

**Alternative Development Strategies for Bolivia: Rethinking Trade
Negotiations in the Context of the WTO, FTAA and ACN**

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Ladies and Gentlemen, it is a pleasure to be back in Bolivia, and to share this space with you. I hope that what I will say will contribute to the discussion on the development of this beautiful country, and the challenges of the trade negotiations at a regional, hemispheric and multilateral level.

(Background:)

1. This speech builds on the experiences and insights which I gained during my two years of residence in Bolivia. During this period, I worked on the development of two projects. The first project dealt with trade capacity building in Bolivia, between 2000 and 2001. The second was a capacity building project on Kyoto Protocol and CDM negotiations during 2002.

2. The suggestions which I shall make are not new. They date back to documents issued back in 2001. However, in light of the recent political developments in Bolivia, the policy suggestions which I will make have gained further relevance and deserve in-depth discussions by stakeholders and constituencies alike.

Introduction:

3. Bolivia is facing an increasingly difficult economic environment. The USA is seeking an economic recovery without job creation, and an increasing current account deficit. Preoccupied with the post-war challenges in Afghanistan and Iraq, it has concentrated on "war on terrorism". This situation will bind the US financial and human resources for the near future. As part of the war efforts, rebuilding Afghanistan and Iraq will most likely include providing them with special preferential trade agreements. This in turn will limit what the USA may offer to other countries, such as Bolivia.

4. The Andean Community Nations (ACN), is a key export market for Bolivian Soya. Currently, it is torn by internal disagreements. Negotiations to deepen the integration of ACN have stalled for years. If ACN members cannot resolve their disputes and reinvigorate the integration process, The CAN might face fragmentation or, worst case, its dissolution.

5. Negotiations to create the FTAA and talks on further trade liberalization through the WTO-Doha Round started a couple of years ago. However, both processes are slow and the negotiations are not evolving as expected. Even though both multilateral negotiations are currently not progressing, they may reactivate again in the near future.

6. The FTAA and WTO will generate new market access benefits but also further competitive pressures for Bolivian enterprises. One can for instance expect requests by Bolivia's trade partners for further trade regime liberalization of Bolivia's service sector. If Bolivia were to make a concession in this sector, it may be only partially compensated by new market access offers from NAFTA and EU countries.

Lets Have a Look at the Main Current Development Strategies:

7. Lets assume that the above scenario comes true. In such a case, it may be useful to broaden the current national development strategies of Bolivia. In particular, we must consider the favorite focus on exports of Bolivian soya products and the hope for future revenues from gas sales to Brazil, Mexico and North America. Both of these strategies present flaws, which need to be addressed.

8. For instance, Bolivia's soya products are not efficiently produced nor efficiently priced. Furthermore, market access to key trade partners, such as Columbia and Venezuela, cannot be taken for granted and may change with time. In regard to expected gas exports, the collapse of Enron Co. puts into question some of the production and distribution schemes agreed by previous Bolivian governments with foreign companies. In addition, the environmental costs of gas extraction and shipment are inevitable and will impact on the physical environment. This will lead to claims by local communities who expect to be compensated with a share of future gas revenues.

9. I predicted such developments two years ago. The violent unrests of the last two months unfortunately confirm my predictions.

But then, what are the Alternative?:

10. I have briefly explained what the current development strategies are in Bolivia, and the national and international context in which they find themselves. What follows are alternative development strategies. These development strategies could meaningfully complement the current ones. Depending on the state of the world economy, they may offer valuable alternative sources of revenue, sustainable development and employment. One of them is:

The Clean Development Mechanism of the Kyoto Protocol

11. Following the recent KP negotiations in New Delhi, it appears more and more likely that the KP Convention will be successfully ratified and implemented. This may happen, despite the current abstention by the USA, the world's most significant polluter in CO₂ emissions.

12. The goal of the KP is to bring down CO₂ and other emissions, such as the greenhouse gases (GHG). Countries known to be high CO₂ emitters can reduce their CO₂ emission by: a) installing cleaner energy and production technologies or b) by

obtaining emission credits. These certificates are derived from projects in countries who can offer schemes to reduce GHG, or absorb CO2 emissions.

13. One of these projects for the creation of emission credits develops afforestation and reforestation activities, to create forest “sinks”. “Sinks” are mostly plantations whose trees naturally absorb emission, thereby reducing world levels of CO2.

14. Bolivia has actively participated in the KP negotiations and expects substantial benefits from its “sinks”. In this way, it would be capable of binding CO2 emissions originating from polluting industries present in developed countries, who prefer to pay for Bolivian “sinks”, rather than installing new and expensive new production technologies.

15. The “sinks” could be a meaningful long-term source of income for Bolivia. In order for this to occur, it is necessary that:

- the forests are well kept and managed,
- illegal logging is prevented,
- illegal land claim (burn and slash approach) of indigenous farmers is controlled,
- legal conditions regarding land use are made transparent, and
- financial transactions resulting from CDM revenues are not impeded by rent seeking behavior of government officials.

16. Initial analysis conducted by the World Bank and the Bolivian MSD show that foreign investors are at present hesitant to invest into Bolivian “sinks”, since most of the conditions listed above are not fulfilled. The solution would be to increase foreign investors' confidence in Bolivian “sinks”. This can be done by creating the necessary physical, legal and political infrastructure and professional forest management. Once “sinks” are competitive at an international level, foreign investors might be attracted to invest in Bolivia’s rich forestry reserves.

17. In order to ensure stable and secure “sinks”, forest need to be maintained based on professional principles. To create “Forest sinks” does not mean leaving a forest untouched for 20 years since such a laissez-faire approach would increase the likelihood of forest fires which endanger the whole CO2 contract. To effectively manage forests for CO2 credits would also mean creating jobs for indigenous people.

18. In addition to generating income from offering CO2 sinks and CDM deals, **professionally managed forests** can also **generate traditional income streams**. For example, in the form of wood exports, agroforestry, partial wood-based products like carpentry. These in turn could be exported within the South American region or abroad to the EU and NAFTA, especially if tropical woods are utilized. Provided that such wood farming respects the international agreement on biodiversity and standards covering the logging of tropical woods, these activities are promising.

19. Adding to CDM and forestry incomes, the same “sinks” could be used for **eco-tourism and related local crafts products attracting a part of the growing world-wide eco-tourism industry**. Many eco-tourists are particularly attracted to Bolivia’s rich biodiversity, renowned worldwide.

20. Further additional economic activities could stem from **smart farming** in “sinks” or nearby “sinks”. This agriculture is based on the cultivation of **the many rare fruit and agricultural products, which offer special health benefits** (e.g. low cholesterol of llama meat products, or vegetable and fruits, such as the Quinoa, Tarwi and Amaranto). These products could offer Bolivia unique brand name recognition, especially if supported by WTO geographical indications protection. Thus, Bolivia could become an important supplier to the lucrative markets of the OECD countries.

21. All of the above offer **joint branding opportunities** since “sinks”, eco-tourism, health food products, etc. can easily be mutually reinforcing in regard to brand recognition. This would render the label “made in Bolivia” or “Bolivia” in a positive recognition and reputational capital for the country.

22. An additional benefit of the above outlined **multifunctional development plan** would be the job generation opportunities for indigenous communities. In contrast to the high intensive industrial farming of soya production of the lower lands, the promotion of forest “sinks”, biodiversity, eco-tourism, and special health food, would also include the currently impoverished high lands and tropical areas of Bolivia to the labour market.

23. **Job creation for indigenous people** is urgently needed in Bolivia. Jobs are the most effective way to reduce poverty and to strengthen the constructive process of social dialogue. Indigenous people face high unemployment and exclusion from high revenue jobs due to their poor formation and training. The multifunctional plan I describe, would offer opportunities to help indigenous people in a gradual transition to jobs with more added value. This will be possible, provided the government and economic actors use the opportunity to offer apprenticeship and on the job-training to indigenous people.

24. Finally, other alternatives for development still remain to be explored. One of them Bolivia's **participation in the GHG markets, other than the KP**. Another alternative is the **sustainable management of natural resources, such as Biotrade and water management**. All these are alternatives could fit into the multifunctional development plan without the risk of crowding out other opportunities.

But how is this Alternative Development Strategy to be Financed?:

25. Exporting gas means selling a limited, non-renewable asset or resource. Depletion of current gas deposits is inevitable. The question is: What follows after the "El Dorado" of gas exploitation? What can be done once all the gas is sold and the revenue disappears? These questions has not been addressed sufficiently in Bolivia. It may be because the previous Bolivian government was mostly focusing on the immediate need to generate

revenues to ensure solvency of the Bolivian treasury and payments of its debts to foreign creditors and the IMF.

26. However, short-term strategies have never been successful. Research on wealth creation of energy exporting countries show that most of these countries blessed by natural advantages often end up heavily indebted, corrupt, and socially unstable, as well as with growing incidences of environmental disasters.

27. In contrast to this sad trend towards self-destruction, Norway is an excellent counter example. Norway's state-owned STATOIL has developed important gas and petrol deposits on land and in the North Sea. But instead of short-term full exploitation of gas and petrol and consumption of revenues, the government limits the production. In this way, it avoids premature depletion of resources. Furthermore, it puts a sizable part of the revenue into an investment fund and uses the revenues to finance physical and social infrastructure projects to guarantee a future for its young generations.

28. For the sake of preventing such premature depletion of Bolivia's gas deposits and indiscriminate consumption of revenues, it might be beneficial to **limit gas exploitation** and to add a **tax to the gas exports**. Both measures could positively prevent destructive exploitation of gas resources. This would serve as a **disincentive to sell at bottom prices due to the limited profits**. At the same time, this **export tax revenue** might provide the necessary financial resources to build up the **infrastructure** needed for the above described **alternative development strategy focusing on "sinks" and the CDM deals;**

eco-tourism and biodiversity; forestry production and wood products; health food agriculture and brand protection, and local crafts.

29. All of the above would most likely help **reduce unequal income distribution, increase participation of the “campesinos” and indigenous communities, thereby reduce the civil strife and political instability.**

30. This takes us to the main object of my speech, which is: **how do we unify an alternative development strategy with the trade negotiations in the WTO, FTAA and CAN, for a small country like Bolivia?**

31. In this respect, **there are four points of high importance that Bolivia must take into account when designing its negotiating strategies.**

32. **First**, is the importance of **creating coalitions in an efficient and simultaneous manner, in the different negotiating fora.** For Bolivia, this implies the creation of coalitions within the WTO, as well as within the ACN and FTAA, and at a bilateral level with Mercosur.

This effort requires:

- **A successful interministerial coordination mechanism**, in order to avoid contradictions in the different fora,

- **Efficient consultations** with the representatives of the different economic sectors of the country in order to prepare aggressive/defensive positions in the different fora,
- **A continuous follow-up** of the developments in the secretaries of the different organism and excellent bilateral contacts with the representatives of the key countries for Bolivia

Espero que los temas, alternativas y propuestas que he desarrollado hoy, sirvan de estímulo para futuras discusiones sobre el desarrollo de Bolivia. Ha sido un placer contribuir con esta ponencia. Muchas gracias por su tiempo y atención.

33. Second, Bolivia must not forget the **demands from those countries that fear the “dilution effects”**. This has to do with the countries that already enjoy the benefits of integration with strong trade partners and that fear losing them when having to share them with new partners. In the case of the FTAA, this refers mainly to Mexico and to a lesser extent to Canada, that already form an FTA with the USA, under NAFTA.

34. There are also the traditional trading partners, which, despite not forming part of an FTA, may also fear the “dilution” of their acquired benefits thanks to new integration projects. These countries, will be demanding in the negotiations, raising the relative entry fee for the smaller economies, such as Bolivia. As an enlightening experience, is the high entry cost of Kyrgistan to the WTO.

35. Bolivia has to prepare to make offers that satisfy these countries which feel threatened, but it must ensure that this is not done at a too high cost. Thus, it must **design a strategy where the opportunities for joint benefits are studied and exploited.**

36. As a third and last point is the need to **align the negotiation strategies with the development strategies.** If Bolivia wishes to capture the positive spillovers and backward linkages of trade liberalization, it needs to generate the infrastructure and capacity. This is specially true in the case of investments and other forms of foreign presence, such as in the services and financial sector.

37. In conclusion, efficient and simultaneous coalition-building, preparation in order to face strong demands, the creation of infrastructure and capacity and the desing of a concerted national development strategy is the key to a succesfull trade negotiation for Bolivia.

(Final words:)

38. I hope the issues, alternatives and proposals I have developed today help to stimulate future discussion on development in Bolivia. It has been a pleasure to contribute with this speech. Thank you very much for your time and attention.