

# Bolivia's Long and Winding Road

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# Anderson

Working Paper

Bolivia has seen an escalation of social and regional conflict over the past few months. This situation reflects unresolved tensions over natural resources, multicultural politics and decentralization that date back years or even decades.<sup>1</sup> Although press and media coverage tend to be polarizing, the interests of social and political actors are far from irreconcilable.<sup>2</sup> It is a mistake to perceive the Bolivian state as being on a slippery slope to division. The level of social and regional tension in recent months, however, does deserve closer attention. A penchant for democratic political negotiation and compromise, if not consensus, is currently absent in government and opposition leaders.

This paper focuses on the ingredients that explain this democratic deficit. If Bolivian history is any guide, the current battle for political hegemony will not be resolved

Many thanks to Michael Shifter, Eduardo Gamarra and Dan Joyce for comments and suggestions. Thanks to Rodrigo Arce for research assistance. Comments and suggestions welcome at graymolina@gmail.com.

<sup>1</sup> For an edited volume on unresolved tensions in Bolivian politics with contributions from Eduardo Rodríguez, Xavier Albo, Carlos Toranzo, Luis Tapia, Diego Zavaleta and Rossana Barragan, among others, see John Crabtree, George Gray Molina and Lawrence Whitehead, *Tensiones Irresueltas: Bolivia Pasado y Presente*. La Paz: Plural, 2008.

<sup>2</sup> A number of analysts have identified a broad array of overlapping interests between government and opposition on the new constitution and autonomy statutes. See Carlos Bohrt Irahola, et al, *Puentes para un diálogo democrático Proyectos de Constitución y Estatutos: compatibilidades y diferencias*. La Paz: FES, 2008; Súbelas Barrios and Franz Xavier, "Hacia un Pacto territorial en Bolivia Conflictos, Conceptos, Consensos en torno a las autonomías," working paper, La Paz: PAPEP-PNUD.

neatly. A new period of political stability will ensue only after leaders engage in pragmatic negotiations on the rules of the game for democratic dissensus. That "agreeing to disagree" is the only thing that Bolivians can unite around is extremely appropriate in the current political setting. In the end, President Morales has the possibility of charting either a path of progressive politics that includes dissenting views or a path of social and regional polarization that threatens the continuity of his social and economic agenda.

The paper starts with an analysis of the present standoff between President Morales and the prefects from the east and southern regions of the county. The second part describes the political roadmap that led up to polarization, including the impact of policy decisions and international relations. The final section outlines political scenarios for the post-August 10th standoff and examines some of the challenges for democratic politics in the future.

## 1. The August 10th Standoff

On May 8, four days after a regional referendum on autonomy in Santa Cruz de la Sierra, President Morales announced he would sign into law a bill that called for a presidential, vice presidential and prefectural election. (continued on page 3)

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# Foreword

The Inter-American Dialogue is delighted to publish this paper by one of Bolivia's leading social scientists, George Gray Molina, who has extensive policy experience and is currently an academic fellow at the Department of Politics and International Relations at the University of Oxford. He disentangles the exceedingly complex situation in Bolivia by identifying the interests and roles of the key actors involved. Gray sheds light on the sources of the political stalemate in advance of the August 10 recall referendum and outlines three scenarios for Bolivian politics in the period to follow.

This working paper is the sixteenth in a special series focused on the Andean countries of South America. The Dialogue's aim is to stimulate a broad and well-informed public debate on the complex issues facing key analysts and decision makers concerned with Colombia, Venezuela, Peru, Ecuador and Bolivia. We seek to offer diagnoses of the current situation as well as policy prescriptions to deal more effectively with deep-seated problems.

The series is a byproduct of a working group project launched by the Dialogue in 2001. The Andean working group is comprised of select and diverse analysts and policymakers from the Andean region, other Latin American countries, Europe, Canada and the United States. Like the working paper series itself, the group was launched with a particular focus on the Colombian conflict but then naturally expanded to encompass all of the Andean countries.

The working group essentially serves as a "brain trust" or core group of advisors for the Dialogue on the Andean region, a top priority for the organization. The goal of the group is not necessarily to reach agreements or produce consensus documents. Rather, it is to generate fresh interpretations of multiple Andean challenges, in order to shape thought and encourage constructive responses.

To date, the papers have dealt with a wide range of topics, including the Colombian conflict, drug trafficking, civil-military relations, human security and petropolitics. We are confident this paper will contribute to a deeper understanding of a critical situation in the hemisphere. Gray's perspective does not necessarily reflect the views of the working group or the Inter-American Dialogue.

We are pleased to recognize the assistance provided by the Ford Foundation for our work on the Andean region. We are grateful to the Foundation Open Society Institute for supporting the production of this report.

Michael Shifter  
Vice President for Policy

(continued from page 1)

tural recall referendum on August 10, 2008.<sup>3</sup> The bill had been drafted in Congress in December 2007 and took regional opposition leaders by surprise, in what most analysts conclude was a last-ditch attempt by the congressional opposition party PODEMOS (Poder Democrático y Social) to postpone a national referendum on the new constitution approved by the Constituent Assembly in controversial sessions in Sucre and Oruro earlier in the year.<sup>4</sup>

The recall referendum bill undermined the political momentum of the departmental referenda on regional autonomy, which kicked off in Santa Cruz on May 4 with votes in Beni and Pando on June 1 and in Tarija on June 22. It also drove a wedge within the opposition, pitting the congressional party PODEMOS against civic committees and departmental prefects, who faced the real prospect of losing their posts. Finally, the recall referendum is also likely to frame future negotiations between the government and leaders of parties, social movements and regional groups.<sup>5</sup>

### Government and Opposition Forces

Who wins and who loses from the August standoff? The recall referendum is more likely to polarize the public as well as social and regional leaders than it is to force or facilitate a political compromise. The decision by departmental prefects to call for a boycott of the recall referendum adds to this impasse.<sup>6</sup> The recall vote is also likely to postpone meaningful political dialogue until the elec-

toral process defines who has a seat at the table. There are, however, regional, social and political particularities that are worth reviewing. Chart 1 shows a birds-eye view of social and political actors in the run-up to the August referendum.

In the big picture, three issues are salient. First, there is an “emptying” of the political middle. While most policy issues have accommodated a certain degree of consensus building in the past, the current regional and ethnic divide over autonomy and the Constitution suggests there is no common political arena. Second, although the political momentum favors the opposition, congressional and regional opposition groups are politically fragmented. The civic committees and prefects are at odds with the congressional opposition led by PODEMOS. Third, Chart 1 shows political positioning as things stood before the recall referendum, but they are likely to change in the month of August. The incentives to negotiate before the vote are very small, but they will likely grow once the recall referendum is complete.

### 1.1 Government

#### President Morales

After the May 4 referendum on autonomy statutes in Santa Cruz, the president was facing a “domino effect” of growing legitimacy for autonomy votes in four departments between May and July. In this sense, the recall referendum will provide political space for the president, both before the referendum (a truce) and after the referendum (a renewed mandate). Most opinion polls suggest the president is likely to win a recall vote under the current rules.<sup>7</sup> What is likely to be more challenging is changing the balance of power in renewed talks with prefects, who will probably campaign vigorously and become stronger politically in the run-up to

“ The recall referendum is more likely to polarize the public as well as social and regional leaders than it is to force or facilitate a political compromise. ”

<sup>3</sup> Article 6 and 7 of the Recall Referendum Law describe the referendum questions. For the President and Vice President, “¿Usted está de acuerdo con la continuidad del proceso de cambio liderizado por el Presidente Evo Morales Ayma y el Vicepresidente Álvaro García Linera?” For prefects, the question is, “¿Usted está de acuerdo con la continuidad de las políticas, las acciones y la gestión del Prefecto del Departamento?”

<sup>4</sup> Daniela Espinoza and Marco Zelaya, “Historia secreta del Referéndum revocatorio,” *Pulso* 450, May 18, 2008.

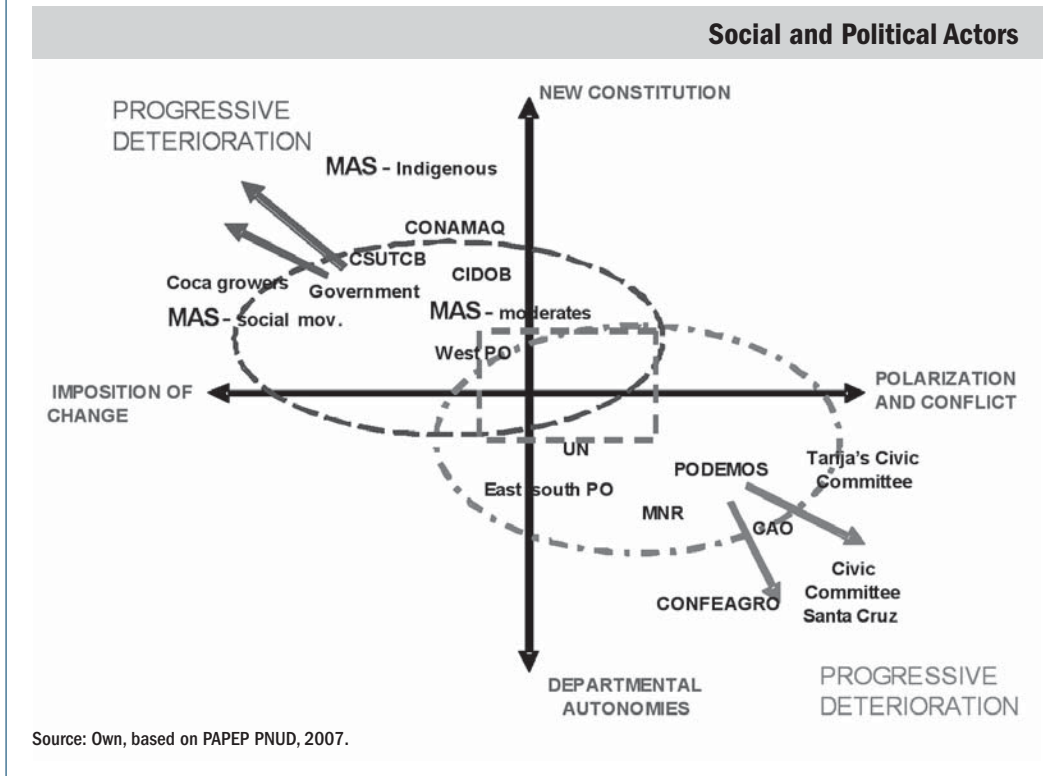
<sup>5</sup> *La Razón*, May 22, 2008; *La Prensa*, May 22, 2008; *El Deber*, May 22, 2008.

<sup>6</sup> *La Razon*, June 25, 2008; *La Prensa*, June 25, 2008.

<sup>7</sup> Pablo Ortiz, “Encuesta anticipa que Evo y Costas seguirán,” *El Deber*, May 23, 2008.

“The autonomy process in four departments is radicalizing the die-hard MAS constituency in rural areas, which will likely erode support among more moderate and mostly urban MAS supporters in the same regions.”

Chart 1: The Political Map for the Recall Referendum



the August vote. The ongoing question of who remains standing as the effective opposition (regional or congressional) is also likely to make future talks more difficult.

#### Vice President García Linera

The vice president has played an important role as the negotiator of last resort between political parties and with the regions. His roundtable talks in February led to a tentative “roadmap” that included amendments to the constitution, changes to statutes and a legal framework for regional and national referenda. However, those talks broke down in March, leading to the current impasse. The vice president initiated a new round of talks in late May that were postponed in June. Most observers agree that little or no compromise is likely in the run-up to the highly polarized recall vote.<sup>8</sup> The vice president is likely to play a key role in the period following the August referendum.

<sup>8</sup> Jimena Costa, “¿A quien beneficia el diálogo,” *La Razón*, May 24, 2008.

#### The MAS Coalition

The Movimiento al Socialismo (MAS) is likely to galvanize its political base in the run-up to the August referendum, causing two cleavages within the party to resurface. The first is the *campesino*-indigenous cleavage that emerged in the Constituent Assembly, particularly after the draft Constitution was approved in February 2008. Some *campesino* leaders, such as Roman Loayza from the Confederación Sindical Única de Trabajadores Campesinos de Bolivia (CSUTCB) are unhappy with the president and vice president’s initiative to open up talks on the contents of the approved draft constitution. The second cleavage is the regional MAS constituency. The autonomy process in four departments is radicalizing the die-hard MAS constituency in rural areas of Santa Cruz, Tarija and Pando, which will likely erode support among more moderate and mostly urban MAS supporters in the same regions.

## 1.2 Opposition

### Prefects

On June 24, 2008, the prefects of Santa Cruz, Tarija, Beni, Pando and Cochabamba, those most at risk of being recalled, called for an electoral boycott of the recall referendum. The decision to hold a referendum took most prefects by surprise and, in four departments, distracted political energies from the task of organizing autonomous departmental governments. The strength of the prefects varies by department. On the weak side, the prefects of Cochabamba (Manfred Reyes Villa), La Paz (José Luis Paredes) and perhaps Oruro (Alberto Padilla), are likely to have an uphill battle to keep their seats.<sup>9</sup> On the strong side, the prefects of Santa Cruz (Rubén Costas) and Beni (Ernesto Suarez) are likely to emerge strengthened by renewed legitimacy at the ballot box. The prefects of Pando, Potosí and Tarija are likely to survive the recall vote, but without as much momentum as their colleagues in the east-

<sup>9</sup> *Pulso* 451, May 25, 2008.

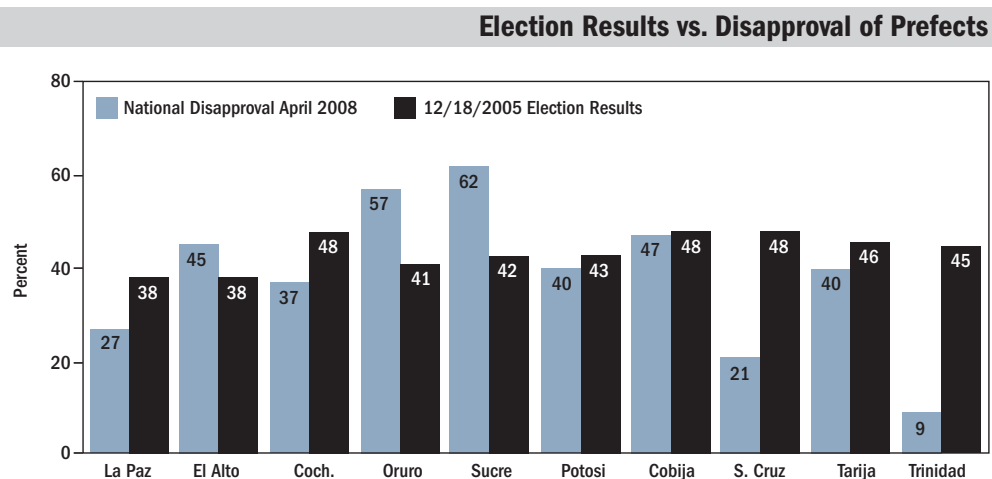
ern provinces. Overall, the recall vote is likely to favor the MAS in the western part of the country but strengthen the opposition in the south and east.

### Civic Committees

The process leading up to the recall vote includes three departmental referenda on autonomy statutes between June and July. The domino effect expected by the opposition is likely to be overshadowed by the national recall vote, but will solidify the regional opposition in time for political negotiations in a post-referendum setting. Civic committees have taken on a political aura similar to social and indigenous movements five years ago. They are perceived as being the new relevant actors in the wake of weakened political parties. Like social and indigenous social movements, however, they suffer a chronic democratic deficit on issues of representation: Who represents the “people” and on what terms? How are leaders elected? Who drafts the statutes? Why should this process not be transparent? Unlike social movements, however, the civic committees—at least in the

“ Civic committees have taken on a political aura similar to social and indigenous movements five years ago. ”

Chart 2: Public Opinion Polls of Prefects



Source: CNE, IPSOS Apoyo, January 2008

“The Catholic Church is perhaps the most important player for future negotiations between the government and the opposition.”

course of the regional referenda—have agreed to devolve power to future elected officials (departmental councilors and governors.)

### Political Parties (PODEMOS, UN and MNR)

With the recall referendum, PODEMOS took what might be regarded as its last opportunity to position itself as a key player in the opposition. The party had been weakened in the first months of 2008, during the vice presidential negotiations with political parties, and been overtaken by civic committee leaders and prefects as the leaders of the opposition. To the extent that procedural agreements are likely to require congressional approval, PODEMOS, led by former president Jorge Quiroga, holds a strong negotiating card because of its majority in the senate. Weakened and split, it is still likely to be a key player in the aftermath of August 10th. The Unidad Nacional (UN) and Movimiento Nacionalista Revolucionario (MNR) had played a critical role in the Constituent Assembly as negotiators between the government and opposition, but have increasingly lost relevance in the current standoff. The leader of the UN has openly opposed approval of the new constitution, and the leader of the MNR has opposed the recall referendum altogether. Both parties position themselves as “third-way” alternatives in the midst of crisis.

### 1.3 Observers and Potential Mediators

#### Catholic Church

The Catholic Church is perhaps the most important player for future negotiations between the government and the opposition. The Church has a long track record of political negotiations in Bolivia and is generally regarded as the most impartial and trustworthy arbiter. The recent talks held by the Church with both sides present were not aimed at slowing or postponing the regional referenda, but rather at setting the stage for future talks on substantive and procedural

issues. Despite recent government comments to the effect that Cardinal Terrazas was “disqualified from mediating” because he voted in the Santa Cruz autonomy referendum, the Church is likely to play an important role in any potential political scenario in the future.

#### OAS and Group of Friends

The Organization of American States Resolution supporting democratic institutions, and calling for dialogue and peace in Bolivia, signed May 3, a day before the Santa Cruz referendum, was preceded by a number of missions led by the Secretary General’s Special Envoy Dante Caputo.<sup>10</sup> The OAS missions focused on the legal and political consequences of the May 4 referendum which had been called into question by both the government and independent analysts across the country. The OAS envoy called for meetings between the government and the opposition, but regional and congressional resistance to the OAS mandate ratified the existing stalemate. Besides the OAS, the delegates representing three countries, the “Group of Friends” (Brazil, Argentina and Colombia), also held high-level meetings in the run-up to the Santa Cruz referendum. The Group of Friends has been requested to return to Bolivia to help bring key stakeholders back to the table and is included in the tentative agreements released by Vice President García Linera and three political parties on May 23.

## 2. How Did Bolivia Get Here?

Evo Morales’ landslide electoral victory in December 2005 was based on a broad coalition of *campesino*, indigenous and urban middle-class voters. With 54 percent of the popular vote, the Movimiento al Socialismo transformed the social and political landscape. The traditional political parties of the 1980s and 1990s—Movimiento Nacionalista

<sup>10</sup> OAS Resolution, “Respaldo a la institucionalidad democrática, al diálogo y La Paz de Bolivia.” CP/RES. 935 (1648/08), May 3, 2008.

Revolucionario (MNR), Movimiento de la Izquierda Revolucionaria (MIR) and Acción Democrática Nacionalista (ADN)—as well as offshoots of the traditional parties—Unidad Nacional (UN) and Poder Democrático y Social (PODEMOS)—earned less than a third of all votes. With over 100 parliamentarians out of a total of 157 and the support of some of the most vocal social movements in the country, the Morales administration began its term with the highest level of public support for any government in the democratic era.

Despite a broad mandate for change, the past two years have seen a return of social and political polarization. Three factors frame the current political impasse. The first has to do with procedural and substantive disagreements over the political rules of the game that guided the Constituent Assembly, autonomy votes and recall referenda. The second factor has to do with the content and process of public policy in the first two years of the Morales administration. Key measures hinge on the nationalization of hydrocarbons, use of fiscal resources and intergovernmental relations, all of which heightened polarization. The third factor is international. Bolivia has played an ambivalent role in the international arena. On some issues, the Bolivian government has aligned itself with political allies in Venezuela or Ecuador, including membership in UNASUR (Union of South American Nations), Andean Community-European Union negotiations, and OAS votes. On others, however, particularly Chile-Bolivia relations and gas negotiations with Argentina and Brazil, Evo Morales has shown some independence. Each of these factors is reviewed in the following three sections.

## 2.1 Polarized Rules of the Game

The current standoff was preceded by a relatively protracted social and political impasse over the rules of the game guiding political change in the country. The discrediting

of traditional political parties after the 2005 elections left the political system with a new *modus operandi*, less reliant on *democracia pactada* (a closed, prearranged democratic system) and more dependent on a zero-sum game of political positioning. The new approach has, as suggested by many observers, relied on a peculiar mix of democratic institutions and social and regional movements on the streets.<sup>11</sup> A typical political negotiation is a three-act drama. First, there are shows of strength from social and regional movements on the streets, followed by forced negotiation and then a continued postponement of substantive agreements on the issues of the day (land, autonomies, constitution, and intergovernmental relations, among others). The consequences of this process include both a devaluation of democratic procedures and a weakening of public debate on policy issues.

Chart 3 shows a political roadmap leading up to the current stalemate. Perhaps the most significant impasse on procedural issues was the two-thirds majority rule for constitutional approval. The two-thirds majority rule was included in the compromise law of March 2006 that convoked the Constituent Assembly. It was meant as a safeguard that would force negotiations between all parties in the assembly and deliver a majority report that could be submitted to referendum approval at the end of the process. As deadlines expired in June and July 2007, opposition parties denounced their exclusion from both majority and minority reports in many commissions. A crisis over the procedural rules ensued.

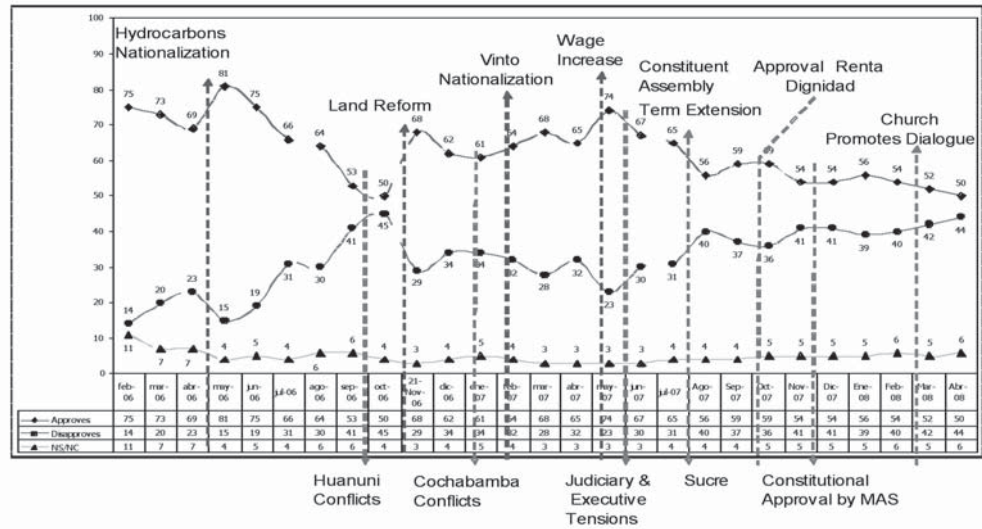
The two-thirds rule was interpreted by the MAS as being relevant only for the final constitutional text and not the commission reports. Most legal analysts agreed that the

<sup>11</sup> Fernando Calderón and Eduardo Gamarra, “Crisis Inflexión y Reforma del Sistema de Partidos en Bolivia.” *Cuaderno de Futuro*, Vol. 19, 2004, *Informe Sobre Desarrollo Humano*, PNUD (2004) discusses this mix of mechanisms in the 2000–2003 crisis period.

“Despite a broad mandate for change, the past two years have seen a return of social and political polarization.”

**Chart 3: President Morales' Approval Ratings**

**Polarization Roadmap**



Source: Author, based on Equipos Mori 2008

“ Various rounds of negotiations led by Morales and García Linera failed to either bridge the gap between the draft constitution and statutes or to provide a legal framework that might deal with both issues. ”

MAS interpretation was politically biased.<sup>12</sup> As the August 6 deadline approached, both sides decided to draft a new law extending the Assembly’s mandate 90 days, until December. The new law explicitly included the two-thirds majority rule but also included a two-step referendum rule that implicitly made the majority rule moot. The entry referendum would consider dissensus questions on the final text, but that meant possibly submitting an entire constitutional text (minority or majority) for approval. The exit referendum would ratify the whole text.

As the extension expired in December, conflict erupted in Sucre over the issue of the capital city, which drove a wedge within the MAS but did not ultimately become a national issue. As police clashed with university students, leaving two dead on November 3, 2007, the Assembly approved a general version of the constitutional text, which postponed detailed treatment until February 2008 in the city of Oruro. Both approvals were

<sup>12</sup> Rubens Barbery Knaut, “¿Por que los 2/3?” *Los Tiempos*, December 8, 2006; Jorge V. Ordenes, “Los dos tercios,” *Los Tiempos*, December 26, 2006.

done in the absence of the political opposition, despite overtures by the UN and MNR to sign a compromise text. The Oruro session approved not only the draft text but also a dissensus question for the entry referendum. As things stand today, both the entry and exit referendum are on hold.

The second impasse involved the referenda for the approval of autonomous statutes for Santa Cruz, Tarija, Beni and Pando, departments that voted in favor of autonomy in July 2006. The autonomy question was initially part of the Constituent Assembly debate. The Commission on autonomies delivered majority and minority reports that recognized departmental autonomy, but also recognized municipal, regional and indigenous autonomies. The watering down of the Santa Cruz proposal was perceived as threatening the roadmap laid out in the *cabildos* (meetings) of 2006 and 2007. Various rounds of negotiations led by President Morales in January and by Vice President García Linera in February failed to either bridge the gap between the draft constitution and statutes or to pro-

vide a legal framework that might deal with both issues.

The regions called for departmental referenda that would reposition their demands on a national level. The first referendum vote in Santa Cruz ratified the “yes” agenda with 85.4 percent of valid votes and a 37.9 percent abstention rate, some 15 percentage points above the average rates in past elections.<sup>13</sup> The referendum effort encountered resistance in rural areas of Santa Cruz and poorer neighborhoods in the city, including incidents of violence and burning ballot boxes. On balance, however, the Santa Cruz referendum shifted the political momentum decisively towards the regional agenda. Prefects and civic committees were expected to sit down at a negotiation table with the government only after the last regional referenda was held in Tarija in July.

Most analysts agree that the departmental referenda and the resulting statutes are illegal under the current constitution.<sup>14</sup> In what has become a political battlefield for electoral legitimacy, the National Electoral Court refused to recognize the results in the regions as official. The Santa Cruz Electoral Court presided over the referendum, causing a schism in the Court. The courts of Beni, Pando and Tarija followed Santa Cruz in defying the national court. The legality of both the regional referenda and the approval of the new constitutional text reveal weaknesses in the constitutional and electoral oversight institutions, which leads to the appointments problem.

<sup>13</sup> For an analysis of abstention rates in past Bolivian elections, see *Corte Departamental Electoral de Santa Cruz*, <http://www.corteelectoralsc.com/computo2008/>; Salvador Romero, *Geografía Electoral de Bolivia*, 3rd Edition. La Paz: Fundemos, 2003.

<sup>14</sup> Carlos Bohrt Irahola, et al. *Puentes para un diálogo democrático. Proyectos de Constitución y Estatutos: compatibilidades y diferencias*. La Paz: FES, 2008; Súbelas Barrios and Franz Xavier, “Hacia un Pacto territorial en Bolivia Conflictos, Conceptos, Consensos en torno a las autonomías,” working paper, La Paz: PAPEP-PNUD; La Prensa, “Constitucionalistas observan el referéndum de Santa Cruz,” February 14, 2008.

The third impasse involves a lack of agreement on appointing judges and clerks to the Constitutional Tribunal and the National Electoral Court. The Constitutional Tribunal, which plays a key role in a highly contested political atmosphere, is currently paralyzed due to a lack of judges. Congress must appoint four new judges to complete a five-judge court. The Tribunal suspended work months ago, closing 2,313 cases involving 15,438 people, so far. The key decisions, of course, relate to the Constituent Assembly and referenda. The Tribunal is only part of a larger paralysis in judicial reform, which also requires political compromise.<sup>15</sup>

Something similar is happening with the National Electoral Court, which is working even though it has only three officials out of five, one of whom is the presidential appointee. The impasse over Court appointments and the accusations of partiality with the government are likely to affect the August referendum results.<sup>16</sup> A decisive MAS victory will see regional accusations against the national court, while a decisive regional victory will see accusations from the government against the regional courts. This is especially sensitive because the electoral schedule is the only process currently agreed upon by government and opposition.

## 2.2 An Eclectic Policy Agenda<sup>17</sup>

In addition to political procedures, policy substance is also a wedge issue, despite the fact that the democratic revolution proclaimed by Evo Morales in his electoral campaign led to a rather moderate policy agenda, described in the National Development Plan (NDP)

<sup>15</sup> Eduardo Rodríguez Veltzé, “Presupuesto Judicial y Justicia de Paz,” *La Razón*, May 20, 2008; Tribunal Constitucional, “Declaración del Tribunal Constitucional al pueblo de Bolivia,” May 17, 2008.

<sup>16</sup> Jorge Lazarte, “En duda imparcialidad de nueve vocales electorales,” *Los Tiempos*, April 13, 2008.

<sup>17</sup> This section is based on George Gray Molina, “The Post-Neoliberal Challenge in Bolivia.” Paper presented at the University of Texas-Austin, February 2008.

“Questions about the legality of both the regional referenda and the approval of the new constitutional text reveal weaknesses in Bolivia’s constitutional and electoral oversight institutions.”

“ Social policy programs draw attention to the limitations faced by the Morales administration, particularly its weak administrative capacity and need to show tangible results. ”

in June 2006. The NDP was the first official document to dissect policy design and implementation issues, and propose a roadmap for social, economic and political change. The Ministry of Development Planning drafted the document and coordinated discussions within the government and with civil society groups throughout 2006. Reactions to the document were mixed. Opposition analysts from the right described it as a “nostalgic return to the past” and “ready for the garbage can of good intentions.”<sup>18</sup> Sympathetic analysts from the left saw it as a “watered down development program” tainted by the “continuation of failed neoliberal policies of the past.”<sup>19</sup>

Two aspects of the NDP are worth underlining, as they relate to decisions that were eventually taken in the economic and social policy arena. First, the NDP is a relatively eclectic development plan, one that borrows freely from dependency theory, indigenous multiculturalism, social-democratic protection policies and neoliberal monetary and exchange rate policy. The plan underscores the need to “change the primary-export pattern of development” inherited from a neocolonial and neoliberal past.<sup>20</sup> The policy record is described in terms of a relatively coherent succession of development stages, cushioned by the whims of international donors and academic fashion. Social protection initiatives emerged in the 1980s, followed by human development policies in the mid-1980s, extended to poverty reduction targets in the 1990s, and complemented by the Millennium Development Goals at the dawn of the new century.

Second, the NDP focuses specifically on hydrocarbons and anticipates the nationalization policies of 2006. The role of natural gas is strategic, perhaps the cornerstone of the

new development agenda. Paradoxically, the focus on gas and hydrocarbons runs against the grain of “changing the primary-export pattern of development.” The key imperative, it would seem, is to diversify the sources of exports and improve labor and environmental standards to compete, not based on cheap labor and plentiful natural resources, but on high value-added, increased productivity and fair livelihood conditions. In the course of two years, one strategic objective (increasing state participation in hydrocarbons) has tended to overshadow the other, admittedly, more important objective (changing the primary-export pattern of development). The implementation of the plan has revealed tensions between “changing the model” and “changing the pattern” of development.

Beyond the ins and outs of the NDP, an evaluation of the sequence of policy decisions and actions taken in the first two years of government is important. Between 2006 and 2008, the Morales administration achieved a number of the objectives described in the government plan in a three-part sequence. First, they increased government control over hydrocarbon revenues in 2006. Second, they increased public investment, both centralized and decentralized, in 2007. Third, they scaled up existing social transfer mechanisms for children and the elderly (through the Bono Juancito Pinto and Renta Dignidad programs, respectively) in late 2007 and early 2008. The policy actions that were taken, however, draw attention to the limitations faced by the Morales administration, particularly its weak administrative capacity and need to show tangible results.

### *The Nationalization Agenda*

The nationalization of Bolivian natural gas was achieved in two different administrations, with a law approved during the Mesa administration in July 2005 (Law 3058) and a decree passed by the Morales administration in May 2006 (Decree 28701). Neither

<sup>18</sup> *Milenio* 2006 and *Oporto* 2006

<sup>19</sup> *CEDLA* 2006 and *Orellana* 2006

<sup>20</sup> Government of Bolivia, 2006.

legal instrument nationalizes in the conventional or historical sense—via expropriation or changes in property rights. Both measures increased the government take by an order of magnitude—Law 3058 raised government participation from 18 percent to 50 percent of production value while Decree 28701 bumped this to up to 82 percent—and the nationalization decree included a renegotiation of contracts with close to a dozen multinational companies. Taken together, however, they represent a pendulum swing back to the past. This is the third time that the Bolivian state nationalized hydrocarbons over the past century. The two previous occasions involved Standard Oil in 1937 and Gulf Oil in 1969.

Two aspects of the nationalization process are worth considering in closer detail. The first is the new structure of government revenue. Government participation in hydrocarbons has four sources: the first is an 18 percent royalty over the value of production; the second is a 32 percent Direct Hydrocarbons Tax; the third is a payment to YPF (Bolivia's national hydrocarbon company) of recoverable costs, negotiated on a contract-by-contract basis; and the fourth is the distribution of the remainder as shared utilities between YPF and the operator, based on a formula that accounts for new and depreciated capital investments, the price of natural gas and volumes of production.<sup>21</sup> Under the new contracts, government take fluctuates between 67 percent of gross production value (at \$1 dollar per million BTUs) and up to 75 percent of gross production value (if prices reach \$4.5 dollars per million BTUs).<sup>22</sup> Under the new contractual terms, hydrocarbons operators pay a little more than the 50 percent negotiated in Law 3058 and a little less than the 82 percent included in Decree 28701.

<sup>21</sup> Medinacelli 2007a

<sup>22</sup> Medinacelli 2007b

The second aspect is the content of the new contracts signed by multinational corporations in April 2007, on a contract-by-contract basis. The new agreements are hybrids that combine elements of shared production and operational contracts with YPF.<sup>23</sup> Government participation conditions are similar to those signed in Peru, whereby the government enters once private companies recover their operational costs and capital investments. This provision has been seen as a loophole in the nationalization process because it removes risk from multinational companies in future investment decisions.<sup>24</sup>

The increase in government involvement and new contracts has had at least two positive and three negative impacts over time. The first positive effect is that due to extraordinary increases in prices and better bilateral negotiation prices with Argentina and Brazil, Bolivian gross domestic product topped the \$10 billion mark in 2007, over \$2 billion of which came from the hydrocarbons sector. The second positive effect is a significant increase in government revenues from the hydrocarbons sector, reaching \$967 million dollars in 2007, about twice the size of total foreign aid (donations and credit) in the country.

On the downside, the “price effect” of exports weighs more heavily than the “production effect” in explaining additional export revenues. In 2006, average prices were 5.4 times greater than prices eight years earlier and three times greater than three years earlier. Second, the gas sector in Bolivia has become more uncertain with respect to new investments in exploration and higher export volumes. This has been evident in the 2008 negotiations with Brazil and Argentina regarding Bolivia's inability to fulfill existing contracts. Third, to the extent that the global gas market is expanding, Bolivia needs to look

<sup>23</sup> Zaratti 2007

<sup>24</sup> Medinacelli 2007b

**“ Bolivia needs to look beyond the regional gas market, at the Pacific basin in particular, as a way to improve its leverage over competitors in Latin America. ”**

“ The human development gap between the richest and poorest departments in Bolivia will increase rather than decrease until 2015. ”

beyond the regional market, at the Pacific basin in particular, as a way to improve its leverage over competitors in Latin America.

#### *Social Transfers and Public Investment*

Additional revenues from hydrocarbons and mining taxation finance two conditional cash transfer programs to school-age children (Juancito Pinto) and the elderly (Renta Dignidad), which account for over \$230 million, approximately 2 percent of gross domestic product in 2007. The transfers reach over 1,300,000 children and approximately 730,000 men and women over the age of 65. While the Juancito Pinto program is modeled after the Bono Escuela program of the city of El Alto and similar programs in Brazil called Bolsa Familia and in Mexico Progresa, the Renta Dignidad is an expansion of the Bonosol payment implemented with the capitalization of public companies in Bolivia in the 1990s. The difference with the Bonosol is the source of payment. For nine years it was funded by utilities from capitalized companies and from internal debt but now is paid for with hydrocarbons taxes and royalty payments to the regions.

The Juancito Pinto payment, in place since November 2006, has been designed to increase school attendance and reduce dropout rates. In 2007, 1,300,000 children enrolled in public schools from first through sixth grade, in addition to children under 11 years of age in alternative or technical education schools as well as children and adolescents enrolled in special education programs. Each child receives an annual payment of 200 bolivianos (about \$26), subject to an annual confirmation that the child is attending school. The sources of payment are three: 53 percent is financed by YPFB, 33 percent by the Treasury and 13 percent by COMIBOL (Bolivia's state mining company). The total annual cost of the Juancito Pinto payment is \$39 million.

The Renta Dignidad is an annual payment to 600,000 Bolivians over the age of 65 and who have no retirement income, plus an additional 130,000 Bolivians who do receive a pension. The amount paid to those without retirement income is 2,400 bolivianos (about \$320) while the amount paid to salaried retirees is 1,800 bolivianos (about \$240). The source of the payments is highly disputed: in 2008, it amounts to about \$55.6 million paid by the prefectures and \$134.4 million by the treasury, municipalities, universities and capitalized enterprises. The deduction of prefectural funds has been contested by civic committees and prefects who argue it amounts to a 38 percent reduction in their IDH (direct hydrocarbon tax) transfers, about 8 percent of their total funds.

Beyond transfers, public investment has increased significantly over the past two years, rising from \$629 million in 2005 to \$1,103 million in 2007. Most of the new funds have been spent on roads and other infrastructure, totaling close to 60 percent of total investments in 2007. Social investment has decreased over this period to less than 30 percent of total investments in 2007. While the public investment boom has had a multiplier effect on construction, services and transportation, there is still a healthy debate over how and where public investment projects increase long-run competitiveness, human development capabilities and create the conditions for better jobs. Much of the decentralization agenda focuses on this issue, at both the local and departmental level.

A 2007 simulation by the United Nations Development Program estimated the long-term impact of the current distribution of hydrocarbons taxes and royalties over time. Given the uneven distribution of current revenues (departments like Pando receive on average seven times the per capita funding of Oruro), the human development gap between the richest and poorest departments

will increase rather than decrease until 2015. This delay will push back the achievement of the poverty, health, water and sanitation Millennium Development Goals by close to a decade. The inertia of past policies and rent redistribution has not been overcome in the current debate over decentralization and fiscal revenues.

### 2.3 Ambiguous International Relations

Bolivian foreign policy has moved between alignment positions with like-minded governments in the region and pragmatic negotiations with trading partners in the southern cone. The alignment strategy has focused mainly on US-Bolivian relations, the European Union-Andean Community talks and most recently, UNASUR. The pragmatic strategy has worked in talks with Argentina and Brazil on natural gas, and with Chile on an array of bilateral agreements. This ambiguous stance has strengthened the perception that foreign policy is not particularly consistent. While international relations in Bolivia are an occasional battlefield for domestic politics, they are mostly ignored in the current political standoff.

#### *European Union–Andean Community Trade Talks*

The round of talks between the European Union and the Andean Community ended with an agreement to adopt “flexible” negotiations, creating space for dissensus from Ecuador and Bolivia. Both countries have observed the need for a more open discussion on intellectual property rights, investment rules and environmental and labor standards. The official Bolivian position of not signing a free trade agreement with the EU was again ratified at the Fifth EU-CAN Summit in Lima.<sup>25</sup> With the expiration of the extension of Andean trade preferences with the US later this year, both countries will be hard pressed to develop

<sup>25</sup> *Peru 21*, “Bolivia y Ecuador no irán a un TLC con la UE,” May 19, 2008.

alternative markets and take advantage of preferential tariff policies with the US and EU. With the meager level of current exports to the EU and to the US, Bolivia has more to gain by expanding markets over the next few months.

#### *Gas Negotiations with Brazil and Argentina*

Despite the failure to reach an agreement on natural gas provision to Argentina and Brazil in February 2008, the negotiations between the three presidents were framed by a pragmatic calculation on how to move volumes of committed gas from Brazil to Argentina. Bolivia currently exports between 27 and 29 million cubic meters a day to Brazil but only about 3 million cubic meters a day to Argentina. Both export levels are short of the 30 million pledged to Brazil and the 7 million pledged to Argentina in the renegotiated contracts of 2006.<sup>26</sup> Despite an announcement of \$1.2 billion for 2008, private investment is at its lowest level in over a decade.<sup>27</sup> The most recent figures for 2007 were \$164 million in total private investment, just a fraction of which was made in the hydrocarbons sector.

#### *Bilateral Talks with Chile*

On May 17, Presidents Morales and Bachelet met in Lima to discuss a 13-point agenda on trade and other bilateral issues. The meeting marked a high point between the two countries, what President Morales described as “a trust-building phase” in their bilateral relations.<sup>28</sup> What is significant about the bilateral talks is a pragmatic turn in what in Bolivia are regarded as the country’s most sensitive diplomatic relations. This new phase contrasts with past ups and downs that led to the

<sup>26</sup> *Reuters*, “Argentina, Brazil, Bolivia Fail to Find Gas Solution,” February 23, 2008.

<sup>27</sup> *Boletín YPFB*, “YPFB logra millonaria inversión petrolera para el 2008,” January 8, 2008.

<sup>28</sup> *Radio U de Chile*, “Bachelet y Morales revisaron en privado una agenda bilateral,” May 18, 2008.

“What is significant about the bilateral talks with Chile is the pragmatic turn in what are regarded as Bolivia’s most sensitive diplomatic relations.”

“If the past is any guide, no substantive agreement is likely to occur under the existing regional and social balance of power.”

removal of two Bolivian consuls in Santiago over a 12-month period. In recent months, the goodwill between Morales and Bachelet has spilled over into closer relations between the foreign services and armed forces of the countries.

### 3. Three Political Scenarios

The “long and winding road” leading to political agreement in Bolivia does not end on August 10. The most realistic chance for a compromise that addresses regional and social conflict is only likely to happen after the recall referendum. What kinds of political scenarios are being discussed in Bolivia today? Three would seem to dominate the current discussion, each with a particular set of assumptions, balances of power and consequences for the future. The first is a “nothing happens” scenario that simply postpones critical procedural and substantive political negotiations. The second is a “second wind” scenario for President Morales, in which he strengthens his presidential base and weakens the regional balance of power at the same time. Finally, a “disruption” scenario in which the recall referendum either does not happen for a lack of minimum political agreement, or takes place in a situation of social and political violence.

#### Scenario One: Nothing Happens

The “nothing happens” scenario is the current favorite in the Bolivian press and among political commentators.<sup>29</sup> The key assumption is that the recall referendum is aimed at solving the wrong problem. The important issues of the day have less to do with regional or national legitimacy and more to do with the capacity to strike a deal, a compromise or a set of procedural rules that allow government and opposition to agree to disagree.

<sup>29</sup> Horst Grebe López, “Entre diálogos, urnas y movilizaciones,” *Nueva Crónica y Buen Gobierno*, Vol. 16, La Paz: Prisma y Plural Editores, 2008; Joan Prats, “Revocatoria de mandato, democracia y autonomía,” *Nueva Crónica y Buen Gobierno*, Vol. 16, La Paz: Prisma y Plural Editores, 2008.

Under this scenario, the recall referendum favors neither the MAS nor the regional opposition, with the odd exceptions being Cochabamba and La Paz. The new balance of power would maintain President Morales in power, along with four of the current opposition prefects, with no substantial changes from the February 2008 meetings. There are, however, two consequences of the nothing happens scenario. The first is that mediators, both internal and external, are likely to play a crucial role in sitting the key stakeholders at the table and hammering out an agreement on procedures or substance. The absence of a “tie-breaker” will simply deepen the current political divide. The Catholic Church, OAS or Group of Friends observers might be called into play. The second consequence is that under this scenario, the likely matter of agreement will not be substantive but procedural. This might include an agreement on the legal way forward to make the draft constitution and the statutes compatible, but might fall short of that and focus on the rules for approving the draft constitution and calling for general elections over the 2009 to 2010 period. If the past is any guide, no substantive agreement is likely to occur under the existing regional and social balance of power.

#### Scenario Two: A Second Wind for President Morales

The “second wind” scenario assumes both that President Morales wins by more than 54 percent on August 10 (although he is only required to win by 46 percent to remain in office) and that the results in Tarija, Cochabamba and La Paz, and perhaps Pando, tip the regional balance towards the MAS.<sup>30</sup> In this scenario, a “new” balance would threaten the unity of the *media luna* (southern and eastern departments) and isolate the autonomy supporters. This would be a highly volatile setting for Santa Cruz, possibly heightening tensions on land and regional

<sup>30</sup> *Pulso* 451, May 25, 2008.

government issues. Two consequences also follow from this scenario. The first is that a MAS victory would likely alter the future political roadmap. The MAS would be in a position to push forward with a constitutional ratification referendum, rather than negotiate with the opposition on pending issues. This is also likely to further polarize social and regional actors. The second consequence is that the leadership of the opposition would likely shift back to Congress. A weakened regional opposition would be undermined by a resurgent PODEMOS, MNR and UN. A congressional opposition would presumably be more responsive to political negotiations than a regional opposition.

#### Scenario Three: Disruption

In order for a “disruption” scenario to materialize, certain conditions must be met. The first is that the opposition succeeds in fomenting a political crisis over the legality of the recall referendum and the National Electoral Court and Constitutional Tribunal appointments before August. By questioning the legitimacy of the Court, the opposition would effectively force a new political deadlock. The second assumption is that social tensions rise, leading to violent conflict en route to the recall referendum. The violent confrontations between regional and *campesino* movements on referendum day in Santa Cruz (May 2008); among university students, *campesinos*, the police and military in Sucre (November 2007 and May 2008); and between *campesinos* and university students in Cochabamba (January 2007), suggests a dangerous escalation of social and political violence.

The possibility of not reaching the August referendum puts a premium on domestic and international mediation and observers. In the past, the way out of a crisis situation has been to agree on new general elections. This was the case in 2005 and in 1985. Even in this unlikely

scenario, however, basic agreements on the National Electoral Court and Constitutional Tribunal are needed. This brings us back to the nothing happens scenario.

#### 4. Is There a Way Back to Legality?

Is there a way out of the current political impasse in Bolivia? In 2005, Vice President García Linera coined the term *empate catastrófico* (catastrophic stalemate) to describe the political scenario that was dividing the country along regional and class lines.<sup>31</sup> The difficulty of the current political situation is compounded by a sense of fatigue with talks, dialogues and negotiations that have not produced results. Despite the sense of pessimism among political actors, all is not lost. Social and regional actors continue to communicate with each other and are amazingly resilient in spite of conflict, polarization and waning public support.

I would like to end this essay by outlining a way back to legality for the government and opposition. Most political players realize there is an urgent need to reach an accord, even if this only involves agreeing to disagree. Recent violence in Bolivia suggests that the legality issue is no longer a matter of merely “bending the rules.” It has become an obstacle to advancing a progressive political agenda on the left of the political spectrum and is beginning to impede the observance of democratic politics on the right.

From the government’s point of view, a return to legality requires two things: first, agreeing to impartial appointments to the Constitutional Tribunal and National Electoral Court. Without unbiased nominations, no conceivable roadmap will hold, either on legal or political grounds. The second condition for a return to legality is amending the new constitutional text to cor-

<sup>31</sup> Pablo Stephanoni, “Empate catastrófico en Bolivia: sin avances en la Asamblea Constituyente,” *Le Monde Diplomatique*, October 24, 2007.

“Most political players realize there is an urgent need to reach an accord, even if this only involves agreeing to disagree.”

“ Besides political power, there are dozens of arenas of social and economic transformation that can serve progressive change from the left. ”

rect the dubious procedures of Sucre and Oruro and to legalize the “autonomy question.” To avoid the messy issue of illegal statutes and departmental referenda, the government must explicitly insert a constitutional clause that validates the hundreds of thousands of legitimate but illegal votes cast in the four departmental referenda.

This would likely involve an extraordinary session of the Constituent Assembly or of Congress that included the two-thirds quorum rule and a broad agreement on the constitutional referendum approval procedures. From the government’s point of view, this means taking two steps backward to secure approval of a new—and widely awaited—constitution. It also means not conditioning all hopes for social progress on commanding a hegemonic political majority. Besides political power, there are dozens of arenas of social and economic transformation that can serve progressive change from the left—including jobs policies, social protection, affirmative action and other arenas where action is badly needed.

From the opposition’s point of view, a move towards legality also means taking two steps backward. The first is to observe the binding decisions of a new Constitutional Tribunal, which would likely rule against the legality of the departmental referenda and autonomy

statutes. This would allow enough breathing room for more substantive talks on the new constitutional text. The second step is to recognize President Morales’s full democratic term and work within the framework of the Bolivian Constitution to reach future agreements. Recent violence from irregular groups (such as the Union Juvenil Cruceñista and other regional offshoots) needs to be controlled and denounced by the democratic opposition. From the opposition’s point of view, these sacrifices could lead to the greater good of a constitutional route to a new regional autonomy arrangement in Bolivia. This would be an unexpected but very significant political gain from the protracted conflict.

The current political players can broker a return to legality. Most agree that a hegemonic political solution is not possible in Bolivia today. Most also concur that both the indigenous rights and autonomy agendas are here to stay. This certainly postpones a resolution of many important issues but allows the government and opposition to assess how to make their case to the Bolivian people on firmer ground. Fortunately, Bolivian history suggests that reaching the abyss is often just the starting point of a new period of political compromise.

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