**2001 Country Reports on Economic Policy and Trade Practices**
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# BOLIVIA

## Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

| | 1999 | 2000 | 2001 6/ |
|---|---|---|---|
| *Income, Production and Employment* 1/ | | | |
| Nominal GDP | 8,323 | 8,456 | 8,112 7/ |
| Real GDP Growth (pct) | 0.4 | 2.4 | 0.5 |
| GDP growth by Sector | | | |
| Agriculture | 2.89 | 2.97 | 2.00 |
| Manufacturing | 2.40 | 1.65 | 0.80 |
| Services 2/ | 4.94 | -1.63 | -1.00 |
| Government | 1.53 | 0.92 | 1.20 |
| Per Capita GDP (US$) | 1,027 | 1,020 | 977 |
| Labor Force (million) | 2.4 | 2.5 | 2.6 |
| Unemployment Rate (pct) 3/ | 8.0 | 7.5 | N/A |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply Growth (M2) 4/ | -2.8 | 13.1 | 8.0 |
| Consumer Price Inflation | 3.1 | 3.4 | 3.0 |
| Average Exchange Rate (Bs/US$) | 5.80 | 6.17 | 6.58 |
| Parallel | 5.84 | 6.20 | 6.62 |
| *Trade and Balance of Payments*: | | | |
| Total Exports FOB | 1,139 | 1,328 | 1,490 |
| Exports to United States FOB | 465 | 349 | 392 |
| Total Imports CIF | 1,855 | 1,977 | 2,015 |
| Imports from United States CIF | 438 | 431 | 439 |
| Trade Balance | -704 | -600 | -525 |
| Balance with United States | 27 | -82 | -47 |
| Current Account Deficit/GDP (pct) | -8.5 | -7.1 | -6.5 |
| External Public Debt | 4,574 | 4,460 | 4,680 |
| Debt Service Payments/GDP (pct) 5/ | 2.6 | 3.0 | 3.2 |
| Fiscal Deficit/GDP (pct) | 3.4 | 4.0 | 6.0 |
| Gold and Foreign Exchange Reserves | 1,114 | 1,184 | 1068 |
| Aid from United States | 76 | 155 | 138 |
| Aid from All Other Sources | 530 | 468 | 410 |

1/ IMF projections, UDAPE, National Institute of Statistics (INE), Central Bank of Bolivia and Embassy projection.

2/ Does not include electricity, gas, water, transportation, or communications.
3/ For urban areas; data does not consider underemployment.
4/ Includes National Currency Deposits indexed to U.S dollar and U.S dollar deposits.
5/ Includes short-term debt.
6/ 2001 figures are yearly projections.
7/ The pace of devaluation of the boliviano exceeded that of inflation, which resulted in a lower nominal GDP (in dollars), though real GDP increased.

*1. General Policy Framework*

Nineteen years after its return to democracy, Bolivia continues to consolidate a series of structural reforms that further orient the economy to the demands of the market and encourage greater efficiency in the business community by exposing it to increasing international competition. Parallel reforms in the judicial system, such as the implementation of the new Code of Criminal Procedures in March 2001, should help strengthen the rule of law in the coming years.

The foundation of this new economic system was the privatization (called "capitalization" in Bolivia) of five large state-owned corporations and the establishment of a regulatory system to monitor the key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment, principally from the United States and in the hydrocarbons sector. Moreover, the opening of the telecommunications sector, programmed for November 2001, has attracted other U.S. operators that have committed significant amounts of investment in Bolivia during 1999 and 2000. This investment portends enhanced prospects for economic growth in the coming years. Although the Government initially projected economic growth for 2001 at four percent, an ongoing economic slowdown caused mainly by low commodity export prices and economic slowdown in Bolivia's principal trading partners, including the United States, obligated authorities to lower growth projections for 2001 to only 0.5 percent. The United States has been Bolivia's largest trading partner and the largest direct investor during the last decade.

Macroeconomic indicators have improved steadily since the Government undertook stabilization and structural reforms in the mid-1980s. However, the Bolivian economy has been essentially stagnant since 1999. Commercial bank deposits had more than doubled since 1991, to over $4.4 billion in 1999, but significantly decreased to $4 billion in 2000 and to $3.6 billion as of August 2001. At the same time the amount of non-performing loans have increased from $266 million in 1999 to approximately $578 million as of August 2001 (over 18 percent of the total loan portfolio). Persistent trade deficits since 1991 have been offset by large inflows of foreign assistance and private investment, allowing official foreign exchange reserves to grow to a record $1.1 billion (December 2000), decreasing slightly to $980 million (April 2001). Net reserves were slightly more than five months of imports as of February 2001. As tax revenue dropped due to the economic downturn, the budget deficit for the non-financial public sector increased to 3.4 percent of GDP in 1999, 4.0 percent in 2000 (largely as a result of pension reform), and likely even higher for 2001 and 2002. Lately, the public deficit has been financed primarily by domestic debt purchased by local banks and pension administrators.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 12 percent of GDP. Total liquidity (M4) represented approximately 53 percent of GDP in 2000. Although the M2 growth rate had decreased significantly since 1997, reaching negative levels during 1999, it increased by approximately 13 percent in 2000 and it is expected to grow by 8 percent in 2001. The published figures for money in circulation are misleading, however, since there are billions of U.S. dollars in circulation side-by-side with the local currency, the boliviano. Dollars are a legal means of exchange, and contracts may be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of August 2001, nearly 91 percent of the $3.6 billion of deposits in the Bolivian financial system was denominated in dollars. The Bolivian Central Bank usually adjusts its discount rate and conducts open market operations to control money supply. In addition, the Bank has infrequently changed reserve requirements for commercial banks.

Low rates of inflation at home and abroad have helped to lower interest rates. By December 2000, the average rate paid on dollar deposits was approximately 4.25 percent, and the average rate charged on dollar loans was 15.29 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term. Financial spreads continued to grow in 2001 due to a large increase in banks' non-performing loans portfolios.

### *2. Exchange Rate Policy*

There are no restrictions on convertibility or remittances. The official exchange rate is set by a daily auction of dollars managed by the central bank. Through this mechanism, the Central Bank has allowed the boliviano to depreciate slowly to preserve its purchasing power parity. The rate in the parallel market closely tracks the official exchange rate, which fell with respect to the dollar by 6.2 percent in 1999, 6.7 percent in 2000, and 5.5 percent as of September 2001.

### *3. Structural Policies*

A variety of laws have liberalized the economy significantly since the change in Bolivia's economic policies in the mid-1980s. Bolivia has consolidated economic stability through the application of a policy of fiscal and monetary discipline since 1986. Markets for goods and services and interest rates were liberalized, an exchange rate policy was applied based on a single flexible exchange rate, and a tax reform law was implemented.

In 1990, the Government of Bolivia lowered import tariffs to 5 percent for capital goods and 10 percent for all other imports. The government charges a 13 percent Value-Added Tax and 3 percent transaction tax on goods, whether imported or produced domestically. There are also excise taxes charged on some consumer products. Generally, no import permits are required, except for the import of arms and pharmaceutical products. However, in an effort to fight contraband imports, the Government of Bolivia issued Supreme Decrees 26327 and 26328 on

September 22, 2001, establishing automatic import licenses and labeling norms for selected products such as cooking oil, sugar, pasta, and wine. While the import licenses are established for two years, there is no time limit for the labeling requirement. Further regulation must be issued in the coming months in order to apply these two new decrees.

The 1990 Investment Law guarantees, inter alia, the free remission of profits, the freedom to set prices, and full convertibility of currency. It essentially guarantees national treatment for foreign investors and authorizes international arbitration, which was further elaborated in the Arbitration Law, enacted on March 11, 1997. Bolivia ratified a Bilateral Investment Treaty with United States on June 7, 2001; the treaty came into effect in July 2001.

The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal company) to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. A subsequent law deregulated hydrocarbon prices, establishing international prices as their benchmarks. The recent Mining Law taxes profits and opened up border areas to foreign investors so long as Bolivian partners hold the mining concession. Most mining taxes can be credited against U.S. taxes.

Subsequent to the enactment of the new Banking Law, the Government of Bolivia enacted a new financial law in 1998, the Law of Property and Popular Credit, which changed the organization of financial regulatory bodies. It also provided for improved regulation for all types of financial institutions and promoted stability in the financial system, while also inducing greater competition and efficiency. Although the government has announced several times its intention to enact a deposit insurance law, the bill has yet to be approved by the Bolivian congress.

The Government of Bolivia created a Sectoral Regulation System (SIRESE) in October 1994 to regulate the electricity, telecommunications, hydrocarbons, transportation, and water sectors. The Electricity Law (1994), the Telecommunications Law (1995) and the Hydrocarbons Law (1996) defined the functions and attributions of their respective Superintendents. The five Superintendencies are autonomous institutions whose activities are financed through the assessment of fees on firms operating in their respective sectors. SIRESE is led by a General Superintendent, to whom decisions handed down by the individual Superintendents may be appealed. Concessions of public services and licenses are granted by administrative resolution issued by the respective Superintendent. The SIRESE law establishes general principles governing anti-competitive practices. Specifically, companies engaged in regulated activities are forbidden from participating in agreements, contracts, decisions and/or practices whose purpose or effect is to hinder, restrict or distort free competition.

### *4. Debt Management Policies*

The Government of Bolivia owes about $4.3 billion to foreign creditors as of April 2001. Almost two-thirds of this amount is owed to international financial institutions, principally the Inter-American Development Bank, the International Development Agency of the World Bank, and the Andean Development Corporation. One-third is owed to foreign governments and less than 0.5 percent is owed to private banks. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments, including the United States, have unilaterally forgiven substantial amounts of bilateral debt. In 1998 and 2001, Bolivia entered into the Highly Indebted Poor Country (HIPC) I and II programs respectively. The first agreement will reduce multilateral debt stock by approximately $460 million in present value (NPV) terms over the life of the agreement, while the second or enhanced HIPC will do so by $854 million in NPV terms. The Consultative Group of international donors in 1999 approved an additional $960 million in aid for Bolivia. In addition, the Consultative Group meeting in September 2001 approved an additional $1.3 billion in aid.

*5. Significant Barriers to U.S. Exports*

There are no significant barriers to U.S. exports or U.S direct investment in Bolivia. The Bolivian Export Law prohibited the import of products that might affect the preservation of wildlife, particularly nuclear waste. Bolivia became a member of the World Trade Organization (WTO) in September 1995. However, Bolivia has neither endorsed the Plurilateral Agreement on Government Procurement nor declared any commitment on civil aircraft and related services.

Import licenses are usually required for firearms, certain chemical products and seeds. Pharmaceutical products must be approved under World Health Organization guidelines and registered with the Vice Ministry of Health. Insecticides require an import permit and a "free sale" certificate from the Ministry of Agriculture. The Government of Bolivia issued Supreme Decrees 26327 and 26328 on September 22, 2001, establishing automatic import license and labeling norms for selected products such as cooking oil, sugar, pasta, and wine. Import permits, which must be obtained from the Vice Ministry of Industry and Commerce, are required for imports of used clothing and rags.

Bolivia's commitments under GATS are modest, although its liberalization efforts have established the bases for expanding them. In some cases, existing legislation offers more liberal treatment to foreign and domestic providers than the GATS agreements. For instance, Bolivia has undertaken several commitments in telecommunications; hospital services; hotels and restaurants; travel agencies and tour operators; and recreational, cultural and sporting services. Bolivia has endorsed several protocols on financial services and has committed to ratifying the fifth protocol.

Although the Ministry of Agriculture issued a one-year resolution banning the import of products containing genetically modified organisms in January 2000, this resolution has not been enforced.

The Investment Law essentially guarantees national treatment for foreign investors. The one real barrier to direct investment, a prohibition on foreigners holding mining concessions within 50 kilometers of the border, is applied uniformly to all foreign investors. Bolivians with mining concessions near the border, however, may have foreign partners as long as the partners are not from the country adjacent to that portion of the border, except if authorized by law. In 1999, the Bolivian government enacted a law establishing 11 telecommunications, energy and transportation corridors within 50 kilometers of the border within which foreign investors are allowed to develop projects. There are no limitations on foreign equity participation. The Governments of the United States and Bolivia signed a Bilateral Investment Treaty during the Summit of the Americas in Santiago in April 1998, which came into effect on July 7, 2001.

On July 28, 1999, the Government of Bolivia enacted Supreme Decree 1990 mandating an in-depth customs reform. This new law gave the Government of Bolivia the necessary tools to begin fighting the corruption that permits huge amounts of contraband into Bolivia, resulting in significant losses of tariff revenue. The law depoliticized the selection of customs officials and has helped professionalize the customs service, though much remains to be done.

### *6. Export Subsidies Policies*

The Government of Bolivia does not directly subsidize exports. The 1993 Export Law replaced a former drawback program with one in which the government grants rebates of all domestic taxes paid on the production of items later exported.

### *7. Protection of U.S. Intellectual Property*

Bolivia belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and Nairobi Treaty. In 2000, the U.S. Trade Representative placed Bolivia on the "Special 301" Watch List, where it remained in 2001. Although the Government of Bolivia, both domestically and within the framework of the Andean Community, has enacted several regulatory norms relating to copyrights, trademarks and patents, enforcement remains weak.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. Nonetheless, there have been some recent positive developments. In 1997, the Government of Bolivia created the National Intellectual Property Service, which for the first time unified the administration of patents, trademarks, copyrights, and other intellectual property. In 1992, the government enacted the Copyright Law, which together with key changes in the Code of Criminal Procedure, effected in 2001, should create the proper legal environment to enforce IPR protection. The Government of Bolivia has proposed a draft Intellectual Property Law that should bring Bolivia's IPR protection up to the standards specified in the WTO TRIPS Agreement. Although the government hoped to enact this law during 2000, the Bolivian Congress has yet to discuss the bill. Creating awareness in the judiciary and among the public of IPR rights is another formidable challenge facing the National Intellectual Property Service.

According to the International Intellectual Property Alliance Report for 2000, piracy resulted in estimated total losses to U.S. businesses in Bolivia of $28.1 million during 2000. Estimated losses were $4.1 million due to piracy of business software, $15 million in sound recording and music, $2 million in motion pictures, $1.5 million in entertainment software, and $5.5 million in book piracy. According to the IIPA, Bolivia has one of the highest rates of software piracy in Latin America, with an estimated 84 percent of all software sold in the country of illegal origin.

*8. Worker Rights*

*a. The Right of Association:* Workers may form and join organizations of their choosing. The Labor Code requires prior governmental authorization to establish a union, permits only one union per enterprise, and allows the Government of Bolivia to dissolve unions, through this power to thwart union activities has not been known to have been used in recent years. While the Code denies civil servants the right to organize and bans strikes in public services, nearly all civilian government workers are unionized. Workers are not penalized for union activities.

In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; in fact, approximately one-half of the workers in the formal economy, or about 15 percent of all workers, belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the Government of Bolivia does not prosecute those responsible, nor does it impose penalties.

Unions are not free from influence by political parties, but organized labor is increasingly looking outside the established party structure to represent its interests. Most unions also have party activists as members.

The Labor Code allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

*b. The Right to Organize and Bargain Collectively:* Workers may organize and bargain collectively. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are common but have little effect on wages or working conditions. Major structural reforms have further eroded the COB's legitimacy as the sole labor representative. Private employers may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

The law prohibits discrimination against union members and organizers. Labor leaders complain, however, that a Supreme Decree established in 1985 that included a provision for the free contracting of labor has been abused by employers to dismiss employees for organizing workers. Complaints go to the National Labor Court, which can take a year or more to rule. Union leaders say problems are often moot by the time the court rules. Labor law and practice in the seven special free trade zones are the same as in the rest of Bolivia.

*c. Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor. Reported violations were the unregulated apprenticeship of children, agricultural servitude by indigenous workers, and some individual cases of household workers effectively imprisoned by their employers.

*d. Minimum Age for Employment of Children:* The Code prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work and a 1999 law specified a broad range of activities not suitable for employment of adolescents. The Labor Code permits apprenticeship for those 12 to 14 years of age. Wage employment for children under 14 is illegal. In the large informal sector, however, urban children hawk goods, shine shoes and assist transport operators; rural children often work with parents on family farms or cooperative mines from a early age. Children are not generally employed in factories or formal businesses. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but a severe lack of resources means that enforcement is almost non-existent.

The past two governments attempted to revise the Labor Code but desisted in the face of COB opposition. The present government is obliged to legislate reforms to the Code -- including greater labor flexibility -- under the terms of the latest IMF's agreement, but it has yet to do so.

*e. Acceptable Conditions of Work:* The law establishes annually a minimum wage. The 2001 minimum wage was established at Bs 400 per month (approximately $60), including bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers in the formal sector earn more. Its economic importance resides in the fact that certain benefit calculations are pegged to it. The minimum wage does not cover members of the informal sector who constitute the majority of the urban workforce, nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5 1/2 days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced. Work conditions in the mining sector are particularly bad.

*f. Rights in Sectors with U.S. Investment:* The majority of U.S. investment is in the sectors of hydrocarbons, power generation, mining and telecommunications. The rights of workers in these sectors are the same as in other sectors. Conditions and salaries for workers in the hydrocarbons sector are generally better than in other industries because of stronger labor unions in that industry.

**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | -7 |
| Total Manufacturing | | 0 |
| Food & Kindred Products | 0 | |
| Chemicals & Allied Products | 0 | |
| Primary & Fabricated Metals | 0 | |
| Industrial Machinery and Equipment | 0 | |
| Electric & Electronic Equipment | 0 | |
| Transportation Equipment | 0 | |
| Other Manufacturing | 0 | |
| Wholesale Trade | | (D) |
| Banking | | (D) |
| Finance/Insurance/Real Estate | | 0 |
| Services | | (D) |
| Other Industries | | 181 |
| TOTAL ALL INDUSTRIES | | 170 |

(D) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.