

# U.S.-BOLIVIA RELATIONS: LOOKING AHEAD

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
THE WESTERN HEMISPHERE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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## U.S.-BOLIVIA RELATIONS: LOOKING AHEAD

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TUESDAY, MARCH 3, 2009

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:13 p.m. in room 2172, Rayburn House Office Building, the Honorable Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. SIRES [presiding]. Good afternoon, everyone. The chairman is a little tied up and we will begin this hearing, and I want to make sure I thank everybody that is here this afternoon.

We have with us the Honorable Peter DeShazo, director of Americas Program, Center for Strategic and International studies; Ms. Kathryn Ledebur, director of Andean Information Network; Mr. Ivan Rebolledo, president of Bolivian-American Chamber of Commerce, Incorporated; Mr. Marcos Iberkleid—nice to see you again—chief executive officer, Ametex, America Textil; and Dr. Jaime Darenblum, senior fellow, director, Center for Latin American Studies, Hudson Institute.

I just want to welcome you all. The chairman will be here shortly. He will read his statement, and will get started. I would like to offer the ranking member to say a few words.

Mr. MACK. Thank you very much, and I want to thank the panel for being here as well, and the other members that are with us today. We have got an interesting hearing and I am looking forward to hearing your insight on our relationship with Bolivia, and I guess the over-arching question is, is there still hope for a better relationship with Bolivia or is Evo Morales bound and determined to continue the stance that he is in, and I really would like to, as each one of you in your opening remarks go forward, I would like to hear your thoughts on that.

Largely, though, I think this committee has a duty to really explore what it is, what options there are. I think we understand the problems in Latin America. We understand that there are many, and I think it is time now we start looking for solutions. So again, maybe in your opening statements you can point out a few things that you think would help.

I would offer one of the things that the United States needs to do a better job at is reaching our hand out to our friends and allies that have supported us, who are our friends, who are looking to the United States for leadership, and I think there has been a void there, and I think the more we can do that arena the better off we will, and in fact, the void that was created is what has let Hugo

Chavez and others kind of fill that void, and I think it is important that, again, that this committee begin to start formulating an overall arching plan for Latin America, and I believe it has to speak directly to the people of Latin America.

If we just do this government to government, the message will not get through; that what we need to let the people of Latin America know is that we stand with the; that we understand the challenges that they are facing; that we want to share in the responsibility in creating the hope and opportunity for everyone.

So again thank you for being here. I look forward to your opening statements.

Mr. SIRES. Thank you, Congressman Mack. Anyone else have an opening statement? Congressman Green.

Mr. GREEN. Thank you, Mr. Chairman, for holding this hearing today, and I would like to welcome our panel. Last spring I had the honor of traveling with Chairman Engel and a few of our colleagues to Bolivia, and one of the things we did while we were there was to visit Catholic University, a site where we saw USAID dollars at work. We were in a rural part of Bolivia and the students had computer labs and access to the Internet, thanks to the USAID.

I also have served on the Telecommunications and Internet Subcommittee of our Energy and Commerce Committee, and I know our own challenges in trying to get broadband to our rural areas, but I saw that outside the capital in Bolivia. I found it great that our foreign assistance dollars are going toward such useful efforts in Bolivia, and this is one of the great things that USAID was doing with the university in a partnership.

I also had the opportunity to visit textile workers and small business owners while we were in Bolivia to see how the Andean Trade Preferences have helped the Bolivian people. Having seen firsthand these preferences, it seems very beneficial to the Bolivian people.

We concluded our trip with a visit with President Morales, and I was hopeful that our relations with Bolivia would improve, but how times have changed.

Last September President Morales expelled the U.S. Ambassador to Bolivia, which we spent a great deal of time with, after accusing him of supporting opposition forces. I have to admit we also met with some of the prefects from the eastern part of the country while we were there.

Then in November, President Morales announced an indefinite suspension of U.S. DEA operations in Bolivia after accusing DEA agents of espionage. In response to this, President Bush suspended the Bolivian Trade Preferences of the Andean Trade Preferences Program.

Finally, just last month President Morales accused the CIA of infiltrating a Bolivian state oil company. The U.S. Embassy in Bolivia strongly denies this accusation.

When President Obama was elected, President Morales indicated that he was open to improving relations with the U.S., but his actions and rhetoric seem to dictate otherwise. I am interested to hear from our panel and their recommendations as to how and, even if, relations can be improved with Bolivia with President Morales as President, and I know he was just reelected and given an

indefinite term. I believe in the Bolivian people, and especially the opportunity the trade preferences and our foreign assistance dollars can bring the Bolivian people.

I also believe that partnering with Bolivia is important to our counternarcotics strategy in the area. For the past several years, Bolivia has been the recipient of U.S.—largest recipient of United States foreign assistance in Latin America, and how can we continue with this given the current state of United States-Bolivian relations?

Mr. Chairman, again, I look forward to hearing from our panel and I welcome each of them.

Mr. SIRES [presiding]. Thank you, Congressman. Congresswoman Lee, do you have an opening statement? Congressman Klein?

Mr. KLEIN. Yes, Mr. Chairman.

Thank you, Mr. Chairman and Ranking Member, and thank you to the guests today who will be testifying before us. We understand the importance of relationship between our Latin America neighbors. Those of us who live in Florida, Congressman Mack and I, are particularly sensitive because what happens in those countries, because of the family relationships, cultural relationships, business relationships, are very important to all of us, to make sure that they are stable.

There have been problems in recent years with the leadership of Bolivia. There is a certain amount of foreign aid and assistance that the United States provides to Bolivia. I would be interested in your comments, if you can talk about that aid, the nature of the aid, and the quantity of the aid, and give some thoughts as to are we doing the right amount, are we doing any amount that is appropriate, and the type of aid that, as we revisit our USAID issues, it would be most effective in reaching the people of Bolivia and to try to re-establish a better working relationship.

It is an issue that I think is very important to the whole region, and I think it is very important to our foreign policy in Latin America. So with that, Mr. Chairman, I give the balance of my time.

Mr. SIRES. Thank you, Congressman Klein.

Ambassador DeShazo, will you please start? Try to keep your opening statement within 5 minutes. Thank you very much.

**STATEMENT OF THE HONORABLE PETER DESHAZO, DIRECTOR, AMERICAS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Mr. DESHAZO. Thank you very much, Mr. Chairman, distinguished members. I am delighted to be here. I ask that my written statement be introduced into the record, and I will give a brief resume.

Since the inauguration of Evo Morales as President of Bolivia in January 2006, bilateral relations have deteriorated seriously. Morales' campaign for President was peppered with anti-U.S. references, vowing that if elected he would be a "nightmare" for the United States. This notwithstanding U.S. policymakers pursued a course of seeking constructive engagement while waiting to see how developments unfolded on the Bolivian side.

By mid-2008, however, the pace of deterioration quickened to the point where U.S. development personnel and the Drug Enforcement Administration were forced to leave a major cocoa-growing region of Bolivia, the U.S. Ambassador was declared *persona non grata*, Peace Corps volunteers were withdrawn from Bolivia, the United States suspended Bolivia as a recipient of trade preferences, and President Morales expelled the DEA from Bolivia altogether.

Looking forward, there is potential for repairing some of the damage to the bilateral relationship, but there is also a real possibility that it could deteriorate further. It is in the U.S. interest that Bolivia be stable and democratic, able and willing to meet its international obligation on matters related to regional security, including narcotics, and pursuing policies that lead to economic development and poverty reduction. U.S. policy should be aimed at advancing these goals and promoting a bilateral relationship based on cooperation and mutual respect.

The inauguration of the Obama administration provides an opportunity to reexamine the relations with Bolivia and attempt to put them on a more positive track. For starters, however, there must be a mutual desire to rebuild ties. The United States may undertake any number of initiatives but realistically there will be no improvement if President Morales remains fixed in his negative outlook toward the United States.

Nonetheless, it behooves the United States to take a first step. This could be done by a unilateral initiative aimed at creating a positive environment and then by a series of further measures. One such initiative on the part of the United States could be to announce its intention to return Peace Corps volunteers to Bolivia, of course after consultations with the Bolivian Government to ensure that they would be welcome.

Another opportunity will come at the Summit of the Americas meeting in April in Trinidad and Tobago where President Obama could underscore directly to President Morales the intention of the new U.S. administration to seek better relations based on mutual respect and to urge bilateral engagement.

Rebuilding the relationship beyond such steps will require quiet diplomacy and patience. A key ingredient will be Bolivian narcotics policy and its intersection with U.S. concerns. Narcotics will continue to influence bilateral relations and both countries should seek a common understanding in dealing with it. A means must be found to work through the drug impasse. The Government of Bolivia needs to demonstrate to U.S. and international opinion that it is prepared to take additional steps to try to fill the gap in counter-narcotics capability left by the DEA's expulsion, and indicate a rekindled desire to work with the United States.

Progress on the narcotics front could unlock the door to restoring Bolivia's trade preferences under ATPDEA. That would be a positive step that would help preserve thousands of jobs in Bolivia, benefit working class, often indigenous families, and strengthen Bolivia's perennially weak private sector. The exchange of ambassadors between the United States and Bolivia should come at a time when relations are clearly on the road to improvement. Ambassador Goldberg was the target of baseless accusations and his

expulsion was unjustified. There is no need to name a new U.S. ambassador only to face similar treatment.

Regardless of the outcome of the initiatives I have just mentioned, the United States should maintain or better still, augment its bilateral assistance to Bolivia through USAID and other mechanisms. USAID programs in areas such as infrastructure, health, nutrition, agriculture, sanitation, the environment, democracy building, et cetera, have built bridges between the peoples of Bolivia and the United States and supported Bolivia's own development goals.

Other mechanisms exist for strengthening people-to-people ties, including academic and professional exchanges programs, and the Bolivian-American centers that exist and operate in five Bolivian cities and teach English.

Bolivia will continue to be a country in flux. The implementation of the new Bolivian constitution will present many challenges to a political system in which confrontation often trumps consensus, and deep ethnic and religion and regional divisions exist.

The Obama administration should approach Bolivia with patience and realistic expectations, seeking constructive engagement with its people and, to the extent possible, with its government. The United States should work with Bolivia's neighbors, Brazil above all, to encourage moderation on the part of the Bolivian Government and an effective counternarcotics effort.

The extent to which Evo Morales is able to overcome his mistrust and dislike of the United States, or on the other hand, the degree to which he might translate these views into action, especially regarding Bolivia's international affairs, will be key factors as the bilateral relationship evolves.

Thank you.

[The prepared statement of Mr. DeShazo follows:]



**Testimony before the  
House Committee on Foreign Affairs  
Subcommittee on the Western Hemisphere**

Hearing on

**U.S.-Bolivia Relations: Looking Ahead**

March 3, 2009

Statement by

**Peter DeShazo  
Director, Americas Program  
Center for Strategic and International Studies**

## U.S.-Bolivia Relations: Looking Ahead

Testimony before the  
House Committee on Foreign Affairs  
Subcommittee on the Western Hemisphere

March 3, 2009

Peter DeShazo  
Director, Americas Program  
Center for Strategic and International Studies<sup>1</sup>

The relationship between the United States and Bolivia has traditionally been close but complex. Many factors have conditioned the nature and course of bilateral relations, including international variables such as World War II, the Korean War, and the Cold War, Bolivia's national revolution in 1952, the juxtaposition between the world's largest economy and one of Latin America's poorest nations, and Bolivia's aspirations for national development. The United States has been the largest provider of bilateral aid assistance to Bolivia since the 1950s. From the mid-1970s, the U.S. helped to promote respect for human rights and a transition from military rule to democracy in Bolivia. Illegal narcotics became an increasingly large issue in bilateral relations during that period, as Bolivia evolved into a major producer of coca leaf and cocaine by the 1990s. While there have been sustained periods of close cooperation in U.S. – Bolivian relations, there were also moments of bilateral tension, such as the expropriation of Gulf Oil in 1969, the expulsion of the Peace Corps from Bolivia in 1971, the withdrawal of the U.S. ambassador and freezing of relations in the wake of the García Meza military coup in 1980, and periodic discord over narcotics issues during subsequent decades.

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<sup>1</sup> CSIS does not take specific policy positions. Accordingly, all views, positions and conclusions expressed in this testimony should be understood to be solely those of the author.

Since the inauguration of Evo Morales as President of Bolivia in January 2006, bilateral relations have deteriorated seriously. Morales came to power at the head of an alliance of local political groups, labor and rural unions, civic organizations and a core support group of coca growers in the Chapare region of Cochabamba Department (state/province equivalent). During the campaign for the December 2005 election (which he won by 54% of the vote), Morales promised voters the vision of a total change in Bolivia that would wipe away the neoliberal economic policies in place since the mid-1980s along with the discredited traditional political parties that had promoted them. Appealing to a support base among indigenous peoples in Bolivia's highland departments, Morales called for the restructuring of the state and society on the basis of a new constitution that would greatly broaden indigenous rights and privileges, for the nationalization of hydrocarbons resources, and for a much larger state role in the economy. His campaign rhetoric was peppered with anti-U.S. references, vowing that if elected he would become a "nightmare" for the United States.

Morales' election presented the U.S. with a difficult foreign policy challenge. His majority support at the polls and the control of the lower house of Congress by his "Movement Towards Socialism" (MAS) organization gave him legitimacy and power, and U.S. policy converged with Morales' expressed desire to improve the lives of Bolivia's large indigenous population. Notwithstanding Morales' admiration for Cuba and for Venezuelan President Hugo Chávez and his clearly unfavorable view of the United States, policy makers in the U.S. pursued a course of constructive engagement while waiting to see how developments unfolded on the Bolivian side.

As President Morales maneuvered to bring Bolivia's key national gas industry under closer state control and to draft and win approval for a new constitution for the country, domestic politics became increasingly polarized between the government and its supporters in western highland departments and an opposition based in the four lowland departments in eastern Bolivia – the so-called "half moon." With increasing frequency, Morales played the anti-U.S. card to rally support in times of increased political tension,

accusing the American embassy and ambassador of all manner of plots to undermine his rule.

By mid-2008, the pace of deterioration in the bilateral relationship quickened. On the heels of the bitterly disputed autonomy referenda carried out in the eastern departments, a large crowd of government supporters staged a protest in front of the U.S. embassy in La Paz in June 2008. Bolivian police used tear gas to prevent them from breaking through police lines and assaulting the embassy. In response, the U.S. recalled Ambassador Philip Goldberg for consultations. Later that month, President Morales voiced support for the call by his *cocalero* (coca leaf grower) support base in the Chapare to expel the U.S. Agency for International Development (USAID) alternative development workers from the region. Within months, both USAID and Drug Enforcement Administration (DEA) personnel were forced to leave the Chapare as a result of *cocalero* pressure.

In September 2008, Morales expelled Ambassador Goldberg, again accusing him of meddling in Bolivia's affairs. Days later, the U.S. announced the "temporary suspension" of Peace Corps operations and removed the 113 volunteers from Bolivia. On the heels of this step, the U.S. designated Bolivia as failing to adhere to international counterdrug obligations, although granting a national security waiver so that U.S. assistance would not be cut. On September 26, President Bush announced that he proposed to suspend Bolivia's designation as a beneficiary country for U.S. trade preferences under the Andean Trade Preference Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA), citing Bolivia's failure to adhere to anti-narcotics commitments. In November, Morales ordered the DEA out of Bolivia altogether.

Looking forward, there is potential for repairing some of the damage to the bilateral relationship but there is also a strong possibility that it could deteriorate further. Much will depend on the positions and actions taken by President Morales. On January 25, 2009, Bolivians approved a new constitution promoted by the Morales government

that, among many other changes, makes Morales eligible to run for re-election in December. Putting the new constitution into effect presents Morales with a large challenge that is magnified by the political standoff between the MAS and the opposition forces in control of the regional governments in five departments. The favorable economic climate of past years based on high prices for Bolivia's commodity exports is at an end, and the Morales government will be limited by a downturn in income derived from the export of natural gas caused by lower prices and stagnating investment and production. These factors will put additional pressure on Morales as he gears up for presidential and legislative elections in December.

It is in the U.S. interest that Bolivia be stable and democratic, able and willing to meet its international obligations on matters related to regional security, including narcotics, and pursuing policies that will lead to sustained economic growth, poverty reduction, and improved standards of living for Bolivians. U.S. policy should be aimed at advancing these goals and promoting a bilateral relationship based on cooperation and mutual respect.

The inauguration of the Obama administration provides an opportunity for the U.S. to re-examine relations with Bolivia and perhaps put them on a more positive track. There are potential steps that could be taken to improve relations in the short term, and other very effective initiatives that could lead to strengthening ties over the mid-to-longer term. The most visible items on the bilateral agenda are those that have been central to the deteriorated relationship: lack of ambassadorial representation on either side, the suspension of Bolivia's trade preferences, and the issue of counternarcotics. These variables are to an important degree interrelated, and any significant improvement in the bilateral relationship will involve them all.

For starters, however, there must be a mutual desire to rebuild bilateral ties. The proverbial ball is not exclusively in the court of either side in this regard, although there must be a willingness on Evo Morales' part for improved relations if progress is to be made. The U.S. may undertake any number of initiatives, but realistically there will be

little improvement if Morales remains fixed in his negative outlook toward the United States. By all appearances, President Morales' views are an amalgam of political convenience, the influence of his mentor, Hugo Chávez, and his own personal mistrust and dislike of the United States. However willing other levels of the Bolivian government may be to work with the United States, top political leadership – Morales above all – will set the tone.

Nonetheless, it behooves the United States to take a first step toward improved relations. This could be done by a unilateral initiative aimed creating a positive environment, and then by a series of steps aimed at putting other pieces in the relationship back into place.

- After consultation with the Bolivian government to ensure their presence would be welcome, the United States could announce that it intends to return **Peace Corps** volunteers to Bolivia. The Peace Corps symbolizes the friendship of the American people with Bolivia and the announcement of its return would be well-received.
- Another opportunity to advance the bilateral agenda will likely occur in Trinidad and Tobago in April 2009 during the **Summit of the Americas**, where President Obama could underscore directly to President Morales the intention of the new U.S. administration to seek better relations with Bolivia based on mutual respect and to urge Bolivia to engage with the U.S. to bring this about.
- A rebuilding of the relationship beyond such steps would require quiet diplomacy and considerable patience. A key ingredient in moving ahead will be **Bolivian counternarcotics policy and its intersection with U.S. concerns**. Bolivia's record on illegal drugs is mixed, although with some positive aspects. Estimated coca cultivation has risen incrementally from an estimated 20,000 hectares in 2001 to some 29,000 in 2008. While hardly an explosion, the increase provides a substantially larger base for the processing of cocaine, most of which is trafficked into Brazil and Argentina and onward to Europe. Current Bolivian law limits coca production for legal use (chewing, coca tea,

- The narcotics issue will continue to influence bilateral relations and both countries should seek a common understanding in dealing with it. U.S. drug policies in Bolivia during the late 1990s, while resulting in a dramatic decline in coca production, also produced an adverse political reaction within the country that still reverberates to the detriment of U.S. interest. **A means must be found to work through the drug impasse**, which also inhibits Bolivia from receiving trade benefits under ATPDEA. If the DEA remains out of Bolivia – which appears likely at this time – the Government of Bolivia needs to demonstrate to U.S. and international opinion that it is prepared to take additional steps to try to fill the gap in counternarcotics capability and display a rekindled desire to work with the U.S. on this issue.
- Progress on the narcotics front could unlock the door to restoring **Bolivia's ATPDEA designation**. That would be a very positive step. Access to the U.S. market under ATPDEA helped create thousands of manufacturing jobs in Bolivia, many of them concentrated in the heavily indigenous city of El Alto outside of La Paz in labor-intensive sectors such as textiles, apparel, jewelry, and furniture. Export-led opportunities from ATPDEA injected an important entrepreneurial dynamic into Bolivia's perennially weak private sector, providing an important example of job creation beyond state employment. While levels of imports to the U.S. from Bolivia under ATPDEA are minuscule in relation to the overall U.S. trade, restoring eligibility to ATPDEA benefits would benefit thousands of working class Bolivians and send a positive signal of U.S. support for private initiative in that country.

- The **exchange of ambassadors between Bolivia and the United States** should come at a time when relations are clearly on the road to improvement. Ambassador Goldberg was the target of frequent and baseless accusations by the government of Bolivia and his expulsion unjustified. There is no need to name a new ambassador to Bolivia only to face similar treatment. On the other hand, should future steps by the Morales government signal a desire to put the bilateral relationship on a more positive track, the U.S. should name a new envoy.
- Regardless of the outcome of any of the above variables, the United States should maintain – or better still, augment – its **bilateral assistance to Bolivia** through USAID and other mechanisms. USAID has a sustained record of cooperation with a constellation of Bolivian organizations in advancing development goals across the board. Its projects and activities help to: promote community development around the country leading to improvements in infrastructure, sanitation, and health; provide alternative development possibilities in coca-growing areas; support small-scale indigenous farmers on the *altiplano*; build and staff integrated justice centers where working class Bolivians can obtain legal services; enhance the work of municipalities; and promote democracy-building measures. Such programs build bridges between the United States and the people of Bolivia and support national development.
- Other important mechanisms exist for **strengthening people-to-people ties**. They include academic and professional exchanges such as the Fulbright and Humphrey scholarships, the State Department’s International Visitor Program that brings Bolivian leaders in many different fields for short-term visits to the U.S., private sector exchanges, and cultural presentations. The U.S. government should increase its levels of support to the five “Bolivian-American Centers” (in La Paz, Cochabamba, Santa Cruz, Tarija and Sucre), which for many decades have been key institutions in promoting bilateral friendship and have taught English to generations of Bolivians. Additional funding would allow these “binational centers” to reach out more effectively to working class and indigenous populations with scholarships to study English– a vital skill in a globalizing

Bolivia will continue to be a country in flux. The implementation of the new constitution will present many challenges to a political system in which confrontation often trumps consensus and deep ethnic and regional divisions exist. The Obama administration should approach Bolivia with patience and realistic expectations, seeking constructive engagement with the people of that country and, to the extent possible, with its government. It should continue, as it has done in the past, to avoid a war of words with Morales. The U.S. should also work with Bolivia's neighbors—Brazil above all—to encourage moderation on the part of the Bolivian government and policies conducive to advances in the counternarcotics area. The extent to which Evo Morales is able to overcome his mistrust and dislike of the United States or, on the other hand, the degree to which he might translate these views into action, especially regarding Bolivia's international affairs, will be key factors as the bilateral relationship evolves.

Mr. SIRES. Thank you very much, Mr. Ambassador.  
Ms. Ledebur.

**STATEMENT OF MS. KATHRYN LEDEBUR, DIRECTOR, ANDEAN  
INFORMATION NETWORK**

Ms. LEDEBUR. Thank you, Mr. Chairman.

I think that we are at an essential turning point in the possibility for improvement in relations between Bolivia and the United States. I disagree with Ambassador DeShazo in that I feel that the reinstatement of ambassadors is the first logical and essential step in order to promote a channel through which productive policy dialogue can be carried out. Frequently U.S. policymakers complain of statements and criticisms of the Morales administration that are made to the press and not dealt with diplomatically. At the same time Bolivians frequently complain of U.S. criticisms, which they feel are unfounded, in official documents such as the International Narcotics Control Strategy Report.

Along with this reinstatement of ambassadors it is important to engage in a frank, open, broad dialogue within the framework of a very clear Obama administration policy. Without the appointment of key Western Hemisphere officials this void in decision-making and implementation has created difficulty for legislators, advocates and the Bolivian Government to know exactly with whom they should engage in the new administration.

At the same time, the Obama administration should move away from programs that condition aid on anti-narcotics and seek to de-narcoticize the relationship. This involves the reinstatement of Andean Trade Preferences which, within a very short time since their suspension, have led to the dismissal of almost half the workers in small companies, and the failures of small businesses in Bolivia as well as the United States. The justification for the suspension through an anti-narcotics determination was based on faulty and inaccurate information.

The certification statement made on February 27th of this year also contained inaccurate information and internal contradictions, making it difficult for us to understand the basis for the suspension.

At the same time the Bolivian Government must engage directly with the United States, seek to reestablish diplomatic channels and assume with full responsibility the daunting task of replacing the role of the Drug Enforcement Administration, profoundly pursue relations with neighboring countries, Brazil and Argentina, the destination of most of the cocaine that passes through or is produced in Bolivia, and have the ability to readjust or shift these policies if, in fact, they fail.

A focus and new opening for diplomatic relations at this period of high tension is possible and both governments have shown signs of willingness to do so. President Morales, soon after President Obama's election, spoke very highly of President Obama and made a visit to Washington in which he sought out key legislators to begin an open and frank dialogue about possibilities for change.

In this sense, I believe that time is of the essence and that both governments must seek through diplomatic channels a bilateral cooperative partnership, not based on conditioning or anti-narcotics

norms, but instead on a low level of cooperation of transparent programs, especially in the area of USAID, focusing on a mutual agenda of both governments—health, poverty alleviation and education—and move away from some of the programs that have created so much bilateral friction in the past, such as democracy promotion or regional efforts, within a framework where no legal guidelines exist in Bolivia for transparency.

This low level of engagement until broader decisions be made is essential in order to refocus diplomatic relations. At this point in time, high levels of tension can be avoided and we can move forward, but first the framework for trust and understanding, and an ability to truly listen, instead of engagement on both sides which degenerated into a begrudging tolerance of mutual opinions, is essential.

It is important to note that although the Bolivian Government has chosen not to work with the DEA in the Chapare region or in the rest of the country or to work with USAID in the Chapare, high levels of cooperation do remain on the anti-narcotics front. The Narcotics Affairs Section, an agency three times larger than the DEA in Bolivia, continues to collaborate closely on interdiction and eradication issues. There is a high level of dialogue and coordination on a variety of other policy issues, and I think that these things that are missed often in the higher levels of Washington or in the mainstream press, where we choose to focus on the negative aspects or the areas in which relations have in fact broken down.

Thank you.

[The prepared statement of Ms. Ledebur follows:]

Seizing the Moment: The Need to Rebuild U.S.-Bolivian Relations

Statement of

Kathryn E. Ledebur  
Director  
The Andean Information Network

March 3, 2009

House Committee on Foreign Affairs' Subcommittee on the Western Hemisphere  
"U.S.-Bolivia Relations: Looking Ahead"  
Room 2172 of the Rayburn House Office Building

I am pleased and honored to testify today about U.S.-Bolivian relations. Researching and reporting on the effects of U.S. foreign policy in Bolivia for nearly 20 years, my organization, the Andean Information Network (AIN), maintains a special focus on drug policy and related human rights concerns. AIN informs U.S. Congressional offices and advocates, as well as Bolivian and U.S. government officials. It is essential to generate informed policy debates in order to strengthen democratic institutions, creating openings for positive, productive U.S.-Bolivian bilateral relations. AIN's long term goal is to promote significant changes in U.S. anti-drug policy in the Andean countries in order to address the economic, social, political, and cultural needs of the region.<sup>1</sup>

You have asked me to address several questions on future joint counternarcotics efforts with Bolivia and future U.S. foreign assistance to the country. Are there any actions

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<sup>1</sup>. These remarks are drawn primarily from :

Ledebur, Kathryn and John Walsh. "Decertifying Bolivia: Bush Administration 'Fails Demonstrably' to Make its Case," Andean Information Network and Washington Office on Latin America. 4 November 2008.

Ledebur, Kathryn and John Walsh. "Change for the Better: The Chance to Recast U.S.-Bolivian Relations," Andean Information Network and Washington Office on Latin America. 23 January 2009.

I wish to thank John Walsh for his significant contributions.

the Obama Administration can take to improve relations with Bolivia? What will the Bolivian Government need to do to help get relations back on track? Should the Obama Administration lift the suspension of Andean Trade Preferences for Bolivia? If so, should the lifting of the suspension be conditioned on the Bolivian Government meeting certain criteria, such as allowing the return of U.S. Drug Enforcement Administration (DEA) personnel or the return of the U.S. Ambassador?

Improved relations between Bolivia and the United States are possible, but actions must be taken immediately by both nations to repair the situation. Diplomatically addressing the lack of clarity about future bilateral relations and official channels of communication would do a great deal to improve dynamics. President Morales and other MAS government leaders were quick to respond to the election of Barack Obama in November, expressing their profound hope for improvement. Although U.S. officials cite a lack of concrete commitment by the Morales government for improved relations, the Bolivian government perceives that its initiative to improve its relationship with the U.S. has been unaddressed by their American counterparts for many months. These conflicting perceptions highlight the persisting and deepening mutual lack of understanding that must be recognized and addressed in order to overcome the diplomatic crisis.

#### **Understanding Recent History as a Means to Move Forward**

The Obama administration and Bolivia's President Evo Morales should now seize the moment to repair the bilateral relationship, to the benefit of both countries. The first indispensable step is the rapid reinstatement of ambassadors in both countries. In September 2008, Bolivian President Evo Morales expelled the U.S. ambassador, Philip Goldberg, stating that he had violated national sovereignty by interfering in Bolivian political affairs. The Bush administration denied any improper conduct and immediately expelled the Bolivian ambassador. The Bush administration then declared that Morales' government had "failed demonstrably" to honor its international drug control obligations and suspended Bolivia from eligibility for benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Accusing members of the U.S. Drug Enforcement Administration (DEA) of engaging in espionage and political interference, President Morales then expelled the DEA from Bolivia. The resulting rapid deterioration in bilateral relations revealed a lack of understanding and history as well as a profound lack of trust on the part of both governments. Since the election of Barack Obama, negative public reactions by representatives of both nations have fueled further deterioration in relations.

However, there have been indications that the situation could improve. Addressing the United Nations General Assembly in New York in mid-November, Morales repeated his intention to improve relations with the new administration, and commented that he believes the two presidents have much in common. Later, Bolivian Foreign Minister David Choquehuanca saluted the Obama inauguration, and reiterated his country's hopes for improved relations with the United States, suggesting that it is time that both governments name new ambassadors. After the turbulent preceding months and Bolivians' mistrust of U.S. intentions, Morales officials' optimistic statements should be considered genuine. They can hardly be interpreted as playing to Morales' domestic political base.

#### **Mixed Signals**

The signals from Washington have been mixed. Even as the Bush administration ended, the anger towards Morales in Washington remained palpable, especially in light of the ambassador's September expulsion. The decision to delay high level State Department appointments for the Western Hemisphere has also created a lack of clarity about the specific thrust of Obama Administration policy in the region. In written responses to questions from her January 14 Senate confirmation hearing, Secretary of State Hillary Clinton referred to "fear-mongering propagated by [Venezuelan President Hugo] Chavez and Evo Morales." While Clinton's intent in characterizing President Morales as engaging in "fear-mongering" is unclear, the statement does not seem to suggest a readiness to improve relations. Although the new Secretary of State's reply received scant attention in the United States, it was front-page news in Bolivia, and was easily open to interpretation as a deliberate rebuff of the Bolivian government's repeated expressions of readiness to engage the new U.S. administration. On January 26, the State Department's reaction to the results of the Bolivian Constitutional Referendum demonstrated a more promising, pragmatic position, congratulating the Bolivian people and the important advances they made to further democracy. Although such diplomatic statements are encouraging, it is clear that the overall U.S. stance on Bolivia remains difficult to interpret from a Bolivian perspective.

#### **President Morales' November Visit to Washington**

Following Obama's election, President Morales paid his first visit to Washington, where he reached out to key legislators to express his views on the ruptured relations with the United States and his interest in mending them. Morales sat down with members of Congress with a significant role in shaping U.S. foreign policy, including Senators Harry Reid (D-NV), John Kerry (D-MA), Chris Dodd (D-CT) and Richard Lugar (R-IN), as well

as Representatives Howard Berman (D-CA) and Eliot Engel (D-NY). Despite the tensions in relations with the Bush administration, Morales' visit to Washington gave grounds for hope that the situation could improve.

The pragmatic view expressed by Senator Lugar, the ranking Republican on the Senate Foreign Relations Committee, who hailed Morales' visit as "a positive step toward improving dialogue and understanding between the two nations," is especially noteworthy. Moreover, Senator Lugar's statement acknowledged and addressed Morales' grievance, highlighting that:

"The United States regrets any perception that it has been disrespectful, insensitive, or engaged in any improper activities that would disregard the legitimacy of the current Bolivian government or its sovereignty. We hope to renew our relationship with Bolivia, and to develop a rapport grounded on respect and sovereignty."

Morales's meetings with Senator Lugar and other congressional leaders permitted the sort of frank exchanges that can create rapport, laying the basis for more regular dialogue and better mutual understanding. Indeed, after returning to La Paz, Morales wrote to Senator Lugar that their encounter "amply confirmed for me that a renewed and respectful relationship between our peoples and governments is possible."

#### **The Bush Administration's Decertification of Bolivia**

On September 16, 2008, the Bush administration announced its determination that Bolivia had "failed demonstrably during the previous 12 months" to adhere to its "obligations under international counternarcotics agreements." Ten days later, the Administration announced its intent to make Bolivia ineligible for benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), asserting that "Bolivia's demonstrable failure to cooperate in counternarcotics efforts over the past 12 months indicates that Bolivia is not meeting important criteria" to qualify for the tariff preferences.

The "decertification" of Bolivia came just days after Bolivia expelled the U.S. ambassador. Departing Bolivia on September 14, the Ambassador Philip Goldberg warned Bolivians that the decision to expel him "could have serious impacts that have not been appropriately weighed."

In a September 16 press briefing, David T. Johnson, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, denied that the decertification was "linked to the ambassador being kicked out or any other tit-for-tat." Yet, the decision to

decertify Bolivia appears to be a reprisal against the Morales government for having just expelled the U.S. ambassador – not a result of Bolivia's "demonstrable failure" in drug control.

Following Morales's election as president in December 2005, many observers expected that drug policy would be one of the most contentious issues in U.S.-Bolivian relations. To be sure, the Bush administration often expressed its discomfort over Bolivia's coca policies, and both governments perpetuated ongoing friction and harsh rhetoric. But on the whole, fairly close cooperation characterized the bilateral drug control relationship for the majority of the Morales administration.

President Morales took office in January 2006. The Bush administration did not decertify the Morales government in September 2006, nor in September 2007. Nor was there any indication, prior to Ambassador Goldberg's expulsion, that things would be different in September 2008. As recently as March 2008, the State Department noted in its annual International Narcotics Control Strategy Report (INCSR) that: "Bolivian and U.S. officials meet regularly to coordinate policy, implement programs/operations, and resolve issues." Moreover, the March 2008 INCSR noted that in 2007 Bolivia had "surpassed its own coca eradication goal of 5,000 hectares" (one hectare equals 2.47 acres) and that "all seizure and interdiction statistics increased in comparison to 2006." Even with regard to the Bolivian government's policy of pursuing coca reduction through negotiated, voluntary eradication, the 2008 INCSR highlighted close cooperation.

#### **Bolivia's Decertification in Context**

In order to justify labeling Bolivia a "demonstrable failure" in drug control, the Administration perpetuated serious distortions of the record. The latest estimates of coca growing and cocaine production need to be viewed in a broader regional and historical perspective. With demand for cocaine remaining stable in the United States and rising elsewhere in recent years, coca growing has been on the rise in the three of the major Andean producing countries – Colombia, Peru and Bolivia. The official U.S. estimates suggest that in 2006 overall Andean coca cultivation may have reached its highest level in 20 years. For 2007, the U.S. estimates for coca growing in Bolivia and Peru have not yet been made public; instead, U.S. agencies have been citing as official the estimates developed by United Nations Office on Drugs and Crime (UNODC). The UNODC figures indicate a net 16 percent increase from 2006 to 2007 in the land area under coca cultivation in the Andes, led by a 27 percent jump in Colombia. By comparison, the increases reported for Peru (4

percent) and Bolivia (5 percent) were relatively small. Overall, Colombia accounted for 85 percent of the net 24,700 hectare increase region-wide, while Peru accounted for 9 percent and Bolivia for 6 percent.

Moreover, according to UNODC, Bolivia's 5 percent (1,400 hectare) coca increase in 2007 came on top of an 8 percent (2,100 hectare) increase in 2006. Even so, Bolivia's combined increase in land devoted to coca growing from 2005-2007 (3,500 hectares) amounted to just 17 percent of the single-year increase in coca growing in Colombia in 2007 (21,000 hectares). These UNODC statistics suggest that while the Colombian approach is failing and requires urgent revision, the Bolivian approach holds promise that containment and a gradual leveling of coca growing might be achieved through an emphasis on development (including coca income) and negotiated reductions. Bolivia faces daunting challenges, but the government's alternative strategy has much potential to be more successful in the long term than forced eradication.

#### **The Bush Administration's Bolivia Decertification: Rationale versus the Reality**

Assistant Secretary Johnson provided the official rationale for decertification at his September 16 press briefing. The Office of the U.S. Trade Representative (USTR) then repeated several of Johnson's assertions in its September 26 announcement of the Bush administration's proposal to suspend Bolivia from ATPDEA eligibility.

The State Department claimed that there was a 14 percent increase in the area of coca under cultivation, and an increase in potential cocaine production from 115 to 120 metric tons, figures that the USTR echoed in its decision by alluding to a vague, "marked" increase in cocaine production. The cited 14 percent increase is nearly triple the 5 percent increase reported by UNODC for 2007. The 8 percent and 5 percent increases in Bolivian coca growing reported by UNODC for 2006 and 2007, respectively, represented a cumulative two-year increase of 3,500 hectares (13 percent). But over the same time period, UNODC figures indicated a cumulative increase of 5,500 hectares of coca in Peru (57 percent greater than the increase in Bolivia). For 2007 alone, UNODC reported a 21,000-hectare increase of coca in Colombia (500 percent greater than Bolivia's combined increase over two years).

In 2007, the Bolivian government eliminated 6,269 hectares of coca, surpassing its self-established goal of 5,000 hectares, which the U.S. termed an "accomplishment." On October 29, 2008, Bolivian government officials announced that they had met their annual 5,000-hectare goal. UNODC estimated that Bolivia's potential cocaine production rose by

10 metric tons in 2007. Even so, UNODC figures indicate that Bolivia accounts for 10 percent of total Andean cocaine production, with Peru (29 percent) and Colombia (60 percent) accounting for by far larger shares of overall cocaine production.

The State Department also mischaracterized the departure of USAID from the Chapare region, claiming that *cocalero* unions “expelled” the organization from their region. In fact, coca farmers did not “expel” USAID programs. Instead, in a decision announced on June 24, they opted to sign no further agreements with the agency, which had a long history of ineffective programs in the Chapare region. MAS officials clarified that the decision to undertake no new projects with USAID did not imply its expulsion from the region, and that the projects currently under way would continue. Bolivian Vice Chancellor Hugo Fernández confirmed that existing USAID projects would continue to their contractual conclusion.

Even this was a largely a symbolic gesture; USAID had already planned to shift the bulk of its limited Chapare activities to the La Paz Yungas in 2009, and Chapare municipalities had found other funding sources in Europe and elsewhere. According to the 2008 INCSR, more resources were destined for the Yungas and assistance in the Chapare would continue to decline. As a result, the number and scope of projects affected by the decision to not sign agreements was minimal. The decision to sign no further agreements with USAID in the Chapare resulted primarily from local frustration with alternative development aid conditioned on prior coca eradication. Currently, Chapare farmers work closely with European Union (EU)-funded development initiatives. The realistic, collaborative approach promoted by EU aid programs supports the Bolivian government’s effort to replace traditional “alternative development” projects with integral and sustainable economic development. In contrast to the official U.S. focus, the EU approach takes into account the importance of coca production as a source of subsistence and for local consumption.

The Bolivian government did not expel DEA agents from the Chapare coca-growing region in September, as cited in the decertification remarks. U.S. officials claimed that DEA agents received a call on September 9 from a Bolivian anti-drug force commander, informing them that they were unsafe in the Chapare and that *cocaleros* in the region were intending to attack them. But the commander of UMOPAR (Bolivia’s Antinarcotic Rural Mobile Patrol Unit) denied the claim that coca growers threatened the DEA on September 9, or at any other time. The DEA compound at the Chimore base is highly guarded, and coca growers have never attempted to attack it. The UMOPAR commander also underscored that even

after “decertification,” UMOPAR continued to work closely with the DEA, and that the interdiction activities of the FELCN (Bolivia’s Special Drug Control Police Force) continued to be accepted by Chapare residents, and had not faced security risks. Indeed, Bolivian anti-drug commanders consistently cite community support for interdiction efforts involving the DEA. According to the UMOPAR commander in the Chapare, “people don’t want their community to be implicated in drug trafficking, so social control is contributing to better counterdrug efforts.”

Although the Bolivian government subsequently expelled the DEA in November 2008, the larger, Narcotic Affairs Section (NAS) of the U.S. embassy continues to operate in Bolivia and coordinate closely with Morales administration officials.

### **Looking Ahead**

The Bush Administration did not make a convincing case for decertifying Bolivia, and evidently made the decision for political reasons. This decision exacerbated the existing bilateral crisis, eroded the little trust that remained between the two governments and contributed to the expulsion of the DEA, further heightening tensions. The Obama administration and Congress should be careful not to make similar mistakes.

Instead, they should be realistic about the prospects for reductions in coca growing and cocaine production in the Andean region. With the global market for cocaine stable or expanding, strategies like massive forced eradication will be sure to generate abuses and conflict, but do little to contain coca growing, cocaine production and drug trafficking. Specifically, U.S. policy should no longer condition development assistance on eradication of coca, and should ensure that small farmers have viable and sustainable livelihoods apart from coca before eradication is even contemplated. Continuing the current U.S. approach will only deepen the misery of small farmers and reinforce their economic reliance on coca growing. Addressing the “people of poor nations,” President Obama pledged to “work alongside you to make your farms flourish and clean waters flow, to nourish starved bodies and feed hungry minds.” This focus points to the need of the redefinition of bilateral relations around poverty alleviation, healthcare, and education, priorities for both nations. Congress and the Obama Administration should also emphasize incentives and partnerships rather than sanctions.

Furthermore, the U.S. government should vigorously pursue demand reduction at home, especially through investing ambitiously in access to high-quality treatment for heavy drug users. The new Administration must recognize that the certification process itself

strikes many in Latin America as the height of arrogance and hypocrisy: the United States – the world's leading cocaine market – presumes to judge the drug control efforts of other governments. Ideally, the certification process would become less politicized in the hands of a new U.S. administration, but many Latin Americans will likely continue to regard the process itself as demeaning and illegitimate. The premise that U.S. drug control strategies are essentially correct provides the faulty foundation for the certification process. There is abundant evidence – most clearly in the cases of Colombia and of Bolivia during Plan Dignidad – that even extremely diligent pursuit of the U.S.-favored military forced-eradication strategy, undertaken in intimate cooperation with the U.S. government, has not come close to sustainably containing coca and cocaine production, and has no real prospect of doing so.

The U.S. Drug Enforcement Administration played an important role in intelligence gathering and sharing within Bolivia and with its neighbors. With its expulsion, the Bolivian government must fully assume responsibility to fill this gap in cooperation with its neighbors and the international community. The Morales administration has begun to address this need with Brazil and Argentina, the destinations or transit points for the great majority of Bolivian cocaine. Potential success would provide an important model for multilateral cooperation to fight drug trafficking, and alleviate U.S. responsibility and spending in the region. At a time of severe financial crisis in the United States, it also makes sense that the U.S. should dramatically downscale the large U.S. diplomatic presence in Bolivia, as well as specific USAID and specific drug control programs that have been the focus of bilateral tensions.

Reduced USAID cooperation should focus on mutually agreed upon efforts based on Bolivia's basic needs, such as health, education and poverty alleviation and steer away from controversial regional and democracy promotion programs that have been points of contention in the past. Transparency mechanisms, agreed on by both governments, as well as access to programs for NGO actors should be prerequisites for these initiatives.

### **Conclusion**

It would make little sense to prolong or let fester inherited problems that can be resolved for the better. Indeed, the new Obama administration and Congress could help repair some of the damage done to the U.S. reputation in Latin America in recent years by taking a flexible, respectful approach toward Bolivia, in cooperation with Bolivia's neighbor democracies and the international community. The Obama administration would also do well to recognize that Bolivia's political dynamics, demands for profound reform, and jealous defense of

national sovereignty and self-determination have emerged from the country's own history, and have not been imposed by outside powers against the democratic wishes of the Bolivian people

It is now up to both governments to make the most of this opportunity to begin the sort of respectful, mutually beneficial diplomacy that ought to be possible. Of course, the two governments' interests and agendas will not always coincide, real differences will persist and new disputes will arise; but the perpetuation of suspicions and antagonism that led to a breakdown in bilateral relations during the Bush administration is neither desirable nor inevitable. The longer both nations wait, allowing resentment to deepen as a result of critical public statements and negative reactions to official determinations and reports, the more difficult it will become to seek commonalities and reconstruct a relationship based not on conditions or suspicions but trust and communication.

A positive first step for Washington, already endorsed by Senator Lugar, would be to renew Bolivia's eligibility for the ATPDEA benefits suspended by President Bush. According to Lugar, "Lifting the suspension on the ATPDEA with Bolivia will strengthen the growing political and economic relationship between our nations and help bring new jobs and good will to the region." Both the U.S. and Bolivian governments should also prepare to put in place new ambassadors as soon as possible, and to ensure that the new envoys will be attuned and equipped to advance an agenda of mutually respectful and beneficial relations.

Mr. SIRES. Thank you very much.  
Mr. Rebolledo.

**STATEMENT OF MR. IVAN REBOLLEDO, PRESIDENT,  
BOLIVIAN-AMERICAN CHAMBER OF COMMERCE, INC.**

Mr. REBOLLEDO. Good afternoon, Mr. Chairman, and members of the subcommittee. Thank you for the privilege to be with you to discuss a topic of such relevance this time of change both in Bolivia and the United States. Mr. Mack, we congratulate you as a new ranking Minority member.

In recent years, Bolivia has faced many challenges to its stability and constitutional order that many observers have wondered how Bolivia has avoided slipping into widespread violent conflict. Bolivia has a highly divided society where wide sectors of the population have been historically excluded from the political arena. Presently it has very weak political parties, if any at all, that have been unable to create national coalitions, and its political apparatus has been unable to effectively guarantee space for the resolution of conflict within existing juridical structures. A combination of these factors has contributed to the erosion of the legitimacy of the state, further exacerbating inter-institutional conflict and stability.

The nineties saw the strengthening of social movements that acquired important political science and that demanded a rethinking not only of how politics operated, but of the configuration of public policy itself. Social movements took their demands to the streets, staging massive protests that frequently paralyzed the economy. These contentious tactics were met with fear and disdain by the political establishment which failed to effectively respond to their demands, and it is in the backdrop of contesting political discourses and their consequent tensions that Evo Morales won the Presidential elections. His triumph is part of what has been referred to as Latin America's turn to the new populous left after a wave of the electoral contest clearly rejected the policies inspired by the Washington consensus which had prevailed in the nineties, and brought to power left-of-center candidates in Argentina, Bolivia, Brazil, Chile, et cetera.

A tactical alliance with Venezuela and Cuba has provided Bolivia with the resources and political support, respectively, to allow Morales to move ahead with radial agendas without compromising with the opposition.

Strong regionalism permeates social and political relations. The question of local autonomy has become a serious threat for the unity of Bolivia. The divide between the center of political power in La Paz and the economic prosperity in Santa Cruz has called into question the strongly centralized government in Bolivia. The ethnic divide that accompanies this division has resulted in indigenous population who live mostly in western Bolivia supporting Morales's quest to retain that centralism as a feature of the new constitution while the white and mestizo population of eastern Bolivian states, the media luna, demand greater autonomy from the center. Morales' agenda has been defined not only by the opposition but also by the more radical sector of his party, the MAS, which

is quick to remind him of the promises he made before and during the Presidential elections.

In 2008, a record fiscal surplus and robust monetary reserves, resulting from increased taxation of hydrocarbons and mining companies and the global commodity boom, have left Bolivia with financial benefits. However, in 2009 and beyond will be much more challenging. In addition, Bolivia is now dealing with an 8.7 inflation rate, the fifth highest in Latin America as per the World Bank. The 5.5 average growth in GDP will likely not be maintained as the global financial crisis affects Bolivia, creating a wide ranging slowdown.

The Bolivian Minister of Finance has confirmed that Bolivian exports, including hydrocarbons, minerals, and soya byproducts have already suffered an acute deceleration.

The 12 foreign companies that operate in Bolivia in the hydrocarbon space, already rattled by the nationalization of the country's gas and oil sector, are awaiting implementation of the hydrocarbons law required by the new constitution, are wary of getting more involved.

The only United States company operating in this sector in Bolivia is Occidental. Exxon-Mobil pulled out a few years ago. The electrical sector in Bolivia, which was a wash with U.S. investors—Duke, Econergy, PPL Global—have dwindled to one, plus a few European investors, and they are concerned that their sector might be next in being nationalized.

The perception of the foreign direct investor is that current government has no problem in not following contracts and that the legal system is not up to normal standards.

For the past two decades, U.S. engagement in Bolivia and the rest of the Andes has focused on security and counter-issues—favoring unilateral over multilateral intervention. In the final months of the Bush administration, U.S. relations with Bolivia turned from bad to worse, including Bolivia's expulsion of the U.S. Ambassador Goldberg, and the United States expulsion of Bolivian Ambassador Gustavo Guzman, as well as the subsequent expulsion of DEA.

There are lessons to be learned from the current crisis, and there is hope that United States-Bolivian relations might improve if the Obama administration is open to a new approach. Obviously, Washington has more obvious priorities than Bolivia, and the current environment in La Paz is no guarantee that conciliatory overtures from the U.S. administration would immediately be reciprocated.

All "politicos" in La Paz follows with the closest attention any developments in Washington that could have an impact on their country. The opposite is true in Washington. United States relations with Bolivia rank far down in the hierarch of foreign policy concerns. During the cold war Bolivia had at least some limited leverage, based on the possibility that La Paz might switch sides. But in the war on terror Bolivia has limited importance, and even in the war on drugs it is a second tier player.

On the flip side, a Morales administration that has limited hope of securing construction relations with Bolivia may well gain domestic political capital from pursuing the opposite course since one

result can be to cast rival political parties and future candidates in the role of disloyal instructions of an overbearing foreign policy.

As the current U.S. administration attempts to establish its eroded international soft power and to repair its tarnished reputation as a benevolent regional power, it is essential to recognize that Morales also possesses similar assets and a legitimate democratic mandate, which has been reaffirmed during the recent referenda processes. U.S. policy measures designed to discipline his government's conduct are more likely to stiffen its resistance and to hurt the Bolivian people by further reducing their desire for social progress.

Thank you.

[The prepared statement of Mr. Rebolledo follows:]



## **“U.S.-Bolivia Relations: Looking Ahead”**

Hearing before the  
Committee on Foreign Affairs, Subcommittee on the Western Hemisphere  
U.S. House of Representatives  
Tuesday, 3 March 2009

Iván C. Rebolledo  
President, Bolivian-American Chamber of Commerce, Inc.  
[irebolledo@bolivia-us.org](mailto:irebolledo@bolivia-us.org)  
&  
Managing Partner, TerraNova Strategic Partners LLC

**\*\*\*As Prepared for Delivery\*\*\***

### **INTRODUCTION**

Good afternoon, Mr. Chairman and members of the Subcommittee. Thank you for the privilege to be with you to discuss a topic of such relevance at this time of change – both in Bolivia and the U.S.

Mr. Chairman, we greatly appreciate your ongoing leadership and strong voice for the region. We have had distinct pleasure of working closely with you, Mr. Meeks, and your staff on issues related to Bolivia, including your visit there last year. Mr. Mack, we congratulate you as the new Ranking Minority Member.

I am pleased to be here on behalf of the Bolivian-American Chamber of Commerce, where we recently celebrated our 25<sup>th</sup> anniversary. The Chamber, a business membership organization, aimed at fostering and promoting trade, commerce and investment between Bolivia and the U.S., believes that free markets and private enterprise offer the most effective means to achieve economic growth, prosperity, and social equity. Our membership currently comprises approximately 65% of all foreign direct investment (FDI) in Bolivia – including U.S. and foreign companies in sectors such as energy, manufacturing, natural resources, technology, tourism, telecommunications, transportation, healthcare and pharmaceuticals, legal, banking and financial services.

### **GENERAL BOLIVIAN CONTEXT**

In recent years, Bolivia has faced many challenges to its stability and constitutional order that many observers have wondered how Bolivia has avoided slipping into widespread violent conflict. Bolivia has a highly divided society where wide sectors of the population have been

historically excluded from the political arena; presently, it has very weak political parties, if any at all, that have been unable to create national coalitions; and its political apparatus has been unable to effectively guarantee space for the resolution of conflict within existing juridical structures. The combination of these factors has contributed to the erosion of the legitimacy of the state, further exacerbating intra-institutional conflict and stability.

The 1990s saw the strengthening of social movements that acquired important political salience and that demanded a rethinking not only of how politics operated, but of the configuration of public policy itself. Social movements took their demands to the streets, staging massive protests that frequently paralyzed the economy. These contentious tactics were met with fear and disdain by the political establishment, which failed to effectively respond to their demands.

It is in this backdrop of contesting political discourses and their consequent tensions that Evo Morales won the presidential elections. His triumph is part of what had been referred to as Latin America's turn to the "new populist left", after a wave of electoral contests clearly rejected the policies inspired by the Washington Consensus, which had prevailed in the 1990s, and brought to power left-of-center candidates in Argentina, Bolivia, Brazil, Chile, Ecuador, Nicaragua, Paraguay, Uruguay and Venezuela. A tactical alliance with Venezuela and Cuba has provided Bolivia the resources and political support, respectively, to allow Morales to move ahead with radical agendas without compromising with the opposition.

Strong regionalism permeates social and political relations. The question of local autonomy has become a serious threat for the unity of Bolivia. The divide between the center of political power (La Paz) and economic prosperity (Santa Cruz) has called into question the strongly centralized government in Bolivia. The ethnic divide that accompanies this division has resulted in the indigenous population, who live mostly in Western Bolivia, supporting Morales' quest to retain that centralism as a feature of the new constitution while the white and mestizo population of Eastern Bolivian states ("media luna") demand greater autonomy from the center. Morales' agenda has been defined not only by the opposition, but also by the more radical sector of his party - the MAS (Movimiento al Socialismo) - which is quick to remind him of the promises he made before and during his presidential campaign.

#### **ECONOMIC AND INVESTMENT OUTLOOK**

In 2008, a record fiscal surplus and robust monetary reserves, resulting from increased taxation of hydrocarbon and mining companies and the global commodity boom, have left Bolivia with financial benefits. However, 2009 and beyond will be much more challenging. In addition, Bolivia is now dealing with an 8.7% inflation rate, the fifth highest in Latin America as per the World Bank. The 5.5% average growth in GDP will likely not be maintained as the global financial crisis affects Bolivia, creating a wide-ranging slow-down. The Bolivian Minister of Finance has confirmed that Bolivian exports, including hydrocarbons, minerals, and soya by-products have already suffered an acute deceleration. Their Central Bank estimates that remittances have drastically dropped as Bolivian immigrants abroad are facing the effects of unemployment.

Despite being the linchpin of gas supplies to the Southern Cone, Bolivia is struggling to secure long-term investment for its hydrocarbons sector amid questions over its reliability as a supplier and uncertainty over demand from export markets. The recent ratification of the new constitution presents legitimate concerns to the FDI community, particularly with regard to Morales' continued execution of his state-led development policy through strategic sector nationalization.

President Morales recently traveled to Russia and France to sign agreements with Gazprom and insist that Total further invest. The fact that Bolivia has to go so far abroad highlights the partial harm it did by nationalizing its energy industry in 2006, driving away technically able international companies with a proven ability to raise funds. Bolivia, having undermined its strategic position, is now turning to countries such as Russia and Venezuela to fill the investment gap. Morales wants to rely on state-to-state investments – which has worked in the case of Petrobras – but is unlikely to succeed with Gazprom (Russia), PDVSA (Venezuela), and the National Iranian Oil Company. YPFB (Bolivian state-owned gas company) says it expects to boost oil and gas investment to US \$530 million this year, after it fell to US \$149 million in 2007 from a peak of US \$581 million in 1999.

The 12 foreign companies that operate in the Bolivian hydrocarbons space, already rattled by the nationalization of the country's gas and oil sector, are awaiting implementation of a hydrocarbons law required by the new constitution, are wary of getting more involved. The only U.S. company operating in this sector in Bolivia is Occidental. Exxon-Mobil pulled out a few years ago. The electrical sector in Bolivia, which was awash with U.S. investors (Duke, Econergy, PPL Global), has now dwindled to one (Tenaska) plus European investors are concerned that their sector might be next in being nationalized. The perception of the foreign direct investor is that the current government has no problem in NOT following contracts and that the legal system is not up to normal standards. It is important to note that President Morales recently called for Bolivian Supreme Court justices to resign for political/administrative reasons. After lawsuits initiated by the executive branch and a wave of resignations, the Constitutional Tribunal has no quorum in order to function, effectively leaving Bolivia with no judicial oversight on constitutional questions.

Lithium has now become the future investment promise for Bolivia, which holds the world's largest deposits. Several companies, including Bolloré (France), LG Group (South Korea), Mitsubishi (Japan), and Sumitomo (Japan), are courting the government for the rights to explore mineral deposits of lithium, which is a key element in batteries for hybrid automobiles.

#### **U.S.-BOLIVIAN RELATIONS**

For the past two decades, U.S. engagement in Bolivia, and the rest of the Andes, has focused on security and counter-narcotics issues – favoring unilateral over multilateral intervention. In the final months of the George W. Bush administration, U.S. relations with Bolivia turned from bad to worse, including Bolivia's expulsion of U.S. Ambassador Philip Goldberg, and the United States' expulsion of Bolivian Ambassador Gustavo Guzman, and then Bolivia's subsequent expulsion of DEA.

There are lessons to be learned from the current crisis, and there is hope that U.S.–Bolivia relations might improve if the incoming Obama administration is open to a new approach. Obviously, Washington has more obvious priorities than Bolivia, and the current environment in La Paz offers no guarantee that conciliatory overtures from the Obama administration would immediately be reciprocated.

All "politicos" in La Paz follow with the closest attention any developments in Washington that could have an impact upon their country. The opposite is true in Washington. U.S. relations with Bolivia rank far down in the hierarchy of foreign policy concerns. During the cold war Bolivia had at least some limited leverage, based on the possibility that La Paz might "switch sides". But in the "war on terror" Bolivia has limited importance, and even in the "war on drugs" it is a second tier player.

On the flip side, a Morales administration that has limited hope of securing constructive relations with Washington may well gain domestic political capital from pursuing the opposite course, since one result can be to cast rival political parties and future candidates in the role of disloyal instruments of an overbearing foreign power.

As the current U.S. administration attempts to reestablish its eroded international "soft power" and to repair its tarnished reputation as a benevolent regional power, it is essential to recognize that Morales also possesses similar "assets" and a legitimate democratic mandate, which has been reaffirmed during the recent referenda processes. U.S. policy measures designed to discipline his government's conduct are more likely to stiffen its resistance and to hurt the Bolivian people by further reducing their desire for social progress.

#### COUNTER-NARCOTICS EFFORTS

As already mentioned, counter-narcotics policy has been the driving force in U.S.-Bolivian relations since the late 1980s, and plays a critical role in determining where the Bolivian government stands today, and how relations might improve in the future. Morales owes his presidency to his defiance of drug policy in the 1980s in the Chapare (his home base) as well as his success in gaining power in local and later national elections. It is important to remember that the coca leaf is a traditional and cultural symbol within Bolivia, and the coca growers expect their democratic politicians to protect their interests. Morales himself presides over the country's coca growers federation, and has the formal responsibility to negotiate quota and alternative development compensation agreements.

Two obvious pieces of evidence suggest that U.S. drug policy in Bolivia is NOT working. First, the level of coca-leaf production has either remained the same or increased over the years - despite 15 years plus of coca-leaf eradication programs in the Chapare and Yungas regions. Second, the prices for retail sales of cocaine have changed little over the past few years. This suggests that drugs are plentiful on U.S. streets, meaning demand-side interdiction policies are not effective either.

Both the UN Office on Drugs and Crime (UNODC) and the European Union have strategically increased their presence in Bolivia. It would be necessary for these initiatives to be scaled up if they are to fill the void left by U.S. alternative development and interdiction programs. This also shows evidence of an international prerogative to develop approaches that are more multilateral and that could therefore most definitely enlist stronger Bolivian cooperation.

On a recent trip to Bolivia, EU Ambassadors expressed deep concern regarding the vacuum that U.S. interdiction efforts have left since Bolivian cocaine is being smuggled, via Brazil, to Western Europe. The Brazilian Ambassador in La Paz, Frederico Cezar de Araujo also stressed Brazil's concern with this development and is promoting greater joint action, with Bolivian police officials, to reverse this trend.

It is obvious that any new agreement on coordinated drug policy between Bolivia and a multilateral coalition would still need the support of Washington. Surely, the Bolivian government would welcome a shift in policy whereby U.S. anti-narcotics agencies contribute to rather than lead the design and implementation of policies.

### **ATPDEA**

At present, U.S. trade preferences in the Andean region are tied to drug reduction commitments, vis-à-vis ATPDEA. The impact of trade preferences on the Bolivian export economy has been evident, increasing trade volume and product diversity. Between 25,000 and 50,000 jobs in El Alto depend on access to the U.S. market, and these jobs in turn have a significant impact on the rest of the national economy.

Suspension of trade preferences has been extremely challenging to workers and manufacturers. Every job created through ATPDEA has contributed to workers remaining in Bolivia. As nations like India, Russia, and Iran play an increasing role in Bolivia; the U.S. needs to take advantage of every opportunity to stay engaged in positive and meaningful ways and continue to reach out to the Bolivian population through beneficial aid and trade programs. Unfortunately, this suspension will continue to invigorate champions of anti-Americanism, and continues to make the U.S. less relevant in Bolivia – on all levels. Jobs that have already left Bolivia – particularly in the textile and some other manufacturing areas – will quickly move to China and other Asian markets. Once these jobs are gone, there will be no incentive to bring them back.

Presently, Bolivia is an unusual case in South America because economic growth has not generally translated into less poverty. In fact, poverty has statistically increased over the past few years. The exceptions to this pattern are in the export sector linked to U.S. trade preferences — sectors such as textiles, gold jewelry, leather and organic agricultural products that have higher labor and environmental standards than other sectors of the economy.

### **U.S. FOREIGN ASSISTANCE**

As Barack Obama indicated during the campaign, current U.S. foreign assistance and support for poverty reduction in developing countries is much too small. Through the Millennium Challenge Corporation, USAID, the IFIs, and the UN system, the U.S. should provide much more funding for poverty reduction and development activities.

Bolivia was one of three original countries in the Western Hemisphere selected for eligibility for the Millennium Challenge Account in 2004. Bolivia qualified again in 2005 and 2006, and presented a proposal to the MCC in December 2005 during the Presidency of Eduardo Rodríguez, which was superseded by a new proposal submitted September 2007 by the Government of Morales. An MCC assessment scheduled for December 2007 was postponed due to unrest surrounding the Constitutional Assembly process. This past December, the MCC Board of Directors decided to not reselect Bolivia as eligible for compact assistance.

With certainty, the last proposal of US \$657 million made by the Government of Morales for the infrastructural development of Northern Bolivia (departments of La Paz, Beni, and Pando), as well as helping to diversify the Bolivian economy from its reliance on natural gas and mineral resources, would probably be one of the first things the Bolivians put back on the negotiating table, if a rapprochement with U.S. administration were to happen. However, at this time of financial belt tightening, a pared down version of their proposal should only be considered.

## CONCLUSIONS

U.S. policy toward Bolivia has been dominated by the drug issue and usually has been handled in a rigid bilateral manner, without giving enough consideration to other dimensions of mutual policy interest, including economic growth, poverty reduction, energy, trade, and aid.

Four actions could contribute to a new and positive approach to U.S.-Bolivia relations in the near future.

- The need to reestablish normal diplomatic relations, with an exchange of Ambassadors, and resuming other programs currently suspended. Clearly, political isolation pushes Bolivia deeper into regional polarization and internal conflict
- Considering special treatment for Bolivia on trade and aid that is geared toward growth and poverty reduction rather than on non development objectives (drug eradication and interdiction). This new mechanism should substitute for the APTDEA initiative until a new trade framework is in place
- Re-examining the U.S. counter-narcotics policy in Bolivia and a move toward multilateralism over the immediate future
- Naming a State Department Special Representative or Special Envoy for Bolivia and Venezuela, as has been done for Afghanistan and Pakistan; North Korea; the Middle East; the Persian Gulf and Southwest Asia, as well as a Special Envoy for the Americas. The appropriate time to unveil these appointments would be immediately prior or during the upcoming Trinidad and Tobago Summit of the Americas.

Thank you.

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Mr. SIRES. Thank you very much.  
Dr. Daremblum.

**STATEMENT OF JAIME DAREMBLUM, PH.D., SENIOR FELLOW,  
DIRECTOR, CENTER FOR LATIN AMERICAN STUDIES, HUD-  
SON INSTITUTE**

Mr. DAREMBLUM. Thank you very much, Mr. Chairman, distinguished members of the subcommittee.

Mr. SIRES. Can you please turn the microphone on

Mr. DAREMBLUM. Oh, I am sorry.

Mr. Chairman, Ranking Republican Member Connie Mack, distinguished members of the subcommittee, I am honored to be speaking with you today on the topic of U.S. relations with Bolivia.

Since the election of President Evo Morales in December 2005, those relations have steadily deteriorated. Meanwhile, political polarization on ethnic tensions in Bolivia have increased substantially. Bolivia suffers from extremely high levels of poverty and inequality, and is divided sharply along racial and geographic lines. Economic disparities, cultural resentments and repeated attacks from democracy by the Morales government have turned Bolivia into a bubbling caldron of instability.

Morales seems bent on copying the authoritarian leftism of Venezuelan President Hugo Chavez. His policies have triggered political violence and raised the specter of large-scale turmoil.

Bolivia has long been a fracture society. Indeed, it is really two societies, one consisting of poor indigenous Bolivians who are concentrated in the western highland departments, the other made up of mixed-race mestizos and whites who dominate the eastern lowland departments. Eastern Bolivia is the more prosperous region and serves as the country's economic engine even though most Bolivians live in the west. A majority of the population is indigenous. Morales is the first Indian to ever be elected President. Bolivia is the poorest country in South America and the overwhelming majority of its poor citizens are Indians.

Bolivia desperately needs a true national leader who can repair its many rifts. Unfortunately, Morales is not that type of leader. When he was first elected in 2005, a former cocoa grower boasted fairly broad support across different racial and economic groups. Yet he has pursued this discriminatory and exclusionary policies designed to benefit Bolivia's Indians at the expense of its mestizos and white.

Morales has made no serious effort to bridge the country's severe social camps. In fact, he has done quite the opposite. He has also eroded Bolivia's democratic institutions and attempted to reduce both the political and economic power of its wealthy eastern departments. Morales has nationalized a significant portion of the Bolivian economy, including the energy sector and is seeking to implement a far-reaching land redistribution agenda. The result is that Bolivia today is more divided and more polarized than it was when he first took office. Corruption has grown widespread, and the government's socialistic economic initiatives have spooked foreign investor.

Morales has embraced the political model that thrives on conflict, on confrontation and on bullying. Much like Hugo Chavez, he uses

anti-Americanism as a political tool and spins wild conspiracy theories about the United States.

Before leaving office, President George W. Bush responded to Bolivia's lack of cooperation with U.S. anti-drug efforts by suspending its privileged trade status under the Andean Trade Preferences Act and Andean Trade Promotion and Drug Eradication Act. Both require the beneficiary countries provide a certain level of cooperation to U.S. counternarcotics activities. The Bush administration was justified in suspending Bolivia's trade benefits, a suspension that came after several warnings to the government. No doubt his decision will have a considerable economic impact on the South American country, and has been used by Morales domestic propaganda purposes.

In economic terms, those trade preferences mean much more to Bolivia than they do to the United States. Before they are restored the Obama administration should insist that the Morales government agree to a meaningful level of anti-drug cooperation. This is what diplomatic engagement is all about. I generally do not favor trade sanctions, but this is a special case. The terms of the Andean trade legislation are quite clear, and Bolivia is the world's third largest coca producer and is a key front in the war on drugs.

U.S. interests in Bolivia go beyond counternarcotics programs. The country has huge deposits of natural gas, and under Morales it has boosted strategic ties with Iran, partly to aid the development of its energy sector. At a time when Tehran is expanding its influence across Latin America, its emerging partnership with Bolivia is worrying. There is evidence that Iran's warm relationship with Hugo Chavez, the chief patron and ally of Morales, has allowed the Iranian-backed terrorist group Hezbollah to establish a presence in Venezuela. The Bolivia-Iran connection should not be overblown, but it should be monitored intently.

In its diplomatic efforts to shore up Bolivian democracy and build civil society, the United States should work closely with democratic governments from Europe and South America. It should also promote economic freedom and a more favorable business climate in Bolivia. In its latest ranking, rankings of the best business climates around the globe, the World Bank ranks Bolivia 150th out of 181 economies. The only countries in Latin America and the Caribbean that rank lower are Haiti and Venezuela.

The United States should also address the plight of the poorest in Bolivia by supporting NGOs working with the National Endowment for Democracy, NED. This would help considerably to dissipate the notion among the Indians, nurtured by President Morales, that the United States is their enemy.

A final point: Thus far President Obama has disappointed those in Latin America who hoped he would move vigorously to boost U.S. engagement with the Western Hemisphere. Today, Iran, Russia, China, all these countries are working to strengthen relations with Latin America. If the United States does not make its own hemisphere a priority, it risks losing influence there, and that would be bad for the United States and bad for Latin America.

Thank you very much.

[The prepared statement of Mr. Daremblum follows:]

**“U.S.-Bolivia Relations: Looking Ahead”**

**Jaime Daremblum, Ph.D.  
Senior Fellow and Director of the Center for Latin American Studies,  
Hudson Institute**

**March 3, 2009  
2:00 PM  
Room 2172  
Rayburn House Office Building**

**Testimony before the House Committee on Foreign Affairs,  
Subcommittee on the Western Hemisphere**

**“U.S.-Bolivia Relations: Looking Ahead”**  
**Jaime Daremblum, Ph.D.**

Mr. Chairman, Ranking Member Mack, and distinguished Members of the Subcommittee:

I am honored to be speaking with you today on the topic of U.S. relations with Bolivia.

Since the election of President Evo Morales in December 2005, those relations have steadily deteriorated. Meanwhile, political polarization and ethnic tensions in Bolivia have increased substantially. Bolivia suffers from extremely high levels of poverty and inequality, and is divided sharply along racial and geographic lines. Economic disparities, cultural resentments, and repeated attacks on democracy by the Morales government have turned Bolivia into a bubbling cauldron of instability. Morales seems to be copying the authoritarian leftism of Venezuelan President Hugo Chávez. His policies have triggered political violence and raised the specter of large-scale turmoil.

A landlocked country in the heart of South America, Bolivia has long been a fractured society. Indeed, it is really two societies, one consisting of poor indigenous Bolivians, who are concentrated in the western highland Departments, the other made up of mixed-race *mestizos* and whites, who dominate the eastern lowland Departments. Eastern Bolivia is the more prosperous region and serves as the country’s economic engine, even though most Bolivians live in the west. A majority of the population is indigenous. Morales is the first Indian to ever be elected president.

Bolivia is the poorest country in South America, and the overwhelming majority of its poor citizens are Indians. Before he became president, Morales was a coca farmer and union boss who clashed with business leaders and landowners. Those battles often pitted impoverished rural Indians against wealthier *mestizos* and whites. Bolivia’s richest Department is Santa Cruz, in the east. Its poorest Department is Potosí, in the southwest. With a relatively conservative urban middle class, Santa Cruz has become a stronghold of the anti-Morales political opposition. The inhabitants of rural Potosí, by contrast, have been firmly pro-Morales.

Bitterly divided along racial, economic, and geographic lines, Bolivia desperately needs a true national leader who can repair its many rifts. Unfortunately, Morales is not that type of leader. When he was first elected in 2005, the former coca grower boasted fairly broad support across different racial and economic groups. Yet he has pursued discriminatory and exclusionary policies designed to benefit Bolivia’s Indians at the expense of its *mestizos* and whites. Morales has made no serious effort to bridge the country’s severe social gaps; in fact, he has done quite the opposite. He has also eroded Bolivia’s democratic institutions and attempted to reduce both the political and economic power of its wealthy eastern Departments. Morales has nationalized a significant portion of the Bolivian economy, including the energy sector, and is seeking to implement a far-

reaching land redistribution agenda. The result is that Bolivia today is more divided and more polarized than it was when he first took office (**See Annex I**). Corruption is widespread, and the government's socialistic economic initiatives have spooked foreign investors.

Morales has embraced a political model that thrives on conflict, confrontation, and bullying. Much like Hugo Chávez, he uses anti-Americanism as a political tool and spins wild conspiracy theories about the United States. In September, Morales expelled the U.S. ambassador, whom he accused of stoking Bolivian separatism. In November, Morales demanded that the U.S. Drug Enforcement Administration (DEA) cease its operations in Bolivia. The DEA completed its exit from Bolivia in late January.

Before leaving office, President George W. Bush responded to Bolivia's lack of cooperation with anti-drug efforts by suspending its privileged trade status under the Andean Trade Preference Act (ATPA) and Andean Trade Promotion and Drug Eradication Act (ATPDEA). Both the ATPA and ATPDEA require that beneficiary countries provide a certain level of assistance to U.S. counternarcotics activities. The Bush administration was justified in suspending Bolivia's trade benefits, although its decision will have a considerable economic impact on the South American country and has been used by Morales for domestic propaganda purposes.

In 2007, according to the U.S. International Trade Commission, U.S. imports from the ATPA countries represented only 1.1 percent of total U.S. imports, and imports from Bolivia accounted for just 1.2 percent of imports under the ATPA. Meanwhile, U.S. exports to the ATPA countries represented a mere 1.4 percent of all U.S. exports, and exports to Bolivia accounted for less than 2 percent of exports under the ATPA. But from Bolivia's perspective, "The United States is a main trading partner and one of Bolivia's largest foreign investment sources."

In other words, ATPA trade preferences mean much more to Bolivia than they do to the United States. Before those trade preferences are restored, the Obama administration should insist that the Morales government agree to a minimum level of anti-drug cooperation. After all, this is what diplomatic engagement is for. I generally do not favor trade sanctions, but this is a special case. The terms of the ATPA and ATPDEA are quite clear. Bolivia should not be given a free pass. It is the world's third-largest coca producer, and is a key front in the war on drugs.

U.S. interests in Bolivia go beyond counternarcotics programs. The country has huge deposits of natural gas, and under Morales it has boosted strategic ties with Iran, partly to aid the development of its energy sector. At a time when Tehran is expanding its influence across Latin America, its emerging partnership with Bolivia is worrying. U.S. Defense Secretary Robert Gates recently told the Senate Armed Services Committee that he is "concerned about the level of, frankly, subversive activity that the Iranians are carrying on in a number of places in Latin America, particularly South America and Central America." There is evidence that Iran's warm relationship with Hugo Chávez, the chief patron and ally of Morales, has allowed the Iranian-backed terrorist group

Hezbollah to establish a presence in Venezuela. The Bolivia-Iran connection should not be overblown, but it should be monitored intently.

What about preserving Bolivia's democracy and bolstering its democratic institutions? The U.S. government has limited leverage over the country's internal politics, especially given the pro-Chávez leftism of Morales and his penchant for stirring up anti-American passions. In its diplomatic efforts to shore up Bolivian democracy and build civil society, the United States should work closely with democratic governments from Europe and South America. It should also promote economic freedom and a more favorable business climate in Bolivia. In its latest rankings of the best business climates around the globe, the World Bank ranks Bolivia 150th out of 181 economies. The only countries in Latin America and the Caribbean that rank lower are Haiti and Venezuela.

The U.S. should also address the plight of the poorest in Bolivia by supporting bona fide NGO's working with the National Endowment for Democracy (NED). This would help a great deal to dissipate the notion among the Indians, nurtured by President Morales, that the U.S. is their enemy.

A final point: Thus far, President Obama has disappointed those who hoped he would move aggressively to boost U.S. engagement with the Western Hemisphere. Iran, Russia, China—all these countries are working to strengthen relations with Latin America. If the United States does not make its own hemisphere a priority, it risks losing influence there. That would be bad for the United States, and bad for Latin America.

Thank you very much.

**“U.S.-Bolivian Relations: Looking Ahead”**

**Jaime Daremblum, Ph.D.**

**Hudson Institute**

**Annex I: A fractured nation**

Evo Morales’ election as President was billed at the time—in December 2005—by some observers as a great opportunity for the country to be able to overcome its historical differences and build a society that provided fair opportunities to all. But today Bolivia is a more fractured society than it was before that election. Indeed, the risks of widespread political violence and even the possibility of a splitting of the country among ethnic lines are higher than it was when Morales took his oath of office. What happened?

Trying to counteract the exclusion historically suffered by vast swaths of the population, which is by itself a very relevant endeavor, Morales did not try to abridge the social gaps by promoting inclusive policies, benefiting all citizens. Instead, he has mistakenly followed policies that have exclusionary effects over important sectors of a vastly diversified population. As we all know, two wrongs cannot make a right.

One immediate result has been a change of the composition of Mr. Morales support base, despite his continuing success in the many elections and referenda that, following Hugo Chavez’s playbook, he has called since 2006. From a fairly diversified support base that spanned social and racial lines at the time of his election as a President, he has gradually lost support among urban voters and the middle class, forcing him to depend more and more on the support of the countryside voters and indigenous population (especially Aymaras—his own nation- and Quechuas, among others).

In the most recent referendum, related to the new Constitution, Mr. Morales won by an ample margin, but tellingly he lost in the city capitals of seven out of nine Departments (he only won in La Paz and Oruro). He also lost in four of the nine Departments and barely won in one of them (Chuquisaca, by 3%), as the opposition won in Santa Cruz, Beni, Tarija y Pando. These kinds of results tend to exacerbate the political polarization that is already affecting the country, diminishing the incentives to strike agreements for all political sides, drowning out the voices of moderates on all sides and empowering the most irresponsible sectors and leaders.

Another result of this schism has been to exacerbate the country’s division along geographical lines. The Western part of the country supports Morales fiercely, while the Eastern part opposes him passionately. It is well-known that the Eastern side of the country has defended and promoted significant degrees of autonomy, which have been opposed by Morales’ government. The main problem for the Easterners is that although in territorial terms the region is big, and it is very important economically speaking, it is relatively unpopulated in relation to the Western side of the country, putting them in a chronically disadvantageous situation in political terms. Indeed, the five Departments in

the East of the country (Beni, Chuquisaca, Pando, Santa Cruz and Tarija) represent only 36.5% of registered voters, while the four Departments in the West (Cochabamba, La Paz, Oruro and Potosi) represent 63.5% of registered voters. And there are also some quirky elements of the electoral system that merit more detailed attention. For instance, as mentioned by some observers it is curious, to say the least, that although the Departments of La Paz (which supports Morales) and Santa Cruz (which leads the opposition to him) have roughly the same population, according to the electoral authority La Paz has 50% more voters than Santa Cruz (which results in 45 % of the inhabitants of La Paz being registered voters but only 30% of the Santa Cruzeños are registered voters).

All of this provides for a very dangerous political cocktail, especially in the absence of political solutions to the differences between both sides. A desire for a very broad measure of autonomy; opposition to Mr. Morales by a majority of the population in that region; a heavy-handed Government that pursues radical policies and scoffs at any political compromise; and the fact that the most dynamic economies in the country are also in the East, are all factors that, unless carefully managed, could very easily lead to attempts for regional independence. Bolivia is a country suffering a serious risk of splitting, which could have unthinkable consequences in terms of violence and bloodshed.

Conflict is, in general terms, what Mr. Morales strives for, taking—again—a page out of Chavez's book. Conflict allows governments to distract people from their day to day needs and problems. It also provides a very useful excuse when there is no improvement in the results achieved by the Government. But conflict is a lose-lose proposition, both for the poorest people, and for the long term advancement, stability and unity of the country. Mr. Morales may or may not know that, but it is clear that Hugo Chavez and his mentors in La Habana are very intent on having Bolivia immerse itself in conflict, since that allows them to manipulate Mr. Morales and keep him and his country under the Chavez aegis. When designing foreign policy vis-à-vis Bolivia, it is necessary to bear in mind that moving it into the field of fully-fledged democracies and away from the La Habana-Caracas sphere of influence should be the main objective in the short and medium term, and to keep in mind that provocations are part of the games played by Chavez and Castro to avoid just that.

Mr. SIRES. Thank you very much.  
Mr. Iberkleid.

**STATEMENT OF MR. MARCOS IBERKLEID, CHIEF EXECUTIVE  
OFFICER, AMETEX, AMERICA TEXTIL S.A.**

Mr. IBERKLEID. Mr. Chairman and members of the subcommittee, thank you very much for the opportunity to testify here today.

These are difficult times for workers and for private industry in Bolivia because of the recent suspension from ATPA. Ametex and other firms are on the brink of collapse. Others have already closed and thousands of jobs have been lost. Worst of all, hope is fading.

When we first began this journey, the future was very bright. With the removal of Tariffs, Ametex and many other textile firms were able to improve facilities, expand training programs and hire more workers. Ametex stood as a beacon of hope, especially to El Alto, our poorest and fastest growing city where 50,000 people enter the job-seeking market each year.

As high-end, low-volume producer, Ametex is a reflection of our textile industry. The ability of our workers to process orders quickly and at the highest level of quality and our commitment to the rights of workers and working conditions has earned Ametex an unparalleled reputation in the region.

Without ATPA, none of this would be possible. For this, we owe a debt of gratitude to the American people. But ATPA has been more than an economic boon, it has generated goodwill from the people of Bolivia to the United States and its people. I witness this attitude of working Bolivians who still look at the U.S. for their hopes and dreams. The benefits of ATPA are proven. They have harnessed the productive capacity of working people and enabled the expansion of a business sector. Each of these elements is recognized as essential to democratic institutions in developing countries.

But lately the path to the future has narrowed. Before the recent suspension, ATPA has been extended for short-term periods only, creating an uncertain business climate. Under these circumstances, we have barely been able to survive. We have suffered layoffs, diminished revenues, and the migration of our U.S. customers to more secure producers. Nowadays Ametex is no longer seen as the vanguard for job creation, but as a worsening proposition.

With the suspension of Bolivia from ATPA, we have experienced the final heartbreaking blow. Since the suspension, we have been forced to let go of 1,800 direct and indirect workers from all areas of the firm. We have had to send the remaining workers, nearly 1,000 employees, on paid leave because there is no work. Our projected annual revenues from the United States have been reduced by half, and we have lost most of our U.S. customers.

It is true that Bolivian authorities have stated their intention to secure other markets to replace those in the U.S. that were lost as a result of the suspension. I have been told that Venezuela is now in the process of establishing a preferential trade benefit for Bolivia which would allow us to export our goods to their market. But our relationship with American brands is not easily replaced. We have become very well suited to the U.S. market and its sophisti-

cated customer base. In contrast, the alternative markets are less demanding, and therefore we are less competitive.

Chairman Engel, with all that happened last year I believe the chairman and the members of the committee who visited us last year would barely recognize the company they visited only last February. If I could offer a recommendation for the Obama administration, it would be for the United States to stay engaged with Bolivia by reinstating the benefits and thereby helping the private sector maintain the jobs that took us so long to build.

With the price of commodities coming down, minerals and gas no longer seem the solution they did for Bolivia only months ago. We also see remittances being substantially reduced. With manufacturing now limited due to ATPA's suspension, I foresee more Bolivians migrating to illegal sectors that might bring harm to both Bolivia and the United States.

I believe in the ability of the Bolivian people to build a sustainable life. They have proven they are up to the challenge. On this path, the United States has been our greatest ally and champion and we, the workers of Ametex, yours as well. My company and I stand at the ready and are willing to whatever we can do to help.

Mr. Chairman and members of the committee, thank you for your consideration.

[The prepared statement of Mr. Iberkleid follows:]

Statement of

Marcos Iberkleid  
Chief Executive Officer  
Ametex  
La Paz, Bolivia

March 3, 2009

House Committee on Foreign Affairs  
Subcommittee on the Western Hemisphere  
Chairman Eliot Engel

Mr. Chairman and Members of the House Subcommittee on the Western Hemisphere, thank you very much for the opportunity to testify here today.

Mr. Chairman, please accept my deepest appreciation for your long-standing leadership and support for sustainable development and good jobs in Bolivia.

Ametex's workers, a number of whom you met when you visited our factory floor, send you their greetings. They are very much aware of your efforts and those of your dedicated staff. They draw strength knowing that you keep them in your thoughts during these difficult times.

And these are indeed difficult times for workers and for private industry in Bolivia.

The recent suspension of Bolivia from the Andean Trade Preference Act has brought my apparel firm, Ametex, to the brink of collapse. Many other clothing manufacturers in Bolivia who rely on the U.S. market have since been shuttered. Thousands of jobs have been lost. Many more disappear with each passing day.

Worst of all, hope is fading.

Seven years ago, when we began this journey of building a formalized trade relationship between the United States and Bolivia, the future was very bright. With the removal of tariffs on finished apparel exports to the U.S. under the re-designated Andean Trade Promotion and Drug Eradication Act, Ametex, and many other clothing producers, began to flourish. ATPA enabled us all to improve our facilities, expand our training programs, and hire many more workers. By 2006, Ametex was enjoying annual growth rates of 30 percent and employed no less than 4,500 people, making us the largest private employer in Bolivia and the leader of the most cost-efficient sector for the creation of dignified and sustainable jobs.

In this way, Ametex stood as a beacon of hope to job-seekers like those living in El Alto, the poorest and fastest-growing city in Bolivia, where 50,000 people enter the job-seeking market every year.

As a high-end, low-volume producer, Ametex is a reflection of the Bolivian textile industry as a whole. As such, the ability of our workers to process orders quickly and with the highest level of quality for our U.S. customers, such as Polo Ralph Lauren, earned Ametex an unparalleled reputation in the Andean region. And, for our commitment to the rights of workers and working conditions, we were invited to become a member of the Fair Labor Association, the Washington, DC-based non-profit organization that monitors the treatment of workers in factories that supply numerous American brands.<sup>1</sup>

I say these things not to boast, but rather to emphasize that without ATPA, none of this would have been possible. For this, we owe a debt of gratitude to the American people.

And lest we forget, ATPA has been more than just an economic boon. It has been a diplomatic success by generating an enormous amount of goodwill from the people of Bolivia to the United States and its people. I witness this attitude every day. I see thousands of working Bolivians who continue to look to the U.S. for their hopes and dreams.

The benefits of ATPA are clear and proven; they have played a central role in harnessing the productive capacity of the working people of Bolivia and the expansion of an entrepreneurial sector, recognized as essential to the development of democratic institutions in developing countries.

But as you know, in recent years, the path to the future has narrowed. ATPA has been extended for short-term periods only – six, eight, and ten months at a time. In this context, I have traveled to the U.S. on repeated occasions to explain the difficult position this puts us in and described the deepening negative effects of the resulting uncertain business climate.

Under these circumstances, we were able to survive, just barely, with the threat of extinction ever-present in our minds. Through it all, we suffered lay-offs, diminished revenues, and the migration of our U.S. customers to more secure producers.

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<sup>1</sup> Ametex's commitment to sound business practices and respect for workers and working conditions was highlighted in testimony before the U.S. Congress Senate Committee on Finance at its hearing on "Oversight of U.S. Trade Preference Programs" on June 12, 2008. In response to a question by Chairman Max Baucus regarding the degree to which Andean trade preferences are helping in Bolivia and their effect on people, panel witness Grant Aldonas, former U.S. Under Secretary for International Trade (2001-2005), referenced Ametex, saying: "[Ametex] implements one of the most forward-looking policies with respect to workers and worker rights of anyone in the hemisphere. And it's a remarkable story about the incentives – and certainly [Ametex] is thinking about our market [and] – is responding, and is making available, rights to [its] workers well beyond those that are guaranteed under local law. And so that's exactly the sort of thing I think we'd want to highlight and reinforce." Ametex has received commendations from other watchdog associations, including the World Responsible Apparel Production (WRAP) organization, which monitors and certifies compliance with internationally-recognized standards for manufacturing practices.

Having gone from a job-adding venture to one struggling not to lose jobs, we have lost our reputation as a beacon of hope for those struggling to find work. Nowadays, Ametex is no longer seen as the vanguard for job-creation, but as a worsening proposition.

With the suspension of Bolivia from the ATPA, we have experienced the final, heartbreaking blow.

As to the impact on my own business, Ametex, I can speak directly:

Since the suspension:

- We have been forced to let go 1,800 direct and indirect workers from all areas of the firm, including from our administrative, productive, and executive departments;
- We have had to send the remaining workers, nearly 1,000 employees, on paid leave because there is no work;
- Our projected annual revenues from the U.S. have been reduced by half to around USD \$18 million<sup>2</sup>, and
- We have lost most of our U.S. customers.

As you may know, Bolivian authorities have stated their intention to assist the domestic apparel sector by securing other markets to replace those in the U.S. that were lost as a result of the ATPA suspension. I have been told that Venezuela is now in the process of establishing a preferential trade benefit for Bolivia, which could allow us to export our goods to their market through a state-owned company. While we hope to still export at least half of our products to the U.S., we will struggle to cover the 19 percent tariff, especially under today's increasingly difficult economic circumstances. Other than Venezuela, both Brazil and Argentina have, in the past, stated their intention to assist Bolivia in the event of the loss of our U.S. market, but neither has taken any real action to make good on their promise.

Furthermore, the relationships with American brands that we at Ametex have developed over the last 20 years are not easily replaced. As a high-end, low-volume producer, we have become well-suited to the U.S. market, developing production methods and products for its sophisticated customer base. The proposed alternative markets, Venezuela, Brazil, and Argentina, are lower-end markets. Ametex, and most Bolivian apparel producers, are much less competitive in such markets.

Chairman Engel, with all that has happened in the last year, I believe you would barely recognize the company you and your staff visited last February.

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<sup>2</sup> According to the Bolivian Chamber of Exporters (CAMEX), the textiles and clothing sector suffered a 69 percent decline in total foreign sales in the first month of 2009 since the suspension of ATPA.

The feelings of our remaining employees who know their jobs are insecure are feelings I would not wish on anyone.

But I cannot begin to imagine the trauma and the hopelessness felt by the thousands of skilled workers whose livelihoods have been cut off and whose prospects for finding alternative work have drastically decreased.

If I could offer a recommendation to the Obama Administration, I would recommend that the United States keep engaged with Bolivia by reinstating the trade benefit and helping the private sector maintain the jobs that took us so long to build.

With the price of commodities coming down, minerals and gas no longer seem the solution they did for Bolivia only months ago. We also see remittances being substantially reduced. With manufacturing limited because of the ATPA suspension and other market conditions, I foresee more and more Bolivians who are desperate for work migrating to illegal sectors that I believe will increasingly harm both Bolivia and the U.S.

As a businessperson, I believe in the ability of the Bolivian people to build a sustainable life. They have proven that they are up to any challenge.

On this path, the U.S. has been our greatest ally and champion and we, the workers of Ametex, yours as well. My company and I stand at the ready and are willing to do whatever we can to help.

Mr. Chairman and Members of the Committee, thank you for your consideration.

Mr. ENGEL. Well, thank you. Thank you very much, and I thank everybody for their statements and I apologize for not being here. I had something that I could not help. I want to thank Mr. Sires for stepping in. I do not want him to get too used to the chair, but thank you for stepping in, and I know that the testimony was very, very important.

I am going to ask some questions, but I just want to make a couple of comments that I would have made had I opened the hearing.

Mr. Iberkleid, as you know, I visited your business when I was in Bolivia, the factory, and I was very heartened to see a leading example of tens of thousands of jobs that ATPDEA had created. In fact, it was at your factory that I became convinced that this program was really helping the poor in Bolivia. It is one thing to read about it. It is another thing to actually see it, and I know that you are either the largest employer in Bolivia or certainly one of the largest employers in Bolivia.

Bolivia is the poorest country in South America, and it is a country where 54 percent of the population lives in poverty with a third earning less than \$2 a day, and let us think about that, \$2 a day. So if you look at this program that we have, ATPDEA, it has provided quality jobs to the country's poor, including many indigenous women who are among the most historically marginalized members of society in Bolivia and throughout the Andean region. In fact, Mr. Iberkleid, we saw some of these indigenous women when we visited your factory, and, of course, when we spoke with Evo Morales, he made a point to say that he wanted to do whatever he could to help the indigenous and he is part of that group.

As everyone knows, Bolivia was suspended as an ATPDEA beneficiary country this past fall, and I am told that since that time, Mr. Iberkleid, you have been having tremendous financial difficulties, and there have been massive layoffs and you may even be forced to shut down.

Let me say that there is no one in the Congress more than me who wants to see improved relations between the United States and Bolivia, and the reinstatement of Bolivia's ATPDEA benefits.

I have met with President Evo Morales twice: Once in La Paz and the second time in my office right here in Washington, so within the past year I have met with him twice face to face. My message to him in our meetings has been consistent, please help me to help you. I really want to be an advocate for Bolivia in Washington, but President Morales' expulsion of the U.S. Ambassador, the Israeli Ambassador, and U.S. Drug Enforcement Administration agents, DEA agents, over the past 6 months make it increasingly difficult for me to help.

In particular, our ambassador in Bolivia, Phil Goldberg, I have known him for many years, even before he was ambassador of Bolivia. So I know him personally. He is a fine career diplomat, not a political appointee, and knows how to conduct himself, and when I visited him, he told me that the Bolivian Government was accusing him of everything under the sun, and that these charges were all false and made up, and trumped up, and I believe that the Bolivian Government's allegations against him were completely unfounded. Both Bolivia and Venezuela did the same thing, charged

our career diplomats, who were our ambassadors, with all kinds of nonsense, and then expelled them.

I was particularly troubled also by President Morales' statement at a Summit of Latin American Leaders in Brazil just this past December, 3 months ago, and he said, and I want to quote it because I just came back from the region and other leaders have told me that he said this, and when we looked it up, this is what we came up with. Morales said,

“We should give the new Government of the United States a deadline in order to end the embargo on Cuba. If a newly elected U.S. Government does not lift the economic embargo, we will lift their ambassadors out of our countries.”

So he is telling the other countries in Latin America that if the United States doesn't lift the embargo against Cuba, that everyone should break relations with the United States, and he is still saying this. He is his own worst enemy. This kind of rhetoric certainly does not help, especially as the Bolivian Government now attempts to reach out to the Obama administration and says it wants ATPDEA benefits, and yet on the other hand every chance Morales gets to thrash the United States he does it.

And I said to him when he came here, I said, what were you thinking? You know, you throw out our ambassador, you throw out our DEA agents, drugs are a problem, and then you want ATPDEA. Well, you know, your actions have a reaction. It makes it difficult for me to help you, even though I would like to help you, but people say, well, is he not the guy who threw out our ambassador and our drug agents, and now he is telling everybody else to break relations with us?

So it is a problem. I mean, I would like to see both of our countries move quickly to improve relations, but my message to the Bolivian Government is that it takes two to tango. So I would urge the Morales and the Obama administrations to immediately initiate a high-level bilateral dialogue, and I urge that, which would result in an exchange of ambassadors, a renewed strategy for joint counternarcotics efforts, and in turn the reinstatement of ATPDEA benefits for Bolivia.

But again, it takes two to tango, and I certainly recognize that Bolivia is a sovereign country, and they are not required to have our DEA agents present. I know that. But I also believe that the way in which the agents were expelled is regrettable, very regrettable. And as we look to restore relations and reinstate ATPDEA we have to find a way to rebuild trust between our leaders and our two governments, and we must move beyond the constant suspicions, especially in La Paz, where the most negative inference is drawn from every action and reaction. And even if our two governments do not agree on every detail, there are certainly enough intersections of our mutual interests to allow more effective cooperation on counternarcotics and other matters.

As I mentioned before, and then I am going to stop, Evo Morales is Bolivia's first indigenous President and is committed to lifting up impoverished people in his country. He made it a point when we first met him to say that, and I applaud him for that. I mean, those are great goals and he should do that, and we should help him. I

congratulated him for his personal achievements, and his commitment to Bolivia's poor each time we met.

I come from a labor background, my family, a working class background, and I would certainly like to help President Morales and other leaders in Latin America roll back poverty and create jobs. Yet, I truly believe that President Morales' commitment to Bolivia's poor could in part be shown by a renewed effort from his government to improve relations with the United States, which I believe would, in turn, lead to the return of Bolivia's ATPDEA benefits.

So I want to thank you all for your testimony, and I know Mr. Burton wanted to make a statement, so I am going to let him make a statement now.

[The prepared statement of Mr. Engel follows:]

**Opening Statement  
Chairman Eliot L. Engel**

House Foreign Affairs Subcommittee on the Western Hemisphere

**U.S. - Bolivia Relations: Looking Ahead**

*Tuesday, March 3, 2009*

A quorum being present, the Subcommittee on the Western Hemisphere will come to order.

I want to start today's hearing by telling a story about a Bolivian friend of mine named Marcos Iberkleid who is testifying here today. Marcos was born in a displaced persons American military camp in post-war Germany in 1950. He moved with his family to Bolivia in 1952 and started working in a textile mill when he was 16. He went on to become the CEO of Ametex, a major Bolivian textile firm that has provided clothing to U.S. buyers, including Polo Ralph Lauren and Abercrombie and Fitch. Ametex and its employees have benefited enormously from the Andean Trade Promotion and Drug Eradication Act (ATPDEA) over the years. In fact, Ametex grew to become the largest employer in Bolivia, with over 4,000 employees.

I visited the factory last year and was heartened to see a leading example of the tens of thousands of jobs that ATPDEA had created. No one can deny that ATPDEA has been a major boon to citizens in Bolivia – the poorest country in South America, and a country where 54% of the population lives in poverty with 31% earning less than \$2 a day. In the case of Ametex, ATPDEA has provided quality jobs to the country's poor, including many indigenous women who are among the most historically marginalized members of society in Bolivia and throughout the Andean region.

As you all know, Bolivia was suspended as an ATPDEA beneficiary country this past fall. Since then, I am told that Ametex is having enormous financial difficulties. The company will undergo massive layoffs and could even shut down. Unfortunately, Ametex is only one of several companies which will be hit hard by the suspension of the trade preferences. Indeed, the job losses could tally into the tens of thousands. Marcos, I hope I have not previewed your testimony too much, but this is so important, and we all deserve to hear what has happened in your own words.

Let me say that I believe there is no one in the U.S. Congress who wants more than I to see improved relations between the United States and Bolivia, and the reinstatement of Bolivia's ATPDEA benefits.

I met with Bolivian President Evo Morales twice last year – once in La Paz and a second time in my office here in Washington. My message to President Morales in our meetings has been consistent: please help me to help you. I want to be an advocate for Bolivia in Washington, but President Morales's expulsion of the U.S. and Israeli Ambassadors and U.S. Drug Enforcement Administration (DEA) agents over the past six

months make it increasingly difficult for me. In particular, I have known former U.S. Ambassador to Bolivia Phil Goldberg for many years. He is a fine career diplomat, and I am certain that the Bolivian Government's allegations against him were completely unfounded. Finally, I was particularly troubled by President Morales's statement at a Summit of Latin American leaders in Brazil in December that, "we should give the new government of the United States a deadline in order to end the embargo [on Cuba]. If the newly elected U.S. Government does not lift the economic embargo, we will lift their ambassadors out of our countries." This kind of rhetoric certainly does not help, especially as the Bolivian Government attempts to reach out to the Obama Administration.

That said, I would like to see both of our countries move quickly to improve relations. But, my message to the Bolivian Government is that it takes two to tango. I urge the Morales and Obama Administrations to immediately initiate a high level bilateral dialogue that can quickly result in an exchange of ambassadors, a renewed strategy for joint counternarcotics efforts, and in turn, the reinstatement of ATPDEA benefits for Bolivia. Personal stories like that of Marcos Iberkleid and his 4,000 employees prove that time is of the essence in reinstating ATPDEA.

I recognize that Bolivia is a sovereign country and is not required to have our DEA agents present. **But**, I also believe that the way in which the agents were expelled is regrettable. As we look to restore relations and reinstate ATPDEA, we must find a way to rebuild trust between our leaders and our governments. We must move beyond the constant suspicions, especially in La Paz, where the most negative inference is drawn from every action and reaction. Even if our two governments do not agree on every detail, there certainly are enough intersections of our mutual interests to allow more effective cooperation on counternarcotics and other matters.

Evo Morales is Bolivia's first indigenous president and is committed to lifting up impoverished people in his country. I congratulated President Morales on his personal achievements and his commitment to Bolivia's poor each time we met. I come from a working class background and would like to help President Morales and other leaders in Latin America roll back poverty and create jobs. Yet, I truly believe that President Morales's commitment to Bolivia's poor could in part be shown by a renewed effort from his government to improve relations with the U.S., which I hope would in turn lead to the return of Bolivia's ATPDEA benefits.

I am now pleased to introduce our distinguished witnesses. Peter DeShazo is the director of the Americas Program at the Center for Strategic and International Studies (CSIS). Kathryn Ledebur is the director of the Andean Information Network which is based in Cochabamba, Bolivia. Ivan Rebolledo is the president of the Bolivian-American Chamber of Commerce in New York. Marcos Iberkleid is, of course, the CEO of Ametex. And, last but not least, Jaime Daremblum is a senior fellow and the director of the Center for Latin American Studies at the Hudson Institute.

With that, I now would like to call on Ranking Member Mack for his opening statement.

Mr. BURTON. Thank you, Mr. Chairman. I will not speak for very long, it will be very brief.

First of all, I want to apologize to our good friends whom I have known for so long when I was chairman and then ranking member for the problems that are being created there in Bolivia. But President Morales and the President of Venezuela seem to be committed to a Bolivarian kind of revolution which will lead to a socialistic government and control of all of Latin America, if they have their way.

I have met with the Vice President of Bolivia. We have talked face to face and heart to heart, and I think they understand that the United States is for freedom, democracy and human rights, and we are not for a socialistic kind of economy that is going to destroy Bolivia, create more unemployment and exacerbate the problems of poverty that they have down there right now, and so I do not know if there is anybody here from the press in Bolivia, but the United States, in my opinion, at least from my perspective, cannot and will not support that government down there when they are so repressive as far as economic conditions of that country are concerned, and their policies can only lead to more poverty and more problems.

So I hope that message gets back to Mr. Morales. We would like to work with him. I know the chairman feels that way and the ranking member feels that way, but to support a government that they are all trying to model on Cuba is not the answer, and I for one will do everything I can to help the people of Bolivia where we can, but to oppose the governmental policies of Morales.

With that, Mr. Chairman, thank you very much.

Mr. ENGEL. Thank you very much, Mr. Burton.

Let me ask anyone who cares to answer from our witnesses: The United States and Bolivia in the past have had close relations, but obviously, as we have mentioned, the relations have deteriorated. Our USAID programs, particularly those dealing with alternative development in the Chapare region, and democracy promotion have been under constant attack. Yet, at the same time, Bolivia remains one of the largest recipients of United States foreign assistance in Latin America. In Fiscal Year 2008, Bolivia received an estimated \$100 million. So let me ask you this.

Should the United States cutback on foreign assistance to Bolivia or should we maintain funding in spite of anti-U.S. rhetoric and actions? Are there any particular areas of U.S. assistance to Bolivia that should be cut? Are there any areas that should be increased, and what type of assistance works best in the current environment? Anyone who would like to answer, I am happy to call on them.

Ambassador, why don't we start with you.

Mr. DESHAZO. Thank you very much, Mr. Chairman.

As I mentioned in my remarks, I am very much in favor of aid programs, that I think USAID has played a very important role over the decades in promoting development in many areas in Bolivia. I would very strongly support enhancements of those programs, especially in areas that are most substantially needed, including health, the environment, and particularly agricultural programs on the Altiplano. There are programs that help create jobs

in indigenous areas, such as El Alto, that have been very successful. In the past, there have been important democracy-building programs conducted by USAID and a very wide variety of other programs. I think the USAID program in Bolivia has been successful over the years and deserves full support. Thank you.

Mr. ENGEL. Thank you. Ms. Ledebur.

Ms. LEDEBUR. Thank you. It is my assessment that the USAID funding and projects have become a point of contention in Bolivia during the Morales administration. It is essential to create a basis of trust and transparency within which both governments can be comfortable.

I think that the amount of aid does not need to continue without restructuring or refocusing that can be agreed upon by both governments. I would suggest that programs that generated a great deal of conflict—and I think it is important to note that I have been in Bolivia for 20 years, and I have worked in the Chapare region on the ground in the coca growing region and evaluated USAID projects for the past 10 years—that it is important not to just maintain a quantity of projects without looking at their nature.

I do have concerns with the way that USAID projects work in terms of the contractors and the flow of information that reaches Washington. We do not necessarily have a precise view here of exactly what happens as the information makes its way up the bureaucratic channel.

I would propose that Bolivia and the United States arrive at an agreement of a low level of cooperation through USAID, with transparency measures incorporated, on issues that are of concern of both the Obama and Morales administrations, such as education, healthcare, and poverty alleviation. This is the key to build trust through lower-level cooperation instead of programs that have generated a great deal of friction, including regional assistance to departmental governments, when there are no transparency measures to regulate their relationship with the central government, and democracy promotion programs, which have also generated friction. I do not perceive this as a punishment for Bolivia. I do not perceive this as a result of friction with the Morales administration, but I perceive this as a way to start forming a new foundation, little by little, in a way that both governments can feel satisfied and comfortable. I think that at a point in time where there is a severe economic crisis within the United States, that we should begin to focus our priorities in a way that we can improve relations with Bolivia, but also economize at home.

Mr. ENGEL. Thank you. When we were there, there was very real talk about the possibility of Bolivia splitting in two actually. Are any of you concerned about that or has that subsided by now? Has that gone back a little bit? Anybody want to take that on? Just wondering if anybody has a feel for that. Yes.

Ms. LEDEBUR. I think that there has been friction as a result of regional issues, but that lowland governments and the governments that are seeking autonomy are most specifically seeking a way to confront Morales to strengthen their power base and regional power. They would actually have very little to gain from seceding from Bolivia, and I assume that that is something that

would not happen in any case happen. In fact, these hydrocarbon rich departments would have to export their hydrocarbons through Bolivia to other nations in order to achieve this.

I think it is important to understand the nature of conflict in Bolivia and regional conflict, and the way that the autonomy issue has been used to reestablish a balance of power within the Bolivian state, but the prospect of real genuine division would leave these departments without any leverage against Evo Morales.

Mr. ENGEL. Let me ask one last question, and let me ask this to Mr. Iberkleid, and then I will turn it over to Mr. Mack.

If Bolivia were to be reinstated as an ATPDEA beneficiary country, could your business recover? And what if Bolivia were to be reinstated say half a year from now, 6 months to 1 year from now, what are the circumstances? How long does it take to go down the pipeline?

Mr. IBERKLEID. Chairman, thank you very much.

It will take some time, the damage has been done. We have lost most of our customers. It is a matter of seeing where the market is. Right now there is a negative market. The market is downsizing, and I believe an effort could be made but it will take 1 year or 2 years to reestablish an acceptable size market. It will not be immediate. It is not like a switch.

Mr. ENGEL. It does not move that fast.

Mr. IBERKLEID. It does not move. It will not move that fast now.

Mr. ENGEL. Thank you. Thank you.

Mr. Mack? I think he had a response.

Mr. ENGEL. Oh, Mr. Daremblum. I am sorry

Mr. DAREMBLUM. Some of the issues that you have raised before. I do not believe it is possible to look at trade preferences or USAID or any type of cooperation independently of basic diplomatic, modicum relationship, cooperation between Bolivia and the United States. I feel, however, that we cannot be optimistic in terms of what is going to happen in the relationship between Bolivia and the United States, and, of course, we will have to wait until we see that there is an active engagement between the two of them.

But the dynamic that Mr. Morales has evidenced, not too different from that of Mr. Chavez, it really runs against that basic relationship with the United States as well as with important sectors of his own society. I do not think we can be optimistic about him in general, and I think that we have to test whether or not it is possible to advance diplomatically with Mr. Morales more than has been possible until today. Thank you.

Mr. ENGEL. Thank you. Thank you very much.

Mr. Mack.

Mr. MACK. Thank you, Mr. Chairman. It is good to be here with you again. I offered to take the chair when you were not here, but for some reason your side was not too happy about that. [Laughter.]

Mr. ENGEL. We can dream, Mr. Mack. What can I tell you? [Laughter.]

Mr. MACK. It is good to be with you. Thank you.

You know, as I was listening a question kept coming to mind as I listened to each one of you speak, that, you know, we have heard about doing some low-level stuff to keep communications open, but

my question is, would we be better off, as you look at Latin America as a whole, if Evo Morales does not want a relationship with the United States, would we be better off to take those resources and support our allies and others that may be in a position, that want to have a relationship with us?

Because if it is so heated right now, maybe the best thing to do is say, hey, look, let us take a timeout, let us have a cooling off period, and we can take those resources and go somewhere else where we might get more bang for the buck, where we can start developing relationships with people, and then we can come back and visit this, because, first of all, the idea that somehow it is the United States is the bad guy in all of this when it is clear that Hugo Chavez and Evo Morales and Fidel Castro are all playing from the same playbook. I mean, it is the steady drum beat. You know, it is predictable at this point.

So the question is would we be better off looking at the Western Hemisphere as a whole, to take those resources and support our friends and allies that need it? Anyone? No one wants to touch that?

Mr. DESHAZO. I would be happy to respond. I think we have long-term interests in Bolivia in reaching out to the people of Bolivia regardless of their government. I believe that the kinds of programs that the United States has engaged in over time, especially related to addressing issues of poverty, education, health, and governance, are matters that have long-term importance for the United States, and therefore the maintenance of them, I believe, promotes a positive image of the United States among the people of Bolivia. We also have other long-term interests that involve the counternarcotics section of our Embassy and others that are there.

I think that maintaining a base presence of the United States, a basic presence of support, or even enhancing that support and looking for other ways to improve long-term people-to-people relations with Bolivia is a very positive thing to do. We may have short-term difficulties and controversies with one government or another, but generally I think the policy of long-term engagement is a good one. Thank you.

Mr. REBOLLEDO. Mr. Mack, thank you.

I think abandoning Bolivia at this point in time or disengaging would be an enormous error. If we look at the abandonment of Afghanistan in the early eighties—I am sorry?

Mr. ENGEL. The microphone?

Mr. REBOLLEDO. It is on.

Mr. ENGEL. It is on?

Mr. REBOLLEDO. Yes.

Mr. ENGEL. Pull it a little closer if you can.

Mr. REBOLLEDO. Okay. Sorry. So as I was saying, disengaging with Bolivia at this point in time I believe would be a serious error.

The primary issue between Bolivia and the United States as I see it is our U.S. counternarcotics policy. I strongly believe that we should slowly begin to migrate U.S. efforts in this arena to the multilateral arena with institutions such as the European Union and the U.N. Office on Drugs and Crime. They are seen as much more neutral and could contribute to a better bilateral relationship.

This would obviously mean more funding by the U.S. Government to U.N. Office on Drugs and Crime.

Having just come back from La Paz, I had the opportunity to meet with EU ambassadors, and they are all very concerned with the departure of DEA, particularly the Brazilians where we are beginning to see a flow—well, we have been seeing a flow of cocaine smuggling through Brazil to Africa and to Western Europe. But they also are beginning to come around to this idea of perhaps giving a more important role to the multilateral agencies and having this whole certification process fall to them. Thank you.

Mr. MACK. Thank you, Mr. Chairman. Thank you.

Mr. ENGEL. Thank you. Mr. Sires.

Mr. SIRES. Yes. Good afternoon. Thank you for your comments.

I do not know who wants to take this, but with the situation in the world like it is, you have a country like Bolivia that depends on foreign investment, trying to promote keep jobs and create for the people. You have Bolivia is nationalizing. Why would I, if I am a foreign country, invest in Bolivia when I see the relationship with Tehran, Venezuela, Cuba? Why would I invest in a country with the rhetoric that is coming out of Bolivia? Anyone want to answer?

Mr. REBOLLEDO. I will take a stab at it. I think it all has to do with competitive advantage. So if you—

Mr. SIRES. I am sorry?

Mr. REBOLLEDO. It all has to do with competitive advantage. So if you look at the issue, for example, of lithium right now, which is an integral part in batteries for hybrid-powered cars, everyone is now interested in lithium reserves in Bolivia. President Morales was just in France where he met with various investors—Sumitomo of Japan, Mitsubishi, LG, a South Korean company, Bolloré, a French company. So in their vision the risk is probably worth it.

But obviously for the rest of the private sector the lack of transparency in the judicial system and the way the new constitution deals with foreign direct investment is a major problem.

Mr. SIRES. Anyone else like to take a stab at it? Ambassador?

Mr. DESHAZO. Well, clearly the response to the Morales administration has been a large drop off in foreign direct investment. I think probably the key area here has been the hydrocarbons sector, where foreign investment has tailed off substantially, leading to problems with production, which coupled with lower prices for natural gas, will mean a difficult economic situation for the Morales administration as it moves forward.

Bolivia has the second largest natural gas reserves in Latin America. It was poised to be a gas hub for the entire region, and now it cannot honor its contracts with some of its foreign clients. So it has been an opportunity that up until now has been lost, and it has been lost largely because of lack of investment, and there is a tremendous potential there. Thank you.

Mr. REBOLLEDO. I would like to add one more thing if I may. It is interesting to see as well that President Morales is now focusing on state-to-state investment in Bolivia. We are seeing a possible GAZPROM investment, PDVSA (Venezuelan state oil company) investments, the Iranian National Oil Company. So far the only positive state-to-state investment that he has had and that has thrived

is Petrobras, and even that relationship is a tenuous one. Thank you.

Mr. SIRES. You know, somebody mentioned before that we should be going away from an anti-narcotic relationship and evolve into another relationship. What other relationship could we get involved in other than—fine, I will let you—

Mr. IBERKLEID. Our suggestion is to help Bolivians have a better life, to create an opportunity for themselves.

Mr. SIRES. We have been doing that all along though, have we not?

Mr. IBERKLEID. We have, but we have pulled the carpet under the floor in the last couple of years because ATPA was a great instrument to build that, and we no longer have an ATPA.

Mr. SIRES. But that our reaction to an action.

Mr. IBERKLEID. Yes. Yes. However, I must say that it is through the private sector that we can build these opportunities and it is the private sector who is hurting right now because of these reactions. That is why we are asking for a reconsideration of this policy change.

Mr. SIRES. Anyone else?

Ms. LEDEBUR. I think it is essential to note that the conditioned role of narcotics policy and the central focus on counternarcotics in Bolivia has focused a great deal on the elimination of the coca leaf and coca leaf eradication. I would suggest that moving away from that, and looking at poverty alleviation, education and health care is a way to stimulate other economic opportunities to focus on something that is viable for both nations.

It is important to note that, not only has the counternarcotics focus created great friction, but it has also impeded progress in many, many other areas. The certification process and the way that it is carried out tends to generate a great deal of friction throughout Latin America.

I also agree with Ivan. De-narcoticizing the relationship and focusing on areas of common concern, a multilateral approach, using European partners and the U.N. are important. But also looking at the Andes as a region and how to deal with things regionally, to not focus solely on coca production are essential to improve relations. It is important to note that while the relations have been focused on anti-narcotics, coca production for the last 20 years has continued to rise in the Andean region. We have not been meeting our goals and we have not improved relations as a result of the policy that has been implemented.

Mr. ENGEL. I think Dr. Daremblum—

Mr. SIRES. Thank you very much.

Mr. ENGEL. Dr. Daremblum, I think, wants to answer

Mr. DAREMBLUM. About private investment, the conditions that exist seem to be in the immediate future in Bolivia are not conducive to foreign investment in the country in terms of certainty about the judiciary, certainly about the political stability of the country itself.

I do not believe, and I have to go back to our initial discussion, but prior to talk about stimulating private investment and to helping in this and any other field in Bolivia, it is important to establish a framework on what the relationship of the United States

with Bolivia is going to be. The only way of creating that or agreeing on that framework, which of course is a prerequisite of all the others, is something that should be handled at the highest level and as soon as the Obama administration is ready to engage in the Western Hemisphere.

On the other hand, I do not believe that the United States should not have a diplomatic presence in Bolivia. They are friends of the United States. There are sectors in which the United States can carry on an engagement, important sectors of Bolivia society, and therefore I do believe that the presence of the Embassy and a basic type of presence of the United States in Bolivia continuing is very important. Thank you.

Mr. ENGEL. Thank you. Mr. Burton?

Mr. BURTON. Thank you, Mr. Chairman. It is good being with you again. I am sorry you were late. I understand you had a little difficulty getting in.

Mr. ENGEL. I did, but I must say it seems strange not having you in your usual seat.

Mr. BURTON. Well, you have got a good man sitting next to you. His dad and I were good friends. We watched Chariots of Fire in my living room floor when he was a kid.

But let me start off by saying it is really nice being with you guys, and I would love, I would love to be able to be very optimistic about our relationship with Bolivia. When I was here in the eighties and I remember the Communist and the Leftist, Fidel Castro, and Nicaragua and everybody in the—the FLMN in El Salvador was trying to move everything to the left, and Ronald Reagan and his administration did everything we could to create democracy in the Central and South America, and as a result we saw democracy flourish all over Latin America and Central America.

Now we have seen with Mr. Chavez everything is starting to move to the left. He has taken an awful lot of his oil money and used it not to enhance the lives and quality of life for his people there in Venezuela, but he has used it to try to cause revolution in South America and Central America, his Bolivarian goals, and Mr. Morales is going along with him.

They have kicked out the DEA and our ambassador. They have kind of roughed up, at least metaphorically speaking, our Peace Corps people, and you know, they are moving to the left, and I cannot understand, and I am very sympathetic to you and your textile business and the kind of problems that you are encountering. My gosh, you have been a good trading partner. But the problem is not with you, it is with the government, and when I see these countries moving to the left, as they did back in the eighties, it seems like a repeat of an old movie, and I do not want Raul Castro to emulate his brother, and I do not want Chavez to be able to use the oil money to promote revolution and move to the left and destroy democracies and move toward socialism, and I want to see Mr. Morales, along with Mr. Chavez and Mr. Ortega in Nicaragua continue to push everything to the left because that is destructive not only of their countries but of all of Latin America.

I understand what you are saying about we really need to do something to help the people down there and we should do it

through USAID, but you have got to do that with the government's help. You cannot do it with him opposing us on everything that we are trying to do.

You know, those who do not profit from history are destined to have the same result over and over again, and I have used this comparison many times and I know it is not this severe, but I remember when I was going to school, and we read about Lord Chamberlain going to Munich to try to appease Hitler and say, hey, we want to get along with you. What do we have to do to get along? And we ended up with 50–60 million people being killed.

Now that is probably not going to happen in Latin America, but we could see an awful lot of additional poverty and strife down there, and maybe more war like we saw in Nicaragua and El Salvador if we continue to let these Leftist governments move the way they are, the way they have been moving, and we ought to be doing everything we can, in my opinion, to bring about some positive change as they did during the Reagan years, toward democracy, and allowing Mr. Chavez and Mr. Morales and other countries down there that are moving to the left to continue to be able to get what they want and to negotiate with them on their terms is to encourage them and to encourage the movement to the left that Fidel Castro was pushing so hard for during his reign in Cuba.

I am just concerned about giving our money to governments like the one of Mr. Morales. I am very concerned about working with them when they are showing nothing but animosity toward the United States. And you have talked about our economic problems here in the U.S., and I believe we ought to be very concerned about the U.S. economy first, and then be concerned about the rest of the world. Charity begins at home, and then we should help the rest of the people in this world that are our friends, and the ones that continue to oppose us, in my opinion, should get zip, and we should let them know that if they want our help, if they want to work with us, we want to work with them.

We will negotiate with them, we will talk with them, and we will do everything we can to help them and their economies as long as they are willing to talk, but when they kick our ambassador out, kick the DEA out, bully our people that are working in the Embassy down there and our Peace Corps volunteers, I cannot see why in the world we should do anything, and I apologize to the businesses down there that are trying to flourish, but I do not know how to help them as long as Morales has the attitude he has, and I am very sympathetic to you, I really am. I wish the dickens we could do something, but we cannot do it with that government in power unless they are willing to talk and negotiate with us.

Mr. ENGEL. Would you like anyone to comment, Mr. Burton?

Mr. BURTON. You are welcome to comment.

Mr. ENGEL. If not—see, after Mr. Burton speaks everyone is speechless. [Laughter.]

If not, we will ask Mr. Payne.

Mr. PAYNE. Thank you very much. It is really good to hear your testimony. I think that it is a great tribute to Bolivia that for the first time in its history they have elected an indigenous person to lead the country, and I do believe that to try to right wrongs of the past is not necessarily the worst thing in the world to do. As a mat-

ter of fact, if we try to accentuate the positive, the foreign minister, I think, recently said that Bolivia wants to construct a positive relationship with the United States, and we are talking about reestablishing our ambassador, he said, and went on to congratulate the U.S. for eliminating Guantanamo Bay base, and said this is a step in the right direction.

As a matter of fact, even Senator Lugar, who is from Indiana, good friend of Mr. Burton's, said that if our two countries can continue to speak—and this was only about 3 or 4 weeks ago—continue to speak to one another respectfully, and if we can each designate ambassadors, yet another step would be taken to ensure that these developments represent a positive new stage in the relationship between the United States and Bolivia.

So I do think, in my opinion, that we can, with the new administration, move toward perhaps a new beginning.

I do not think it is necessarily bad that a country moves to the left. You know, France moved to the left at one time. We did not stop relations with France. We see some countries have elections that move to the right, the new elections in Israel that moved to the right. That is fine. That is what the people wanted. If the people in Bolivia wanted to move to the left, then that is what they want. I think we need to learn to work with countries and try to have some assistance.

Let me just finally say about the Peace Corps being expelled, actually a Peace Corps volunteer admitted that he was asked by the U.S. Embassy in Bolivia to basically spy, to see whether there were Cubans or Venezuelan doctors or anyone else in the country. He just said the Embassy told him to do that.

So, you know, sometimes when these actions happen, I think we have got to be fair about the way that we disseminate information.

Now, I hope that Bolivia would be pro-democracy, love America, do the right thing, but I do think too by the same token that we have a responsibility to have the facts out straight, and I think our goal should be to try to see if we can forge relationships and to try to lower the rhetoric and try to see where there can be ways in which our two countries who for so many years have had a good relationship, can continue to have a decent relationship.

So since we are going to have a vote soon, I will just kind of conclude that I would hope that we can move in a positive way to see—and the other thing is a lot of the money that we are spending there, of course, is to try to eradicate the drug problem, the coca problem, and I wish we could. However, there would be no big market for it if Americans were not buying it all. We are the ones with the money. It is everybody's problem to work on this whole thing, and I would rather see us spend money on education for Americans and other people using it, and we do not need to waste a lot of money on eradication. Thank you.

Mr. ENGEL. Thank you, Mr. Payne. Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman, and I think I am late getting here, but I heard you say that it takes two to tango, and I agree, on both sides. Bolivia has to do its side and we have to do our side.

I recently read where a quote of a person from Bolivia says, "With my humble vote, I am creating a little bit of hope for my

children.” That is what Imira, an Indian woman, said after voting in January for Bolivia’s new constitution.

People are looking at, and I am one who has favored working and trading with Bolivia, and I think we have to find a way to do that, but on a different platform from which we have in the past. When you look at the bright side of things, democracy does live in Bolivia. The people voted. The people voted. That is what democracy is all about. Not the United States to come in and say, well, you did not vote the way we want you to vote, or you are not moving the way we tell you to vote. People do not want to be told. They want an honest answer, respect us. The people of Bolivia talking. So why can’t their vote be respected? It is their country, and it is our job to figure out how to work collectively with them.

Many of these individuals have never had an opportunity to have a voice in government before. Now they have a voice. I think that is a good thing. Democracy is not something that you just throw around and just say it happens. It took us a long time to do it right here. I mean, I can recall that just a few years ago, you know, it is not hard for me to remember that we had to amend our constitution. It is called the Fifteenth Amendment to the United States Constitution that prohibited discrimination against voters, and it was ratified in 1870. But even in this great country it was not until 1965, with the Voting Rights Act, that African-Americans began to have true freedom and exercise the right and responsibility to vote. As we all say, we did not have a democracy.

There is a democracy going on in Bolivia. There is a democracy going on in other places. If you talk to other leaders on the hemisphere, that is what they like. You talk to President Lula as I have. When he was in New York, he recently said while he was sitting alongside President Morales that we will not have lasting prosperity if all our South American brothers do not have prosperity as well. That is what we should wish for them. But we should not say that you come in and just do what I tell you to do because I am the United States of America and I am bigger than you. I have more military power than you.

I think that is why we are looked at in a bad way, and I am hopeful that there is a new message that is being sent by the new administration; that we are going to be moving in a different direction. Foreign policy is not going to be conducted the same as it has been for the last 8 years, and to me that is a positive because when we work together, as we have in the beginning until we get into these rhetoric conversations, is beneficial for the Bolivians and it is beneficial for the United States of America, and that is what we have got to look at for that compromise. Down the middle. We can talk to one another and figure out how we can do together.

I think, for example, when it comes to economic ties we must figure out how to address the ATPDA with Bolivia. This program has proven successful in Bolivia; has created jobs and given hope to 1,000 of hard-working Bolivians. I look forward to working with a new path on the ATPDEA and drug cooperation this year.

But I conclude with a statement that was made by a little boy. It was an article that I read just a few minutes ago on the way here and reading. It was from a boy from a remote farm in Bolivia where—and he was an indigenous boy, and he told reporters, “Now

we can be equal to the others. Now there should be no more discrimination.”

That young boy has hope for a better tomorrow because people were able to participate in a democracy, and for the first time individuals who for decades did not have a voice in their own government finally has a voice. That is a good thing. They are proud of the fact that they have an indigenous President who not only represents them, but represents the old country just as I am proud of the fact that in the United States of America I have President Barack Obama who happens to be an African-American but represents all of the people of the United States. It is democracy at work, and we should applaud that.

Mr. ENGEL. Thank you. Thank you, Mr. Meeks.

We have a vote so I am not going to prolong the hearing, but I just want to throw out a couple of things, and these are things to think about. President Bush, in September, decertified Bolivia by adding it to the list of countries that failed to live up to their obligations under the International Narcotics Agreements, and one of the things we need to think about is if President Bush decertified Bolivia, is it something that we should negotiate now with the Bolivian Government to see if they would change their policies and perhaps would not be decertified.

The other thing is that President Obama has the authority to unilaterally reinstate Bolivia as an ATPDEA beneficiary country anytime, and so the question will be should he do it, should it be without preconditions and immediately, or should the reinstatement of ATPDEA be contingent upon either an exchange of ambassadors and/or the return of U.S. Drug Enforcement Administration, DEA personnel, and the recertification of Bolivia, someone cooperating with us in the fight against drugs. These are all questions that we are going to have to look at, and hopefully will be answered in the not too distant future.

I want to thank our guests for testifying. The testimony was certainly very interesting. Obviously, this is going to continue and United States-Bolivian relations are going to be something that we can continue to monitor, and talk about.

I want to just say that when we are looking at the decertification, ATPDEA, and the removal of our ambassadors, we also ought to look at the Peace Corps. I think, was it Mr. Payne who mentioned the Peace Corps, the Peace Corps unilaterally, Peace Corps left Bolivia citing growing instability, and announced the suspension of its operations in Bolivia, and there was a removal of 113 U.S. volunteers that came shortly after the expulsion of our ambassador, and the question is was it tit for tat? Should it be tit for tat? Should we use the Peace Corps as a tool in diplomacy, or was this just something that really didn't have anything to do with the removal of the ambassadors? That is also something that we will continue to monitor and something that is very interesting for us to follow.

So I want to thank our witnesses. I want to thank you very much.

I want to announce that either on March 18 or March 19 this subcommittee, in conjunction with Representative Cuellar, who chairs a subcommittee on the Homeland Security Committee, will

be having a joint hearing on Mexico, and the problems with the drug cartels and the ongoing violence and the increase in violence in Mexico involving drugs. There is an article in today's Washington Times on the front page which talks about the drug cartels in Mexico having 100,000 soldiers that it controls, and the Mexican Government only has a little bit more than 100,000. So this is very, very serious when the drug cartels have as many people as the entire Mexican Government in terms of soldiers, and we look at the possible destabilization of that country.

Our subcommittee just came back from a trip to Mexico where we had discussions with President Calderon for a long, long time. And so that will be on March 18 or 19. We are still finalizing the time and the place, but that will be with Congressman Cuellar, and it will be both our subcommittees, so I hope people will come, and we can get to the core of the problems in Mexico.

So, again, thank you for testifying—

Mr. MEEKS. Mr. Chairman.

Mr. ENGEL. Yes, Mr. Meeks.

Mr. MEEKS. I would like to submit my entire opening remark for the record, without objection.

Mr. ENGEL. Without objection, so ordered. His entire remarks will be part of the record.

Thank you, again. Thanks, Mr. Mack and all the witnesses for testifying, and the hearing is now adjourned.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

# A P P E N D I X



MATERIAL SUBMITTED FOR THE HEARING RECORD

**SUBCOMMITTEE HEARING NOTICE**  
**COMMITTEE ON FOREIGN AFFAIRS**  
*U.S. HOUSE OF REPRESENTATIVES*  
*WASHINGTON, D.C. 20515*

**SUBCOMMITTEE ON THE WESTERN HEMISPHERE**  
**Eliot L. Engel (D-NY), Chairman**

March 2, 2009

**TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS**

You are respectfully requested to attend the following OPEN hearing of the Subcommittee on the Western Hemisphere, to be held in Room 2172 of the Rayburn House Office Building:

**DATE:** Tuesday, March 3, 2009

**TIME:** 2:00 p.m.

**SUBJECT:** U.S.-Bolivia Relations: Looking Ahead

**WITNESSES:** The Honorable Peter DeShazo  
Director  
Americas Program  
Center for Strategic and International Studies

Ms. Kathryn Ledebur  
Director  
Andean Information Network

Mr. Ivan Rebolledo  
President  
Bolivian-American Chamber of Commerce, Inc.

Mr. Marcos Iberkleid  
Chief Executive Officer  
Ametex, America Textil S.A.

Jaime Daramblum, Ph.D.  
Senior Fellow  
Director, Center for Latin American Studies  
Hudson Institute

**By Direction of the Chairman**

*The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee as noted above.*

### COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON Western Hemisphere MEETING

Day Tuesday Date 03/03/09 Room 2172

Starting Time 2:13 pm Ending Time 3:45 pm

Recesses  (\_\_\_\_\_ to \_\_\_\_\_)

Presiding Member(s) Eliot L. Engel, Albio Sires

CHECK ALL OF THE FOLLOWING THAT APPLY:

- Open Session
- Executive (closed) Session
- Televised
- Electronically Recorded (taped)
- Stenographic Record

TITLE OF HEARING or BILLS FOR MARKUP: (Include bill number(s) and title(s) of legislation.)  
"U.S.-Bolivia Relations: Looking Ahead"

SUBCOMMITTEE MEMBERS PRESENT:  
Eliot L. Engel, Albio Sires, Connie Mack, Gregory W. Meeks, Dan Burton, Donald M. Payne, Barbara Lee, Gus M. Bilirakis, Ron Klein

NON-SUBCOMMITTEE MEMBERS PRESENT: (Mark with an \* if they are not Members of HIRC.)

HEARING WITNESSES: Same as meeting notice attached? Yes  No   
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: (List any statements submitted for the record.)

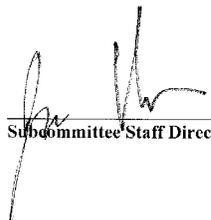
Meeks statement, Burton statement, Embassy of Bolivia report and annexes

ACTIONS TAKEN DURING THE MARKUP: (Attach copies of legislation and amendments.)

RECORDED VOTES TAKEN (FOR MARKUP): (Attach final vote tally sheet listing each member.)

Subject	Yeas	Nays	Present	Not Voting

TIME SCHEDULED TO RECONVENE \_\_\_\_\_  
or  
TIME ADJOURNED 3:45 pm

  
\_\_\_\_\_  
Subcommittee Staff Director

**Opening Statement  
Ranking Member Connie Mack  
Subcommittee on the Western Hemisphere  
Committee on Foreign Affairs  
March 17, 2009**

**Guns, Drugs and Violence:  
The Merida Initiative and the Challenge in Mexico**

Thank you Mr. Chairman. Thank you for your strong leadership in this subcommittee and for holding this important hearing today.

I also want to thank our witnesses for coming and for sharing their insight and knowledge and thoughts on our relationship with Mexico.

The panels today will be discussing key issues relating to the escalating violence related to growing drug trafficking and the cartels in Mexico and how the Merida Initiative will help bolster not just our security but the security of the entire hemisphere.

There are several areas I would particularly like to focus on with our witnesses today. But before I do, I think it is important to highlight the hard work of President Felipe Calderon. This is a president who has taken the drug cartels head on and has not flinched in his fight to rid Mexico of these cowards. This fight will not be an easy one, and I think that it is admirable that the Mexican government has undertaken a fight that many have shied away from.

As to our panel, I am curious to hear your thoughts on current funding for the Merida Initiative and where and how should the money be used? The Merida Initiative is an essential tool in the fight against drugs and crime.

While I have been and remain a strong supporter of Plan Colombia, I recognize that many members of Congress are divided over this. But no one can deny that drug trafficking in Colombia has been greatly reduced and the violence in Colombia caused by the cartels and narcoterrorists such as the FARC has been overwhelmingly reduced.

As everyone is aware, in 2008, nearly 6000 people were killed in Mexico due to drug trafficking violence. This year alone there have been more than 1000 deaths. These numbers and the growing strength and audacity of the cartels means that now, more than ever, Congress and the Obama Administration must stand with our allies in Mexico and support full funding for the Merida Initiative.

This is not only a problem for Mexicans. This is a problem for Americans. You see, there is an interesting link between drugs and the instability of governments.

Consider Venezuela. Venezuela is a country that is a major trafficking route for drugs coming out of South America. Hugo Chavez has allowed narco-traffickers, such as the FARC and others, to operate freely. And just this week El Salvador elected a candidate whose party was closely affiliated with the FARC.

As the fight against drug cartels continues in Mexico, and men like Hugo Chavez roam around Latin America manipulating democracies, let us not let those cowardly thugs fill the void. Instead, let us stand tall with our friends and help them in their need.

Mr. Chairman, another tool that is indispensable in fighting drugs and crime are strong commercial ties. My judgment is that the free flow of trade between two countries is the basic weapon one can use in fighting poverty, crime, and drugs. In my opinion, a continued and strong bond between our peoples can only lead to increased prosperity in both nations. We in Congress must have an honest conversation when it comes to this issue. If we have concerns that deal with safety; then we must address these safety concerns and ensure that the free flow of goods is re-established. If we have other concerns, we must work together with our Mexican partners to fully address, and more importantly, resolve these issues.

Lastly, I wanted to touch on a critical concern that will surely come up today: guns. Many have used the violence in Mexico to push their gun control agenda. My constituents know that I am an ardent supporter of the Bill of Rights and in particular the Second Amendment.

While we all know that the escalating violence in Mexico is a tremendous problem and must be decreased, we cannot allow people in this country to use this situation in order to advance their gun ban agenda here in the United States.

Instead of creating new laws and bans in this country, we should start by enforcing the existing laws that are on our books. As an example Mr. Chairman, it is already against the law to smuggle guns across the border. It is already against the law to use a straw man to purchase a gun in this country. But now is not the time to punish law-abiding Americans and abrogate our Second Amendment rights.

Mr. Chairman, all of us on this committee share the same objective: we want to see illegal drug trafficking eliminated. As I hear our witnesses today, I will be paying close attention to their remarks on some of the issues I touched on and I look forward to their testimony and answers to our questions.

Thank you Mr. Chairman.

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**Congressman Gregory Meeks**

**Opening Remarks**

**Subcommittee on Western Hemisphere Hearing: U.S.-Bolivia Relations: Looking Ahead**

**March 3, 2009**

“With my humble vote, I am creating a little bit of hope for my children,” that’s what an Aymara Indian woman reportedly said after voting in January for Bolivia’s new constitution.

I have watched the political situation in Bolivia with great interest in the past few years. While one of my foremost concerns right now is the stability of the U.S. economy, I am also tremendously concerned about our neighbors in the hemisphere, particularly the less developed countries like Bolivia. And given the recent downturn in our bilateral relations, I am concerned about how we can turn the page and begin anew a friendship that can benefit both our societies.

We have all heard recent criticism of President Morales, ranging from critique of his economic agenda, to concern about the constitutional reforms he spearheaded to give more leverage to indigenous groups.

Some would say there is a lot to worry about when it comes to Bolivia. The alarm bells have been ringing lately, but as I always like to point out, I'm an optimist, and I would like to focus on the good news here. Democracy is still alive in Bolivia, despite political unrest and a tumultuous political reality dating back decades. For the first time in generations, if not centuries, the poorest citizens of Bolivia, the indigenous community, feel represented. They feel they have a voice in President Morales.

Analysts may debate Morales' track record on poverty reduction. But progress is more than just the numbers. I see a danger in failing to acknowledge that the majority of Bolivians are feeling less marginalized – they are inspired to see a leader that looks like them, understands them, and gives them a voice for the first time.

I read an article recently, reporting from a remote farm in Bolivia, where an indigenous boy told reporters – “Now we can be equal to the others. Now there should be no more discrimination.” Whether it is the Aymara Indian or the little boy, when I reflect on these sentiments I am hopeful for Bolivia and her people.

As we keep an eye on Bolivia, let's remember that democracy took a while to mature in the United States, too. It isn't hard for me to recall that just a few decades ago blacks in the United States struggled to participate in American

Democracy. Although the 15<sup>th</sup> amendment to the U.S. constitution that prohibited discrimination against voters was ratified in 1870, it wasn't until 1965 with the Voting Rights Act that African Americans began to have true freedom exercise their right and responsibility to vote. I remember stories my parents told about the transformation in our society in the middle of the last century. They told of their excitement as African Americans when they felt they had a voice, that the government was finally paying attention to them. What might seem to some a trivial thing like seeing a new road get paved, an adequate sewage system in place, or a well constructed school building in the neighborhood for the first time, all led to the feeling they were getting attention from authorities. They felt empowered, included. In fact, it is easy for me to imagine my own father using words similar to the Bolivians that speak optimistically about their future now.

These hard-earned lessons of our past should make the United States more humble, sympathetic and sensitive when it comes to the democratic struggles of our neighbors.

These are uncertain times, for both our countries. But we should focus on what we have in common, and how we can work together to overcome shared challenges. It has been said before but is no less true – we are interconnected in ways we often do not realize. The economic and political security of our neighbors is tightly linked to our own.

I am reminded of what Brazilian President Lula said recently, alongside President Morales - “We won’t have lasting prosperity if all our South American brothers don’t have prosperity as well.” The same is true for the entire hemisphere.

When it comes to economic ties, we must figure out how to address the ATPDEA with Bolivia. This program has proven successful in Bolivia, has created jobs and given hope to thousands of hard-working Bolivians. I look forward to working on a new path forward on ATPDEA and drug cooperation this year.

From my perspective, it’s all about the big picture. We have an enormous opportunity to forge a new chapter in our relationship with Bolivia, but it must indeed be new. Your testimony and expertise today will help us as we look for refreshed ways to engage with South America, particularly with countries like Bolivia that have faced the most challenges, and are trying to chart a new course.

Statement of Congressman Dan Burton,  
Subcommittee on the Western Hemisphere  
**Title: "U.S.-Bolivia Relations: Looking Ahead"**  
March 3, 2009

In the past 6 months, relations with Bolivia have been rapidly deteriorating, confirming to the United States that the partnership we previously enjoyed in the fights against poverty and narcotic trafficking are no longer a priority for the government led by President Morales.

Bolivia is a diverse country with incredible potential for trade and economic growth through the development of resources like lithium. The United States has continually made efforts to create a cooperative trade and security relationship through the Andean Trade Preferences Agreement and partnership in counternarcotics. In addition, Bolivia has been among the largest recipients of foreign assistance in the hemisphere, receiving \$122 billion in 2007.

Unfortunately, these efforts on behalf of the United States have been met with increasing contempt from President Morales, resulting in the suspension of the Preferences, a loss of the counternarcotics partnership and ever-diminishing diplomatic relationships.

The economic situation, compounded by a steady move towards this Bolivarian version of socialism, is serving only to perpetuate poverty. Brazilian and Argentine investment in natural gas has fluctuated drastically since the industry was nationalized. The passage of the socialist referendum in January was another polarizing move to extend state control of natural resources and limit land ownership.

In spite of his country's deteriorating economy, President Morales continues to take actions to destroy the jobs his people need. As a result of the suspension of the Trade Preferences, Bolivia will lose its primary trading partner and the life source of its businesses, putting tens and even hundreds of thousands of people out of a job.

I am also very concerned about the threats to hemispheric security as I hear rumors of the Morales administration positioning itself to provide uranium for Iran's nuclear program. Adding to those concerns are Bolivia's cozying relationships with countries like China and Russia.

It is my hope that something can be done to turn this situation around. It would be productive for the Morales government to tone down its rhetoric and show signs that it is willing to work with the United States to restore a mutually beneficial social, economic and security partnership.

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**BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES  
FOREIGN AFFAIRS COMMITTEE  
SUBCOMMITTEE ON THE WESTERN HEMISPHERE**

**TESTIMONY ON U.S.-BOLIVIA RELATIONS: LOOKING AHEAD**  
filed by: Embassy of Bolivia in Washington D.C.



**REPUBLIC OF BOLIVIA**

**MARCH 3, 2009**

**U.S. – BOLIVIA RELATIONS: LOOKING AHEAD**

Distinguished Congressman Eliot L. Engel, Chairman of the Subcommittee for the Western Hemisphere of the Foreign Relations Committee and distinguish members of the Foreign Relations Committee:

We take the opportunity to thank you for the early organization of this hearing concerning the bilateral relations between the United States and Bolivia with a focus toward the future, which shows your interest in overcoming the existing differences and contributes to the improvement of the relations between our countries. The Government of Bolivia would also like to supply your valuable debate with some official information through this written testimony. We consider that we share a common objective; we hope to contribute to the various analyses that are being made in Congress and that this might also serve improve the relationship between our executive branches.

It is necessary to recognize that because of different events that occurred between the past Bush Administration and the current Government of President Morales, the bilateral relationship has greatly deteriorated taking us to extreme an situation that it unfortunate but which must be overcome. In that sense, we value that this hearing's focus is set on a proactive approach of exploring mechanisms for rebuilding the lost trust and on creating a new relationship based in the fundamental principle of mutual respect in order to avoid the deepening of our divergences.

We would like to share with you some aspects and general principles upon which we would like to build the structure for this new stage of our bilateral relationship. It is important to highlight that this is President Morales's hope expressed during his recent visit to Washington, completed even before President Obama's inauguration. President Morales wanted to start a frank and direct dialogue with several Representatives of the United States Congress to establish the basis for a different relationship with the new Administration. Our President congratulated the arrival of current President Barack H. Obama through public statements and official communications, pointing out that:

“There is for the first time an indigenous President in Bolivia and a black President in the United States. We have many things in common if we are talking about change, because I have a lot of experience with change, and it would be very good to exchange experiences with the new President.”

“We have much hope that the diplomatic, commercial and investment relations with our country are going to improve. We have a great deal of hope and we are optimistic.”

The Bolivian government is interested in improving its relationship with the United States government but on equal terms, within the framework of mutual respect:

“As a developing country, we need assistance, but I also feel that we are needed. We want respect, transparent cooperation and aid directed to people who need it. I'm interested in

seeing how we can improve the relationship with the new President (Obama), I believe we have many things in common.”<sup>1</sup>

Unfortunately, we have not yet received a response from the new Administration to our positive signals. Likewise, we hope to be able to continue working on the agenda agreed to by both countries with the objective of reorienting relations through a bilateral agenda that respects the sovereignty of both countries. It is the commitment expressed by the representatives of both countries to work to build greater trust, cooperation and collaboration and that the only conspiracy in the bilateral relation be the conspiracy against poverty, against inequality and against social exclusion, guaranteeing the transparency needed in the bilateral relationship.

#### **SITUATION AND ECONOMIC RESULTS IN BOLIVIA**

In spite of the severe economic and financial crisis affecting the world, which was originated in the developed countries, Bolivia is in better conditions, thanks to the economic policies applied in the last few years, to face the negative effects affecting developing countries with severe consequences.

The International Monetary Fund has published the results of its evaluation of the national economy in the framework of article IV of that organization’s Constitutive Convention. The Board of the IMF highlights the Bolivian fiscal measures and monetary policies, the solidity of the financial system and the efforts made to control the rise in prices during 2008. They suggest continuing and strengthening the application of these types of measures.

Likewise, the 2008 Economic Commission for Latin America and the Caribbean (ECLAC) states that:

“(…) the GDP grew 5.8%, which acceleration is close to 1.2 percentage points with respect to 2007, while the urban unemployment rate stands at 7.2%, that is to say 0.5% percent points less than the previous year. Likewise, current account of the balance of payments as well as the accounts of the non-financial public sector will close with a surplus as a result primarily of the high prices of natural gas during the present year.

The five activities that presented greater growth were production of metallic and non-metallic minerals (63.0%), construction (9.0%), crude oil and natural gas (6.8%), financial establishments (6.2%) and the manufacturing industry (4.7%). The monetary environment has been characterized in the past three years by an important expansion of the monetary aggregates as a consequence of the increase of international reserves and of the substitution of the dollar for the Bolivian currency. Until September of 2008, the tax accounts showed a positive balance. The non-financial public sector had up to that date a surplus of 7.3% of the GDP, which assumes an increase of 3.1 points with respect to what was reached in the same month of 2007. The income account that registered the greatest variation was the one related to hydrocarbons, which increased 2.7% of the GDP. In 2009, the General Budget of the Nation registered an increase of the public investment close to 31.6%. Between November of 2005 and November of 2008 the international

<sup>1</sup> Statements by President Morales during his visit to the U.S. on November, 2008

reserves deposited in the Central Bank of Bolivia increased to 5.967 millions of dollars (392%), while the deposits in Bolivian currency grew from 14.5% to 47.4%. Between October of 2007 and October of 2008 they increased by 150.7% (1.361,4 million dollars).

In 2008 the Bolivian economy showed a current account surplus supported once again by the high average price of hydrocarbons during the year. In the period from January to September the current account registered a surplus of 1.576 million dollars, that was 51.5% above that of the corresponding period of the previous year. This result was fundamentally associated to the increase of exports and the migrant's remittances and due to a decrease of the negative balance of the investment account.

The increase in the purchase account in the past years has been notable, with respect to the period between January and September of 2005 it has increased more than a 100%, from 2.298 million dollars (42.3%) with respect to the end of December of 2007 and 2.538 millions of dollars (50%) in respect to the end of October of 2007.

It is forecast that in 2009 there will be two sources of concern with respect to Bolivian exports. First of all, the deceleration of global growth will suppose a possible diminution of the prices of the principal basic goods exported by Bolivia. Second of all, it could show a drop in sales in the manufactured sector because of the suspension of trade preferences given by the United States to Bolivia (...)"

Bolivia considers the decision of former President Bush to suspend trade preferences despite the United States Congress' desire to extend this benefit to our country was mainly based upon political reasons, as is manifested explicitly in the decertification declaration. In the same way, there were political reasons that lead to the suspension of the cooperation through the Millennium Challenge Corporation after Bolivia made all efforts to satisfy the technical criteria of eligibility.

The country is making all efforts to avoid the negative impact of this arbitrary suspension that was unequally applied to the beneficiary countries of the ATPDEA. It is fundamental for our government to protect the employment that has been developed in these sectors.

#### **DEMOCRACY AND NEW POLITICAL CONSTITUTION OF THE STATE**

In the framework of democracy, in spite of the internal difficulties, 67% of the voting population supported the President Morales's Administration in the so called revocatory referendum and almost 62% supported the new Political Constitution of the State. These two democratic events have allowed Bolivia to overcome great obstacles and threats to the stability of the country.

The Bolivian people are proud of the current Political Constitution of the State which is the first one to have been discussed, consulted and finally approved by referendum. It is a victory for the Bolivian people because it recognizes the rights and obligations of the whole population without exclusion of any nature. For the first time in Bolivian history the indigenous people have been fully included in the life of the Republic and have gained recognition of all their rights.

Autonomy for the regions, departments and indigenous communities has been also established legally.

Another outstanding point in this new Constitution is the important advance in the Judicial System that showed great weakness and had become a political trophy for the parties in the Legislative Branch who elected judges and magistrates. Now judges and magistrates will be elected by direct vote.

Furthermore more than 80% of the voting population rejected the large land holdings (latifundio) and supported a better distribution of the land in the Referendum in which the Bolivians approved the New Constitution.

Likewise, the new Constitution respects private, state and community property. Natural resources are the property and direct dominion of the Bolivian people that the State must administer in accordance to the collective interest. The environmental provisions contained in the Constitution have been considered a worthy example to be followed by the region.

What Bolivia expects from the new government of the United States is that, just as UNASUR and the countries of the EU have done despite sometimes divergent political views, it condemns the actions of groups in some regions of Bolivia that some of which have attempted to carry out a coup as recently as a few months ago. We do not understand how the United States, as historical defender of the democratic principles, can remain indifferent in the face of such telling events.

#### **FIGHT AGAINST POVERTY - SOCIAL POLICIES**

Regarding Bolivian efforts in the fight against poverty, the IMF states:

“The (Bolivian) authorities emphasized the importance of the efforts that are been made to reduce poverty. These mainly include efforts directed toward the youth and elderly. The mission congratulated those initiatives and emphasized the need for improved timely data for a better evaluation of progress in poverty reduction.”

According to Bolivian sources (UDAPE), the percentage of unemployment has decreased from 8.2% in 2005 to 7.7% in 2008. The minimum national wage has increased from \$54 to \$75 between 2005 and 2008, an average of 5.2% between 1986 and 2005 and 11.4% between 2006 and 2008.

As of October 7, 2008 235 of the country's 327 municipalities are free of illiteracy. 86% of the goal of eliminating illiteracy nationwide has been met.

The “Juancito Pinto” bonus of 200 bolivianos (equivalent to US\$27) is given to parents or tutors of children attending grades one thru eight of primary school. The objective of the bonus is to stimulate enrollment, retention and graduation of children from primary school. The amount is an incentive that seeks to cover school expenses for households with children of primary school age. This incentive benefited 1.802.113 children in 2008, with a substantial increase of 66%

since 2006. The required investment for delivery of this bonus increased from US\$27,760,000 to \$53,410,000 between 2006 and 2008.

The Dignity pension is an amount of money that is delivered monthly to the elderly population. It consists of a monthly benefit of 200 bolivianos (US\$27) for people over 60 years of age that have no retirement income and 150 bolivianos (US\$20) for those that have a retirement plan. In 2008, the payment reached 670,000 beneficiaries, at the cost of US\$200 million. For the year 2009 it is projected that the number of beneficiaries for the Universal Elderly Pension will reach approximately 800,000. Payment of this benefit will require US\$250 million annually that will be financed in part, with the 30% of the resources generated by the Direct Tax to Hydrocarbons, that are assigned to “prefectures”, municipalities and the General Treasury of the Nation. The other source of financing will come from the income generated by the Capitalized Enterprises in the Fund of Collective Capitalization.

The Dignity Pension will strengthen the social goals of the National Plan for Productive Development, reducing extreme poverty from 37.7% to 19.7% by 2015, as well as the imbalances that exist between rich and poor.

The Minister of Economy and Public Finance, Luis Arce Catacora, summarizes the impact of the redistribution of income and the fight against poverty policies in the following way:

“If a poor citizen in Bolivia receives 1 Bs. of income, a wealthy citizen in Bolivia receives 99 Bs. Bolivia ranks with Brazil as one of the countries in Latin America with the greatest gaps between rich and poor. In the coming six years, with the application of the National Plan of Development, the payment of the “Juancito Pinto” bonus and Dignity Pension, this difference in income will decrease dramatically. This means that by 2015, for every 1 Bs. that the poorest citizen receives, the richest citizen will receive 45 Bs. In six years, the gap between rich and poor in Bolivia will be reduced substantially.

#### **COMERCIAL RELATIONS**

The government of Bolivia wishes to reiterate its willingness to negotiate a fair commercial agreement with the United States as long as this is based in the general framework that must govern commercial relations and principles agreed upon by both Bolivia and the United States: (i) Respect for the sovereignty of the parties that implies the recognition that democracy is served when free citizens assume the most favorable decisions for themselves, their families and their countries; (ii) Strengthen the democratic processes and processes of social inclusion to guarantee the universal freedoms that are the base of every genuine democracy; (iii) Economic exchange to assure poverty reduction and the improvement of the quality of life of every person of every country overcoming profound asymmetries among countries; and (iv) assure a healthy environment for the future of our families and social development for peace and security among nations.

The principal objective of a commercial agreement should be to improve the well-being of citizens as well as the social and environmental underpinnings that support such well-being. The

articulation and the complementariness of commercial rules with mechanisms of productive cooperation is fundamental to balance the great disparities that exist between our countries.

Respect for the principles mentioned above explains why Bolivia considers that an agreement of this nature cannot be reached through the adhesion to the FTA's signed by neighboring countries. Therefore, both countries should be sufficiently open and creative to find a framework for agreement and the process of the negotiation that satisfies the realities and needs of both parties.

Finally, to reach a negotiation that is candid, transparent, constructive, direct and serious without any type of pressures Bolivia proposes initiating in the quickest way possible a discussion with the new administration to put into practice a creative process that will lead to a just trade agreement.

#### **ANTI-NARCOTICS EFFORTS**

The fight against the drug trade is a fundamental subject for the Bolivian government, as was expressed by the declarations of President Morales on November 2 when he stated:

“(...) I congratulated the task force for the eradication and the fight against the scourge of drugs, eradication with compensation did not solve the problem, militarization only led to the violation of human rights, now we rationalize following dialogue, there is social control so that no fellow grower has more than a “cato” and if he has a maceration pit he will lose it. 40% of the drugs seized come from Peru, interdiction must be regionalized. The UN recognizes that Bolivia has good behavior in matters of the fight against the drug trade despite this we are decertified. Bolivia will continue eradicating without violating human rights and it will dignified, (...) It is the obligation of the government to seek the regionalization of the fight against drugs with the EU and UNASUR, defending first life and humanity, and also ending the intervention in political control under the guise of the fight against drugs. Bolivia wants to better its relations with the whole world and the new Government of the United States within the framework of the culture of dialogue. Bolivia wants to dignify its self without fear of economic reprisals or sabotage.”

The Bolivian government, within the framework of the revalorization and dignification of the coca leaf, has proposed a strategy that reaffirms the political will to reduce the potential for the production of cocaine in Bolivia, through control and interdiction and actions to prevent drug use. Likewise, the intention is to revalorize the coca leaf applying social control to its production, productive processes and control of the market. Therefore it ratifies the role that the coca leaf should play in everyday life, culture and the economy of the nation.

This approach represents a fundamental change to the approaches utilized in Bolivia since 1988, which were based on repression of the coca leaf producers as the weakest link in the drug trafficking chain and reflected perceptions about the production of coca leaf.

In the last ten years Bolivia has reduced the total coca cultivated area by 50%, nevertheless internationally there has been an increase in the consumption of illegal drugs which shows that

the efforts against the drug trade utilizing unilateral and reductionist logic focused on interdiction and eradication of the coca leaf have failed.

The governments' "Zero Narcotics-traffic" approach under the new national strategy, is based on support from the Special Task Force in the Fight Against Drugs (FELCN) which is the investigation branch of the Vice Ministry of Social Defense and Control Substances. This Vice Ministry has been doing an effective job against the drug mobs in the country with optimal results in interdiction and seizure of drugs and other activities including the disarticulation of illicit networks (see annex on Seizure of Drugs – In 10,795 operations carried out in 2008, 1141 tons of drugs were seized).

According to the official United Nations report, between 2006 and 2007, Bolivia has had one of the smallest rates of growth of coca plantations among the Andean countries (1,400 Has or 5% growth), which is much less than the increase of 2,300 Has (4%) in Peru and 21,000 Has. (27%) in Colombia. In the same way, coca plantations in Bolivia only represent 16% of the total planted area in the Andean region, far from the 25% observed in the mid 90's.

On February 27, 2009, the U.S. State Department made public the so called "Report on the Strategy for the International Control of Narcotics". Concerning this report, it is a source of concern for the government of Bolivia that in this document the Department of State continues to keep the same type of analysis of the antinarcotics bureaucracy that was held by the previous administration of Mr. Bush, since it arbitrarily uses statistics referring to the fight against drugs in Bolivia in the year 2008 on the basis of "estimations" that are not corroborated by any international organization. It also contains false statements against the Bolivian government. For example, when it states that "with the political support of the highest level of the Bolivian government the coca producer's continue to increase the crops, especially in the Yungas region, where the production of cocaine has evidently increased."

Nevertheless, despite this type of report and as it has done in other occasions, the Bolivian government through its President Evo Morales Ayma reiterated that it maintains its unwavering commitment to combat the drug trade with or without the support of the government of the United States.

Bolivia is making great efforts in this fight against drugs. Attached can be found precise updated information, which furthermore can be corroborated by the latest United Nations report. It is also important to note recently negotiated agreements with Brazil and Argentina concerning this issue as well as the others that are being developed with Peru and Chile, considering that results can be optimized by regionalizing the fight against the drug trade.

#### **US HUMAN RIGHTS REPORT (2008)**

Bolivia has been noticed of the United States Human Rights 2008 Report and it is important to mention that the information contained about Bolivia is completely inaccurate. The Report is politically biased and simplifies the national context through a document detrimental to the Bolivian Government image. Please find in attachment detailed information about our remarks regarding this Report.

**HIGHLIGHTS**

“As it occurs in a family, sometimes you can only afford to re decorate the house though there are occasions in which you have to rebuild the foundations. Today we need to focus on our foundations.”

“I am not here to take small steps, I am here to execute the change that this country demanded when it went to vote in November.”

“I know that the proposed measures will not serve the interests of the powerful people and the pressure groups that are used to the traditional manner of doing business.”

These are phrases expressed by President Barack Obama in one of its recent Saturday radio messages, when he was refereeing to the Budget for 2010 sent to Congress.

“This is the change that I have promised as candidate for President. This is the change of which the American people voted in November. And this change is represented in the Budget that I sent to Congress this week” said President Obama in his radio message.

Bolivia needed a structural change -- and not just a makeover -- to ensure its existence. This structural change has been the inclusion of indigenous people in the political decisions in Bolivia.

President Morales has not proposed that the Administration take small steps. He proposed to radically transform the reality of poverty and exclusion of the great majority of the population.

Bolivia needed the involvement of the State in the economy, to face the fight against poverty and to redistribute wealth. President Obama said: “The State has to be the Leader”, convinced that he would provoke a reaction in the most conservative sectors of his country.

President Morales knew from the first day of his Administration, that they would confront the interests of the powerful, from the sectors that do not want to lose their privileges. This is a Titanic fight; despite the notorious majority of his party in Congress, as President Obama has.

Esteemed President-Elect Obama - President Morales wrote to Mr. Obama - we both come from the same collective home in which the poor live and dream, excluded and reviled as always. This is the place of the people, where one is born for solidarity and also for politics; a politics in service of the people.

“It is my honor to express our congratulations for your extraordinary electoral victory on November 4<sup>th</sup>. I am confident that the men and women, who have put their trust and faith in you and in a different future, will be fully honored. As you have stated, it is our responsibility as politicians to ensure that this hope, never turns into fear.” President Morales said to President-Elect Obama in the mentioned letter.

"I write to you because you are demonstrating that you are untiring in the struggle to forge unity and change in your country. For centuries, millions of Bolivian men and women have waged a similar struggle. Consequently, the painful path that our ancestors forged must serve to preserve peace between our peoples, to value life, dialogue, democracy, justice, equity, and dignity among all human beings." President Morales concluded.

The Bolivian government firmly maintains the hope that it is possible to start a new chapter in the relations between the United States and Latin America and especially with Bolivia. We have to face this challenge.

[NOTE: The annexes included with the prior material are not reprinted here but are available in committee records.]

