

Bolivia

Status Index (Democracy: 6.75/ Market economy: 5.39)		6.07	Management Index		5.27
HDI	0.687		Population	8.8 mn	
GDP per capita (\$, PPP)	2.587		Population growth¹	2.2 %	
Unemployment rate	N/A		Women in Parliament	17.8 %	
UN Education Index	0.87		Poverty²	14.4 %	
			Gini Index	44.7 (1999)	
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003)					

A. Executive summary

In the last two years, Bolivia's transformation has been marked by an increasing political destabilization of its defective (illiberal) democracy, on the one hand, and significant progress in macroeconomic stabilization on the other. Despite a number of improved indicators the basic problems of the country's economic and social development – dependency, extreme poverty, informality, exclusion, ethnic fragmentation, growing regional disparities – have, however, persisted.

This has increased social and political polarization, and from 2002 onward triggered violent ethnic and social protest, which, together with the inadequate reactions of the government, has destabilized the institutions, forced President Sánchez de Lozada to resign in October 2003 and broke up the party system in the municipal elections of December 2004. It has also demonstrated that the strategies of improving participation and “controlled inclusion” from above have not worked and that Bolivia in the long term cannot be governed by the parliamentary pacts of the established national parties and elites alone, which have given the country an unprecedented institutional democratic stability between 1985 and 2003. What is needed is a new effort to establish a broader consensus between the old elite coalitions and the principal organizations of the ethnic and social movements of the “excluded”, which represent the majority of the population.

The year 2003 was dominated by violent and politically successful protests (February and October) against new taxes and plans to sell natural gas through Chile to California, which due to hard military repression left nearly 100 people dead and hundreds injured and drove the president out of the country. By contrast, the following year 2004 was a year of reformist damage control and tentative cooperation. The transition followed the rules, and the government of former Vice President Carlos Mesa kept its promise to use no violence, to revoke the hydrocarbons law of 1996, which had privatized the sector, to hold a referendum on the future of Bolivia's oil and natural gas resources in 2004, and to call a Constitutional Convention for the middle of 2005. It helped that the government

was backed by the strongest force of the opposition, the Movimiento al Socialismo (MAS) of Evo Morales, the leader of the mobilized coca producers of the Chapare (who had come in second to Sánchez de Lozada in the 2002 presidential elections) through most of 2004.

The carefully worded referendum in July of that year and the municipal elections in December also helped to stabilize the situation. The outcome of the referendum, which reinstates the traditional state oil and gas company, makes further nationalization possible but leaves room for maneuver for the government, did not radicalize the conflict over natural gas resources and trading through Chile. In addition, the municipal elections, despite the high gains of civic groups at the cost of the established parties, produced an overall moderate majority. The president's approval rating remained high until the end of 2004. Stabilization has, on the other hand, remained precarious, as a high turnover in the cabinet, frequent ad hoc policy changes of the government under popular pressure, secessionist tendencies in the prosperous eastern lowland region Santa Cruz, and recurrent and increasing protest activities, mostly around El Alto and Cochabamba, since January 2005 have shown.

After a new round of protests in May and June, Mesa finally resigned in June 2005. His successor – Eduardo Rodríguez, head of the Supreme Court – announced presidential and parliamentary elections to be held in December 2005.

During the period from 2003 to 2005, Bolivia's defective democracy has been more destabilized, the rule of law has deteriorated in a number of segments, corruption has increased, and stateness has been affected not only by recurrent regional violence but also by secessionist threats due to the more virulent disparities between the economic performances of a number of regions. In contrast, participation has grown, although often in the form of self-empowerment and not always in the appropriate institutional setting, and destabilization has opened up new channels for renegotiating a potentially broader consensus including some major factions of the formerly excluded groups and movements. The balance of governance performance during the period under review has been mixed, on the side of the government (Sánchez de Lozada versus Mesa) and on the side of the opposition movements.

The balance of Bolivia's economic performance in the last two years (2003-2005) has been better. The economy has slowly recovered from its downturn, growth has gone up, and the country's level of development has improved due to its successful participation in international debt reduction, educational and anti-poverty programs but also to significant growth in exports, particularly of natural gas. On the other hand, foreign investment is still lacking and it has not been particularly encouraged by the more recent tendencies toward re-regulation and re-nationalization. Investment in technology and research and development is

much too low, and visible improvements in living standards have not been achieved for the majority of the population.

Violent political extremism so far has been fragmented, restricted to a number of regional foci and limited to unstable ad hoc mobilization in certain key moments of polarized and highly ideologized contestation which were reduced through most of 2004 but seem to have become more frequent again in early 2005. Whether or not political violence will increase in the 2005 to 2006 period depends on many unpredictable factors. These factors include the responsiveness, flexibility, capacity and the nerve of the government. It also must take into consideration the responsibility and pragmatism of the MAS around Evo Morales and the dedication of both sides to proceed peacefully toward the Constitutional Convention in 2005. This convention aims to seek a broader institutional consensus for a new, less centralized and more mixed economic and political model with elements of a more effective regional self determination, recognition of ethnic and cultural pluralism, and improved guarantees for the rule of law and a minimum expectations people expect for their life chances.

B. History and characteristics of transformation

Bolivia is one of the poorest countries of Latin America despite the fact it is one of the richest in mineral resources and has good soils for productive agriculture (particularly in the east and south). The disparities, however, between its geographically, ethnically and economically heterogeneous regions are enormous and often have led to strife and conflict. In total more than 500 indigenous communities have been counted, the largest being the Quechua (30% of the population) and the Aymara (25%); about 30% of the population are “mestizos” (cholos). Another problem stems from an asset: the fact that Bolivia has experienced one of the few true revolutions of the 20th century in Latin America, the memories and legacies of which can still be found (or eventually resurface) in present politics, characteristically in two separate lines, one of intense social and ethnic mobilization and protest, and another of corporate, and tendentially exclusive elite agreements.

The 1952 revolution of the Movimiento Nacionalista Revolucionario (MNR), in an anti-imperialist, populist and “national revolutionary” drive, nationalized the large mining companies dominated by foreign capital, decreed an agrarian reform and introduced political and social reforms (above all, equal suffrage for all ethnic groups without literacy requirements) as well as state interventionist policies directed at domestic development. The MNR regime (civilian until 1964, then military until 1971) has made significant progress, particularly in the areas of participation, integration and social assistance, but it was unable to initiate steady economic growth and diversification and to reduce dependency on foreign capital and markets. It also was more of the traditional “clientele-istic” and populist brand

than particularly democratic, even under its two civilian presidents Paz Estenssoro and Siles Zuazo, and its policies were continued under the first three military rulers between 1964 and 1971.

The subsequent “modern” bureaucratic-authoritarian regime established by General Banzer and supported by the military as an institution (1971–1978) was less repressive than the military regimes of the Cono Sur, but its potential for modernizing the country and solving its many problems remained limited. After an interlude of attempted democratization, factious strife within the military and a more brutal short traditional dictatorship in alliance with the cocaine mafia (García Meza 1980-1981), the transition from dictatorship to democracy began in 1982. It was short (1982-1985), and it was negotiated. It restored the old constitution and, for the first time in Bolivian history, initiated a relatively long period of democratic institutional stability, which remained uninterrupted until the forced resignation of President Sánchez de Lozada in October 2003 under the pressures of severe popular protest, strikes and violence. Even then, the succession took place within the constitutional channels bringing Vice President Mesa to power and preserving a minimum of democratic legitimacy, an outcome that would have been rather unlikely in pre-1985 Bolivia.

The new democracy has so far remained a defective democracy (of the illiberal type) due to severe shortcomings, particularly in the areas of stateness and rule of law. Further shortcomings were due to the difficulties in achieving more inclusion and social integration in an ethnically fragmented country with a high level of poverty. An extraordinary mobilized and participatory revolutionary tradition sets high expectations and it has always been prone to fast disappointment and frustration. The latter have the tendency to be more radical, considering the fact that many of the instruments implementing the current philosophy of present politics and policies (like deregulation, liberalization and privatization) have turned out to be the complete opposite of the ideas and achievements of the 1952 revolution, which are still entrenched in the memories of many who can be easily mobilized.

Since 1985 Bolivia’s new democracy has been characterized by a number of particular constellations and outcomes. First, continuous and explicit efforts have been made to overcome the defects of democracy, to stabilize institutions and increase participation, and to make the market economy more effective. These efforts have been overall successful. Much progress has been made, but it also has its limitations. Particularly, economic and social policies have not been able to significantly reduce poverty and inequality.

Second, institutional stability, political and economic reforms, until 2001, have been achieved by corporate elite agreements between the traditional parliamentary parties. On the background of Bolivian history, this has been a great achievement,

but it also has had an exclusionary bias. The majority of the poor and the many indigenous communities felt unrepresented and marginalized. The (still post-revolutionary) strategy of a “controlled inclusion” did not work.

Third, the excluded have been increasingly demanding redress and immediate action, they have asked for empowerment and resorted to protest, efficient mass mobilization in unions, peasant militias, local or regional civic action groups or youth gangs, strikes and eventually violence, which have been their usual instruments of mobilization and stem from rich ethnic traditions as much as from the legacies of the revolution. Their movements have, however, remained highly divided, given to personal rivalries and factionalism along ethnic, regional and social lines, so that they usually have been able to obstruct, deviate or slow down policies and politics, increasingly so from 2002 onward, but not to shape them in a constructive way.

Fourth, these constellations have been aggravated by the impact of more recent regional disparities and divergences in development, particularly between the more various traditional, stagnant (if not receding, as in the mining districts) and poor sections of the Altiplano (Highland), the recently pauperized coca production enclaves near Cochabamba, and the more modern and export-oriented regions of the media luna (half moon) in the east and south, particularly Santa Cruz and Tarija, which are booming and attracting many people from other parts of the country due to their richness of natural gas resources and their success in commercial agriculture (soybeans, etcetera). In early 2005 even open secessionism seemed to be within possible reach.

Fifth, in addition, the government’s room for maneuver has been limited. And since 2002 it has become even more contained and limited by structural constraints (poverty, deficits, economic downturn, unemployment, debts), weak performance (inefficiency, corruption, unresponsiveness, exclusion) or foreign influence (the IMF, banks and corporations, U.S. drug control and eradication policies, etcetera). The task of building viable and effective reformist coalitions has not become easier. The government is usually cornered between the interests of political elites and social movements, between the various factions of the business community (domestic and foreign, legal and illegal) and external actors like the United States and international financial institutions. In order to get out of the impasse, there is, among other strategic paths which are more difficult to pursue, one which seems to have become more popular again and which is full of easy temptations: the return to “classic” anti-oligarchic (anti-liberal), anti-imperialist (anti-United States and anti-globalist), and chauvinistic (anti-Chile) populist (and anti-secessionist) rhetoric which had been associated with the revolutionary period after 1952 and thought to have been overcome in 1985.

Three subsequent processes have marked the two decades of Bolivia’s new democracy. The first started in 1985 and produced (in a “first things first”

approach) stable democratic institutions and a liberalized market economy. The second, which began in the 1990s, has built and extended the institutions to guarantee the rule of law, improved the quality of democracy and begun to increase the channels of participation. The third was triggered by the various social protests and riots from 2000 to 2002, which have produced a situation of limited destabilization peaking in the ousting of Sánchez de Lozada in October 2003. Since then destabilization has been contained and in certain sectors reduced by an increased and somewhat inconsequential responsiveness and efficient short-term muddling-through strategies of the Mesa government. In Bolivia, in a way, democratization has triggered mobilization and participation which has produced a contained institutional destabilization that may be used, if the actors perform well, in order to build broader reformist coalitions capable of overhauling and empowering the institutions.

Although it first looked as if the old post-revolutionary MNR caudillos had returned with Presidents Hernán Siles Zuazo (1982–1985) and Victor Paz Estenssoro (1985–1989). It soon became clear that even the pre-authoritarian political elites had learned and were prepared to cooperate, build alliances in order to stabilize democracy and introduce secular economic reforms. What turned out to be the principal vehicle of new Bolivian politics were the parliamentary pacts among the three most important parties: the traditional populist MNR, the center-left Movimiento de la Izquierda Revolucionaria (MIR) and the right-wing Acción Democrática Nacionalista (ADN) of ex-president Banzer. Due to these pacts, between 1985 and 2003 Bolivia has seen a series of six democratic transfers of power according to the rules, four of them to a different party for the first time in its history. After Siles Zuazo (MNR) came Paz Estenssoro (MNR), the social democrat Jaime Paz Zamora (MIR, 1989–1993), the liberal technocrat and businessman Sánchez de Lozada (MNR, 1993–1997), the former military dictator turned democrat Banzer (ADN, 1997–2001), who resigned on health reasons and handed over to his Vice President Jorge Quiroga in 2001, and again Sánchez de Lozada (2002–2003).

Another new feature of Bolivian politics has been continuity in a number of essential policy sectors. After the end of the transition, greater efforts were made to stabilize institutions, build and secure the mechanisms of the rule of law and judicial review and extend political participation, particularly in the 1990s during the presidencies of Paz Zamora and Sánchez de Lozada. The key initiatives for deregulation, economic restructuring and welfare state retrenchment were launched from 1985 on under Paz Estenssoro, and intensified, in a second wave, after the middle of the 1990s, under Sánchez de Lozada and Banzer. New explicit strategies to fight poverty and restructure the external debts were added and extended after 2001. And many of the programs of the Mesa government enforced by social unrest and designed to create new channels for participation could build on the earlier legislation on (and programs and institutions for) “popular participation” since the first Sánchez de Lozada administration.

Parliamentary pacts were triggered by institutional needs. When, as usual, no candidate receives more than 50% of the popular vote, according to the constitution the Congress has to choose the president by absolute majority from the two leading contenders. Before the final vote usually “pacts” referring to policies and appointments are concluded, a mechanism that has established a kind of “parliamentary presidentialism” and so far has contributed to secure institutional and political stability. In the first two elections (1985 and 1989) Congress voted for candidates who had come in second or even third in the popular vote (Paz Estenssoro, Paz Zamora). In the last three elections, it confirmed the leading candidate (Sánchez de Lozada 1993, 2002; Banzer 1997), even when this candidate was only slightly ahead of three or four other contenders in extremely fragmented elections.

The latter was particularly the case in 2002 when Evo Morales (MAS), the populist Aymara leader of the coca producers of the Chapare valley, became the first underdog candidate to win a spot on the parliamentary ballot in the presidential election. Even though the Congress elected in 2002, due to the electoral reforms of 1996, has been more representative, more inclusive and more “ethnic” than all its predecessors, it finally voted for stability in the person of Sánchez de Lozada, the candidate of the established elites who was also loudly praised by the U.S. ambassador. However, the decision and its policy implications backfired in October 2003 when social unrest and violent conflicts between the government and organized ethnic and social protest movements forced Sánchez de Lozada to resign and leave the country (since 2004 he is also under prosecution). Congress followed the rules and elected Vice President Mesa, a respected journalist with no party affiliation, to succeed, after the candidate had promised to use no violence against the protesters, revoke the hydrocarbons law of 1996 (which had essentially privatized the sector), hold a referendum on the future of oil and natural gas and call a constitutional convention for 2005 in order to reshape the institutions and the structure of the country.

Until he resigned, Mesa complied and managed to re-stabilize the situation despite ongoing, but in the whole contained, protest by a prudent mix of technocratic (and not always popular) measures and populist strategies and by keeping a distance from the widely discredited traditional parties which are no longer represented in the cabinet. Therefore, the government was able to win the promised referendum of July 2004 preserving its necessary room for maneuver, and it did not lose the municipal elections in December 2004 because it could pretend to be no party participating in them. Both democratic acts went according to the rules and they have restored the necessary degree of institutional stability, while the Bolivian party system and the structures of political alliances in early 2005 seem to be in flux.

Bolivia’s economic transformation has been characterized by the needs of three factors: (1) to make an inefficient and traditionally dependent market economy, based on extraction of raw materials and characterized by a strong public sector,

more effective, to deregulate and modernize it; (2) to make a highly deficient agriculture more productive (despite decades of agrarian reform policies); and (3) to reshape the systems of social assistance and provision. First, inflation had to be fought, the foreign debt had to be restructured, and stability and predictability restored. Structural economic constraints were found particularly in the country's traditional dependency on foreign markets (for capital and raw materials), in a booming informal sector (including the profitable drug economy) and in the restrictions international financial institutions have set for a notorious debtor country with low productivity and high poverty rates.

Overall, Bolivia has made significant progress since the secular turnaround of economic policies under Paz Estenssoro in 1985. The Paz government, in a first round, gave priority to fighting inflation, opening the country to foreign investment and increasing exports to help service its foreign debt. It also launched drastic programs to privatize or close down a great part of the country's unproductive state enterprises, particularly the large mines (which had been nationalized by the same president in 1952). This policy was successful and it was continued through the 1990s, overall steadily, though not without setbacks and eventually at high social and political costs. A second wave of "capitalization" (actually privatization) of those remaining state enterprises in energy and transportation sectors, which were not closed down altogether, set in under Sánchez de Lozada in the middle of the 1990s. This move also included the privatization of social security. At the end of the 1990s the Banzer government, in close cooperation with the World Bank system, intensified new strategies to reduce the foreign debt and fight poverty.

These programs were continued after 2000, with limited success due to the economic downturn because of the Asian crisis after 1997 and the scarcity of capital needed in order to create jobs, fight poverty and improve education, infrastructure and technology. Credits and foreign investment remained limited as did the increase in non-traditional exports; tentative efforts to raise taxes or cut services triggered violent protest, and even after the growth rate recovered significantly in 2004 (essentially due to increased exports of agricultural products and natural gas) the budget deficit still soared. Although most macroeconomic indicators have stabilized or improved, poverty, inequality and exclusion have not been reduced. Bolivians are still among the poorest in Latin America.

C. Assessment

1. Democracy

From 1985 Bolivia has (again) been a defective democracy of the illiberal type, with particular defects in the areas of stateness and rule of law. Efforts to reduce

these defects confront structural limitations created by a poorly integrated society, geographic and ethnic heterogeneity and other economic and social problems. Until 2002 significant progress was achieved in stabilizing democratic institutions by parliamentary pacts, in designing the basic mechanisms of rule of law and judicial review (the implementation of which has, however, often been flawed), and in laying institutional grounds for decentralization and municipal autonomy. The (often halfhearted) attempts at improving the dialogue between traditional political elites and the mobilized social movements as representatives of the majority of the excluded (*participación popular*) and at expanding representation and participation from above (controlled inclusion) have, in contrast, so far not worked. Instead, the mobilization capacities and empowerment strategies of the various ethnic and social protest movements have, from 2002 on, destabilized institutions, brought down a president (2003) and broken up the party system (2004). Destabilization has, however, remained limited and contained due to the fragmentation of the protest movements, to some responsive reactions of the Mesa government and to the moderation of the voters, and may even provide chances for building new reform coalitions after the elections in 2005 and 2006.

1.1. Stateness

Bolivia still has a number of stateness problems. The state monopoly on the use of force does not extend to all areas of the country. There is inefficiency and corruption in the judicial system. The loyalty of the police force has been questionable since 2000. Faced with a new income tax, the police spent more time demonstrating against the government for tax-free income and higher wages (as teachers and other state employees also do) than enforcing the law. In early 2003, the military had to be called in to protect government buildings in La Paz against attacks by striking police officers. In January 2005, the assembly of Santa Cruz business people (*Comité Cívico*) declared independence for some days, triggering the resignation of the governor and the minister for "popular participation". For the time being, the government's crisis management efforts have succeeded in calming down the situation.

There is fundamental agreement about who qualifies as a Bolivian citizen. Since 1952, all citizens have the same rights, even if many may be *de facto* excluded from making use of them. However, many ethnic groups identify primarily with their own community and consider that allegiance more important than their Bolivian citizenship. Due to the more accentuated regional disparities and discrepancies in wealth and chances, some of the more developed (Santa Cruz, Tarija) or developing (Beni, Pando) regions also have recently voiced demands for more autonomy or federal structures, and eventually articulated separatist tendencies. Church and state are separated. Functional administrative structures exist and the state's infrastructure in principle extends to the whole territory, but in practice is not present everywhere.

1.2. Political participation

Bolivian political leaders are determined by general, free and fair elections without restraints. There is universal suffrage and the right to campaign for elected office. Elections are, on the whole, conducted properly, and their outcome has been made even more representative: The electoral reforms of 1996 establishing that half of MPs are elected in territorial constituencies, which has reduced the traditional under-representation of highly populated regions, widened representation and hence also increased fragmentation, although still along (increasingly regional) party lines. The reforms of 2004 have broken the monopoly of established parties in the municipal elections and introduced candidacies of civic groups (*Agrupaciones Ciudadanas*, AC) and indigenous peoples (*Pueblos Indígenas*, PI) which turned out to be highly successful in the December elections.

In principle, elected rulers have effective power to govern. There are no nationwide veto powers or political enclaves in the hands of the military or other groups. However, the effective rule of the government can eventually be constrained by regional bosses or mafias, on the one hand, or by insurgent mass protest and violent riots, on the other. Freedoms of assembly and association, of opinion and of the press are not limited in principle. The media are mostly private and pluralistic. When faced with intense mass protests, however, all post-authoritarian governments have usually tended to utilize the traditional instrument of declaring a state of emergency and temporarily suspending political liberties and the guarantees of rule of law. This has enabled government to outlaw the activities of political organizations, unions and other groups and to send political opponents to jail for some time. Journalists covering corruption stories are occasionally intimidated or attacked.

1.3. Rule of law

Separation of powers has improved, but it is still restricted. Checks and balances are not fully in place, nor should this be expected in a presidential system with a structurally weak and increasingly fragmented parliament that can only show its muscle when electing the president in a run-off vote. This tendency towards a “parliamentarization” of the presidential system has in fact been inspired by the constitution and has helped to stabilize the democratic institutions. Beyond that, however, government has not always been subject to parliamentary control, and the latter has often acted as a rubber stamp for the former, at least until 2003. After the fall of Sánchez de Lozada the antagonism between the Mesa government and Congress has become more outspoken, but even then the increased fragmentation of the parliamentary forces and a reduced consensus have

prevented them from establishing an effective counterweight to a president who so far has shown himself able to mobilize support by populist appeals in critical moments.

Since the judicial reforms of the middle of the 1990s, the judiciary has become more independent and institutionally differentiated. This refers particularly to the reforms of the penal code and the code of criminal procedure, the reorganization of internal administrative controls to protect the rights of citizens (in the absence of a branch of systematic administrative control by the judiciary), the establishment of a constitutional court and of the office of the ombudsman (Defensor del Pueblo). After 2000, particular efforts have been made in developing an alternative *justicia comunitaria* with elements from various indigenous community traditions. However, the judiciary continues to be the weakest branch of Bolivian government. An essential drawback has been the persistence of political patronage in the judiciary (the same applies to the state bureaucracy at all levels, which still lacks sufficient professionalism, a merit system and open competition). The executive and political parties still control the judiciary council (Consejo de la Judicatura) and the appointments of public prosecutors and judges, and inefficiency and corruption remain widespread.

Corrupt officeholders are not usually prosecuted adequately, although they have been increasingly exposed to scandal by the media, which has become more sensitive to these issues. Bolivia's Corruption Perceptions Index (CPI) has not changed significantly over the survey period (2.7 in 2000, 2.2 in 2002 and 2004). The decision of Congress in October 2004 (with 126:21 votes) to prosecute former president Sánchez de Lozada (implemented in February 2005) was a political decision. Civil liberties exist, and since the judicial reforms of the 1990s, citizens can claim their rights through institutional channels. However, civil rights are still violated temporarily and not implemented in some parts of the country. In contrast to the countries of the Cono Sur, Bolivia has not systematically addressed human rights violations by the previous authoritarian rulers, in part because these were comparatively less repressive than elsewhere and dramatic excesses were few, except for the brutalities of the regime under García Meza (who was in fact sent to jail for some decades).

1.4. Stability of democratic institutions

Performance of democratic institutions is, on balance, mixed: they have remained stable and performed their functions even if they have come under increased popular and regional pressure since 2002. The protests of October 2003 forced a president to resign, but the transition followed the rules. Locally there have been riots, insubordination (even by some police forces) or moments of secessionist upsurge (in Santa Cruz), which have, however, all been contained until the time of writing. Bolivia's institutional stability in 2004 and early 2005 has been lower

than in 2001. It can no longer be guaranteed by the parliamentary pacts of the established elite parties since one of the "underdog" movements (MAS) has become the second largest political force in the country. In addition, the number of significant political players who are not or only partially loyal to democratic institutions has grown (for example, Felipe Quispe, the populist leader of the peasants' union and of chiliastic Aymara ethnic radicalism, and other ethnic or localist politicians). What is needed is a new coalition and a minimum social consensus on the priorities of addressing and solving the most important issues that divide the country: the extraction and export of natural gas, the economic model determining the relationship between economic and fiscal objectives, and the war on poverty and socioeconomic exclusion, regional autonomy, and reconciliation between traditional coca practices and cultivation and internationally enforced eradication policies. A report of the International Crisis Group of July 2004 has stated that these tasks went beyond any government's means that many demands were irreconcilable and left little room for mediation, that national unity was in danger and that Bolivia was headed for tumultuous times.

Though this may be the case, the politics and policies of "muddling through" have also allowed for signals of hope, at least for some time. First, the carefully-worded 2004 referendum on the use of natural gas did not radicalize the conflict as predicted, but helped to stabilize the situation. Second, municipal elections have produced an overall moderate majority. Finally, debates on the gas issue, regional autonomies and constitutional reform have gone, at least for some time, back to detailed argument. The situation, however, remains explosive, and violent actions continue to be likely to erupt any moment when either the patience of some regional leaders of the social movements runs out or the government fails to convince the opposition of its good intentions and its capability to deliver. The unsatisfactory results of almost a decade of administrative decentralization and empowerment from above with insufficient funds, internal sabotage and networks of corruption have clearly established that such issues can only be successfully addressed if they are included in a broader consensus package to be negotiated between the representatives of the "ins" and the "outs".

All relevant political actors accept democracy, but they usually mean different things. Unconditional support for the currently existing institutions of representative democracy comes from the traditional parties and a large proportion of the regional or ethnic parties and social movements. At the opposite side we find some radicals who are fighting against "formal" institutions in the name of (at times utopian or millenarian) "substantial" (and direct) democracy, and in between there are many populist movements and leaders only partially loyal to the democratic system (whose loyalty depends on the capability of the institutions to deliver). Here support for democracy becomes a question of political performance, particularly in the field of social and economic policies, but also in providing opportunities for political and cultural self-determination.

1.5. Political and social integration

Bolivia's party system has become more unstable since the 2000-2002 crisis. From 1985, Bolivia had a strong party system based on three relevant parties (MNR, ADN, MIR) that was only moderately fragmented and polarized, even though it underwent realignment in practically every election. Voter volatility has always been and continues to be high due to limited anchoring in society. Particularly the support for the (mostly ethnic) protest coalitions and the regional caudillos fluctuated widely. From 2002 on the situation has changed. In the national elections of 2002 ADN broke down, obtaining only 3.5% of the vote, and two of the anti-elitist and anti-consensus indigenous protest movements turned into parties were successful obtaining 20.9% (MAS) and 6.1% (MIP) respectively; in addition, the NFR of erratic regional caudillo Manfred Reyes made it also to 20.9%. The party system became less moderate, more fragmented and more polarized. The formerly relevant political parties lost some of their capacities for mediation (which has brought the Catholic Church and, at some points of conflict, the ombudsman into key roles), and particularly the MAS under the leadership of Evo Morales in its new role as a "responsible" major national actor (in contrast to the MIP under Quispe) began to become more cooperative and pragmatic at least in some areas. So the party politicization of the major protest movements paradoxically has widened ethnic and social representation and participation at the price of increasing polarization and fragmentation and contributed to destabilizing the institutions.

In the municipal elections of December 2004, the two remaining traditional parties (MNR and MIR) had to pay the bill for their disappointing performance in October 2003: they lost more than half of their 1999 voters, obtaining only 6.6% and 7% of the vote respectively. The NFR in its home region Cochabamba shrank from over 50% to less than 10%, which prompted Reyes to look for new support among the radical unions for his next presidential candidacy (the elections will be held in 2007). Only the MAS could consolidate itself as a national party with a total of 18.4% (3.2% in 1999) though it ended up below expectations, particularly compared to its share in the national elections of 2002. The big winners were the numerous recently enfranchised civic groups (AC, in total 341) and indigenous peoples (PI, in total 63) which were so popular that many local caudillos and mayors, among them those of seven big cities, refused to run on their traditional party tickets and presented themselves successfully on AC or PI tickets. The parties have lost not only prestige but influence; their share of the vote has fallen from about 95% in 1999 to about 75% in 2004 (55% if we do not count the MAS). So the Bolivian party system has entered into crisis and restructuring, and much of its future may depend on the performance and the outcome of the deliberations of the constitutional convention.

There is a close network of interest groups, particularly of capital and labor, in agriculture and a number of sectoral and regional interests, which also have

become more fragmented, regionalized and ethnicized during the last years. The strong associations of Santa Cruz and Tarija business people have weakened the national organization of industrialists (CEPB) and limited the influence of those of the Altiplano. Among the labor unions the once powerful Bolivian Workers' Central (COB), the miners' union and the peasant organizations close to the MNR have lost advantage because of the economic downturn and bad leadership. Quispe's Peasant Workers' Union (CSUTCB) and the CIDOB in the east are still powerful but have become highly politicized. Functioning and stable patterns of representation for mediation between society and the state exist in Bolivia either for the institutionally integrated groups at the national level (like teachers, state bureaucrats or students) or for most of the others at the regional level. The latter often have also become ethnicized.

Consent to democracy has declined significantly during the survey period, and political protests occasionally tend to call the constitutional framework into question. Support for democracy in Bolivia, according to Latinobarómetro data, has fallen from 62% in 2000 to 56% in 2002 and 45% in 2004; satisfaction with democracy has also fallen during this period (22%; 24%; 16%). The authoritarian potential, though it has gone up (13%; 20%; 19%) is still below the Latin American average, but almost half of the respondents said in 2002 and 2004 (43%; 49%) that they would accept a non-democratic government if it could solve the economic problems facing the country. In 2004, only 37% agreed that voting made a difference for the future of the country, the lowest rank in Latin America; 70%, however, saw democracy as the only system conducive to development. So there is a good potential of democratic attitudes that has increasingly become dependent on political performance. Social self-organization and social capital formation (with more than 13,000 registered organizations, among them 1,700 to 2,000 foreign and domestic NGOs) is considerable, but highly fragmented along sectoral, regional and ethnic lines. Nationwide organizations are lacking, coalitions and alliances mostly remain spontaneous, temporary and limited to protest (as in the various "wars" on water, gas or against taxes, price increases, etc.); trust among the population and trust in institutions are low. Many ethnic groups, such as the Quechua, Aymara and others, display rich and institutionalized communal and communitarian traditions that have inspired the fight of the coca producers (mostly in the Chapare near Cochabamba) against the United States-Bolivian coca eradication programs threatening their livelihood.

2. Market economy

With the 1985 reforms of the "New Economic Policy", Bolivia began to rid itself of the state corporatist system of the post-revolutionary period, which had survived through authoritarian rule, and to transform structurally its economic order. Since then the country has made considerable progress. It has continuously (at least until 2003) pursued a liberal policy of deregulation, privatization,

decentralization and modernization in order to induce stability, growth and a greater potential for development. Most economic indicators have improved, but growth rates have so far not been high enough to trigger a substantial reduction of poverty and inequality, and to help overcome the structural obstacles to Bolivian development, particularly social exclusion, dependency on foreign markets for capital and raw materials, insufficient diversification and infrastructure, a narrow internal market, a weak entrepreneurial class, and an inefficient state management. Hence, a process of broad de-legitimation of liberal economic policies has set in which, from 2002 on, under the pressures of violent popular protest has begun to regionally reverse the strategies followed for about 20 years, particularly with regard to the deregulation of the hydrocarbons and energy sector.

2.1. Level of socioeconomic development

Bolivia's level of development does not allow most of its citizens' adequate freedom of choice. Social exclusion is quantitatively and qualitatively marked and structurally ingrained. Two-thirds of the population (more in rural areas) live below the poverty line, about 15% (according to some figures 30%) in absolute poverty (less than \$1 per day); GDP per capita is the lowest in South America, infant mortality the second highest in all Latin America. Open urban unemployment has increased since the middle of the 1990s and is reportedly around 10%, while more than 70% work in the informal economy. The crisis at the end of the century has made problems even worse: between 1998 and 2002, per capita income fell from \$990 to \$900. The standard development indicators lie below – sometimes considerably below – the average for Latin American states (HDI 0.681, GDI 0.674). The income of the richest 10% is about 90 times greater than that of the poorest 10% (Gini 44.7), and there are significant regional disparities.

2.2. Organization of the market and competition

After three decades of more or less intensive state-corporatist interventionism, the institutional foundations of a competitive market economy were laid by the economic reforms of the mid-1980s, albeit at high social costs. Market competition, has on average (severe regional disparities notwithstanding) a strong institutional framework, but the rules of the game are neither consistent nor the same for all market participants. The informal sector plays a major role, and recently a number of relapses into state interference have occurred in strategic sectors, particularly in the energy, oil and natural gas production and trade. The economically rational but politically insensitive \$5 billion plans of a transnational consortium (Pacific LNG) to sell Bolivian natural gas through Chile to California triggered the unrest of September and October 2003. This led to an outburst of chauvinistic sentiments and forced the president to resign, were obstructed by the

violent protests and cancelled by the government. In addition, the subsequent referendum of July 2004 produced clear and binding majorities (around 90%) in favor of abrogating the hydrocarbons law of 1996. In addition, aimed at restoring state ownership of the natural gas reserves, the state oil and gas company (YPFB), which had been disbanded in the process of "capitalization" while it empowered the government (with smaller majorities around 55% and 60%) to negotiate better terms for natural gas sales in the interest of Bolivia's economic and social development. Some water companies have been, or will be, restored to the public sector; a power company owned by Spain's Iberdrola may follow. What stands out are the strong discrepancies between more developed (in the eastern and southern crescent) and more traditional regions (mostly on the Altiplano), between an export-oriented, modern sector dominated by international companies and a weak national industry. The internal market in rural areas is still underdeveloped.

In principle, the formation of monopolies and oligopolies should be obstructed or fought, but the regulations are implemented rather inconsistently. Regionally and sectorally many new monopolies or oligopolies have been formed, such as those in the media sector or in the process of privatization of social security. Foreign trade has been, in principle, deregulated after 1985 and its mechanisms have been further liberalized and improved during the 1990s with the perspective of an all-American free trade area. Significant progress has also been made with regard to the legal safeguards for transnational projects in the field of economic cooperation and development. There are, however, still differentiated tariffs and special rules or exemptions for some individual sectors or companies. The banking system and the capital market are differentiated, open and internationally oriented, but still subject to fluctuations due to lack of supervision and to extreme dependency on foreign markets.

2.3. Currency and price stability

The governments of the past two decades have continuously pursued a consistent policy on inflation and an appropriate exchange rate policy. During the 1990s, the annual inflation rate averaged approximately 8%; it dropped to less than 1% in 2001 and it has moderately increased to about 5% in 2004. The central bank has been formally independent since 1995. Since the late 1980s, Bolivian governments have committed themselves to fiscal and debt policies oriented on the goals of stability; even hard austerity measures have been implemented for some periods. But institutional safeguards are limited and eventually populist policy changes have occurred, often in response to violent mass protest. The budget deficit, which increased from approximately 4% of the GDP in 2000 to 9% in 2002, has been reduced to about 6% in 2004, mostly by cutting or postponing payments (including salaries), by international stand-by assistance and revenues from natural gas exports. All plans to significantly increase the tax income (continuously about 18% of the GDP) so far have failed and led to more capital

flight. In 2002 and 2003, the deficit-reduction targets of the IMF could not be met because the riots of February 2003 against the "impuestazo" obstructed the introduction of a 12% income tax; in January 2005 the Mesa government was forced to shelve plans to raise fuel prices by almost two thirds.

Most of Bolivia's external debt of around \$5.3 billion (2003) is under control in close cooperation with the World Bank, the IMF, the Inter-American Development Bank and other financial institutions which have initiated a variety of debt reduction programs for some of which Bolivia has been a pilot test case (or, as some have said, a laboratory). Since 1997 the country has participated in the World Bank's Heavily Indebted Poor Countries Initiatives (HIPC I and II) which until 2004 have reduced debt repayment obligations by \$1.2 billion and are aiming at a total debt reduction to 150% of export earnings. These initiatives have been closely linked with the Poverty Reduction Strategy Program (PRSP) of 2001, which plans to achieve a number of defined Millennium Development Goals by 2015 including the reduction of the poverty rate from 63 to 41% of the population. In 2002 Bolivia's debt service amounted to 27.7% of exports (or 6.1% of the GDP as compared to 7.9% in 1990).

2.4. Private property

Bolivia offers the conditions for a functioning private sector. Property rights and the acquisition of property are adequately defined for most of the economy. But there are exceptions, and sectoral problems, particularly in some rural areas where property rights are disputed. Mobilized landless peasants, for example, periodically threaten legal land-owners with invasions and occupations in the eastern tropical lowlands because agrarian reform in the highlands and the Andean valleys have come to a standstill.

State companies have been substantially privatized from 1985 to 2001 for reasons of principle and in order to increase the state revenue. Since the riots of 2002, however, this process has slowed and even reversed in a number of sectors, particularly water, energy and natural resources. The new indigenous movements and parties eventually demand the abolition of transnational property and that privatized companies will again be transferred into state property. Some privatized water companies have already been re-nationalized by the government, and there are further demands for energy plants. In the struggle against expanding timber companies, the organizations of indigenous peoples of the lowlands and in the Chaco claim both territorial control rights and the control over the natural resources. The latter is particularly contested in the case of natural gas between the transnational companies in charge, the regional elites (particularly of Santa Cruz and Tarija) and the government, who all want to export much and soon, and the various social movements who tend to be more restrictive.

The outcome of the July 2004 referendum has cleared the way to make nationalization (not expropriation) again possible, to reconstitute the state oil and gas company YPFB and to ensure that 50% of the proceeds from gas sales are made available for social development. Popular pressures for respective legislation have been building since, particularly in violent protest and road blockades by the ethnic and peasant movements around Cochabamba and El Alto. The hydrocarbons law of 1996 had limited the royalties to be paid by foreign companies to 18% in the case of "existing" gas deposits (in contrast to "new" deposits where 50% royalties applied). In early 2005 it is still unclear, however, how the government and the courts will deal with the 78 existing contracts, which, according to the president, will have to be respected.

2.5. Welfare regime

Bolivia first had to modify and modernize the traditional system of social provision, particularly in the mines and in urban industry, which had been introduced by the MNR regime; second, coverage had to be extended to the great majority of people not yet included (mostly rural). The first task has been easier to achieve than the second in which progress has remained very limited. The low coverage rate of social security, around 12% of the gainfully employed has not changed much since the 1980s. The privatization of social security, which started in 1997, has even made the situation worse for many insured who have received less than before, particularly women. Public expenditures on health in 2000/01 improved compared to 1990, but were still insufficient (from 2.1% of the GDP to 3.5%). Welfare expenditures are estimated to be about 15% of the GDP. Bolivia cannot systematically combat poverty on its own, without external assistance.

A number of institutions and programs, domestic and international, compensate for gross social differences, particularly in the HIPC, PRSP and Millennium Development Goals context. To achieve the latter's objective and reduce poverty by half in the next decade, at a population growth rate of about 2%, would however require 6% annual economic growth, which seems highly unlikely. In urban zones, women (like men) have significantly better access to education than in rural areas. The female rates as a percentage of the male rates in adult and youth literacy in 2002 were 87% and 98%; the ratio of female to male enrollment in primary, secondary and tertiary education in 2000-2001 were 1.00, 0.98 and 0.55. Many women, however, do not know their legal rights.

2.6. Economic performance

According to the macroeconomic data (see table) Bolivia's economy has grown moderately between 2% and 4% during the period under review. In 2004, it seems to have significantly recovered from the downturn since 1999 and the last

dramatic slump of 2001, and to have reverted to the average growth rate of the 1990s, around 4%. Other indicators show a similar trend. Besides the end of the Asian crisis, this has been due to an increase in exports, particularly of natural gas (\$263.8 million in 2003), soybeans (\$179.4 million), timber and other agricultural products. There is a great potential for further growth depending on how the issues of natural gas exports will be solved politically. The window of opportunity for a \$5 billion mega-deal for gas exports to California definitely closed in October 2003, and the much-debated 2004 sales to Argentina on an emergency basis have not been a substitute. Before October 2003, the IMF had estimated that the oil and gas sector could provide 1% GDP growth over the next five years.

Another problem avoiding major conflicts over distribution has resulted from the regional economic disparities, which have been dramatically increased during the last decade. While in the Highlands, Bolivia's traditional heartland, over 90% of the households cannot satisfy their basic needs, the "young" and booming tropical eastern lowland department of Santa Cruz provides most of Bolivia's tax revenue and 42% of its agricultural, 34% of its industrial and 25% of its extractive output. In addition, southern Tarija where only 4% of the population lives sits on 87% of the country's proven and probable natural gas reserves (estimates have almost quadrupled between 1997 and 2002, making these the second largest reserves in Latin America). Inflation is under control, poverty and unemployment remain structurally high, the budget shows a deficit, which might be contained but could also grow out of control depending on the outcome of future political crisis management, debt reduction continues in well monitored cooperative programs, and the trade balance is fluctuating. GDP per capita in 2003 was the lowest in South America.

2.7. Sustainability

Ecological concerns receive relatively little attention in economic planning at the macro and micro level, lack an effective institutional framework and are usually subordinated to the goals of growth and stability. Some first processes of awareness building have gone under way in some segments of the indigenous protest movements and parties, in the eastern lowlands and in the coca production zones.

Bolivia's infrastructure needs significant development, starting with road construction. At the time of writing, 70% of the population have clean water (compared to 50% in 1992), 60% have electricity (45% in 1997) and 40% have sewerage (with tremendous urban/rural differences). The public and private institutions for education, training, research and development are highly heterogeneous and show clear deficits in research and development. They are unevenly distributed, concentrated in the urban zones, and often lacking in rural

districts. Public expenditure on education in 2000/01 had improved compared to 1990 (from 2.3% to 6% of the GDP) but were still insufficient.

3. Management

3.1. Level of difficulty

The overall level of structural difficulties constraining the political leadership's governing capacity has remained high. Difficulties have increased in the two years under study due to the decisive growth of regional economic disparities, with polarizing consequences. The specific factors making progress toward democracy and a market economy in Bolivia more difficult have not changed in the survey period, and can be grouped in four clusters: First, economic and structural factors, particularly poverty and exclusion, insufficient infrastructure, the high debt, dependency on foreign markets and donors, an extensive informal sector and the peculiar coca economy. Second, a set of institutional and political legacies (among them revolutionary traditions with high expectations in the areas of participation and social provision, which can easily be disappointed), insufficient entrenchment of democratic institutions and market economy, intense mobilizing and polarizing energies on the basis of caudillismo, personalism and populism, resort to violent means and chauvinistic obsessions, which eventually have barred Bolivia from cooperating effectively with its neighbors. The violent protests of October 2003, for example, were triggered by plans to sell natural gas through Chilean ports, but Chile is still considered the archenemy who "stole" Bolivia's coast during the War of the Pacific (1879-83). As a result, Chile bought natural gas from Indonesia. The third cluster is made up by the consequences of the country's ethnic fragmentation, the local, regional and ethnic limitations of political loyalty and cooperation, low trust, high tendency to conflict, the lack of consensus and of a nationwide civil society. Fourth, we have to account for the more recent economic disparities between the various regions, which have increased fragmentation and localism and eventually triggered separatist tendencies.

The traditions of a nationwide civil society are weak and they have even become weaker to the extent in which mobilization along communal, regional or ethnic lines has increased during the last years. The efforts to redirect these energies to the national level undertaken by programs for participation and solidarity administered from above (like *Participación Popular*) have only had a limited impact. 13.3. Society and political elites are deeply split into ethnic communities, regional groups with different regional loyalties, along class lines and an inclusion/exclusion cleavage. The various groups and protest movements are highly mobilized and can destabilize institutional politics any time they decide to do so, despite their fragmentation and rivalries. Violent incidents have occurred frequently during the last five years.

Profile of the Political System

Regime type: <i>Democracy</i>	Constraints to executive authority:	2
System of government: <i>Presidential</i>	Latest parliamentary election:	30.06.2002
	Effective number of parties:	5
1. Head of State: <i>Gonzalo Sánchez de Lozada</i>	Cabinet duration:	08/02-10/03
Head of Government: <i>Gonzalo Sánchez de Lozada</i>	Parties in government:	2
Type of government: <i>divided government</i>		
2. Head of State: <i>Carlos Mesa Gisbert</i>	Cabinet duration:	10/03- 05/05
Head of Government: <i>Carlos Mesa Gisbert</i>	Parties in government:	no parties
3. Head of State: <i>Eduardo Rodríguez</i>	Cabinet duration:	05/05- present
Head of Government: <i>Eduardo Rodríguez</i>	Parties in government:	no parties
	Number of ministries:	15
	Number of ministers:	15
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>		

3.2. Steering capability

Bolivia's political leadership, overall, has pursued long-term objectives, but at times has had to postpone them in exchange for immediate pacifying strategies when challenged by massive and often violent popular protest. The institutionally established leadership has sought to build and improve democracy and a market economy (however at times not so socially responsible), but it eventually followed the neo-liberal book too closely, misjudged the problems and needs of substantial sectors of the population, or was barred from implementing its strategies by insurgent popular unrest.

When dealing with governance problems, however, we have to differentiate between different factions of leadership and different actors in different situations and moments. First distinguish between the Sánchez de Lozada government from January to October 2003 and the Mesa government after October 2003. The first was made up and supported in Congress by the MNR, the MIR, and from August 2004 by the NFR, which joined the parliamentary coalition of the centralist traditional elites after the conservative AND had broken down in the 2002 elections. The Sánchez de Lozada government still followed the patterns established since the mid-1980s of executing (and to a point leading) the consensus of the parliamentary coalition that was also represented in the cabinet. This governing bloc of institutional leadership was opposed to the movements of the mostly extra-parliamentary opposition of the "underdogs" and "excluded,"

which could obstruct politics but not transform their protest energies into coherent policies. Its major factions were organized in Quispe's peasant workers' union CSUTCB, some traditional unions of the worn-out COB including teachers, students, civil servants and miners, the movement of the Chapare coca producers led by Evo Morales and many regional and local ethnic and civic protest groups. The leaders of all these organizations have exercised leadership, influenced the processes of decision-making, and have to be taken into account.

After the fall of Sánchez de Lozada in October 2003, constellations have changed: President Mesa, in order to distance himself from his former chief and in response to the violent challenges of the protest movements formed a weak cabinet of non-partisan experts and antagonized the parties of the former coalition, which in their turn tried to obstruct government policies. In March 2004, the strongest faction of the opposition movement and second largest force in Congress came to Mesa's aid, the Movement Towards Socialism (MAS). This brought the MAS leader Evo Morales into a key – if de facto – leadership position, which he fulfilled for the rest of the year in a rather moderate and responsible way, even if it was not always easy. Morales has faced internal divisions, and has had to convince people that it was a consistent strategy to support the government "unconditionally" in Congress while continuing to criticize it in the streets. After the limited performance of the MAS in the December 2004 municipal elections, Morales's rhetoric promptly radicalized again, and in early March 2005 he was back to lead the protesting masses of the Chapare. Political leadership in Bolivia has become more heterogeneous than it was before 2002.

In the two years under study the government has only had limited success in implementing its proposed reforms. Usually governments have had to take back one or more promised measures or legislation under the pressures of violent or non-violent protest. A number of privatized companies in key sectors have been re-nationalized, other privatizations postponed. Cancellations include tax reform plans in February 2003; the natural gas export deal in October 2003; proposed cuts in the budget and in social programs in April 2004; a fuel price increase in January 2005. Although the Mesa government has not been very successful in implementing its programs, stability has suffered, the rate of cabinet turnover (particularly in sensitive ministries like mining) and "popular participation" have gone up considerably. Until early 2005, the president, by making concessions, compromise, being responsive and tactically flexible, has against all odds managed to remain relatively popular (60%-70% approval) even after more than a year in office.

After 2000, Bolivia's political leaders have been, on average, less innovative and less able to learn from events, reactions and context than those who initiated the transformation in the 1980s. The balance has, however, been mixed: The Sánchez de Lozada government and its parliamentary coalition until October 2003 tended to repeat the mistakes of the Banzer-Quiroga government before 2002 in

misjudging the constellation of political forces in the country and their room for maneuver between liberal reforms, the social costs these implied, and the needs of stability. They continued to give priority to economic deregulation and the opening of the markets, sought consensus only within the established political class and thought they could go on ignoring the demands and protests of the movements of the excluded majority and cope with the political costs by limited and controlled participatory programs without much progress in integration and real empowerment. The violent clashes of 2003 have demonstrated that this has been a fatal error.

The Mesa government has after October 2003 embarked on more damage control and tried to be more responsive, but has mostly been just reacting, in erratic and inconsistent moves, often driven by either opportunism or simply muddling through. The government has obviously been learning, but there has not been any conceptual change. Short-term interests and tactical motivations remain dominant. The same seems to be the case with the other key faction of Bolivia's present political elite: the MAS around Evo Morales who supported the government's reformist policies through most of 2004 but returned to the old populist protest rhetoric after the municipal elections at the end of the year. There has not been much consistency in Bolivian politics of late, except for one sector: all governments have cooperated in the historically and politically insensitive United States-inspired coca eradication programs. This is particularly true in the Chapare, where programs have successfully reduced coca cultivation from 20,000 to 4,000 hectares (before 2002) but have failed to develop compensatory and alternative economic strategies for the 50,000 families that depend on coca production. Therefore, the Chapare has become a hotbed for violent protest and triggered the rise of Evo Morales and the MAS. In 2003 and 2004, however, the Chapare remained relatively calm most of the time, until protest and roadblocks returned at the time of writing.

3.3. Resource efficiency

The government could have made more efficient use of available economic and human resources. Public administration on the whole (some regional and local exceptions in more "modern" contexts notwithstanding) is overstaffed, under-professionalized, inefficient and still constrained by patronage and clientele-ism. It also fails to integrate the expertise and energies of the leadership of many mobilized civic organizations. Turnover of personnel is high, from cabinet posts down to the lowest ranks. The budget is not balanced, and often unpredictable and unreliable due to policy change. The debt is still high despite major successes due to internationally monitored structural reduction programs. Auditing is of low quality. The decentralization programs which have transferred important responsibilities for health and education to the cantons, which are often dominated by opposition movements, have continued to suffer from lack of control over

expenditure, scarcity of funds, incompetence, political sabotage and corruption. The procedures and institutions to reform and modernize public administration, due to structural deficits and the lower degree of political stability and programmatic continuity, are less developed than in many neighboring states.

From the findings analyzed above it is clear that the government frequently fails to coordinate between conflicting objectives and interests. Different parts of the government tend to compete among each other, dissent in the cabinet is pervasive, and some policies usually have counterproductive effects on other policies, often for structural reasons and without immediately viable alternative within the existing political and organizational framework. Corruption is still widespread and it has not changed significantly between 2002 and 2004. Bolivia's CPI score in both years has been 2.2, in 2003 2.3 (2000: 2.7), but the country has continuously fallen in rank during this period (89; 106; 122).

3.4. Consensus-building

Overall, there is a limited and often fragile consensus among the major political actors on democracy and on a market economy. Its core has been the rather strong and explicit consensus shared by the parties of the institutional establishment, which has given Bolivia an unprecedented two decades of institutional stability, but this consensus has lost some its effect on political decision making since 2002. The rise of ethnic and social protest movements not part of this consensus (the MAS in particular) to major national prominence has significantly narrowed the scope of issues on which all major actors could agree. A similar effect has been produced by the increased centrifugal tendencies of some of the more modern regional business elites. These are, however, not fundamental disagreements because, according to all attitudinal and behavioral indicators we have, almost all (except some Pachakuti radicals around the MIP) agree on democracy and market economy in general terms. The problems are in the details of interpretation and definition and hence can be discussed. Ethnic and social movements prefer mechanisms of more direct and participatory democracy to those of representation and insist on more extended guarantees of social responsibility, and hence more state regulation within the market economy in order to secure better chances and material opportunities for the excluded. The violent clashes from 2002-2003 on have made it clear that the dialogue between the two camps needs urgently to be intensified much more than the governments have tried to do so far.

There are no significant anti-democratic veto actors in a strict sense at the national level, but there is the destabilizing impact of violent social unrest, which eventually could lead to breakup, futility or suspension of democratic institutions. So far, the government, overall, has been able to co-opt, marginalize or control such destabilizing forces, but it may be beyond its powers to do that all the time in all of the country in case crises escalate. The periodic "taming" of the MAS,

however, and winning it over for reformist policies in 2004 has also inspired hope.

During the survey period, many analysts have seen Bolivia at the verge of breaking apart or blowing up when protest and violence peaked. The conflicts are there, and reforms can reduce existing divisions only in the very long run and with high investments and foreign assistance. However, the worst has been avoided so far. While the Sánchez de Lozada government was not able to prevent social conflicts from escalating into protracted turmoil, the more prudent and responsive Mesa government has for some time been able to do so. Therefore, the balance is mixed. It helped that Mesa distanced himself rather early from his predecessor and from the traditional political parties and elites, went populist and was more convincing when offering a dialogue, and it also helped that the MAS stopped being obstructive and began to cooperate during 2004.

The political leadership tries to promote and channel social capital, but so far at least the government has not made much progress in strengthening interpersonal solidarity and civic engagement. Some of the protest movements have been more successful sectorally or regionally (e.g. the Aymara organizations in and around El Alto, civic groups in Cochabamba, or the Santa Cruz farmers). Most of Bolivia's rich social capital is limited to the boundaries of ethnic communities and/or social class. That it can be unbounded has been demonstrated by the ethnically and socially inclusive consensus behind the 1952 revolution. Politicians able to mobilize the memories of this consensus and its achievements in a credible way (like Mesa, Morales, or even Paz Estenssoro) so far have been more successful than those who have not (like Banzer or Sánchez de Lozada).

With few exceptions, the problem of reconciliation in Bolivian society does not lay between the perpetrators and the victims of military dictatorship. Rather, it focuses on the demands for structural integration of the majority of the population still excluded on ethnic or social grounds. Here since 2003 additional though still insufficient efforts have been made, in concerted programs for poverty reduction, education and infrastructural improvement (like the Millennium Development Goals) as well as in new forms of political and institutional cooperation.

3.5. International cooperation

Bolivia's political leadership has, since the beginning of the transformation in the 1980s, made good use of international aid for transformation, and continues to do so. In addition, it has demonstrated a substantial ability to learn and utilize international assistance for its domestic policy agenda, which has also been inspired by the goals and priorities of the international programs (such as capitalization, debt relief, poverty reduction and education). In a way, Bolivia's

economic, structural and social policies have been embedded in the context of the international aid programs relevant at the time.

Like their predecessors, the governments of the survey period have presented themselves as credible, reliable, and mostly predictable partners of the international community, even if Bolivia's standing has suffered slightly as a consequence of the economic downturn and after the waves of unrest in 2003 and early 2005. This reputation (often achieved at high social and political costs) has been honored even after the government was forced by the riots of February 2003 to cancel the income tax plans and produced an additional budget deficit of \$240 million, through a substantial increase in USAID and World Bank and Andean Development Corporation loans. In February 2004, another stand-by agreement materialized under the auspices of the IMF. In addition, Bolivia was accepted to be one of the few beneficiaries of the U.S. government's Millennium Challenge Account. Apart from Bolivia's participation in the HIPC II and PRSP programs, the World Bank system, among others, has in 2004 been active in the country in about 20 different projects with a volume of more than \$600 million (particularly in education, child development and institutional reform) and in country assistance (CAS) amounting to \$150 million annually.

The political leadership, overall, cooperates with many neighboring states and complies with the rules set by regional and international organizations. The only significant limitation here stems from the country's historical conflicts with Chile and the unwillingness of many mobilized protest groups and their leaders to cooperate with that state. The governments, however, have not shared this attitude, despite the existence of chauvinistic and populist temptations for mobilization: Sánchez de Lozada even fell over it, and the Mesa government has managed to craft and get approved a prudent wording of the referendum leaving open all options with regard to the gas export issue, be it through Peru or through Chile.

4. Trend of development

4.1. Democratic development

Stateness and rule of law during the period of investigation have deteriorated significantly in some segments in Bolivia, due to violent incidents and the state's reactions in 2003, which removed an elected president from office, eroded the state monopoly on the use of force, threatened and influenced the institutions, increased political corruption and temporarily damaged the rule of law. Stateness has also been negatively affected by the stronger voice for regional and communal interests and by separatist incidents. Participation in contrast has gone up, although not always within an orderly institutional setting.

In terms of stability and integration, democracy has become substantially less consolidated than before in a number of segments. Nevertheless, this process also leaves room for new chances of an extension of political and social integration. Institutional destabilization from 2003 onward has at the same time broken up the limited elite consensus of the past and thus opened up a channel for a potential renegotiation of a broader consensus including some major factions of the formerly excluded groups and strata (as the support of Morales for the government in 2004 has indicated). In light of the always-present danger of further violent protest and upheaval, this will require, of course, more dedication and continuous efforts.

4.2. Market economy development

Bolivia's level of development has improved greatly from the late 1990s to the time of writing. The HDI between 1998 and 2002 went up by 0.038 points, from 0.643 to 0.681. The economy has slowly recovered from its downturn; growth has increased since 2001, particularly from 2.4% to 3.8% between 2003 and 2004. The current account balance has improved, and other indicators show a similar tendency. The HIPC debt relief programs have released considerable resources, although these were not optimally redirected into the anti-poverty campaign (which, however, also made progress due to many other assistance programs).

The institutional framework for market-based action has been slightly restricted in some segments of the economic order by a number of individual re-nationalizations and a tendency towards re-regulation (particularly in the energy and national resources sector). In addition, the framework has been restricted by the outcome of the July 2004 referendum that abrogated the liberal hydrocarbons law and empowered the government to reinstate the state oil and gas company YPFB and to "decapitalize" and re-regulate the natural gas business.

Overall, economic development has improved both quantitatively and qualitatively: Growth has increased by more than 1 percentage point, investment has increased, metal prices climbed, and exports have grown considerably, particularly those of natural gas, soybeans and other agricultural products. However, there are also severe limitations: the open economy is still very vulnerable to international shocks and foreign influence. More than two-thirds of export value is produced by only 10 companies. Foreign investment is lacking, investment in technology is much too low (even in Peru it is higher). In addition, the economic success story of twenty years has so far not led to visible improvements in living standards.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	2.3	1.6	2.7	2.4	3.8
Export Growth in %	13.2	6.0	7.9	7.5	10.8 P
Import Growth in %	3.1	-3.5	9.1	-11.3	8.3 P
Inflation in % (CPI)	3.4	0.9	2.4	3.9	4.9
Investment in % of GDP	18.3	14.2	14.7	11.1	13.6 P
Tax revenue in % of GDP	18.7	18.1	18.0	18.3	20.3 P
Unemployment in %	7.5	8.5	8.7	9.5	-
Budget deficit in % of GDP	-3.9	-7.4	-9.0	-7.7	-6.1
Current account balance in billion \$	-	-	-0.35	0.03	0.22

Source: IMF Country Report No. 04/350, Nov. 2004; CEPAL Preliminary Overview of the Economics of Latin America and the Caribbean, 2004. Investment is Gross Domestic Investment; Unemployment is Urban Unemployment. P = projected.

D. Strategic perspective

Bolivia has severe economic, social, ethnic and regional problems that can only be successfully addressed in a stable and flexible institutional setting to guarantee minimum cohesion, consensus and delivery. Institutional stability directed towards democracy and the market economy had been provided by the traditional political elites since the middle 1980s, but it has come under severe pressure in 2003 and 2004. The clashes and turmoil of 2003 have again demonstrated that the old elitist and corporatist model of Bolivian politics no longer works. It also proves that new dialogue and consensus-oriented forms allowing for more inclusion have to be found. The Mesa government and the MAS cautiously moved in this direction in 2004, and much will depend on that both continue to do so, and that the MAS can serve as a mediator between established politics and the broad and heterogeneous sector of the movements of the excluded. However, if the MAS and its leader Morales should again fall for the temptations of easy populist strategies and street violence, institutional stability and the chances for a broader consensus will be at stake.

One essential prerequisite for further mediation, moderation and cohesion building should include the cultural, ethnic and regional heterogeneity and the great economic disparities of the country are de facto recognized, and the new

constitution provide effective instruments to that end (such as federalism, regional autonomy statutes, effective local self government and a respective adjustment of the tax system). Otherwise the danger that the country might split apart one day will persist.

Given the polarization in the country there also is a high probability that the political model for the future cannot be a neo-liberal one alone, as it has been tried by Sánchez de Lozada, but that some corporatist elements and state guarantees in certain key sectors will have to be maintained and restructured. The outcome of the referendum clearly points in this direction and its basics will have to be implemented in appropriate legislation. Fast solutions and compromise are particularly needed in order to promote the export of natural gas and attract foreign investment without inciting too many chauvinistic sentiments against Chile, Peru, the United States, transnational firms or globalization. Here it could help if the political leaders would explicitly agree on a somewhat more mixed economic model as the basis of a project for “modern Bolivia”.

If all goes well and the economy keeps growing there is a good chance that the debt reduction and anti-poverty programs (which should be better coordinated), and other national and international efforts to improve infrastructure, education, human development and basic services will go on and be extended. For the coca producers in Chapare it will also be essential that the respective Bolivian and U.S. agencies find a better coordination between, and understanding of, the traditional legal demand, crop eradication and more effective alternative development programs. All this has high priority because the delivery of minimum life chances people expect is essential for the support of democracy and institutional stability. Another is the effective improvement of the mechanisms of rule of law.