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BOLIVIA: Government faces economic dangers

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Buoyed by strong international prices for its main legal export commodities -- natural gas, soya and zinc -- the Bolivian economy has experienced several years of expansion. The rhythm of growth first began to pick up in 2002 and has enjoyed upward momentum ever since.

The central bank (BCB) recently published balance of payments data, which paint a generally buoyant picture for the external economy in the year to September, with exports and remittances up significantly from the previous year.

Downturn. However, reflecting the sudden deterioration in the international economy, Bolivia now seems to be experiencing the beginnings of a sharp downturn. As with the relatively positive performance of recent years, a number of exogenous factors are leading this:

-Declining commodity prices. Prices for Bolivia's main export commodities have, and will continue to, suffer from the decline in world prices for its main exports.

-Decline in remittances. Remittances overwhelmingly come from Spain (40%), the United States (21%) and Argentina (16%). The downturn in economic performance in these countries is likely to hit immigrant populations disproportionately. Bolivians typically are employed in these countries in low-productivity jobs, which offer little or no job security.

-Impact of US trade preferences withdrawal. US President George Bush's decision to suspend Bolivia's trade preferences under the Andean Trade Preferences and Drug Eradication Act (ATPDEA) will compound the effects of already shrinking US demand for imports from Bolivia. It will stymie a number of industries, like textiles, clothing and furniture, which in recent years ATPDEA trade privileges encouraged to grow.

-Suspension of investments. Bolivia has not proved an attractive investment destination in recent years, and foreign direct investment (FDI) has reduced to a trickle. In the first nine months of this year, it was only 370 million dollars. In the present international climate, it is unlikely that planned investment projects will proceed at hoped-for speed.

Social impact. A sharp reduction in growth will aggravate social problems:

-Unemployment. Low mineral prices are already affecting parts of the country, like Potosi and Oruro, where mining is the main source of employment. The effects are likely to become more widespread as other sectors become affected. The ending of ATPDEA preferences could have a major impact in El Alto.

-Poverty. Falling employment levels will help push up poverty. In absolute terms, the numbers of people in poverty have continued to rise throughout recent years, despite relatively rapid economic growth. The relative percentage of people living in poverty is also set to increase.

-Social welfare. Falling fiscal income may make it harder for the government and localities to finance the various welfare schemes to which they are committed.

However, the size of the informal sector may partly offset the social impact. The scale of informality is not properly reflected in national accounts. The strength of family ties also helps people absorb the effects of economic hardship.

Political impact. The social effects of the downturn will accentuate problems affecting the Morales administration as -- assuming a 'yes' vote in January's constitutional referendum -- it seeks to campaign for re-election in December 2009. However, as the August recall referendum showed, Morales's personal popularity remains high. Opposition to his government is fragmented. It will be difficult for the opposition to unite around a single presidential candidate.