PODEMOS) and Samuel Doria Medina (Unidad Nacional, UN) are characterised by personal attacks, belligerent rhetoric and lack of programmatic depth on core policy issues.⁵

A mid-November survey showed Morales with a narrow lead over Quiroga, with Doria Medina trailing badly.⁶ A significant 10 to 12 per cent was reported as undecided. Their late decisions will probably decide who has a popular vote plurality. None of the three main presidential contenders, however, is likely to win a popular vote victory – an absolute majority is required. Since there is no runoff, the newly elected Congress would choose the next president. It might well not simply pick the candidate with the most popular votes, especially if it is Morales, since PODEMOS stands a good chance of winning a majority in the senate and is ideologically close to UN. Any new government will have to deal with the tension between institutional politics and street pressure.

A MAS government under Evo Morales, who is the first indigenous candidate with a real chance of being elected president, would mean a break with the political past. That development has to be seen as a step forward for democracy in Bolivia, where the 70 per cent of the population that is indigenous traditionally has faced both exclusion and discrimination. The *cocalero*⁷ leader’s

¹ Crisis Group interview, La Paz, 23 August 2005.

² Crisis Group interviews, La Paz, 22, 23 and 24 August 2005 and Santa Cruz, 29 August 2005.

³ Radical trade unionist and leader of the Movimiento Indígena Pachakuti (MIP) Felipe Quispe recently reiterated his call for armed struggle and secession if he loses the December elections. *La Razón*, 13 October 2005.

⁴ Crisis Group interviews, La Paz, Cochabamba and Santa Cruz, 22-30 August 2005.

⁵ Reacting to this situation, the National Electoral Court (CNE) banned twelve televised campaign spots of the MNR, UN, MAS and PODEMOS in early December. *El Deber*, 4 December 2005.

⁶ The same pollsters, Ipsos Caputara, had previously put Quiroga ahead. *Latin American Weekly*, 15 November 2005.

⁷ *Cocaleros* are farmers who work in the central Chapare area and the north western Los Yungas region. In the Chapare region, they are organised in six federations, which have been led since the 1990s by Evo Morales. In contrast to the traditional use of the coca leaf in Los Yungas, which is said to be sweeter and tastier to chew, the coca leaf harvested in Chapare ends up

election would counteract the absolute loss of credibility of the traditional parties and the associated problems of political representation but would be resented by conservatives – particularly in Santa Cruz – and feared by the transnational oil companies working in Bolivia. A Morales administration would likely cultivate a close relationship with Venezuelan President Hugo Chávez, which would at the least cause concern in the U.S. and could precipitate a confrontation with serious consequences for the stability of not only Bolivia but also all South America.

Instead of contributing to governability, the first ever popular elections of departmental prefects are expected to reinforce regional divisions between the altiplano and the lowlands and make it harder for the new government to achieve stability.

It is no exaggeration to say that Bolivia's nation-state and democracy are at stake. The elections are the litmus test whether a new consensus can be built on hydrocarbon resources management, poverty reduction, equitable distribution of social and economic power and the character of a stronger yet more inclusive state. If domestic and international actors are irresponsible and the opportunity is missed, escalation of social, political and civil conflict and regional secession attempts are all too possible.

mostly in the hands of illegal cocaine processing and trafficking groups. Crisis Group interview, La Paz, 1 December 2005.

II. ORIGINS OF THE CRISIS

The current situation should be seen in historical perspective. The destructive political and social competition especially since 2000 is based on deep-seated problems in three main areas: nation and state; economy and poverty; and democracy.⁸ Despite a democratic transition in 1982 that was hailed for its stability and introduction of the New Economic Policy (NEP) in 1985, which included market liberalisation and large-scale privatisation of state enterprises and transformed the country into a poster child for neo-liberal reforms in Latin America,⁹ serious and inter-connected problems persist in all these sectors.

A. THE NATION AND THE STATE

The effectiveness, legitimacy and viability of both the nation and state as they emerged from independence in 1825 are being questioned. The belief that the state is in crisis is widely shared, as is the belief that a single Bolivian nation does not exist, due to the presence of more than 30 ethnic groups in addition to the *mestizo* and “white” populations.¹⁰ These perceptions grow out of a strong sense of frustration about the unsatisfactory political representation, extensive poverty and inadequate integration into the economy of large sectors of society. Radical groups attempt to capitalise on this frustration for their own political purposes and to benefit their own regional economic interests,¹¹ but no convincing and realistic alternative has been proposed to the existing institutional framework.

Profound ethnic divisions and unresolved social, political and economic problems have accumulated. The World Bank reports that the indigenous make barely half what their fellow citizens do. While nearly 40 per cent of the non-indigenous have access to water, 81 per cent to electricity and 56 per cent to sewer services, the comparable figures for the indigenous are 16 per cent, 56 per cent and 30 per cent.¹² Poverty has grown since

⁸ For a discussion of the “elusive trinity”, see Russell Crandall, Guadalupe Paz and Riordan Roett (eds.), *The Andes in Focus: Security, Democracy and Economic Reform* (London, 2005).

⁹ See Crisis Group Latin America Report N°7, *Bolivia's Divisions: Too Deep to Heal?*, 6 July 2004.

¹⁰ Jorge Lazarte, *Entre los espectros del pasado y las incertidumbres del futuro* (La Paz, 2005), pp. 510-523.

¹¹ Crisis Group interview, Santa Cruz, 29 August 2005.

¹² “Inequality in Latin America and the Caribbean: Breaking with History?”, World Bank, 2003; see figures 3.3, and table 3.9. Both the Inter-American Development Bank (IADB) and the Organization of American States (OAS) are pursuing strategies

the state capitalism cycle began with the 1952 National Revolution and expanded with the so-called “neo-liberal model” in the mid-1980s. The almost constant crises reflect serious flaws in the state’s construction. Development has been marked by instability and a questionable legitimacy often sustained by coercion, patronage and corporate networks.¹³

At the heart of the unresolved conflicts is a long history of social exclusion. Far from mending the damage provoked by colonialism and forging a new, inclusive social pact, independence reinforced domination, exclusion and racism in mestizo-creole society. In some cases, the situation after independence was even more predatory and authoritarian than what the wars of national liberation had sought to abolish. According to one of President Rodríguez’s close advisers:

The legitimacy of the new “state” proclaimed in 1825 rested on citizenship, which was restricted both legally and factually to those who were entitled to vote. Until 1952, this excluded the bulk of the population – mainly the indigenous groups – from an opportunity for political participation at the basic institutional level. Under these conditions, political power faced an unachievable task: it simply could not gain legitimacy with those who were excluded.¹⁴

Rebellious indigenous groups who sought rights were bloodily repressed but their resistance was more a strategy to demand participation than a rejection of the state, which usually violated the rules it insisted the public obey.¹⁵ This inconclusive duel reflected a divorce between civil and political society which is visible to this day.

The 1952 National Revolution counts among its most important victories broader civil and political entitlements through the universal right to vote, agrarian reform, nationalisation of the mines and educational reform. However, these achievements were considerably diminished by distortion of public power; the sole political

party – the Nationalist Revolutionary Movement (MNR) – was a bastion of corporate power and patronage. Institutions were not built that were capable of responding to the fragmentation produced by the revolution itself and the need for socio-economic modernisation.¹⁶ The repression of political pluralism as well as ethnic and ideological diversity corroded the values of the revolution and led to internal conflicts that destroyed its contents.

In recent years, election promises to restore the state’s legitimacy and renovate politics have been regularly made and broken.¹⁷ The statistics speak for themselves. Between 1995 and 2002, there was an average of 3,450 social conflict events per year.¹⁸ Between October 2003 and June 2004, the Mesa administration quelled more than 4,300 such conflicts. By October 2003, suppression of social protest had produced the largest number of fatalities (300) under one government during the entire democratic period since 1982. According to one telling figure, the government signed 3,400 agreements with social movements between 1997 and 2002. It honoured very few.

Most of the social movements, the new parties (e.g. MAS) and various citizens associations have abandoned more forceful resistance to concentrate on winning political power democratically, through constitutional channels. This is welcome but the state finds it very difficult to exercise authority and territorial control. There are “grey areas” in regions far from the department capitals and in the operations in urban areas of institutions responsible for justice. The length and porosity of borders and the lack of adequate coordination with neighbouring countries encourage migration of transnational crime to urban centres, which are breeding grounds for further criminal activity, including drug trafficking.¹⁹

Crimes committed by transnational networks are on the rise, as are instances where delinquency is associated

to expand government response to discrimination and exclusion of indigenous peoples. See IADB conference September 2005 on “Strategy for Indigenous Development”, at http://www.bicusa.org/bicusa/issues/IDB_Consultation_Process_Report.pdf, and OAS consultation on draft American Declaration on Rights of Indigenous Peoples, at http://www.oas.org/main/main.asp?sLang=E&sLink=http://www.oas.org/OASpage/Indigenas/default_year.asp.

¹³ See Eduardo Gamarra, “Crisis de representación e intermediación en Bolivia”, in Cesar Montufar and Teresa Whitfield (eds.), *Turbulencia en los Andes y Plan Colombia* (Quito, 2003), pp. 47-76.

¹⁴ Lazarte, op. cit., p. 515.

¹⁵ Ibid, p. 515.

¹⁶ See Fernando Calderón and Roberto Laserna, *Paradojas de la modernidad* (La Paz, 1995).

¹⁷ The major presidential contenders during the last two decades (Jaime Paz Zamora, Gonzalo Sánchez de Lozada and Hugo Bánzer) not only failed to keep their campaign pledges but reiterated their offers in every campaign, promising to reduce poverty, create jobs, construct basic infrastructure (roads, airports, a railroad system), provide public utilities and basic services, fight corruption, etc.

¹⁸ Most social protest was over water, defence of coca, access to land, education and health, peasant demands and regional claims. It was led predominantly by coca-growing peasants, traditional peasants, labor unions, grass-roots sectors, civic committees and other groups.

¹⁹ See Crisis Group Latin America Report N°12, *Coca, Drugs and Social Protest in Bolivia and Peru*, 3 March 2005.

with and protected by law enforcement bodies.²⁰ The police have been inclined to step back from their constitutional duties in response to the emergence of private security companies to the extent that they have become one of the most repudiated and least reliable institutions in society.²¹ Over the last decade, the police and political parties have ranked at the bottom rung on the ladder of public confidence.

The state's weakness also is reflected in the way radical groups question national unity. Most are located in the two allegedly-opposed regional poles of La Paz and Santa Cruz. Geographic fragmentation and/or de facto federalism are jeopardising the pallid centralist system which originated in 1825.

The energy of the small but effective radical social groups and movements with indigenous identity is in sharp contrast to the languor and apparent inability to change of the weakened traditional political system. Although different in many ways including their objectives, the radical groups of the western highlands and eastern lowlands operate with the same intolerance and belligerence. In both regions the advocates of autonomy or separatism invoke ancestral cultural and ethnic identities that supposedly make them different from the rest of the country.²²

At the root of these extreme positions is a struggle over control of natural and productive resources (water, natural gas, forests and land) as well as a rejection of the centralist system of government.²³ Representatives of the business community and civil society organisations in Santa Cruz, for example, told Crisis Group that the department "has to deal daily with the negative effects of centralism", such as the transfer of public funds to La Paz. Its "competitive, self-sufficient and open" economy is put into a straight jacket by the central government's economic policies.²⁴

To some extent, rejection of the central government system by the elites in the eastern and southern departments of

Santa Cruz and Tarija and in the Amazon departments of Pando and Beni is justified. Its structural weakness is a constraint to solving the serious problems of regional development and to overcoming the obstacles involved in promoting new types of production linked to regional and global markets. However, it is questionable whether corruption in the public sector in Santa Cruz, for example, is less than in La Paz, or whether public funds are used more efficiently there.²⁵

B. THE ECONOMY AND POVERTY

It is frequently suggested that increased social upheaval is intimately linked to the country's economic model.²⁶ That neo-liberal model encourages foreign direct investment to make business more productive, increase state revenue and expand the base of the economy while making it more modern, competitive, and integrated with international markets. However, too little of this has occurred. Bolivia has some of the highest transaction costs in the world, ranking 132nd of 155 nations according to the World Bank in the time and cost to start a business.²⁷

Few of the promises of well being, equitable distribution, more jobs and a better quality of life have been kept for the vast majority of citizens. Put into place in the aftermath of macro "shock" policies which smothered the hyperinflation that reached 24,000 per cent in 1985, the neo-liberal policy has produced few winners because of the state's limited capacity and debt burden and its lack of human development investment and a strategy to reduce rural poverty.²⁸ GDP rose by 2.7 per cent, on average between 1997 and 2003, a far cry from the 10 per cent talked of when state companies were privatised.²⁹ Between 1991 and 2002 average growth was 3.1 per cent, despite foreign investment. In the 1960s and 1970s, it had averaged 5.6 per cent.³⁰ Foreign direct investment fell from \$1.01 billion in 1999 to \$160 million in 2003.³¹

²⁰ For example, several senior police officers led a gang that robbed banks and jewelry stores in December 2003. *La Razón*, 18 December 2005.

²¹ See H. Mansilla, *La policía boliviana* (La Paz, 2003).

²² See Gustavo Pinto, *La nación cambia. Fundamentos y desafíos* (Santa Cruz, 2003); Alonzo Roman, *Cambas y collas. Los paradigmas de una nueva nación* (Santa Cruz, 2005). Felipe Quispe's Movimiento Indígena Pachakuti (MIP) seeks to reintroduce and reconstruct the mythical indigenous nation of Kollasuyu (Qullasuyana).

²³ Crisis Group interviews, La Paz and Santa Cruz, 24 and 29 August, 1-4 December 2005.

²⁴ Crisis Group interviews, Santa Cruz, 29 August 2005. A specific complaint was that Santa Cruz is not allowed to export natural gas through Chile, while the highland regions can export tin and oil without restriction.

²⁵ Crisis Group interview, Santa Cruz, 29 August 2005.

²⁶ Crisis Group interview, La Paz, 24 August 2005.

²⁷ World Bank 2005, "Doing Business", at <http://www.doingbusiness.org/EconomyRankings/>.

²⁸ "Bolivia: Poverty Reduction Strategy Paper" prepared by the Government of Bolivia, March 2001, at <http://www.imf.org/external/NP/prsp/2001/bol/01/Index.htm>; "Bolivia in the Struggle Against Poverty: Is the International Debt Relief Initiative Working?", at http://www.bread.org/institute/debt_and_developmentproject/dossier4.html. *Nueva Economía*, La Paz, April 2003.

²⁹ Alvaro García Linera, "La lucha por el poder en Bolivia" in *Horizontes y límites del Estado y del poder*, La Paz, 2004, p.12.

³⁰ UNDP, *In forme temático sobre Desarrollo Humano: La economía más allá del gas*, La Paz, 2005, p. 49.

³¹ Alvaro García, op. cit., p. 13.

68 per cent of the economy is informal – up from 58 per cent in the last fifteen years, which means that seven out of ten jobs are of poor quality, mainly involving artisan technology and semi-wage relations.³² Unemployment is estimated to have risen from 3 per cent in 1994 to 8.5 per cent in 2002.³³ Average annual income is around \$1,100, similar to 1982 but less than the \$1,200-plus of 1978.³⁴

The proportion of those living in poverty increased from 62 per cent in 1999 to 64 per cent in 2002. During the same period, the rate in urban areas went from 51 to 53 per cent, and the numbers of those in extreme poverty from 23 to 25 per cent. In the rural areas, the increase was from 80 to 82 per cent, but those in extreme poverty actually declined from 56 to 54 per cent.³⁵ The richest segment of the population has 90 times the income of the poorest in urban areas and 170 times the income of the poorest in the countryside, which according to the World Bank is the greatest inequality on the continent.³⁶

The external debt situation has been critical for twenty years. The overall non-financial public debt came to \$2.43 billion at the end of 2004,³⁷ accounting for more than half of the external debt. Payment for interest and amortisation nearly doubled from \$271 million in 1998 to more than \$500 million in 2003.³⁸ The overall fiscal deficit, 7.5 per cent in 2004, has declined in 2005 to 3.5 per cent because of revenue from the new tax on hydrocarbons.³⁹

Bolivia has become a net exporter of capital through transfers from privatised companies to their parent organisations and payments by the banks on their long-term liabilities. It exports both financial and human capital. One out of four Bolivians lives abroad, a diaspora that is swelling alarmingly in the face of political uncertainty and rising unemployment.⁴⁰

Foreign investment and transnational companies have become vital to the economy as a result of the privatisation process initiated in 1995.⁴¹ Between then and 2003, \$2.7 billion was invested from abroad in previously state-owned companies, with 65 per cent focused on the hydrocarbon sector, 23 per cent on communications, 7 per cent on electricity and 5 percent on communications.⁴² However, foreign direct investment has dropped sharply in the past few years.⁴³ Such investment had its greatest impact on the hydrocarbon sector and allowed for a major increase in gas reserves, making Bolivia the second most important Latin American country in this respect after Venezuela.⁴⁴

Poverty is being contained through international cooperation in the form of financial support, which pays the wages of many public employees, and the precarious employment encouraged and managed by social investment funds for the benefit of low-income sectors.⁴⁵ Any withdrawal of funding could jeopardise the operation of an important part of the government bureaucracy. The European Union and its member states currently provide \$350 million in development assistance⁴⁶ and the U.S. subsidises 98 per cent of the fight against drug traffic by giving law enforcement agencies supplementary wages and basic goods and services such as food, equipment and fuel. In practice, all public and private development initiatives now depend on outside donations or loans.

C. DEMOCRACY AND SOCIAL MOVEMENTS

In 1982, after eighteen years of military rule, Bolivia embarked on a transition to democracy. However, the first elected civilian government of leftist President Hernán Siles (Unión Democrática Popular, UDP) was forced to accept early elections and step down in 1985 because of mounting economic problems, hyperinflation and strong

³² “Evaluación de programa de país (CPE): Bolivia 1999-2002”, IDB, Washington DC, 2004.

³³ Efraín Huanca, “Economía boliviana: evaluación del 2003 y perspectivas para el 2004”, Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA), La Paz, 2004.

³⁴ Alvaro García, op. cit., p. 14.

³⁵ UNDP, op. cit., pp. 58-60.

³⁶ The World Bank report on “Inequality in Latin America”, table A 2, p. 287, shows per capita income of the richest 10 per cent as 143 times greater than the per capita income of the poorest 10 per cent nationwide in Bolivia. Elsewhere in Latin American, the average difference in income is 1 to 30.

³⁷ Ibid, p. 48.

³⁸ Gregorio Iriarte, *Análisis crítico de la realidad, compendio de datos actualizados* (La Paz, 2003), pp. 382-384.

³⁹ UNDP, op. cit., p.48; *El Deber*, 10 October 2005. See Section IV below.

⁴⁰ During the last few years, more than two million Bolivians have migrated, primarily to Argentina, Brazil, Chile, the U.S.

and, more recently, Spain. See Gregorio Iriarte, op. cit.

⁴¹ The main state-owned companies were privatised during Sánchez de Lozada’s first administration (1993-1997). They include Empresa Nacional de Electricidad (ENDE), Empresa Nacional de Telecomunicaciones (ENTEL), Lloyd Aereo Boliviano (LAB), Empresa Nacional de Ferrocarriles (ENFE) and Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). YPFB has become state-owned again under the new hydrocarbon law. See José Valdivia, “La capitalización”, in *Las reformas estructurales en Bolivia*, Fundación Milenio (La Paz, 1998).

⁴² Napoleón Pacheco, “Los impactos de la capitalización: evaluación de medio término”, in *10 años de capitalización, luces y sombras*, DPRMC (La Paz, 2004), p. 169.

⁴³ UNDP, op. cit., p. 49.

⁴⁴ Napoleón Pacheco, op. cit.

⁴⁵ World Bank, “Bolivia, *Del padrino al Estado patrimonial. Análisis de la situación institucional y de gobernabilidad*”, Washington, 2000.

⁴⁶ Crisis Group interview, La Paz, 1 December 2005.

pressure from right-wing parties in Congress, as well as the trade union umbrella organisation Central Obrera Boliviana (COB).⁴⁷ Siles was succeeded by Victor Paz Estenssoro of the MNR, who inaugurated seventeen years of relatively stable democratic rule.

In order to consolidate the fledgling democracy, Paz Estenssoro – who received fewer popular votes in 1985 than former President Hugo Bánzer but was elected by the Congress in accordance with Article 90 of the constitution⁴⁸ – entered into a pact with Bánzer's Accion Democratica Nacional (National Democratic Action, ADN) party. This so-called Pact for Democracy was designed to guarantee sufficient congressional support for far-reaching reforms, including the New Economic Policy (NEP). Until 2002, the three “traditional” parties – MNR, Movement of the Revolutionary Left (MIR) and ADN – governed on the basis of post-election pacts, through which they obtained majorities in Congress to elect the president and pass legislation.⁴⁹

“Pact democracy” (democracia pactada) stabilised the political system after the upsets produced by the military's departure from power and the turmoil of the Siles administration.⁵⁰ Important progress also was made towards reinforcing crucial institutions such as the National Electoral Court and the judiciary. During Gonzalo Sánchez de Lozada's first administration (1993-1997), the “Popular Participation” decentralisation program was implemented through the so-called Popular Participation Act (LPP).⁵¹ It

enabled the state to be present in “many parts of the country for the first time” and 20 per cent of the state budget to be transferred to the municipalities. Prior to this, most local government resources were concentrated on the major cities (La Paz, Santa Cruz and Cochabamba).⁵²

However, decentralisation, which contributed to a considerable extent to the political organisation of social groups and indigenous movements at local and regional level and even more to their expectations,⁵³ began to clash with the “pact democracy” system, which a small political class had come to use almost exclusively as a mechanism for wielding power.⁵⁴ The five administrations elected between 1985 and 2002 had the largest parliamentary backing in the country's history, making it impossible for opposition initiatives to prosper. Increasingly broad ruling coalitions deteriorated to the point where they were no more than mechanisms to ensure impunity. The parties bear a good measure of responsibility for the breakdown of democratic order and the growing loss of institutional legitimacy.

autonomous municipalities. Indigenous municipalities, recognised by virtue of their practices and customs, could be set up as well. The weakest municipal territories encouraged the development of strategic alliances that became commonwealths or associations with the capacity to consolidate regional identity, productive growth and socio-economic development. This so-called “municipalisation” gave historically denied opportunities to local communities. The act was crucial to building new awareness that allowed the emergence of new political actors at local level, including the indigenous movements in the lowlands and the highlands. This underscored the inefficiency and centralist nature of the traditional power structures that had been wielded in an authoritarian way through the party system.

⁵² Basset, op. cit., p. 59.

⁵³ Although the appearance of social movements is not directly attributable to the LPP process, it bolstered their articulation at regional and local levels. During the mid-1990s when the “neo-liberal” economic model and public-policy reforms were being questioned, two important political forces emerged to represent unions and indigenous people: MAS, under Evo Morales, and MIP, led by Quispe. MAS, which has its stronghold in the Chapare region of Cochabamba, originated with the so-called Political Instrument for the Sovereignty of Peoples (IPSP), founded in 1995 by traditional and coca-growing peasant organisations. After failing to gain recognition from the National Electoral Court, it has participated since the 1999 municipal elections as the Movement Toward Socialism (MAS). MIP grew out of the more than two-week peasant blockade spearheaded in the highlands during September 2000 primarily by Quispe. It was founded in November 2000 as a political and ideological vehicle of the indigenous nations. Its strength is in the northern part of La Paz department, particularly Achacachi. See Shirley Orozco, “Trayectoria política e ideológica: historia del Movimiento al Socialismo (MAS)”, in *Revista Barataria*, La Paz, 2005; Felipe Guaman, interview with Felipe Quispe, at <http://www.nodo50.org/resumen/resumen51/quispe>.

⁵⁴ Crisis Group interview, La Paz, 22 August 2005.

⁴⁷ Crisis Group Report, *Bolivia's Division's*, op. cit.; Yann Basset, “El derrumbe del modelo boliviano de gobernabilidad”, in *Análisis Político*, no. 51, May-August 2004, p. 52.

⁴⁸ Article 90 says Congress must elect the president from among the two candidates who received the most votes at the polls, in the event no candidate receives 50 per cent, plus one vote. This allows Congress to elect the loser of the popular vote, thereby creating legitimacy problems for the new government.

⁴⁹ The three main parties received support from four smaller ones: Union Cívica y Social (UCS), Movimiento Bolivia Libre (MBL), Nueva Fuerza Republicana (NFR) and Conciencia de Patria (CONDEPA). The five governments and governing coalitions between 1985 and 2002 included MNR (President Victor Paz Estenssoro, 1985-1989), MIR and ADN (President Jaime Paz Zamora, 1989-1993), the MNR-MRTKL, UCS and MBL (President Gonzalo Sánchez de Lozada, 1993-1997), ADN-NFR, Condepa, MIR and UCS (Presidents Hugo Bánzer and Jorge Quiroga, 1997-2002), MNR, MIR and UCS (President Gonzalo Sánchez de Lozada, 2002-October 2003).

⁵⁰ Crisis Group interview, La Paz, 22 August 2005.

⁵¹ See Xabier Albo, “Los indígenas en los municipios”, CIPCA; 2002 and 2005. Also, VVAA, “Participación Popular, 10 años después: balance y autocrítica,” ILDIS, La Paz, 2005. The 1995 Popular Participation Act, a political reform intended to promote state presence throughout the country and reinforce citizen participation, democratisation of public institutions and decentralisation, allowed for 314 administratively and financially

Congressional strategy served not only to neutralise the opposition, but to hide government irregularities as well. “Confidential expenses” were used extensively, sometimes to buy votes in Congress, on other occasions to maintain the loyalty of government officials. The parties expected civil service positions to be distributed in proportion to election results. “Market democracy”, which allegedly was to combine the party system of liberal democracy with the market economy, in effect transformed the civil service into the parties’ private enterprise.⁵⁵ Most Bolivians now see the traditional parties as a threat to the country and favour their extinction.⁵⁶

This constellation of political forces was changed dramatically, however, by the presidential and congressional elections of June 2002. The advent of MAS, under Evo Morales, and its ties to social movements of different geographic and ethnic origin broke up the political landscape. MAS became the second most powerful political force in the country and, after the fall of President Sánchez de Lozada in October 2003 and Carlos Mesa in June 2005, the only real national force. No government can survive without its cooperation. With difficulty, but effectively, MAS coordinates the demands of the leading social movements: peasant (CSUTCB), indigenous (CIDOB), coca-growers (federations of coca growers in tropical Cochabamba), miners (mining cooperatives), grass-roots urban sectors (Cochabamba Water Coordinating Committee) and neighbourhood councils (FEJUVE in the city of El Alto). Recently, it has attracted middle-class intellectuals and professionals.

Politics has taken a radical and risky turn. Decisions in Congress often are reversed by decisions on the street, producing a continuous cycle of instability and institutional disorder. The fall of Sánchez de Lozada’s second administration in October 2003 marked the end of the old political order that had been supported by:

- ❑ a free-market economy that eventually replaced the state’s productive capacity, rode roughshod over its regulatory responsibilities and failed to fulfill its promise of jobs and poverty reduction;
- ❑ privileged arrangements of parties and small family elites whose command over the public sector destroyed checks and balances and permitted colossal corruption;

- ❑ formal democratic rhetoric paralleled by a daily reality characterised by lack of civic responsibility, racism, exclusion, inequality and injustice;
- ❑ Co-option of the bulk of the intellectual elite; and
- ❑ informal control of the police and armed forces through internal benefits or privileges derived from partisan loyalties.

Sánchez de Lozada responded with force to the protests, using the entire military-political arsenal in his effort to restore law and order. Clashes during his thirteen-month administration resulted in approximately 120 dead and more than 600 wounded.⁵⁷ The Catholic Church tried and failed to mediate between the government and the MAS-led opposition. Both sides remained intransigent to the point where the government was eventually overwhelmed by the social upheaval.

The government lost its authority, and international pressure, framed by the war on drugs and terrorism, led to a “low-intensity” conflict between law enforcement and the coca-growing communities.⁵⁸ The structural weakness of the military and police have been offset, to a degree, by sizeable U.S. military cooperation, technical assistance, training and economic cooperation that has largely been without Bolivian supervision or congressional control.⁵⁹

The recurrent police and military responses to protests, civil disobedience and property destruction by the peasant *cocalero* movement in the 1980s and 1990s, the water and gas wars in this decade, the 2002 elections, the crisis in February and October 2003,⁶⁰ and the forced resignation of the popular Mesa in June 2005 revealed basic flaws in the neo-liberal state. The country began to doubt the capacity of democratic government to agree on concerted action or reform institutions, and it saw coercion used increasingly to restrain the social movements. Between 1985 and 2000, every administration declared a state of emergency for restoring order after it failed to produce satisfactory results.

However, the state’s coercive response was unable to quell the anger of a society that felt betrayed, not only by “pact democracy’s” unsatisfactory achievements but also by the regressive effects of its economic model.

⁵⁵ World Bank, 2000, op. cit.

⁵⁶ See CNE, “Segundo estudio nacional sobre democracia y valores democráticos”, La Paz, 2004; various authors, “Auditoria de la democracia: informe Bolivia 2004”, UCB, USAID, LAPOP, La Paz, 2005.

⁵⁷ Luis Crespo, “Bolivia: un año de violentos conflictos,” at <http://www.news.bbc.co.uk/hi/spanish/specials/2003/balance>.

⁵⁸ See Crisis Group Report, *Coca, Drugs and Social Protest in Bolivia and Peru*, op. cit.

⁵⁹ Bolivian law enforcement agencies tend to be more reliable, regular and prompt in reporting information to the foreign agencies with which they cooperate than to the state itself.

⁶⁰ Crisis Group Report, *Bolivia’s Divisions*, op. cit.

III. THE DECEMBER 2005 ELECTIONS

The approaching general elections are something of a last chance to prevent Bolivia from descending further into aggravated social conflict and political and institutional disintegration. Their scheduling brought brief calm after the tensions surrounding President Mesa's resignation on 6 June 2005 and Congress' election of the head of the Supreme Court, Eduardo Rodríguez, as the new president three days later but there are serious doubts whether they will bring real stability.⁶¹ From late September to early November it was unclear whether they would be held at all. On 22 September, the Constitutional Court ruled that congressional seats had to be redistributed among the country's nine departments pursuant to the last census (2001), thus favouring Santa Cruz and Cochabamba departments.⁶² Congress was unable to agree to the changes due to resistance from La Paz, Oruro and Potosí, which stood to lose seats, and the intransigence of Santa Cruz representatives. On 2 November, President Rodríguez broke the deadlock with a decree allocating three additional seats to Santa Cruz and one to Cochabamba while taking away two from La Paz and one each from Oruro and Potosí. The elections were moved back two weeks to 18 December.

Although most welcomed this last-minute executive decision, the campaign has been characterised by great uncertainty and lack of policy debate. Neither the radical trade unions nor the La Paz and Santa Cruz business sectors appear to consider that the elections are a real first step away from the crisis.⁶³ None of the three main contenders is likely to gain the absolute majority needed to win through the popular vote.⁶⁴ Bolivians are tired of the political crisis and consider that the elections to some extent delay urgently needed answers to the big problems. Many perceive them as only an interim stage in a political timetable that could extend for half a decade.⁶⁵ Elections for a constituent assembly are scheduled for July 2006. There are plans to hold a referendum on regional autonomy at the same time, followed by a referendum on the anticipated new constitution, probably in 2007 or 2008. Municipal elections will be called one year later, in 2008 or 2009. This cycle would only end with national and departmental elections in early 2010.

The length and complexity of this process make it urgent that the contending blocs construct at least minimum short- to medium-term common agendas that include tolerant recognition of winners and losers. Stubborn continuation of the standoff could lead to uncontrollable escalation of social conflict and political violence.

Along with additional democracy, the choice of department prefects by the people for the first time introduces additional uncertainty. It is not clear what their duties will be or their relationship with the government at municipal and national level, and what role they could play in the east-west controversy over departmental autonomy. What seems clear is that they will be driven by regional agendas with different interests than those of the national authorities.

After Mesa's failed administration, the country remains in a stand-off between two main blocs, representing the interests of the highlands and the social/indigenous movements, on the one hand, and the lowlands and the economic elites in Santa Cruz and Tarija on the other. They offer different solutions to the crisis but neither has enough political and social strength to win an outright victory at the polls.⁶⁶

A. THE FALL OF PRESIDENT MESA

Carlos Mesa was sworn in as president on the night of 17 October 2003, after Sánchez de Lozada fled to the U.S. during fierce demonstrations, which the military crushed, leaving 60 dead and 500 wounded. Mesa had a reformist reputation but he entered electoral politics at a difficult time. Public authority was losing legitimacy, the political system was in decline and strong demands were being made for an end to neo-liberalism, the state's recovery of control over natural resources and the construction of participatory democracy. Attracted by the reforming zeal of the first Sánchez de Lozada administration (1993-1997), he had abandoned television to assume the vice presidency. A journalist of considerable prestige and intellect, he supported the campaign promise to fight corruption that enabled Sánchez de Lozada to snatch an

⁶¹ Crisis Group interview, La Paz, 22 August 2005.

⁶² Constitutional Ruling 0066/2005 (Sucre, 22 September 2005).

⁶³ Crisis Group interviews, La Paz and Santa Cruz, 23, 24 and 29 August 2005.

⁶⁴ See Section III C below.

⁶⁵ Andrés Torrez, "Orientación sobre el proceso de transición y el consejo pre-constituyente y pre-autonómico en Bolivia", mimeograph, July 2005.

⁶⁶ It is possible to argue that the constitutional succession of Eduardo Rodríguez was largely the outcome of the stalemate between those two blocs. While MAS and the social movements were able to prevent the election of Hormando Vaca Díez and Mario Cossio as presidents of the Senate and lower house respectively, they were unable to save Mesa, whom they saw as the lesser evil. See Section III C below. Crisis Group interviews, La Paz and Cochabamba, 23, 25 and 26 August 2005. UNDP, "Análisis de mediano plazo", working paper, La Paz, August 2005.

unexpected electoral victory from Manfred Reyes Villa in June 2002.⁶⁷

Upon taking the top office in the midst of crisis, Mesa identified his administration as one of “historic transition” between the old pact democracy presidencies and a new but still diffuse movement based on three promises that together comprised his October Agenda: 1) a referendum to decide how to use and market the country’s energy resources, particularly natural gas; 2) amendment of the 1996 Hydrocarbon Law to restore state control over energy wealth; and 3) an assembly to draft a new constitution that would produce a more inclusive, participatory and multi-cultural nation-state. In his inaugural address he announced his administration would not last more than one year, and elections would be called once these promises were fulfilled.⁶⁸

No president since the transition to democracy in 1982 was as popular as Mesa⁶⁹ but his honeymoon was cut short by the hydrocarbon referendum in July 2004. Although he won a victory, he sidestepped the constitution to achieve it,⁷⁰ and his fall was prompted by the national debate over what had actually been decided. Congress systematically rejected his proposals for a new hydrocarbon law.⁷¹ Ten months later, in May 2005, he refused to sign the bill drafted in the Economic Commission chaired by MAS, which he considered too hostile to the interests of the transnational oil companies operating in Bolivia, whose power he probably overestimated. It was then enacted into law solely by congressional action.⁷²

⁶⁷ See, José Valdivia Urdininea. “¿Cuándo se jodió Mesa?”, *La Razón*, 21 May 2005.

⁶⁸ Lazarte, op. cit., p. 582.

⁶⁹ Mesa’s approval rating was 80 per cent at the start of his administration and never fell below 40 per cent. Ibid.

⁷⁰ All questions on the referendum were approved by an absolute majority. Between October 2003 and June 2004, Mesa spent much time and effort amending the constitution and introducing the referendum and the constituent assembly as well as on the possibility for citizen and indigenous groups to participate in elections on equal terms with the parties. Lacking partisan support in Congress, he decided, on 13 April 2004, to call the referendum by presidential decree. This flagrantly violated the recently amended constitution, which stipulates a referendum must be regulated by law. See Lazarte, op. cit., p. 586.

⁷¹ After approval of the referendum, Mesa sent a hydrocarbon bill to Congress, known as the “short law”. After it was rejected, he presented another complete proposal, which was also rejected by the House of Representatives Economic Commission, though eventually debated in plenary. The Economic Commission chaired by MAS drafted a bill that was discussed simultaneously in plenary.

⁷² Senate Chairman Hormando Vaca Díez played the central role. Crisis Group interviews, La Paz, 22 August; Pastoral

Many believe Mesa failed on the hydrocarbon law because he lacked a political organisation that could make practical use of his popularity. His was an administration without a party, though it enjoyed broad support from the urban middle class, who felt their aspirations were being represented for the first time in years and their claim for ethics in politics was being heard. Mesa had initially also received tentative support from Evo Morales, especially when the government took the decision, despite U.S. pressure, for reducing coca eradication, maintaining 3,200 hectares in the Chapare region for one year and conducting an independent study on the market for the crop.⁷³

While lack of congressional support for its legislative initiatives played an important role in its demise, Mesa’s administration was also weakened by ongoing social conflicts,⁷⁴ reflected by marches and demonstrations in La Paz and several alleged MNR plots, perhaps in association with the elites of the eastern and southern regions.⁷⁵

Mesa was further damaged by personality traits. Encouraged by his popularity, he tried to win a place in history by aiming for greater reforms than he had power to deliver and tended to be dismissive toward the parties in Congress, when a more modest approach would have been advisable.⁷⁶ He placed too much trust in his ability to mould public opinion directly through the mass media, which he used more than any president before him.

His dramatic efforts to portray himself as a victim and blame the parties of the old system as responsible for the legislative deadlock backfired, and his unwillingness to use force to contend with social unrest and the recurrent road blockades eroded his standing with the middle class and irritated Santa Cruz elites, who viewed him as complacent and demagogic.⁷⁷

Social Caritas, “El debate de la ley de hidrocarburos”, Santa Cruz, May 2005, p. 23.

⁷³ See Crisis Group Report, *Coca, Drugs and Social Protest in Bolivia and Peru*, op. cit.

⁷⁴ See Roberto Laserna, *La democracia en el ch’enko*. Fundación Milenio (La Paz, 2004). According to President Mesa, his administration settled 825 conflicts and resolved 4,250 of 12,000 complaints and petitions. The disputes were mostly related to social matters, such as wage increases and better pension benefits for teachers and health workers, but also to anti-drug policy and coca eradication measures or claims for regional autonomy. Presidential Message, Office of the President, La Paz, 6 March 2005.

⁷⁵ Crisis Group interview, La Paz, 24 August 2005. The Mesa administration was plagued by fears of conspiracy. At its most critical moments, officials complained that various political parties, social movements, business sectors, or regional elites were conspiring to overthrow it.

⁷⁶ Lazarte, op. cit., p. 584.

⁷⁷ Ibid, p. 585.

The long stalemate over the gas issue coupled with his January 2005 decision, after initial hesitation, to give in to pressure for departmental autonomy orchestrated by the Santa Cruz Civic Committee, fuelled public distrust. That month more than 300,000 people took to the streets of Santa Cruz, clamouring for a referendum on departmental autonomy. Eager to prevent installation of a de facto prefecture there, Mesa issued a constitutionally questionable decree for popular election of prefects.⁷⁸ From that moment, the Civic Committee's strongly separatist "January Agenda" competed with Mesa's "October Agenda".⁷⁹

The social movements and MAS ended up calling for nationalisation of hydrocarbons, after indicating at first that raising royalties on national gas production would suffice. The oil companies recovered from their shock over the lost referendum and went on the offensive against the government.

The situation had begun to change drastically for the Mesa administration even earlier, when MAS won the December 2004 municipal elections.⁸⁰ Evo Morales shifted the focus of his pressure to encourage passage of the hydrocarbon bill drafted by his group in Congress⁸¹ and reinforced this demand by calling for a constituent assembly. The separatist pressures, nourished by rising fuel prices which hurt agro-industrialists in Santa Cruz department,⁸² put the administration in a spot that was even tighter because the inhabitants of El Alto were demanding that the transnational company Aguas del Illimani be ousted for breach of contract. The congressional majority (MNR, MIR and NFR), hostile to both Morales and Mesa, blocked legislation, sparking the largest demonstration ever, which covered the entire country and triggered Mesa's first resignation, in March 2005.⁸³

The break-up of the precarious relationship with MAS led Mesa into a series of major political errors and erratic decisions that eventually doomed his "historic transition".

He tried to capitalise on middle class support by questioning the leadership of Evo Morales and Abel Mamani, who headed the protests in El Alto. On 2 June, in an act of desperation, he issued a decree scheduling the elections to a constituent assembly and a referendum on departmental autonomy for 16 October 2005. The constitutionality of this decree was also questionable and incited further opposition in Santa Cruz, which wanted the referendum first.

After Mesa's second resignation on the night of 6 June, Congress convened in Sucre, the constitutional capital, due to the threat of violence in La Paz. However, the demonstrations had moved there, and a march by miners from Oruro sparked the disorganised, nearly chaotic process which produced the selection of Supreme Court Chief Justice Eduardo Rodríguez. The death of a miner, presumably killed by soldiers,⁸⁴ and a statement by the senior military command on 9 June precipitated the resignation of the chairmen of the House of Representatives (Mario Cossio, MNR) and the Senate (Vaca Díez) in a climate of uncertainty and risk of imminent violence.

Mesa acknowledged his inability to continue but at the same time was unwilling to accept Vaca Díez or Cossio as his successor.⁸⁵ In the end, he had no alternative but to take refuge with the military, and it was rumoured in La Paz that he had asked the senior command to shut Congress so new elections could be held.⁸⁶ Unlike in 2003, however, the military left it to the politicians to find solutions, despite its fears of national disintegration.⁸⁷

B. THE RODRÍGUEZ GOVERNMENT AND THE ELECTORAL PATH

Like Mesa, Rodríguez took over a transition government in the midst of serious social and political upheaval. The differences lie in how they confronted the challenge and that Rodríguez was determined as well as obliged to call

⁷⁸ Crisis Group interview, Santa Cruz, 29 August 2005.

⁷⁹ UNDP, "Análisis de mediano plazo", working paper, La Paz, August 2005.

⁸⁰ See Crisis Group Report, *Coca, Drugs and Social Protest in Bolivia and Peru*, op. cit.

⁸¹ Crisis Group interview, Cochabamba, 25 August 2005.

⁸² In January 2005, the Santa Cruz Civic Committee organised a strike to protest the rise in diesel prices and occupied several public buildings. Comité Pro Santa Cruz, *Gestión Rubén Acosta Aguilera 27003-2005* (Santa Cruz, 2005), p. 125.

⁸³ Congress did not accept Mesa's first resignation. Early in 2005 Evo Morales wanted Mesa to schedule new elections. MAS regarded him as "the lesser evil" and wanted to prevent the traditional parties from returning to power, as happened in June 2005. Crisis Group interview, Cochabamba, 25 August 2005.

⁸⁴ Crisis Group interview, Cochabamba, 26 August 2005.

⁸⁵ Still in shock over loss of opportunity for Vaca Díez from the MIR leadership to take office in June, a high-ranking party member told Crisis Group Mesa played a role in organising the protest by Oruro miners in Sucre. Allegedly, his aim was to dissolve Congress, govern alone, and then call new elections. Crisis Group interview, La Paz, 24 August 2005.

⁸⁶ Crisis Group interview, La Paz, 24 August 2005; *La Prensa*, 6 August 2005.

⁸⁷ Crisis Group interview, La Paz, 24 August 2005. In his capacity as General Captain of the Armed Forces, Mesa had protected members of the military from trial in regular courts and otherwise been professionally helpful.

elections within 180 days.⁸⁸ He adopted a realistic approach and prudently ended the frequent clashes with Congress that had characterised Mesa's term.⁸⁹

A complicated feat of constitutional engineering was required to organise the political agenda after Rodríguez's turbulent succession. Congress was forced to agree on an important set of laws that paved the way for elections, including:

- ❑ Law N° 3089, 6 July 2005, amending Article 93 of the Constitution by giving priority to constitutional succession and general elections within 180 days;
- ❑ Law N° 3090, 6 July 2005, interpreting Article 109 of the Constitution on election of prefects by popular vote for five-year terms; and
- ❑ Special Law N° 3091, 6 July 2005, providing under Article 232 of the Constitution for election of a constituent assembly on the first Sunday of July 2006 and for a National Pre-Constituent and Pre-Autonomy Board.

Rodríguez defined himself as the "judge of the republic", a metaphor intended to send a clear message on the obligation to re-establish rule of law, authority and public tranquillity. The executive and legislative branches agreed on the transition agenda, smoothing out the legal and regulatory difficulties and prioritising the electoral calendar, the constituent assembly, and the referendum on autonomy.

The new president's political independence has been an asset, and except for the struggle over reallocation of seats, he has benefited by a fairly constructive attitude in a Congress whose authority has been curtailed to the point where it had to agree to early elections. The social movements have declared something of a truce while they adjust to the new conditions and assess their electoral options: MAS and Morales, or MIP and Quispe. Although MAS and MIP are very different in their goals, strategies, contents, strengths, they channel many of the demands for representation voiced by large sectors of the indigenous community.

On the foreign policy side, there are issues to work out related to free trade negotiations with Washington, and the controversial U.S. desire for more effective coca

eradication due to the apparent crop increase.⁹⁰ For the time being, however, there has been no change in the policy instituted by the Mesa administration, particularly the relationship with the *cocalero* unions.⁹¹

Rodríguez considers it important to restore the climate of confidence with Chile that was disturbed by Mesa's nationalistic approach, particularly his "gas for sea" policy.⁹² The foreign ministry wants to make up for lost time and believes it is necessary to return to the bargaining table to discuss the trade deficit and the possibility of improving the preferential trade agreement (Acuerdo de Complementariedad Económica, ACE) with Chile.

A major problem will be to meet the deadlines set in the Hydrocarbon Law for companies to select one of three models for mandatory revision of existing contracts. The National Hydrocarbon Board has questioned both those deadlines and what it considers technical shortcomings in the law. Far from adapting to the legislation, some companies are considering international arbitration.

Illegal occupation of land by the Movimiento Sin Tierra (MST) continued throughout September and October 2005, intensifying the struggle over ownership between indigenous communities, large landowners and settlers in parts of the department of Santa Cruz (San Julián, Santa Rosa del Sara and Paila). In August the minister of sustainable development, Irma Peredo, was fired for supposed irregularities concerning the distribution of land.

Rodríguez has also had troubles with the military. Deputy Defence Minister Víctor Gemio Oropeza was removed for direct involvement in a new party: Transparencia Democrática Patriótica (TRADEPA), which has support among both army reservists and active duty personnel.⁹³ Senior commanders continue to resist the many provisions issued by the prosecutor general's office to eliminate military secrecy, which is part of an effort to clarify the events that led to the resignation of Sanchez de Lozada in 2003. Military stonewalling on this embarrasses the president and erodes his moral authority.

A dispute that briefly pushed the transition government into difficulty involved allocation of the revenues produced by the direct tax on hydrocarbons. The issue sparked demonstrations and hunger strikes but was

⁸⁸ Article 93.III of the constitution, as amended by Law 3089 of 6 July 2005 (see below). The constitution did not allow early elections. Law 3089 resulted from negotiations between the parties in Congress and is an "interpretation", not a "constitutional amendment". Crisis Group interview, La Paz, 23 August 2005.

⁸⁹ Crisis Group interview, La Paz, 22 August 2005.

⁹⁰ UNODC, 2005 World Drug Report, Vienna.

⁹¹ However, tension erupted recently over installation of a police post to control the entrance to the Los Yungas region, where coca production has spiked upwards.

⁹² Mesa argued that Chile should only be permitted to import Bolivian gas if it granted Bolivia sovereign access to the Pacific Ocean.

⁹³ The constitution prohibits active duty military from intervening in politics.

resolved after several tense days with an agreement for \$241 million to go to the regions. However, problems in gas supply to the main cities, which have resulted in power cuts, have revived popular interest in nationalising hydrocarbon resources.

MAS has asked Rodríguez to invite international observation of the elections. On 10 November, the head of the National Electoral Court (CNE), Oscar Hassenteufel, signed an agreement with the OAS election monitoring mission, which foresees deploying 100 OAS observers across the country.⁹⁴ The social movements have doubts about the competence and fairness of the individuals in charge of organising, overseeing and guaranteeing transparent elections in the departments. The CNE at the same time declared it legal for Bolivians abroad to vote but physically impossible for it to make the arrangements.

C. CONTENDERS AND ELECTION SCENARIOS

A recent survey revealed that a large majority of Bolivians plans to vote but many believe nothing will change.⁹⁵ They fear the truce will be over in January 2006, and the elections will have polarised the country even more, regardless of who wins. Signals from the leading presidential contenders give some justification for pessimism. The candidates have concentrated on attacking each other, while saying little about programs.

For lack of a viable centrist program, Bolivian politics have moved away from a moderate multiparty system to a much more polarised one. The long period of pact democracy is over⁹⁶ but an effective alternative has yet to emerge. Whoever wins the presidency will need to restructure a new, hopefully more transparent agreement with the major forces in the Congress in order to govern – and even to agree on composition and timing of the constituent assembly.

The events that forced the premature departure of two presidents in the past two years confirm the serious deficit of democratic governance. After seventeen years of neo-liberal continuity, the emergence of MAS as a powerful opposition in both the Congress and the streets has weakened the traditional party system from top to bottom and opened the door for indigenous and corporatist groups, peasants (traditional and coca growing), miners and

regional associations to move into niches of political power.⁹⁷

Conscious of its electoral weakness and reluctant to ally with other parties, MIR is concentrating on prefect offices in the departments and, in the words of a senior leader, putting together “a deluxe Congress”.⁹⁸ Former President Jaime Paz Zamora of MIR abandoned his national aspirations to run for prefect in Tarija department. By fleeing to the U.S., former President Sánchez de Lozada left the MNR orphaned, financially destitute and internally divided. The old ADN leader, Bánzer Suarez, died in 2001, and Manfred Reyes Villa hopes to recapture his political force as that party’s candidate for prefect in Cochabamba. Other old parties – the UCS, MBL and CONDEPA – and their leaders have virtually disappeared.

The 2005 elections clearly will be very different from those in 2002. There are fewer parties to begin with; only three of the eight that are registered⁹⁹ are competitive nationally and have real possibilities to gain a role in government.

The parties that predominated during the pact democracy period, MNR and NFR, are at the low point of their history, divided internally and restricted to fighting for a share of power only in the regions.¹⁰⁰ Even less of a factor are the two new parties, Frente Patriótico Boliviano (FREPB) and La Unión Socialista de Trabajadores de Bolivia (USTB), as well as the MIP, which is far weaker than in 2002 when it polled 5.6 per cent. Opinion surveys indicate that none of these three has more than 1 per cent support today.¹⁰¹ René Joaquino, the three-times mayor of Potosí, who was expected to be the presidential candidate of Frente Amplio,¹⁰² declined to run due to weak support and inability to finance a campaign.

The elections are imposing a new style on national politics. Until 2002, alliances were constructed only after election day. Now this is happening ahead of the vote, due to the

⁹⁴ *La Razon*, 11 November 2005.

⁹⁵ According to a June 2005 UNDP survey, 94 per cent are willing to participate in the December elections. Christian Jetté, “Escenarios económicos, sociales y políticos de mediano plazo”, UNDP, La Paz, 2005.

⁹⁶ See section II C above.

⁹⁷ René Antonio Mayorga, “La metamorfosis del sistema de partidos”, *Opiniones y Análisis*, N° 60, 2002, pp. 86-88.

⁹⁸ Crisis Group interview, La Paz, 24 August 2005.

⁹⁹ The following parties are registered with the National Electoral Court to participate in the December elections: PODEMOS, MAS, UN, MNR, MIP, NFR, FREPB and USTB.

¹⁰⁰ This does not take into account MIR and ADN, which did not participate in the general elections. MIR backed out at the last minute because of disputes between Paz Zamora and Vaca Díez. ADN practically disappeared after the 2002 elections, when it won only 3 per cent.

¹⁰¹ Red Unitel Polls, La Paz, 6 October 2005.

¹⁰² The Frente Amplio party was formed at the initiative of the mayors of six departmental capitals (La Paz, Cochabamba, Oruro, Potosí, Sucre and Pando).

amendment to Article 222 of the Constitution and the Citizens Groups and Indigenous Peoples Act (June 2004), which remove the party monopoly on political representation and acknowledge the right of citizens' groups and indigenous peoples to participate in the electoral process. This has paved the way for agreements between those groups and parties.

Quiroga and Doría Medina have encouraged an extensive network of alliances with urban citizens' groups and with the middle class throughout the country. They have, however, opposed bringing in dozens of militants who offered themselves as candidates. Most of the population appears to reject the attempt to recycle the old political system through PODEMOS (substituting for ADN) and UN (replacing MIR). MAS, for its part, has gambled on giving a voice to the social movements, unions and indigenous peoples. It wants to organise a broad social front while also attracting the middle classes and staying in touch with the political centre.¹⁰³

The regional question is at the centre of electoral strategies for the first time. Even MAS, before it selected Alvaro García Linera, tried hard to obtain a vice presidential candidate from Santa Cruz. The prospect of government responsibility argues for forging harmonious relations with the regions since the popularly elected prefects will no longer be executive branch appendages. The weight the prefects will wield will lessen the central government's capacity for political manoeuvre and could foreshadow more political conflict, especially if they are not from the same party as the president.

However, the prefects will operate within the restrictions of Administrative Decentralisation Act No. 1654, which continues to impose important legal, financial and administrative dependence. Nevertheless, regional leaders are likely to emerge who have no connection to national leadership, which might cause departmental and national powers to drift apart.

As of January 2006, therefore, there will be a three-dimensional distribution of power: the national government, regional governments and municipal governments. This architecture, asymmetrical in many cases, poses its own challenge for making good governance a reality, including a likely new set of demands and disputes over resources, duties and prerogatives. In Congress, political agreements will be urgently required that aim at redefining a new state project, harmonizing a vision and strategy for development that takes the regions into account, and recasting mechanisms and institutions for conflict management in these three dimensions.

The average age of the three major candidates is 47. The country's leaders in the recent past had an average age above 55. Nevertheless, power quotas, informal practices, benefits and patronage are still the way political support and loyalty are achieved. These elections also offer no guarantee of transparency; the lack of state financing raises the danger of candidates turning to informal sources. This concern about transparency is why the government has sought international observers.

According to opinion polls as of mid-November, no candidate is near the absolute majority needed to win through the popular vote alone. However, MAS has a lead that has been growing. Morales has 33 per cent, Quiroga 27 per cent, with the UN candidate, Doría Medina, a distant third.¹⁰⁴ Undecided voters were between 10 and 12 per cent. This implies a second round in the Congress, which has elected every president since 1985 and where a victory in the popular vote could well be reversed.

Building a coalition for governance will be more difficult than in pact democracy days, when the parties were accustomed to assign and accept quotas of portfolios and offices.¹⁰⁵ Such a deal would likely be rejected by society in general because of the devastation its predecessors wrecked on institutional stability and democratic values.

While it is premature to identify a post-electoral alliance to secure a congressional majority, PODEMOS and UN have by far the most ideological and programmatic similarities, in addition to a common history and similar practices.¹⁰⁶ Their closeness would make it very difficult for the MAS candidate, Morales, to secure the presidency if he does not win it in the popular vote. However, the possibility cannot be ruled out. Memories of what a catastrophe the alliance with Sánchez de Lozada was for the NFR after the last election might give UN pause about joining with PODEMOS. Whether it would resist outside pressure to lend its support to Quiroga, of the sort the U.S. embassy is believed to have put on the NFR in 2002, remains to be seen.

It is important to look at the perspectives, strategies and platforms these three political forces offer.

¹⁰³ See Walter Chávez, "Evo Morales consolida un gran frente social", *El Juguete Rabioso*, N°134, June-August 2005, pp. 5-6.

¹⁰⁴ A mid-September poll by an independent company showed Morales ahead with 28 per cent, followed by Quiroga with 22 per cent and Doría Medina with 19 per cent. Earlier Quiroga had led Morales by 1 percentage point. *La Razón*, 18 September 2005 and Unitel.tv, 6 October 2005 at www.unitel.tv/telepais; *Latin America Weekly*, report, 15 November 2005.

¹⁰⁵ See section II C above.

¹⁰⁶ Crisis Group interview, La Paz, 22 August 2005.

1. MAS

With the exception of Santa Cruz, a MAS victory would be based on three of the country's most populous urban and rural areas: La Paz, El Alto and Cochabamba, and to a much lesser extent on the departments of Potosí, Oruro and Chuquisaca.¹⁰⁷ Nevertheless, though the polls show him leading, Evo Morales's controversial image has deteriorated among urban and middle-class voters, due to his role in the blockades that contributed so heavily to the ungovernable situation the country found itself in only a short time ago.¹⁰⁸

MAS has come to be synonymous with the successive crises that provoked the resignation of two presidents. Its image is associated with adjectives such as "intolerance", "radical indigenism" and "anti-democratic populism", besides being linked to an authoritarian figure who in Bolivia and abroad is often seen as connected to drug traffic. If Quiroga has a pro-U.S. stigma, Morales tends to be regarded as an adherent of Chávez's populism and Castro's socialism. Chávez is thought to be giving him financial help.¹⁰⁹ Morales has never hidden his admiration for the Bolivarian and Cuban revolutions, nor his close personal ties with the two leaders. Another problem is that MAS is both a political party and the representative of social and indigenous movements, which places it in the ambiguous position of acting simultaneously in Congress and the street.¹¹⁰

Most of Morales's support comes from rural, indigenous, union and trade sectors and the impoverished middle class affected by unemployment. Key factors that have helped to broaden MAS's appeal are the failure of the neo-liberal economic model to benefit the vast majority of Bolivians who continue to live in poverty and, above all, the disastrous way the parties behaved during the pact democracy period. Morales has grown politically, not only because of his stance against corruption but because he is seen as fighting against the U.S. anti-narcotics policy.¹¹¹ Success in making his campaign synonymous with a "struggle to regain the country's sovereignty" over its natural resources is key to his national prominence, as is his fight against the old political system, which, at the prompting of pro-government (ADN, MIR and UCS) and

opposition (MNR and NFR) representatives alike, ousted him from Congress in 2001 for presumed involvement in the violent clashes in Sacaba (Cochabamba).

The MAS agenda calls for changing Bolivia by structurally transforming its economic model, society and political organisation. Its platform has three main components:

- ❑ nationalisation and industrialisation of hydrocarbons and other natural resources; construction of a productive social economic model that favours small and medium-sized entrepreneurs, solidarity strategies (productive associations, social organisations and communities) and the peasant family economy;
- ❑ decolonisation and democratisation of the state by including civil society through the Constituent Assembly, redistribution of political power and restructuring of public power (judicial, legislative, executive); and
- ❑ greater social equality and equity aimed at creating new guarantees for social rights (education, health, employment and housing) and distributive justice favouring indigenous communities, women, children and the elderly.¹¹²

MAS has begun to develop a new scheme for society based on what it calls "Andean-Amazon capitalism". Alvaro García Linera, its vice presidential candidate and chief promoter, is a Marxist intellectual and former member of the radical left-wing rebel group Tupac Katari. Together with Felipe Quispe, he tried to set up an indigenist government in the 1990s supported by his military wing, the Guerrillero Tupac Katari Army (EGTK). Andean-Amazon capitalism is intended to replace the failed neo-liberal development scheme with a combination of the modern and industrial economy linked to the global economy, the communal Andean economy and the Amazon economy. MAS proposes using this approach to complete the 1952 National Revolution and as an intermediate step towards socialism.¹¹³

If Morales does win, most of the hostility to his administration would come from alliances between the large landowners and agro-industrialists, who fear losing state subsidies, the transnational oilmen, the financial and bank managers, and the remnants of the old political

¹⁰⁷ Crisis Group interview, Santa Cruz, 3 December 2005.

¹⁰⁸ Intemperate statements during the election campaign, such as that by a party member two weeks before the election that MAS would take the presidency through the polls or, if necessary, violence, heighten apprehension and undermine Morales's own more conciliatory rhetoric.

¹⁰⁹ Crisis Group interviews, La Paz, 13 October 2005.

¹¹⁰ Crisis Group interviews, La Paz and Santa Cruz, 23 and 29 August 2005.

¹¹¹ See Crisis Group Report, *Coca, drugs and social protest in Bolivia and Peru*, op. cit.

¹¹² MAS platform, "Construir una Bolivia digna soberana y productiva para vivir bien" ("Build a sovereign and productive Bolivia with dignity to live well").

¹¹³ Miguel Lora, "El capitalismo andino es un paso intermedio para imaginar el socialismo". Interview with Alvaro García Linera, *El Gueto Rabioso*, September 2005, pp. 6-7.

system, who retain strength in the east, especially in Santa Cruz, where the ethnic problem and the regional issue converge.

One of the biggest obstacles to a MAS administration would be the opposition – outright or concealed – of the U.S. to its coca self-management policy.¹¹⁴ There also is worry about interference with the government from within MAS itself – given its weak internal cohesion – and from the social movements. Limited government experience would likely hamper a MAS administration. A policy of “indigenous revenge” is another thing people fear about the party. Nevertheless, more involvement in the democratic arena is preferable to keeping it permanently on the outside, especially since demography suggests government by an indigenous majority some day appears inevitable.

MAS anticipates forming more than another transition administration. It believes the constituent assembly will advance its ability to dominate politics for a lengthy period.¹¹⁵ Confident of its long-term prospects, it says it is willing to agree on common positions with some of its foes and to form a government of “ponchos and neckties” that would symbolise a period of coexistence for the two Bolivias whose disputes have produced so much turmoil in recent years.

2. PODEMOS

Jorge Quiroga’s citizen’s group has a real chance at victory based on its support among the urban middle class, primarily in the east, but also in poor sectors in El Alto, for example.¹¹⁶ The middle class sees him as a young, reliable politician capable of reestablishing the government’s authority and legitimacy. His image as being effective, backed by his experience and amicable relationship with the international community, is a source of strength. Many believe he is the favourite candidate of the U.S., where he has studied and worked. An alliance between the U.S. and a Quiroga administration might be based on agreement over such issues as security, the boost Quiroga gave to the war on drugs during his administration (2001-2002), and his adamant stance against outbursts of social unrest.

The regional elites in Santa Cruz, Tarija and La Paz see PODEMOS as a vehicle for business strategies that are more flexible and open to the world (i.e. more trade with Chile and the U.S.) and are betting on its capacity to ensure legal security, particularly to encourage investment. The

transnational oil companies would welcome an opportunity to keep their prerogatives and escape the hydrocarbon law, which they consider confiscatory. Quiroga is the best option for maintaining the neo-liberal economic model. He would probably accelerate signature of a free trade agreement with the U.S., expand gas exports to regional markets and the Pacific Coast, and generally promote conditions for macroeconomic stability.

Quiroga has spoken in only general terms about his strategy for governing, affirming the need to end protest blockades, create jobs and reengineer the country’s development. Prone to the use of set phrases such as “I prefer the rule of law to the rule of impulse”, when referring to Morales, he has on more than one occasion voiced support for a social market economy. “In times of crisis and war, the state is more important than economy”, he is fond of saying as a way to downplay his neo-liberal past, which haunts him.¹¹⁷ His tactic against MAS is to use fear and blame Morales for every aspect of the national disaster. His drop in the polls suggests, however, that his me-or-catastrophe line is not working.

Hurt also because he sided with Chile over the gas export issue, Quiroga has tried to regain ground by attacking President Chávez of Venezuela, questioning his erratic stand with respect to Bolivia in supporting Jose Insulza for the post of OAS secretary general.¹¹⁸ The grass-roots sectors see Quiroga as an extension of Sánchez de Lozada’s accommodating approach to Chile, given his pragmatic inclination to end the debate on maritime reintegration by treating it as a simple commercial matter. The maritime issue is clearly a sensitive one in the Bolivian subconscious,¹¹⁹ but there is no way of knowing how it will play out during the elections. In what may have been an explicit effort to court women’s votes, he has chosen Maria René Duchén, a highly respected journalist and the only woman among the contenders, as his running mate.

His agenda, presented in October, is based on five central elements intended to coincide with the five points of his party’s red star symbol:

- A new economic model to support the productive sector, increase exports and create jobs, in addition

¹¹⁷ Pablo Stefanoni, “La Reinversión de Tuto Quiroga”, *Pulso*, 22-28 July 2005.

¹¹⁸ Chavez has been accused of applying double standards regarding Bolivia. On one hand, he has said that he “is looking forward to the day when he will bathe on a Bolivian beach”; on the other hand, he supported the election as OAS secretary general of Insulza, a Chilean who is unlikely to support Bolivia’s claim for sovereign access to the Pacific.

¹¹⁹ Bolivia has sought continuously through diplomacy to regain access to the sea since it lost its coast to Chile in the War of the Pacific (1879).

¹¹⁴ Crisis Group interviews, La Paz, 13 October 2005 and Section V, below.

¹¹⁵ Crisis Group interview, La Paz, 12 September 2005.

¹¹⁶ Crisis Group interviews, El Alto, 2 December 2005.

to nationalising the benefits of natural gas by retaining revenues in the country and distributing them equitably and transparently;

- ❑ integrity and security, so Bolivia can guarantee the safety of its citizens, investments and respect for the rule of law, without drug trafficking, blockades, corruption and delinquency;
- ❑ integrating the continent by encouraging physical, energy and business integration. Quiroga's energy policy proposes regaining the leadership required to negotiate markets and prices and to export gas, power and thermoelectricity. He also wants to conclude negotiations for a free trade agreement with the U.S.;
- ❑ respect for social protection, guaranteeing equal opportunity for all; and
- ❑ a constituent assembly and a new constitution by 2006. As to the political system, he proposes a runoff presidential election between the top two contenders, eliminating the role of Congress in choosing a winner.¹²⁰

Quiroga has support within the urban population but is unpopular in rural areas due to ideological inheritance from his former party (ADN) and General Bánzer's supervision of his rather conservative political upbringing. He benefits from his relatively successful year in the presidency (2001-2002) but a number of factors conspire against his election. These include memories that the military and police killed a disputed number of coca-growing peasants in that year; decrees he issued that appeared to favoured oil companies, and his strong sympathy for U.S. security policy and past opposition to a constituent assembly. This history restricts his support mostly to the east.¹²¹ His image as a statesman and political renovator was harmed by the misguided mass incorporation into PODEMOS of political leaders such as Jaime Paz Zamora (MIR), Guido Añez (MIR), Roberto Moscoso (MNR), Gerardo Rosado (MNR), Jose Luis Paredes (PP) and others, all of whom are perceived as opportunists.

3. UN

Samuel Doría Medina's party is the third major option in the coming elections. Doría Medina, a major shareholder in the cement industry, was a MIR activist until 2003. Polls show him in third place, with little chance of catching one of the two frontrunners so as to be able to compete in a second, congressional round. UN is a new party, founded in 2003 by social, entrepreneurial and political groups. Most of its activists are associated with small companies and micro-enterprises that nurture the chain of services required throughout the country by the cement industry. The party is akin to a network of corporate customers merged into a political project that uses business and marketing activities as its organisational base. It has tried to set itself up as a political middle ground that aims to move as far away from neo-liberalism as possible.¹²² It also tries to ignore Doría Medina's political past – MIR is one of Bolivia's most discredited parties.¹²³

UN offers itself as a force capable of bringing east and west politically and economically closer together. This explains its choice of Carlos Dabdoub, from the most conservative adherents of the Santa Cruz autonomy plan, as a vice presidential candidate.¹²⁴ Thanks to the availability of resources, UN was the first party to present its platform, "Stand Up for Bolivia".¹²⁵ Rather than proposing to reform the economic model, UN says it wants to adjust it in order to improve its operation and enable surpluses to be distributed more fairly. Its overriding objective is to make the country an enclave for production and non-traditional exports. The party platform calls for higher taxes on oil companies but does not demand nationalisation.¹²⁶

For its political and administrative agenda, UN promises broad and expansive autonomy and to guarantee legal security, transparency and accountability in every sphere of government. Its social platform takes account of the recommendations from international lending agencies, particularly with respect to better primary education, health coverage and decentralisation of the security agencies. In the economic field, it picks up recommendations of the United Nations Development Program (UNDP), which

¹²⁰ PODEMOS, government agenda, 2005, *La Razón*, 11 October 2005.

¹²¹ His limited acceptance is rooted in the ties he developed as vice president under the 1970s dictator Bánzer Suarez when the latter returned to power as an elected president in 1997, as well as the aggressive "zero coca" and export-gas-to-Chile policies he pursued as president in 2000/2001 and the passive approach he took to the recent social and political upheavals.

¹²² As minister of planning, Doría Medina presided over the first bid to privatise state-owned companies.

¹²³ MIR resisted the 1970s military dictatorship but "crossed rivers of blood" in 1989 to ally with its chief enemy, General Bánzer, in the "Patriotic Agreement". See Section II C above.

¹²⁴ Crisis Group interview, La Paz, 23 August 2005.

¹²⁵ UN government agenda, "Dar la cara por Bolivia", 2005

¹²⁶ Crisis Group interview, La Paz, 23 August 2005.

suggest a change in the development pattern more than the development model.¹²⁷

All in all, these are the most difficult and polarised elections in the last 23 years of Bolivian democracy. Although the major parties essentially agree on the more important global issues, such as achieving macroeconomic stability, holding a constituent assembly and providing for autonomy, there are significant but not yet clearly spelled out differences concerning sovereignty, nationalisation of hydrocarbons, foreign affairs, foreign trade, coca, land and natural resources. One of the highest voter turnouts in history is anticipated, including a major increase in the rural and youth votes.

Regardless of who wins, the outlook for governance is complicated. An overwhelming victory for Evo Morales, with over 40 or – improbably – 50 per cent of the vote, would produce two key political and social factors in his favour. One would be a sufficient majority in Congress to help carry out his administration's plans for deep-seated structural changes. The other would be support from the social movements, middle-class sectors and public opinion to deal with possible resistance from the regional elite and business sectors in eastern Bolivia.

A more moderate success – less than 35 per cent popular vote and a low turnout in the east – would complicate Morales's chances to govern by depriving him of the necessary support to move bills through Congress. The result would be legislative deadlock and outright rejection by the east. If he were perceived to be too bland in his dealings with the opposition or the transnational oil companies, especially regarding nationalisation of the hydrocarbon sector, he would risk facing strong pressure from the social movements, which claim they would oust him as they did “the two previous presidents”.¹²⁸

Jorge Quiroga appears to be in a similar position. A solid victory above 40 or 50 per cent would afford him more room to govern, avoid a legislative deadlock and give him backing from the regional business sectors in the east. This would imply enough support and balance to offset pressure from the social movements in the west. However, victory with less than 30 per cent would make it difficult for him to govern and maintain congressional support. Just as Morales, he would end up a prisoner of the demands of social movements for “radical” change.

If no candidate obtains 50 per cent of the vote plus one, as stipulated in the constitution, the second round in

Congress probably would produce a Quiroga presidency, thanks to votes from the UN party. Evo Morales's chances of achieving the presidency would be smaller given the ideological distance separating him from Doría Medina's UN party.¹²⁹

¹²⁷ George Gray Molina, “La economía más allá del gas”, *Semanario Pulso*, September 2005.

¹²⁸ Crisis Group interviews, La Paz and El Alto, 1-2 December 2005.

¹²⁹ However, considering the pragmatism of Bolivian political culture, a MAS/UN alliance, while unlikely, is not out of the question. A “grand alliance” between MAS and UN, as was called for by the business leader Roberto Mustafa on 3 December, was ruled out by the parties, however. *El Deber*, 4 December 2005.

IV. THE CONSTITUENT ASSEMBLY, REGIONAL AUTONOMY AND NATURAL GAS

While the pre-election scenario is characterised by great uncertainty, it can be argued that there is even less clarity and consensus on the fundamental issues of the constituent assembly, the referendum on departmental autonomy and the implementation/amendment of the new hydrocarbon law.¹³⁰ For the political and social elites in the highlands and the lowlands respectively, these are highly controversial and divisive elements, and until they are resolved, there is potential for violent confrontation.¹³¹

MAS and the social and indigenous movements see the constituent assembly as the way out of the crisis and the only legitimate forum for profound reform of the Bolivian state. The business sector, particularly in Santa Cruz but also in Tarija, is pressing for regional autonomy through a referendum.¹³² These rather absolute positions contrast with the more flexible perceptions and wishes of the majority of Bolivians.¹³³ Survey data from June and July 2005 reveals that 67 per cent favour a constituent assembly, with only 15 per cent against it.¹³⁴ Moreover, 94 per cent plan to vote in the congressional and presidential elections, 92 per cent in the elections for prefects, 87 per cent in the referendum on regional autonomy and 89 per cent in the elections of constituents.¹³⁵

Considering that the new hydrocarbon law and the immense controversy it sparked were at the heart of President Mesa's downfall, it is surprising that nearly seven months after its passage only radical groups, such as some trade unionists and intransigent members of the Santa Cruz elite, express strong opposition.¹³⁶ Neither MAS, Bolivian entrepreneurs nor transnational oil companies have announced they will seek to change the law substantially or appeal it.¹³⁷ While this can partly be explained by the increase in revenue from gas taxes and

royalties during recent months¹³⁸ and the continued interest of the oil companies to work in Bolivia, a coherent strategy to modernize the hydrocarbon sector and invest and distribute the revenue across the country is still non-existent. In all probability, pressure from the trade unions and parts of the social and indigenous movements to nationalise the gas industry will continue as well.¹³⁹

In an attempt to deal with these fundamental issues, the transition government and lawmakers have only created a precarious "legal roadmap". Through laws 3090 and 3091 of 6 July 2005, it provides for the popular election of departmental prefects on 18 December and members of the constituent assembly on 2 July 2006. Although the law governing it has yet to be approved,¹⁴⁰ the assumption is that the constituent assembly will be a forum to which all citizens will elect representatives with but one mandate: to draft a constitution. While that is being done, government would operate as usual.¹⁴¹

Apart from this general idea, however, there is no consensus on who should participate in the constituent assembly, how they should be elected and how many of them there should be. The debate is still at an early stage, and time for finding answers is very short.¹⁴² A close adviser to President Rodríguez warns:

Unless there is a clear explanation of what the constituent assembly can and must accomplish, it could be just another frustrating experience...a leap in the dark or a Pandora's box that awakens old demons in the country. It also could be an historic opportunity for the country to find itself.... It is important to prevent the constituent assembly from being used to undermine what the country has accomplished in the last twenty years with respect to

¹³⁰ Crisis Group interviews, La Paz, 22 and 23 August 2005.

¹³¹ Crisis Group interview, La Paz, 24 August 2005.

¹³² Crisis Group interviews, La Paz, Cochabamba, Santa Cruz, 23-25, 29 August 2005.

¹³³ Crisis Group interview, La Paz, 24 August 2005.

¹³⁴ 18 per cent did not respond.

¹³⁵ UNDP, "Análisis de mediano plazo," working paper, La Paz, August 2005.

¹³⁶ Crisis Group interviews, La Paz and Santa Cruz, 23 and 29 August 2005.

¹³⁷ A legal challenge by the companies before the elections could boost Morales's vote. Crisis Group interviews, La Paz, 22, 24 August 2005.

¹³⁸ Tarija receives more than twice as much revenue from gas as before the new law, and as of June 2005, Bolivia gets an estimated \$100 million more. Crisis Group interviews, La Paz, 23-24 August 2005.

¹³⁹ Crisis Group interviews, La Paz, 23 August 2005.

¹⁴⁰ Crisis Group interview, 23 August 2005.

¹⁴¹ Owing to the ambiguous phrasing of the article on a constituent assembly in the constitution, there is, however, at least a small risk that the assembly would declare itself the government and attempt to supplant the elected authorities.

¹⁴² See, for example, Artículo Primero, Asamblea Constituyente, *Otra Bolivia es posible*, no. 17, March 2005; Federación de Entidades Empresariales Privadas de Cochabamba/Corporación Andina de Fomento, "Desafíos de Bolivia hacia la Asamblea Constituyente", Cochabamba, 2005. There are also increasing demands for representation in the assembly by groups, such as indigenous communities, labour unions, regions, rather than individuals selected in elections. Presentation by Professor Luis Fernando Tapia Mealla, at Centre for Strategic and International Studies conference on "Bolivia's crisis of governance", Washington, DC, 2 December 2005.

institutions. In other words, it is important to make sure it does not become a destabilising force.¹⁴³

This task is rendered more difficult not only because, since the ousting of Sanchez de Lozada and the fall of Mesa, the constituent assembly idea has been overloaded with expectations,¹⁴⁴ but also because the demand has a history that goes back to the early 1990s, beginning with the indigenous movements, demonstrations and blockades in the east. The March for Life, Dignity and Sovereignty, from the lowlands to La Paz, was the starting point that influenced the reforms carried out in that decade. The arrival in La Paz of indigenous groups from eastern Bolivia astonished the public and brought to light historic debts that many felt had been resolved when democracy was reestablished in 1982. However, these reforms did not translate into greater social well being, equality, redistribution and transparency.¹⁴⁵

The constituent assembly has become a universal demand that unleashes fears, hopes, political projects, fanaticism and followers and detractors of every kind. In an environment of political uncertainty and volatility, it gains force as a possible way out of the national crisis. Its overriding objective is to produce a consensus among all Bolivians on a more inclusive, plural, participatory and equitable state. The process suffers, however, from having no clear leadership.

The following appear to be the most critical issues it will have to face:

- ❑ land distribution – some 100 families reportedly own 25 million hectares while 2 million indigenous survive on 5 million hectares;¹⁴⁶
- ❑ the situation of the indigenous population, including definition and development of citizenship in keeping with the demands of the various indigenous communities; and
- ❑ autonomy and decentralisation, particularly with regard to the delineation of jurisdiction, rights and

obligations between the national government and regional and local bodies, including with respect to natural resources.

Regional or departmental autonomy, while not a new demand, is particularly sensitive. It is motivated partly by Santa Cruz's support for a liberal export-oriented economy and desire to exercise much more control over the revenue generated in the department, and partly by deep suspicion, even fear, of the social and indigenous movements and MAS in the western highlands.¹⁴⁷ In the late 1980s and early 1990s, the indigenous people of the lowlands demanded autonomy along with a constituent assembly. The Santa Cruz Civic Committee has been active in the bid for autonomy for twenty years. In 1984, it issued a manifesto demanding decentralisation and direct election of departmental governments. This was followed by strikes and large demonstrations, which reached their peak in June 2004 and January 2005.¹⁴⁸

More local autonomy could be seen as a way to deepen democracy and make the state more efficient if managed well. In current circumstances, however, it tends to be perceived not only as a means for Santa Cruz and Tarija departments to distance themselves from Bolivia's big problems, but also as an assault on the very unity of the nation-state. As a result, there is no consensus even about holding a referendum on regional autonomy.¹⁴⁹

Although Santa Cruz's forceful demand for a referendum in early 2005 was postponed in July until mid-2006, the Santa Cruz Civic Committee continued to press for this before members of the constituent assembly are elected, a position that was rejected by MAS, the COB and the neighbourhood umbrella organisation of El Alto (Federacion de Juntas Vecinales, FEJUVE), among others. In Cochabamba, Crisis Group found little interest in regional autonomy and the referendum.¹⁵⁰ A common criticism is that Santa Cruz is using the referendum issue to exert undue influence over a constituent assembly, which is said to be the sole forum for deciding such a fundamental matter as regional autonomy. A prominent representative of the Santa Cruz Civic Committee responds:

The referendum per se cannot institute an autonomous regime....Rather...it is intended to

¹⁴³ Under Article 4 in the constitution, as amended under Mesa in 2004, the people can "deliberate and govern through the constituent assembly". That the assembly could act as a parallel government is troubling and further complicates the situation. Lazarte, op. cit., pp. 546, 556.

¹⁴⁴ Especially the social and indigenous movements and MAS, but recently the traditional parties as well.

¹⁴⁵ See Section II C above.

¹⁴⁶ Helen Barnes, "Conflict, Inequality and Dialogue for Conflict Resolution in Latin America: The Cases of Argentina, Bolivia and Venezuela", 2005, background paper prepared for UNDP Human Development Report p. 36, at http://hdr.undp.org/docs/publications/background_papers/2005/HDR2005BarnesHelen3.pdf.

¹⁴⁷ Crisis Group interview, La Paz, 23 August 2005.

¹⁴⁸ Pastoral Social Caritas, *Pautas para comprender las autonomías*, Santa Cruz, 2005.

¹⁴⁹ The Santa Cruz Civic Committee considers the holding of the referendum a done deal, arguing that it collected 500,000 signatures, enough to force a referendum if necessary. Crisis Group interview, Santa Cruz, 3 December 2005.

¹⁵⁰ Crisis Group interviews, Cochabamba, 25 and 26 August 2005.

give the constituent assembly a way to manifest the will of the people, so it will not distort that popular will expressed in signatures and council meetings.¹⁵¹

Santa Cruz often is also accused of selfishly wanting to keep all revenue generated in the department for itself and seeking secession. The same accusation is not levied against Tarija, which also wants regional autonomy and has most of the natural gas reserves.

Thus far, Bolivia has made only limited progress on decentralisation. The present effort to strengthen regional institutions through the prefects has not been sufficient to produce new forms of political and social development. The constituent assembly will need to discuss how much further decentralisation should go, particularly at a time of large fiscal deficits.

One question that must be considered is the level of decentralisation – the point at which various regions can manage autonomy efficiently and whether this is, or needs to be, the same for each. A second question relates to equity: the extent to which newly autonomous entities should have rough equality of territory and/or wealth.

Most complex of all, however, is likely to be the interrelationship of decentralisation and indigenous issues. Indigenous communities seek participation in any new territorial distributions, and it is important to differentiate between the ethnic majorities and minorities in the lowlands and the highlands and not make the mistake of thinking that Bolivia's indigenous people are a homogeneous corporate, ethnic or political bloc. Institutional alternatives that respect their cultural differences and idiosyncrasies will need to be constructed for each case.

The heated debate over the July 2004 gas referendum and its implications for development strategy sparked political conflict over the role of the state and its capacity for managing the distribution of wealth. Conflicting interests are at play, such as the demands of transnational oil companies, pressure from leftist groups who want to nationalise hydrocarbons and from domestic business groups, as well as congressional discontent over the political cost of an unpopular law.

The constituent assembly process offers an opportunity to discuss development policy options, importantly including what new sectors, beyond natural resource extraction, might be competitive.¹⁵² If it is to define the role of natural resources, however, the constituent assembly will need

first to decide whether to propose a specific economic model for the state or merely to outline a neutral structure that could allow for changes in the economy and society over time. Articles 132 to 135 of the current constitution are broad enough to accommodate the latter option.

Defining ways and means, rules and standards for resolving political and ideological tensions that might arise in the future over natural resources is a principal challenge for the constituent assembly. At least the current provision that they belong to the state will probably need to be revised to remove any doubt the state can make alternative decisions on ownership and use.

¹⁵¹ Juan Urenda, "Siete prejuicios que sufren las autonomías departamentales", at www.nacioncamba.org.

¹⁵² UNDP, "Mediano plazo", op. cit.

V. INTERNATIONAL RELATIONS

The relationship between the new Bolivian government and the oil companies is clearly a critical international question. The hydrocarbon law of May 2005, which the transnational companies reject as damaging to the oil industry, has strained that relationship and created a climate of uncertainty about contracts.

The companies would prefer to deal with Jorge Quiroga than Evo Morales, who has declared a kind of political war on them, stated his intent to nationalise hydrocarbon resources,¹⁵³ and hinted at physical occupation of oil fields, possibly as one of his first steps if elected.¹⁵⁴ Any such action would ensure a nasty confrontation.¹⁵⁵ A President Morales would also try to pressure the oil companies into the new contracts foreseen in the May law, something they have said they would resist in international courts if necessary.

Quiroga proposes a different tactic, based on amending the hydrocarbon law, which he calls flawed and damaging to the oil industry. He proposes a new law keeping 50 per cent of gas royalties and taxes for the state.¹⁵⁶ He would try persuade the oil companies to renegotiate current contracts voluntarily on that basis. Some experts think the companies might find such an option acceptable.¹⁵⁷

Bolivia's relations with international lending agencies will depend on its hydrocarbon policy and what it does about the oil contracts. For the past two years those agencies – mainly the IMF, World Bank, and International Development Bank – have been generous, not refusing budget support and public investment despite not having received the assurances they sought on legal security and natural gas exports.¹⁵⁸ They are likely to expect more of a newly elected government.

¹⁵³ *La Razón*, 13 October 2005. Morales did not say how he would do this, however.

¹⁵⁴ *La Razón*, 12 October 2005. Morales has not explained what this might entail. He has hinted at physical occupation of facilities, even with troops to send the message that Bolivia was regaining control of its gas, but without the “confiscation or expropriation of companies” which he repeatedly urged on President Mesa.

¹⁵⁵ Inasmuch as hydrocarbon reserves have never ceased to be state property, any proposal to nationalise them would imply an attempt to expropriate outside investment in the fields and marketing and refining facilities. At least this is how the oil companies see it.

¹⁵⁶ PODEMOS, government agenda, op. cit.

¹⁵⁷ Crisis Group interviews, La Paz, 13 October 2005.

¹⁵⁸ At the beginning of 2003, the U.S. and Mexico formed a support group to coordinate financial aid, with participation of

If Quiroga wins, the prospect of continued support is certainly greater. His administration would also be more likely to pursue policies that would allow Bolivia to take advantage of the recent G8 decision to encourage forgiveness of 100 per cent of the debt very poor countries like it have with agencies such as the World Bank and the IMF. That could mean forgiveness of some \$2 billion in debt and elimination of \$50 million a year in service.¹⁵⁹

Evo Morales is not suggesting a break with the lending agencies and probably would want to avoid any traumatic changes in that relationship, despite his rhetoric about the IMF and World Bank. MAS economic advisers know the macroeconomic stability they want to preserve depends on aid.¹⁶⁰ Nevertheless, since MAS has made it a priority that the state-owned YPFB company take control of the hydrocarbon industry, it might be prompted to redirect outside resources towards it. As a matter of policy, this is something international agencies will no longer accept. A financial crisis is a possibility if a Morales administration decides not to service the foreign debt as a tactic for obtaining either refinancing or total forgiveness.

The U.S. would undoubtedly prefer an administration led by Quiroga, with whom it has enjoys a good understanding. In contrast, relations with the power to the north would be Evo Morales's most difficult foreign policy challenge. There is a history of antagonism between the *cocalero* leader and U.S. authorities, and Washington would certainly be uneasy about a leftist government in the heart of South America that was closer to the radicalism of Venezuela's Chávez than to the moderation of Brazil's Lula, especially if Chávez were to offer to help balance Bolivia's budget or buy up its foreign debt.¹⁶¹

Nevertheless, it appears the Bush administration would be careful not to adopt an openly hostile attitude towards a MAS administration, at least in the beginning. The low profile of U.S. authorities during the electoral campaign seems to indicate they realise open opposition would likely benefit Morales, as happened in 2002.¹⁶² If he wins, the U.S. would likely react cautiously and wait to see what he

several European governments and multilateral and bilateral cooperation agencies.

¹⁵⁹ Crisis Group interviews, La Paz, 13 October 2005.

¹⁶⁰ *La Razón*, 12 October 2005.

¹⁶¹ Prior to the fourth Summit of the Americas in November 2005 in Mar del Plata, Morales joined Chávez in a “People's Summit” there to protest against the Free Trade of the Americas Agreement and U.S. policies.

¹⁶² Weeks before those general elections, Ambassador Manuel Rocha urged a vote against Morales. Oscar Guisoni, “El día en que el Embajador pidió no votar por Evo Morales”, *El Juguete Rabioso*, La Paz, 2005.

did on coca eradication, the oil companies and foreign investment and especially ties with Chávez.¹⁶³

If, as some in Washington fear, Morales renounced the coca eradication agreements – he has talked loosely of “decriminalizing coca growing”¹⁶⁴ – and opted to side with Venezuela, there would be serious tension. If that escalated to open confrontation, the consequences would be difficult to predict. A series of U.S. anti-terrorism exercises with Paraguay in the tri-border area have stimulated fears of a more permanent American military presence there despite denials from Washington and Asunción. In Bolivia, the denials are suspect, and the more paranoid see a plot aimed at military intervention.¹⁶⁵

The U.S. probably is already taking precautions. Postponement of free trade agreement negotiations by the U.S. may have been meant as a cautionary sign but also reflected the fact that raising the issue during the presidential campaign would simply offer Morales an easy target. Talks about Bolivia receiving some \$20 million annually from the Millennium Challenge Account¹⁶⁶ are underway, but could be put on hold depending on developments.

Relations between Bolivia and the EU and its member states are less dependent on election results. Quiroga and Morales share an interest in making the most of this relationship but probably for different reasons. Quiroga wants to diversify and complement Bolivia's relations. Morales wants allies in the event of difficulties with the U.S. He counts on his contacts with the European Left¹⁶⁷ and probably envisages European collaboration on a study of the legal market for coca, an issue of particular interest for him if he actually intends to decriminalise coca.¹⁶⁸

Relations between Bolivia and its immediate neighbours (Brazil and Argentina) hinge mostly on natural gas exports. Brazil, the region's largest energy consumer, is

the country's biggest customer, 26 million cubic metres per day, with a twenty-year contract for 30 million. Petrobrás is firmly installed in the gas production and conveyance sectors, consolidating its position as a long-term buyer. Argentina has limited reserves of its own but is the Latin American country where the use of gas is most prevalent. It currently buys 6 million cubic metres per day from Bolivia and urgently needs more.¹⁶⁹

Chile obtains its gas from Argentina, an increasingly unreliable supplier, and could be an important customer but Bolivia's refusal to supply it has forced Santiago to turn to Peru to meet the needs of its northern region. Having also lost the opportunity to export to the U.S. (California) market, Bolivian gas sales are confined to Brazil and Argentina, which helps to explain those countries' great interest in Bolivia's political situation as well as their strong position in fixing the prices.¹⁷⁰

Both Quiroga and Morales are well aware of this. The latter has important ties with the Lula and Kirchner governments, and the importance of preserving and possibly expanding these markets is one point on which the candidates agree.¹⁷¹ The money from these exports is critical – 25 per cent of all tax revenue comes from the hydrocarbon sector. A Morales administration would be inclined to give Petrobrás special treatment for investment and operations so as not to jeopardize gas exports to Brazil or endanger ties with the Lula government. Some analysts ask if this approach would be compatible with a policy to nationalise hydrocarbon resources and restrict foreign investment.¹⁷²

There are differences between the candidates on Chile, however. Quiroga wants to reinforce economic and commercial ties with both Chile and Peru. He would try to take advantage of the fact that new presidents will take office in the three countries at about the same time in 2006. This could offer an opportunity to work out a common agenda, perhaps one that took account of Bolivia's desire for an outlet to the Pacific Ocean. Quiroga thus wants to improve relations with Chile, though in a way that is consistent with his campaign slogan, “gas and sea.”¹⁷³

¹⁶³ Crisis Group interviews, La Paz, 13 October 2005.

¹⁶⁴ *La Razón*, 5 October 2005.

¹⁶⁵ *Washington Times*, 25 October 2005.

¹⁶⁶ The Millennium Challenge Account is a \$1 billion U.S. aid initiative to fund social and economic projects in countries that are struggling with poverty but are improving their governance.

¹⁶⁷ Morales recently made a widely publicised recent visit to Spain, France and Belgium.

¹⁶⁸ Crisis Group interview, La Paz, 22 August 2005. A coca market study might open a Pandora's box, however. No one knows what it would reveal or if the findings would reinforce the position of coca-growing peasants, as many believe. It might be counterproductive. Morales has used the demand for the study as an argument for resisting coca eradication but might reassess his position as president.

¹⁶⁹ Carlos Miranda, “La exportación de gas natural a corto y mediano plazo”, in ILDIS, *Bolivia: visiones de futuro* (La Paz, 2002), pp. 391-406.

¹⁷⁰ An opinion expressed to Crisis Group by an oil expert, La Paz, 12 October 2005 and the Santa Cruz Civic Committee, 3 December 2005.

¹⁷¹ Morales says his priority, however, is industrialisation and domestic gas consumption, not exports.

¹⁷² Crisis Group interviews, La Paz, 12 and 13 October 2005.

¹⁷³ PODEMOS, government agenda, op. cit.

Morales may be trapped in a contradiction. As the leader of anti-Chile opinion, he is obligated to take a hard line. However, government responsibility could make him pragmatic, something hinted at by his running mate, Alvaro García Linera.

There is no easy answer as to how Morales as president might deal with Venezuela and Cuba, not least because some of the relevant factors might be beyond his control. If he is not to antagonise the U.S., he will have to be particularly prudent about aligning with their foreign policies, instead orienting his positions toward the more pragmatic and moderate ones of left-leaning leaders like Lula and Kirchner or Tabaré Vazquez of Uruguay and Michelle Bachelet, the socialist candidate in Chile. After Morales appeared with Chávez at the anti-summit rally in Argentina in November 2005, worst case scenarios were heard discussed both in the corridors of the summit and at Washington think-tank discussions. The worst case fears are three-fold. First, some fear Morales would not merely end forced eradication of coca leaf but also allow unrestricted production, and cocaine exports from Bolivia would skyrocket. Secondly, the real pessimists see that decision producing a sharp reduction in international funding and Chávez stepping in to fill the gap. Finally, they envisage thousands of Cuban doctors and a coterie of security and intelligence operatives arriving while Morales pursues a Chávez-like amendment of the constitution to reduce checks and balances, accountability and the prospects of political opposition.¹⁷⁴

Precisely this moderation and pragmatism has allowed Lula's government to become a bulwark of Latin American economic and political stability, while working well with the U.S. However, corruption scandals have weakened Lula and undermined Brazil's ability to present itself as an alternative model for political change to that advertised by Chávez. This, plus the possible changes in Argentine politics as a result of congressional elections at the end of the year, could dispel the hopes Morales has of helping to form a left-leaning bloc of South American countries to offset U.S. dominance.¹⁷⁵

In that situation, Venezuelan political and economic support could become more important, particularly if Morales reciprocates Chávez's interest in creating a large consortium of state-owned oil companies (Petroamérica) in exchange for financial and commercial aid to help him and YPFB carry out nationalisations. Chávez has other

cards to play as well, such as honouring tariff preferences within the Community of Andean Nations (CAN) for buying soybeans from Santa Cruz or helping to alleviate Bolivia's fiscal problems by purchasing government bonds (something he has indicated he would do).

In other words, there is a real prospect that a Morales administration would ally with Venezuela. Quiroga, on the other hand, portrays himself as a sharp critic of Chávez, whose support for Bolivia's demand for access to the Pacific he calls opportunistic. However, on the campaign trail, he has tempered his criticism, knowing that if he wins, he would have to deal with Caracas.¹⁷⁶ Whoever wins, much depends on how the cards play out at regional level and on the course of relations with the U.S., the EU and its member states and the international agencies.

¹⁷⁴ Think tank discussions in Washington, 1-2 December 2005; Marcela Sanchez, "After summit of discontent, Bolivia's better chance", *The Washington Post*, 10 November 2005.

¹⁷⁵ Gustavo Fernández: "¿Está en peligro la gobernabilidad en América Latina?", in *Desbloquear la política para dar Gobernabilidad a Bolivia* (La Paz, 2005).

¹⁷⁶ For example, on the sensitive issue of sale of soybeans to Venezuela.

VI. CONCLUSION

The 18 December elections are both an institutional measure of last resort and an opportunity to turn the tide. If Bolivia is to lay the foundations for a new consensus on a myriad of economic and social problems and overcome serious institutional and political instability, all actors must play by democratic rules. Intransigent positions put the future of Bolivia's democracy and nation-state at risk. The priority of the government which takes office in January 2006 must be to establish institutional channels to prevent and resolve social and political conflicts and overcome deep divisions between the executive and legislative. Policies are also required for delivering basic goods as well as reconciling socio-economic, regional, and ethnic cleavages.¹⁷⁷ Bolivia should be assured that it can count on strong international support in tackling these tasks.

The elections are the first step but not the full answer. Although President Rodríguez has kept the ship afloat, Bolivians are keen to vote but sceptical that much will change. It is the responsibility of the parties, above all MAS and PODEMOS, to assure the electorate that bloodshed, protests, blockades and intransigence are things of the past, and they can govern in the interest of all. This means keeping hardliners in the east and west in check and building a broad consensus for solving core issues of poverty reduction, hydrocarbon management and the relationship between the central government and the nine departments. A major effort is required to implement a rural poverty reduction strategy that focuses on giving the indigenous population more equal access to education, health and other social services as well as credit, land, infrastructure and rural development investment.

The new Congress and the provincial prefects will be called upon to seek the common good, not defend narrow regional economic, political and corporate interests. Given that a majority of citizens demand both a constituent assembly and a referendum on regional autonomy, as well as measures to achieve stability and strengthen democracy, the new government should give these high priority in the first half of 2006. To avoid past failures, such as President Mesa's hydrocarbons referendum, it is important to reach

an early clear consensus on the establishment, procedure and goals of the constituent assembly and the referendum on regional autonomy.

The international community ought to support Bolivia more in its quest for democratic stability and socio-economic progress. A first need is to acknowledge the legitimacy of the new government, be it under Evo Morales or Jorge Quiroga. Relations between the U.S. and Bolivia are particularly important. If Morales and the MAS form the next administration, Washington should treat them as a diplomatic partner, even though there will be disagreement on many issues, and engage constructively on areas of common interest. Growing anti-American sentiment and the attractiveness of Hugo Chávez's "Bolivarian" foreign policy in many parts of South America make this more important, since Chávez is close to Morales and will try to lure him with oil money into his ideological confrontation with the U.S.

The key South American countries currently led by centre-left or left parties (Uruguay and Brazil) are mature governments which should be able to engage a Morales administration and help it advance a reform agenda in ways that lessen the likelihood of confrontation, regionally or with the U.S. If Quiroga is elected president, neighbouring country leaders should advise Morales in playing parliamentary rather than street politics.

Transnational oil companies, including the Brazilian giant Petrobras, have much at stake. It would be in their enlightened long-term interest to use their considerable bargaining power to help build a transparent and socially responsible partnership. A constructive stance entails negotiating new contracts with the government and paying higher taxes and royalties on gas production, as stipulated in the May 2005 hydrocarbons law. That would help make nationalisation of the hydrocarbon industry, the demand of many Bolivians, a non-issue. Likewise, increased natural gas proceeds for the state, as over the last four months, would help stabilise foreign investment and contribute substantially to political stability and socio-economic progress.

There is no other way forward for South America's poorest and most divided nation than tackling its problems with the primary aim of equitable and sustained development. The EU and its member states, the international financial institutions, and the Brazilian and U.S. governments should work together to bring to bear their advice and technical expertise in the design and implementation of a new hydrocarbons management and poverty reduction strategy.

Bogotá/Brussels, 8 December 2005

¹⁷⁷ The new government should foster participation of women in its reconciliation efforts in order to take advantage of their expertise in mediation and conciliation. On this expertise, see Anderlini, Sanam Naraghi, Camille Pampell Conaway, and Lisa Kays. "Transitional Justice and Reconciliation, Inclusive Security: Sustainable Peace", a Toolkit for Advocacy and Action, Hunt Alternatives Fund and International Alert, London and Washington, 2004, available at http://www.womenwagingpeace.net/content/toolkit/chapters/Transitional_Justice.pdf.

APPENDIX A

MAP OF BOLIVIA



APPENDIX B

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December 2005

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