Alternative Development Strategies for Bolivia
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Background:

This policy paper builds on experiences and insights gained during my two years of project experience in Bolivia consisting of 1) a trade capacity building project in Bolivia which lasted from 2000-2001 and 2) a capacity building project on Kyoto Protocol and CDM negotiations in 2002. The suggestions outlined in this paper go back to December 2001. In light of the recent political developments in Bolivia, the policy suggestions made in this paper have gained further relevance and deserve in-depth discussions by stakeholders and constituencies alike.

Introduction:

Bolivia is facing an increasingly difficult economic environment. The USA is in a tentative economic recovery without job creation, and facing a staggering current account deficit. Preoccupied with the post-war challenges in Afghanistan and Iraq and concentrated on "war on terrorism", this will inevitably bind US financial and human resources for the near future. As part of the war efforts, rebuilding war-torn Afghanistan and Iraq will most likely include providing these countries with special preferential trade agreements, which in turn would limit what the USA can make available for other countries, such as Bolivia.

The Andean Community Nations (ACN), a key export market for Bolivian soya, is torn by internal disagreements. Negotiations to deepen the integration of CAN have been stalling for years. If CAN members cannot resolve their disputes and reinvigorate the integration process, member countries might face fragmentation or, worst case, dissolution of CAN altogether.

Negotiations to create the FTAA and talks on further trade liberalization through the WTO-Doha Round started a couple of years ago but both processes are slow and the negotiations are not moving forward as originally planned.

Even though both multilateral trade negotiations are currently not progressing much, they most likely will accelerate again in the near future. 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, which most likely will only partially be compensated by new market access concessions offered by NAFTA and EU countries.

Current main development strategies:

Assuming that the above scenario might come true, it would be useful to broaden the current national development strategies, especially regarding the favorite focus on exports of Bolivian soya products and the hope for future revenues from gas sales to Brazil and possibly Mexico and North America. Both of these strategies have possible flaws, which need to be addressed.

For instance, Bolivia's soya products are not universally seen as being efficiently produced nor efficiently priced and market access to key trade partners cannot be taken for granted (as is the case with Columbia and Venezuela). 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, it can be expected that the inevitable environmental costs of gas extraction and shipment will have impacts on the physical environment and lead to claims by local communities who expect to be compensated and to receive an equitable share of future gas revenues. I predicted such developments two years ago. The violent unrests of the last two months unfortunately confirm my predictions.

Alternative development strategies:

What follows are development strategies which could meaningfully complement the ones discussed above and, depending on the state of the world economy, offer needed alternative sources of revenue, sustainable development and employment. They are:

a) Clean Development Mechanism (Kyoto Protocol)

Following the recent KP negotiations in New Delhi, it appears more and more likely that the KP Convention will be successfully ratified and implemented despite the current abstention by the USA, the world's most significant polluter in CO_2 emissions.

The goal of the KP convention is to bring down CO_2 emissions. Countries known to be high CO_2 emitters can reduce their CO_2 emission by: a) installing cleaner production technologies or b) buying emission credits from other countries who offer schemes to bind and reduce CO_2 gases. One of these strategies is to keep forests untouched so that the trees can absorb CO_2 emissions and hence act as a "sink" into which CO_2 would be captured and contained, thereby reducing world levels of CO_2.

Bolivia has actively participated in the KP negotiations and expects substantial benefits from making Bolivian "sinks" (forests) available to bind CO_2 emissions originating from polluting industries domiciled in developed countries, who might prefer to pay for Bolivian "sinks" rather than install new, and often expensive new production technologies.

"Sinks" could be a meaningful long-term source of income for Bolivia provided that:

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

Initial analyses conducted by the World Bank and the Bolivian MSDP show that foreign investors are at present hesitant to invest into Bolivian sinks since most of the conditions listed above are not fulfilled at present. The solution would be to increase foreign investors' confidence in Bolivian sinks by creating the necessary physical, legal and political infrastructure and professional forest management. Once sinks are secured at competitive international levels, foreign investors might be attracted to invest in Bolivia's rich forestry reserves.

In order to ensure stable and secure CO_2 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 CO_2 contract. To effectively manage forests for CO_2 credits would also mean creating jobs especially for people living near the forests. For Bolivia, this could mean creation of jobs for indigenous people.

In addition to generating income from offering CO_2 sinks and CDM deals, **professionally managed forests** can also **generate traditional income streams**, e.g. in the form of wood exports, partial wood-based products like carpentry which in turn could be exported within the South American region or abroad (EU, 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.

Adding to CDM and Forestry incomes, one could also imagine that 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 because of its world renowned biodiversity.

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

All of the above offer a relatively easy **joint branding opportunities** since “sinks”, eco-tourism, health food products, etc. can easily be mutually reinforcing in regard to brand recognition and marketing, thereby turning the label “made in Bolivia” or “Bolivia” in general into a positive recognition and positive reputational capital.

An additional benefit of the above outlined **multifunctional development plan** would be the job opportunities which such a scheme would create 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 based food production would also include the currently impoverished high lands and tropical areas of Bolivia.

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 knowledge and skills repertoires. The jobs linked to the proposed multifunctional plan described above would also offer opportunities to gradually help indigenous people move into jobs with more added value, provided the government and economic actors use the opportunity to offer apprenticeship and on the job-training to indigenous people.

Financing above alternative strategy:

Exporting gas means selling a limited, non-renewable asset or resource. Depletion of current gas deposits is an inevitable fact of life. The question is: What follows after the “el-dorado” of gas exploitation when all the gas is sold and the easy additional revenue disappears? This questions has not been addressed sufficiently, partially 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.

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

In contrasts to this sad trend towards self-destruction in the majority of resource-rich countries, 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 to avoid premature depletion of resources, 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.

For the sake of preventing such premature depletion of Bolivia’s gas deposits and unwise consumption of revenues, it might be beneficial to **limit gas exploitation** and to add an **export tax to the gas exports**. Both measures could positively prevent destructive exploitation of gas resources (**disincentive to sell at bottom prices with limited profits**), and at the same time, this **tax revenue** might provide the necessary financial resources to build up the **infrastructure** needed for the above described **alternative development strategy focusing on “sinks” (CDM deals), eco-tourism (biodiversity), forestry production (wood products), health food agriculture (brand protection) and local crafts.**

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

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