ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Molina, George Gray

Working Paper

Global governance exit: A Bolivian case study

GEG Working Paper, No. 2013/84

Provided in Cooperation with:
University of Oxford, Global Economic Governance Programme (GEG)

Suggested Citation: Molina, George Gray (2013) : Global governance exit: A Bolivian case study, GEG Working Paper, No. 2013/84, University of Oxford, Global Economic Governance Programme (GEG), Oxford

This Version is available at:
https://hdl.handle.net/10419/196344

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

GEG WP 2013/84

Global Governance Exit:
A Bolivian Case Study

George Gray Molina

The Global Economic Governance Programme

The Global Economic Governance Programme was established in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The program is co-hosted by University College and the Blavatnik School of Government.

The three core objectives of the Programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and develop a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

UNIVERSITY OF OXFORD BLAVATNIK SCHOOL of GOVERNMENT

UNIV UNIVERSITY COLLEGE OXFORD

www.globaleconomicgovernance.org

Global Governance Exit: A Bolivian Case Study

George Gray Molina[1]*

Abstract

This paper describes three Bolivian policy reversals on aid, trade and climate change. The standard IPE explanation for policy reversals –a change in the payoff of cooperation— often begs the question of why a small developing state might choose to *restrict* its global policy space in contexts of changing rules and power shifts. This paper offers three analytic narratives of policy reversals, and tries to make sense of "exit" from global governance, first, from the perspective of Bolivian foreign policy; and, second, from the perspective of the literature on international political economy. Not every problem of global governance is a "problem" for a small Andean economy, and vice versa; the constraints of small developing economies are unlikely to be "binding" for major players of the global economy. The paper concludes with some thoughts on how policy reversals illustrate the range of strategic behavior available to small states.

Keywords: global governance, policy reversals, aid, trade, climate change

*George Gray Molina is the Chief Economist for the United Nations Development Program (UNDP) Latin America and the Caribbean region. He was an Oxford-Princeton Global Leaders Fellow from 2008-10.

The Global Economic Governance Programme is directed by Ngaire Woods and has been made possible through the generous support of Old Members of University College. Its research projects are principally funded by the Ford Foundation (New York), the International Development Research Centre (Ottawa), and the MacArthur Foundation (Chicago).

[1] This paper was prepared for the 2nd Annual GLF Colloquium, May 3-4, 2010, while the author was a Global Leaders' Fellow, Niehaus Center for Globalization and Governance, Princeton University. Preliminary version, please do not cite. Email: grgray@princeton.edu.

© August 2013 / GEG WP 2013/84.

Table of Contents

Global Governance Exit: A Bolivian Case Study	3
Thinking about Exit	3
Government Change, Policy Change?	5
Increased Policy Space	5
Case #1: Oceans of Aid, Policy Reversal	7
– a. Poverty Reduction, WB and IMF	7
– *b. Leverage and Policy Reversal*	9
Case #2: Pockets of Growth, Policy Reversal	10
– a. Pockets of Growth, Andean Pact, US and EU	10
– b. Leverage and Policy Reversal	12
Case #3: Climate Change, Policy Reversal	12
– a. Sustainable development, Copenhagen, Cochabamba	12
– b. Leverage and policy reversal	14
Explaining Exit	15
– From the point of view of Bolivian foreign policy	15
– From the point of view of International Political Economy	16
Conclusions	18
Back to Bolivia	19
References	20
List of GEG Working Papers	22

© August 2013 / GEG WP 2013/84.

Global Governance Exit: A Bolivian Case Study

Small developing countries are the quintessential rule-takers of the global economy. They exercise little influence in crafting the rules of international cooperation –from aid to trade to finance to climate change— and frequently have little bargaining power within the rules devised by others. Despite power asymmetries, small developing states *do* engage with global governance rules, and often find room to maneuver and leverage existing constraints (Keohane 1971; Katzenstein 1985; Krasner 1985; Jones, Deere-Birbeck and Woods 2010). At times, they exhibit loyalty to disadvantageous rules, and, occasionally, exit from international regimes altogether. For some small developing countries, the pendulum swing from loyalty to exit is more frequent than expected –to an extent that warrants closer attention. The costs of policy reversals are large and mostly played out in domestic rather than global political and economic arenas.

This paper describes three policy reversals on aid, trade and climate change in Bolivia. The standard IPE explanation for policy reversals –a change in the payoff of cooperation— often begs the question of why a small developing state might choose to *restrict* its global policy space in contexts of changing rules and power shifts. This paper offers three analytic narratives of policy reversals, and tries to make sense of "exit", first, from the perspective of Bolivian foreign policy; and, second, from the perspective of the literature on international political economy. This two-tiered account is deliberate. Not every problem of global governance is a "problem" for a small Andean economy, and vice versa: the constraints of small developing economies are unlikely to be "binding" for major players of the global economy. The paper concludes with some thoughts on how policy reversals illustrate the range of strategic behavior available to small states.

Thinking about Exit

For small developing economies, the advantages of joining international regimes are multiple: in contrast to asymmetric bilateral negotiations, international regimes tend to afford more policy space to smaller players, provide information, reduce transaction costs for cooperation, and create opportunities for leverage based on similar power and interests (Keohane 1984; Krasner 1985; Katzenstein 1985). In some cases, for overlapping issue areas, decentralized decision-making and shifting coalitions of decision-makers, regimes demand more dynamic forms of adaptation by small states (Keohane and Victor 2009; Raustiala and Victor 2004).

Despite the advantages of regimes, examples of exit and threats to exit from small developing states abound. This has some interesting comparative implications. First, is the counter-factual question of what participation in an international regime is worth to a small developing economy. This is typically inferred from the revealed preferences of small states in existing regimes. Second, exit cases also make a range of strategic behavior more evident; not every contestation to existing rules is really "contestative"; not all actions of loyalty are "loyal". Strategic behavior is frequently tied to ideas, interests and past histories. In this paper, I describe one such set of strategic behavior --policy reversals-- and assess it in terms of shifting policy space.

I understand "policy space" to describe the degree of autonomy that states have to shape their development ends and means (Rodrik 2007; Gallagher 2005). This includes both *de jure* policy space –as described by the language of multilateral agreements and treaties—as well as *de facto* policy space, as evidenced by room to maneuver outside or within existing rules. I borrow from the economic growth literature on "binding constraints", to frame policy space as a dynamic process of adaptation to existing domestic and global constraints (Hausmann, Rodrik and Velasco 2004; Hausmann, Klinger and Wagner 2008). From the viewpoint of binding constraints, not all multilateral policy rules affect a country's policy space, only those that impinge on long run development prospects (i.e. a TRIPS provision on intellectual property rights might not impinge on small developing countries with little patent activity to begin with). Similarly, not all self-imposed policy rules are space-

© August 2013 / GEG WP 2013/84.

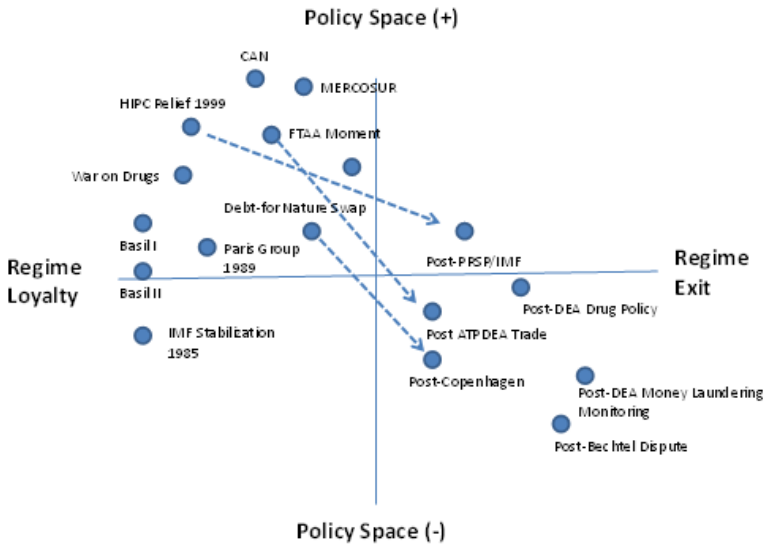
giving (i.e. the Bolivian decision to leave the World Bank's settlement dispute mechanism, does not, for example, necessarily generate more policy space to negotiate with future investment partners).

Graph 1 shows policy trajectories on aid, trade and climate change for Bolivia. The typology is meant as a heuristic map of changes in policy positions. It describes instances of Bolivian engagement with global governance rules on trade, aid, investment, climate change and security. What captures attention from a quick listing, is that policy reversals abound. This paper focuses on three reversals that define Bolivia's "new foreign policy" since the mid-2000s: (i) the decision to decline IMF loans, decline the World Bank's PRSP policy framework, and leave the World Bank's International Centre for the Settlement of Investment Disputes; (ii) the decision not to join EU-Andean Pact negotiations on free trade, and reject further conditional trade preferences with the United States; and (iii) the decision to contest the Copenhagen climate change talks in December 2009 and hold an alternative summit in Bolivia in April 2010.

Neither of these cases is strictly comparable. Some play out with respect to multilateral organizations like the World Bank or IMF; others, with respect to the overtures of larger states; some are linked to transnational NGOs rather than states; and some have more to do with domestic than global politics. What they share, however, is a trajectory of policy reversals with respect to the past: in each case, Bolivia had exhibited "loyalty" to an international regime and had aimed to gain leverage by playing by the prevalent rules of the game. In all cases, the policy reversal –from loyalty to exit-- changed the relevant policy space faced by the Bolivian state.

In the first section of the paper, I describe the political setting for policy changes in trade, aid and climate change in Bolivia. This includes the impact of the election of Evo Morales as president in December 2005, and subsequent policy decisions. In the second section, I review three cases of policy reversals. The narratives are chronological but share a common structure: first, a description of the historical and political context that led up to a policy reversal; second, a description of the policy reversal itself and the significance for leverage and/or exit. In the third section, I aim for analytical synthesis on the cases: how to account for exit from a foreign policy and an International Political Economy (IPE) perspective? In the final section, I conclude with some thoughts on the relevance of the Bolivian case study for other small developing economies.

Graph 1: Policy Space, Loyalty and Exit



Source: Own

© August 2013 / GEG WP 2013/84.

Government Change, Policy Change?

In the course of five years, Bolivia moved from adopting "Washington Consensus" (WC) policies, to repelling WC policies, along with some key policy instruments. The policy shift has attracted a considerable literature, because of the potential links to other small developing economies, but the implications of Bolivia's policy reversal have not yet been unpacked. It is often assumed that the rise of a left-wing government in Bolivia explains anti-WC policy views, but this omits the fact that most consensus policies have remained in place over the past five years. How to account for the selective adoption and contestation of WC policies? This is the question I will attempt to address in this and the following sections.

Evo Morales won a landslide election in December of 2005, after a turbulent period of social and political conflict. He inaugurated his term with a broad mandate for change. The change in government made way for a new policy agenda, described in a National Development Plan (NDP) in June 2006. The NDP was the first official document to dissect policy design and implementation issues and propose a roadmap for social, economic, and political change. Two aspects of the NDP are worth underlining, as they relate to decisions that were eventually taken in the international arena. First, the plan is anchored in a pragmatic eclecticism, which borrows freely from economic structuralism, dependency theory, indigenous multiculturalism, social-democratic protection policies, and neoliberal monetary and exchange rate policy. The plan underscores the need to "change the primary-export pattern of development" inherited from a neocolonial and neoliberal past (Government of Bolivia 2006). The policy record is described in terms of a relatively coherent succession of development stages, cushioned by the whims of international donors and academic fashion: social protection initiatives in the 1980s followed by human development policies in the mid-1980s extended to poverty reduction targets in the 1990s and complemented by Millennium Development Goals (MDGs) at the dawn of the new century.

Second, the NDP focuses specifically on hydrocarbons and anticipates the nationalization policies of 2006. The role of natural gas is strategic and is perhaps the cornerstone of the new development agenda. The focus on gas and hydrocarbons runs, paradoxically, against the grain of changing the primary-export pattern of development. The key imperative, beyond natural gas, is to diversify the sources of exports and improve labor and environmental standards to compete not on the basis of cheap labor and plentiful natural resources but on the basis of high value added, increased productivity, and fair livelihood conditions. In the course of two years, one strategic objective (increasing state participation in hydrocarbons) has tended to overshadow the other objective (changing the primary-export pattern of development). The implementation of the plan has revealed tensions between "changing the model" and "changing the pattern" of development.

Between 2006 and 2010, the Morales administration achieved a number of the objectives described in the government plan in a three-part sequence: First, by increasing government takeover of hydrocarbons revenues (nationalization of gas) in 2006; second, by increasing public investment, both centralized and decentralized, in 2007; and third, by upscaling existing social transfer mechanisms for children and the elderly (via the Bono Juancito Pinto and Renta Dignidad) in late 2007 and early 2008. The policy actions that were taken, however, draw attention to the limitations faced by the Morales administration, which struggles with weak administrative capacity and the need to show tangible results.

Increased Policy Space

The nationalization of natural gas was achieved under two different administrations, with a tax law approved during the Mesa administration in July 2005 (Law 3058) and a nationalization decree passed by the Morales administration in May 2006 (Decree 28701). Neither legal instrument nationalizes in the conventional or historical sense – via expropriation or changes in property rights.

© August 2013 / GEG WP 2013/84.

Both measures increased government take over hydrocarbon rents: Law 3058 increased government participation from 18 to 50 percent of production value; Decree 28701 increased this figure to up to 82 percent and included a renegotiation of contracts with close to a dozen multinational companies. Taken together, the two measures represent a pendulum swing with respect to the past. This is the third time that the Bolivian state has nationalized hydrocarbons in the past century. The two previous occasions involved Standard Oil (1937) and Gulf Oil (1969).

Two aspects of the nationalization process are relevant to the discussion of policy reversals. The first is the structure of government participation. Government participation in hydrocarbons comes from four sources: the first is an 18 percent royalty over the value of production; the second is a 32 percent Direct Hydrocarbons Tax; the third is a payment to *Yacimientos Petroliferos Fiscales Bolivianos* (YPFB) of recoverable costs, negotiated on a contract-by-contract basis; and the fourth is the distribution of the remainder as shared utilities between YPFB and the operator based on a formula that accounts for new and depreciated capital investments, the price of natural gas, and volumes of production (Medinacelli 2007a). Under the new contracts, the government's take fluctuates between 67 percent of gross production value (at US$1 dollar per million BTUs) and 75 percent of gross production value (if prices reach US$4.5 dollars per million BTUs) (Medinacelli 2007b). Under the new contractual terms, hydrocarbons operators pay a little more than the 50 percent negotiated in Law 3058 and a little less than the 82 percent included in Decree 28701.

The new contracts were signed by multinational corporations in April 2007 on a contract-by-contract basis. The new contracts are hybrid instruments that combine elements of shared production and operational contracts with YPFB (Zaratti 2007). Government participation in benefits is similar to the level for contracts signed in Peru, whereby government participation starts once private companies recover their operational costs and capital investments. This provision has been seen as a loophole in the nationalization process because it removes risk from multinational companies in their calculations of future investment decisions (Medinacelli 2007b).

The increase in government take has had both positive and negative impacts. The first positive effect is that, due to extraordinary increases in prices and better bilateral negotiation with Argentina and Brazil, Bolivian GDP topped US$10 billion in 2006, more than US$2 billion of which was due to the hydrocarbons sector. The second positive effect is a significant increase in government revenues accruing from the hydrocarbons sector, reaching US$967 million in 2007, about twice as much as Bolivia received in total foreign aid (donations plus credit). On the down side, the price effect of exports has weighed heavily over the production effect in explaining additional export revenues. In 2006, average prices were 5.4 times greater than prices eight years earlier and three times greater than three years earlier. Second, the gas sector in Bolivia has become increasingly uncertain with respect to new investments in exploration and higher export volumes. This has been evident in the 2008 negotiations with Brazil and Argentina, in which Bolivia has not been able to fulfill existing contracts. Third, to the extent that the global gas market is expanding, Bolivia has been seeking out new markets beyond the region, including the Pacific basin, to improve its leverage position over competitors and regional demand.

© August 2013 / GEG WP 2013/84.

Case #1: Oceans of Aid, Policy Reversal

a. Poverty Reduction, WB and IMF

In June, 1999, Bolivia and the World Bank launched a pioneering "pilot project to fight poverty", under the Bank's new Comprehensive Development Framework.[2] Bolivia was the first country to develop a PRSP document on the basis of stakeholder consultations –a National Dialogue in 2000—and the first country to tie-in debt relief to poverty alleviation targets and policy instruments (Cavero 2002; Requena 2002). Multilateral and bilateral good-will poured into the country after the adoption of the first Poverty Reduction Strategy (PRSP), both in the form of new aid and effective debt relief. Between 1999 and 2004, Bolivia averaged about 7% of GDP in aid per year. Bolivia had gone through two previous cycles of "good will", the first linked to stabilization and structural adjustment in the 1980s, and the second, to institutional reforms in the 1990s.

The domestic dynamic of the PRSP process of 2000/2001 was messier. Although Bolivian first- and second-generation reforms were perceived as success-stories, the mismatch between reform costs and tangible benefits for the poor was becoming more and more evident. By the time a national dialogue on poverty reduction started, the pent-up demands on growth, job creation and poverty reduction had escalated (Nunez 2002). The impasse eventually moved beyond a policy crisis—to become a political and state crisis. The national dialogue succeeded in marshaling support for a municipal-government driven poverty reduction program, based on non-conditional transfers by population/poverty indicators. It escalated, however, the expectations for swift policy action (Booth and Piron 2004). In the words of one dialogue activist, "we're getting tired of putting band-aids on the neoliberal wound" (Zavaleta 2004).

The first PRSP was drawn up as the country faced a period of social and political unrest that led to the "water wars" of April 2000, and the "indigenous strike" of September 2000. The water wars, in particular, confronted a multinational water company, Bechtel, with social movements that rejected a service fee hike. After being expelled, Bechtel sued the Bolivian government for breach of contract in 2001. Bolivia would later leave the World Bank's dispute settlement mechanism (ICSID) in 2006, after the water company dropped their suit for a nominal payment (Schultz 2008). Despite conflict, the PRSP process was launched. The additional fiscal space from HIPC debt relief was between 80 and 100 million dollars per year. By 2002, however, the Bolivian state's fiscal position had deteriorated substantially, due to aftershocks from the Asian and regional slowdown.

By December 2002, Bolivia faced a 10% of GDP fiscal deficit that required new financing. It moved to reach an agreement with the IMF, which reluctantly accepted a stand-by agreement and conditioned further financing to its more comprehensive Poverty Reduction and Growth Facility (PRGF) facility. The PRGF was tied to the successful renewal of a PRSP commitment with the World Bank and bilateral donors. Crucially, it also tied Bolivia to do further work on "structural reforms" that would release fiscal pressure and hasten financial liberalization. A PRSP review was undertaken and new national dialogue on poverty reduction was called in 2003. Both faced mounting pressures from civil society organizations and bilateral donors who demanded a comprehensive participatory budgeting exercise for Bolivian accounts (Rodriguez Carmona 2008).

[2] M2 Presswire, "Bolivia and World Bank launch pilot initiative to fight poverty", 21 June 1999.

© August 2013 / GEG WP 2013/84.

In February of 2003, the Bolivian government proposed a new budget to congress, which included budget-tightening measures, no salary raises and a new payroll tax, among other measures (Dangl 2007; Shultz 2008). The salary-raise component spurred a strike by elite police units in La Paz, which had demanded a 50% pay increase. In a police-military shoot out in the presidential plaza, over 20 people were killed, and dozens wounded. That week, the IMF accepted an amended stand-by agreement that excluded budget-tightening measures, excluding new taxes. Despite the dire political situation and tightening fiscal scenario, both the World Bank and IMF conditioned more comprehensive aid to a Consultative Group Meeting, with a new PRSP in national dialogue in place. The US Treasury had rejected an appeal for a US$ 150 million dollar emergency grant late in 2002.[3] By September, the Bolivian government presented a revised PRSP program that expanded the scope of poverty reduction policies to export value chains, conditional cash-transfers and inter-governmental grants tied to MDG goals. The program received conditional pledges of up to $2 billion dollars on October 15 in Paris. By October 17, however, the government had collapsed in the midst of violence against civilians in the city of El Alto, with over 60 dead and hundreds wounded (Hylton and Thomson 2007; Kohl and Farthing 2006).

A second national dialogue that included six of the largest social movements in Bolivia (the CSUTCB, CIDOB, CONAMAQ, FENCOMIN, the Coca-Leaf Federation and the Women's Peasant Movement-Bartolina Sisa), met in 2004, with the successor government and hammered out both an agreement on job-intensive growth and specific policy measures such as the *Compro Boliviano* and (a procurement policy for micro and small businesses) and an Indigenous Fund for community level projects and programs (Morrison and Singer 2007; Holmquist and Cueva 2006). By 2005, however, the country had reached a political stalemate: new political actors, anchored in social and indigenous movements disputed power with the remnants of the traditional political party system and with regional civic committees. After violent confrontations, president Mesa resigned and a care-taker government called for elections in December of 2005. Multilateral and bilateral donors had been working on rolling-basis since the 2003 crisis, and had scaled down from the initial pressure for a renewed PRSP.

The Morales administration, inaugurated in January 2006, moved in incremental fashion on the aid issue. The government's development plan pointedly excluded the language of "poverty reduction", "human development" or "Millennium Development Goals", and proposed, instead the "de-colonization" of development policies. Salary and administrative measures were taken to harmonize international donor contracts to government standards. New projects could not be initiated by donors, technical assistance and consultancies were channeled through the Ministry of Planning, rather than the donor organization, as had been common practice in earlier years.

By 2006, the nationalization of hydrocarbons resulted in windfall fiscal revenues. By 2007, the fiscal deficit was projected to be less than 3% and by 2008, with strong economic growth it reached a surplus –the first in twenty years. New fiscal space meant that the previous rolling plans, stand-by credits and budget support mechanisms were postponed or de-activated. Bolivia received significant multilateral debt forgiveness from the Inter-American Development Bank, and proceeded to pay off all remaining debt to the IMF. By 2008, president Morales proclaimed the country was "IMF-free" and that it was no longer needed for macroeconomic monitoring.[4]

[3] Jeffrey Sachs, "Call it our Bolivian Policy of Not-so-Benign-Neglect", *The Washington Post*, October 26, 2003.

[4] ABI, "Evo Morales: Bolivia marcha mejor sin EEUU y el FMI", March 21, 2010.

© August 2013 / GEG WP 2013/84.

In just two years, the Bolivian state had initiated a u-turn on aid policy: it refused to renew a World Bank/PRSP framework for multilateral ODA, and has refused any further ties with the IMF. Although the WB continues to work in Bolivia, its portfolio has dropped to third place among multilateral donors, behind the Andean Development Corporation and the Inter-American Development Bank. This does not mean that Bolivia has exited the aid regime. As things stand, however, it has contested the institutions that provide the template for other bilateral and multilateral players.

b. Leverage and policy reversal

What are the key elements of the Bolivian aid story? First, Bolivia benefitted from substantial debt relief and new aid in the 1990s and 2000s by virtue of being a HIPC country –a low income country with high debt-to-GDP ratio. The eligibility question for HIPC relief was itself a hotly contested political negotiation, because for much of the initial discussion of HIPC debt relief, Bolivia and other countries were excluded from the LDC group (which includes countries with GDP per capita of less than US$ 905). Bolivia's inclusion was driven both by the public agenda-setting process that led up to HIPC debt relief (the Millennium Campaign, in particular), but also because of the actions of the Bolivian government to seek inclusion based on past loyalty to WC policies.

Second, Bolivia generated an international reputation for being a leader on poverty reduction and public dialogue. As a "best-practice" case, Bolivia leveraged good will from multilateral organizations and bilateral donors. It had a track record with best-practice social emergency funds in the mid 1980s and privatization/institutional reforms in the 1990s, and had received growing attention from the development community worldwide. By the early 2000s, policymakers acknowledged the benefits from first and second generation reforms had not materialized as quickly as expected. The mismatch called into question the best-practice features of development reforms, but more importantly, focused attention on the politics of reform, which started to waver.

Third, Bolivia paid a price for debt relief and best practice status, in the form of the PRGF facility with the IMF and a PRSP facility with the World Bank. Macro conditionality struck in the aftermath of the Asian crisis, with a slowdown of the regional economy in the late 1990s and early 2000s. This became the binding constraint for policymakers between February and October of 2003, where an inherited fiscal unbalance from previous administrations squeezed further bilateral budget assistance until a satisfactory amendment (a PRSP II) was signed with the WB, and the IMF (a PRGF program). Social and political unrest eventually exacerbated the fiscal binding constraint, and led, among other things, to a swift political transition.

The policy reversal on multilateral aid started in 2005 with a tax hike on oil multinationals and was sealed in 2006 with renegotiated contracts. Both measures created fiscal space and broke with the conventional view of attracting FDI in the hydrocarbons with lax tax and investment policies. The revenues from both measures allowed a reduction in fiscal unbalances, and eventually, a fiscal surplus. By 2009, the revenues provided by the hydrocarbons taxes were three times the size of multilateral credit received by the Bolivian government and five times the amount of bilateral ODA. The IMF and World Bank conditions were no longer constraining; in fact, by 2006, the Bolivian government dropped all mention of the PRGF and PRSP facilities from official documents. The policy reversal meant less multilateral lending access, but more fiscal policy space in the short run.

© August 2013 / GEG WP 2013/84.

Case #2: Pockets of Growth, Policy Reversal

a. Pockets of Growth, Andean Pact, US and EU

After the collapse of tin mining in the mid-1980s, export diversification became a prominent theme in Bolivian development policymaking. By the 1990s, investments in roads, technology and transportation had delivered a boom in soybeans and sunflower seed in the eastern lowlands. The key markets were in the Andean Community, particularly Colombia and Peru, which processed soybean oil and meal and re-exported to the region. Despite moderate success, the soybean sector was vulnerable to leading competitors in the MERCOSUR region –Brazil, Argentina and Paraguay— which produced most of the region's soybean and had improved yield productivity significantly with traditional R&D and biotech engineering.

More importantly, the diversification process (based on state industrial policy) moved against the emerging policy consensus in the region (based on liberalization of trade and current accounts). Producers of soybean sought more, not less, state protection and preferential agreements in the Andean region, rather than liberalization and openness. Policymakers, on the other hand, dealt with international pressures to liberalize and gain competitive advantage with improvements in productivity rather than state protection.

As the Andean Community started to move in a "liberalizing" direction in the mid-1990s, the United States signaled interest in moving towards a multilateral trade agreement fashioned on the NAFTA agreement with Mexico and Canada. The rise and fall of a Free Trade Agreement for the Americas (FTAA), during the Bush Administration, opened a window for an expanded preferential trade agreement in the Andean region –conditional on coca-crop reduction and success in drug interdiction at the supply side. The expanded Andean Trade Preference Act (ATPDEA), signed in 2001, opened up light manufacturing and organic and fair trade markets in the United States.

Bolivia experienced a dynamic period of economic diversification, between 2002 and 2007. New "pockets of growth" emerged in the context of rising global commodity prices and preferential trade agreements with the Andean Community and the United States. Gray Molina and Wanderley (2007) document an array of pockets that gain regional and global competitiveness despite poor initial conditions –high transportation costs, low systemic competitiveness. Gray Molina (2009a) looks specifically at the quinoa case, and discusses global and local binding constraints to future expansions. The World Bank (2009) tests whether Bolivia's pockets of growth have taken advantage of existing preferences to the extent of other trading partners. The available evidence suggests that although Bolivia exhibits a larger degree of product innovation, than predicted by its GDP size or landlocked condition, its use of preferences was generally sup-optimal, as judged by over-importing and under-exporting from the United States.

In this period, growing trade policy space allowed a modest diversification of exports, but not significant enough to affect the longstanding pattern of primary commodity trade. Studies on the ATPDEA effect over exports, placed job creation in the tens of thousands, and suggested that a critical mass of export services and supply chains was starting to develop by the mid-2000s (UNDP 2005). A particularly interesting niche market bloomed in the organic agriculture and biotrade markets, mostly from the Amazonian region (cacao, coffee, Brazil nut, certified timber), but also from the highlands (quinoa, amaranth, alpaca, llama). Alternative trading networks made use of ATPDEA and

© August 2013 / GEG WP 2013/84.

European Union GSP-Plus preferential access, linking Bolivian producers to NGO networks and northern market health stores (UNDP 2008).

Bolivia joined an alternative trading block (the ALBA) in 2006, with "fair trading partners" Venezuela and Cuba. While the ALBA was meant mostly as an ideological response to the doomed FTAA, it developed into a niche market for inter-regional trade. It did not show much prominence, either for Bolivian trade policymakers or Bolivian businesses, until diplomatic impasses between Bolivia and the US threatened existing trade preferences in September of 2008. Bolivia expelled the United States ambassador, accused of involvement in domestic politics, in the context of rising regional and political confrontation in the northern department of Pando. A tit-tat expulsion of the Bolivian ambassador was followed by the exit of the DEA from Bolivia, the expulsion of the Peace Corps, and the downsizing of USAID in 2009 (Gray Molina 2009b).

By mid-2009 the United States had "decertified" Bolivia on anti-narcotics policy, and the country was rendered ineligible for an extension of ATPDEA preferences. At the time Bolivia was losing its US markets, it also decided to exit Andean Community and European Union talks on a sub-regional free trade agreement. The European Union initiative had taken off, after the Doha round floundered in 2008. It extended market preferences to agricultural products and textiles to Andean members, but adopted many of the TRIPS-plus provisions that were contested by developing countries earlier. The TRIPS-plus provisions on intellectual property rights became the bone of contention for Andean negotiators in both Ecuador and Bolivia. Bolivia decided to break with the EU talks altogether, and also threatened to walk-out of the Andean Community itself, which had been weakened with the exit of Venezuela in 2006.

As the financial crisis deepened in 2009, Bolivia retreated from its relatively hostile negotiating position within the Andean community. While most exports continued to flow towards MERCOSUR countries Brazil and Argentina, almost all of Bolivia's small industrial sector and agribusiness exports were directed towards the Andean Community. It could not afford to lose US, EU and Andean community preferential markets at the same time. Although there is some debate over how much preferential access weighs at the margin –with respect to most-favored-nation access— losing preferences mostly affected niche market start-ups, precisely the "pockets of growth" that had developed in the previous half decade.

Decisions to exit US and EU trade preferences are linked to a policy preference for non-tradable goods within the country. Over the past few years, Bolivian industrial policy has focused mostly on food security and domestic markets. The gradual policy reversal on trade and investment policies has not had a major impact on energy trade –that profit mostly from bilateral treaties with neighbors—but has had a decisive impact over economic diversification prospects over the long run. The financial crisis of 2008/2009 revealed an additional feature of Bolivian economic policymaking that had not received much attention in previous years. Key levers of macro policy –on the exchange rate, monetary policy and reserves, inflation and fiscal policy— had *not* changed, despite an increasingly ideological turn among Bolivian economic authorities. The IMF went as far as predicting, in 2009, that "Bolivia would have the highest growth in the region" after the crisis, "due to good fiscal policy and the prudent accumulation of reserves". The question of why aid and trade policy saw a reversal, in this context, is all the more pressing.

© August 2013 / GEG WP 2013/84.

b. Leverage and policy reversal

The key features of trade and investment policies are three. First, Bolivia experienced incipient export diversification from 2002-2007, driven mostly by favorable global prices and preferential access to North American and Andean trade markets. Bolivia's dynamic "pockets of growth" stand in contrast to business-as-usual low economic growth in the 1980s and 1990s that did not see a significant trade diversification beyond the emergence of an agribusiness soybean sector. Leverage was gained mostly by accepting explicit drug-policy conditionality over preferential market access. The "war on drugs", based on supply-side controls over coca crops in the Andean region, saw an increase in coca production, a drop in consumer prices and greater drug availability in US markets. The result was a decertification at the supply-end and a suspension of trade preferences for Bolivia in 2009.

Second, Bolivia's "pockets of growth" concentrated in two sectors, both of which benefited from ATPDEA and European GSP-Plus preferential trade access –light manufacturing sectors such as textiles, jewelry and leather goods, and certified organic and fair trade goods such as quinoa, cacao, coffee and other biotrade products. They are both labor-intensive and create new jobs in rural supply chains and urban formal and informal economies.

Third, trade policy is linked to regional collective action –both ATPDEA and European GSP-Plus preferences were extended to Andean Community (CAN) countries. The exit of Venezuela from Andean Community trade negotiations put pressure on both Ecuador and Bolivia within the Andean group.

The loss of preferential trade access was a long and drawn out process between the Bolivian government, regional trading partners and overseas trading blocks. Bolivia joined the ALBA bloc in 2006, Venezuela left the CAN in 2007. Bolivia left the EU-CAN free trade agreement negotiations in 2008, but stayed on as an observer. In addition, Bolivia expelled the US ambassador and DEA in 2008 and was decertified for drug assistance in 2009. By the end of 2009, the country was ineligible for an extension of ATPDEA preferences. On a parallel track, Bolivia also pulled out of the World Bank's settlement dispute mechanism in 2007, after a six-year dispute with the multinational water firm Bechtel. By the year 2010, Bolivia had opted out of trade agreements with the Andean Community, the European Union and lost trade preferences with the United States. The reduction in trade policy space was significant, only marginally compensated by increased trade with the ALBA bloc.

Case #3: Climate Change, Policy Reversal

a. Sustainable development, Copenhagen, Cochabamba

The 1990s were a period of intense institutional reform in Bolivia, mostly geared towards the demands of a more open economy and macro-economic restructuring. On the fringes of this process, however, there also emerged a set of best-practices on sustainable development –which commanded international NGO attention, but did not themselves gain prominence on the domestic policy agenda. The precursor of this process was a debt-for-nature swap signed in 1987 between the Bolivian government and Conservation International (CI), a North-American environmental NGO. Under that agreement, CI acquired US$ 650,000 of Bolivian external debt at a discounted price of $100,000. In

© August 2013 / GEG WP 2013/84.

return, the Bolivian government provided a biosphere reserve area and created three adjacent protected areas. It also agreed to provide $250,000 in local currency for management activities in the Beni Reserve. The swap raised some controversy and encountered delays before implementation, but generated a great deal of international interest for the broader implications in the Amazonian region (Conservation International 1989).

In 1992, the Bolivian government passed a comprehensive environmental law that put in place many of the market and incentive-led provisions, plus the legal framework to create protected areas, parks and biospheres. It was followed by a Forestry Law and a Land Reform (INRA) Law in 1996, which extended provisions to land use, and the recognition of collective indigenous peoples land rights. The provisions of the Bolivian reforms affected reforms in land tenure and forest management in about half of the country. A weakness of the implementation process was the administrative and legal capability of the state itself. Poorly paid and staffed forestry and land reform authorities had trouble implementing a conservationist law against large landowners in the lowlands.

By the 2000s, Bolivia had the largest area of certified sustainable forestry in the hemisphere, but saw increasing encroachment by soybean and cattle farmers, as well as coca-leaf farmers along the Amazonian frontier. Conflicts over multiple property rights multiplied and place land and forestry rights at the middle of a broader conflict over regional and indigenous autonomies. The conflicts that brought down the Sanchez de Lozada and Mesa governments revolved around natural resource claims in an economy increasingly dependent on natural gas exports. Overlapping land and forestry claims, together with the broader political changes in the country pushed a new set of concerns –state and indigenous ownership of land—to the national agenda.

The constituent assembly that delivered a new constitution in 2009 enshrined state rights over land and forests, alongside indigenous claims for self-government and land management. As the domestic agenda turned “statist” and privileged distributive over environmental policy issues, Bolivian foreign policy turned “green” in multilateral forums. An indigenous and alter-globalization discourse, based on the rights of nature and Mother Earth, challenged the conventional climate change discourse, but also, ran against the developmentalist policies back home. Two issues grated the most: the prospect of massive colonization of the northern Amazonian region (the “Marcha al Norte”), and violent confrontations between coca-leaf farmers and indigenous peoples in the Isiboro-Secure national park.

As Bolivia prepared for the Copenhagen Summit, it joined a coalition of smaller state and non-state actors to push reduced-emissions-from-deforestation-and-forest-degradation (REDD) policies. The aim was to get REDD on the agenda and secure a significant northern commitment that could be accessible to smaller states working on climate mitigation. While the REDD principles were adopted and made it to the final accord, the coalition felt left-out from the major deliberations, which set-up a confrontation on the final days of the summit. Evo Morales traveled to Copenhagen and denounced the “capitalist system”, taking on a banner that had been marginalized in the formal state-to-state talks. He proposed that northern capitalist economies fund mitigation and adaptation funds fully, to pay for an “ecological debt with future generations and the rest of the world”.

At the end of the summit, Bolivia joined five other states in denouncing the major-powers deal, and declined to sign the final agreement. Evo Morales called for an “alternative summit” to be held in Bolivia, which would allow smaller states and indigenous peoples to voice alternative views on climate

© August 2013 / GEG WP 2013/84.

change. Although the Copenhagen refusal was largely seen as a play for more voice, the results from the "alternative summit" in April 2010, moved further along the way to estrangement from the official negotiation trail. Close to thirty thousand activists from dozens of countries signed the "Agreement of Peoples" on Earth Day, to press the major powers to join the Kyoto Protocol, call for a global referendum on climate change, push for the creation of an International Climate Change Court, and send a rebuttal message to major powers over the way the climate change negotiations had proceeded. Hugo Chavez closed the summit, promising to "take the battle to Cancun" and make the "Agreement of Peoples" the official ALBA bloc position in Mexico.

b. Leverage and policy reversal

Three broad features frame Bolivia's policy reversal on climate change. First, Bolivia was an early adopter of sustainable development policies since the late 1980s. The country implemented a forest sustainability policy that made it an important supplier of certified tropical wood. It also implemented one of the first successful debt-for-nature swaps, a precursor of present-day avoided deforestation mechanisms (REDD). By the mid-2000s, Bolivia had made inroads on various biotrade niche markets, and was exporting organic quinoa, Brazil nut, cacao and coffee, among other products. As with poverty reduction policies, "best practice" allowed increased leverage with bilateral donors, international NGOS and multilateral environmental organizations.

Second, developmental and environmentalist tensions have been a chronic problem for policy design and implementation. Although the idea of "sustainable development" framed official policies in the 1990s and "living well" frames current policies, the prevailing policy instruments have been mostly pro-developmental. Most market-based instruments for forestry policy and land use have been substituted by state command-and-control policies and indigenous self-government rights. The distance between policies and discourse has been a salient matter for environmental organizations and indigenous organizations in Bolivia for over two decades. Most recent controversies are over the role of mining in the Andean region and oil prospection and settlement policies in the Amazon.

Third, environmental policy leverage was gained in piece-meal fashion, project through project, rather than through comprehensive policy reform. Recognition for best practice in forestry policy, organic certification and avoided deforestation policies all run through parallel tracks, via international monitoring and certifying agencies, NGOs, academic research centers, government agencies and local indigenous organizations. The fragmented process of gaining leverage in this regime reflects a larger dispersion of actors and institutions spanning climate change governance worldwide.

The Bolivian state took two actions to contest the climate change regime. First, it refused to sign the Copenhagen Climate Change agreements negotiated by major powers in December, 2009. Second, Bolivia hosted an "alternative climate change summit" on Earth Day, in April 2010. Bolivia's position has been hailed by alter-globalization NGOs and movements, as well as by dozens of small developing states themselves. Although Bolivia formally continues to participate within the multilateral negotiating framework that leads up to Cancun, it is mostly perceived as a fringe voice among developing nations.

Closer to home, the Bolivian government has placed more weight on developmental policy instruments and objectives, and has slowly eroded the environmental policy framework crafted in the

© August 2013 / GEG WP 2013/84.

1990s. Developmental policies such as the "Marcha al Norte" in Pando or the coca-leaf colonization of national parks in Beni, have caught the attention of environmental NGOs in recent years, and have created a schism within government policy itself, which is currently divided over how "green" policy actions and discourse should evolve.

Explaining Exit

From the point of view of Bolivian foreign policy

From a Bolivian foreign policy perspective, decisions regarding aid, trade and climate change do not follow the same script. Some decisions, like aid policy, for example, seem to follow the strategic pursuit of fiscal room to maneuver; others, like trade and investment policy, are closely tied to a broadly "alter-globalization" track that spills into anti-narcotics and investment policies; climate change policy is mostly directed towards domestic politics, where indigenous peoples and campesino communities vie for power with large landowners over land, forest and natural resource rights. There are some loose bridges between policy issues and reversals, but they do not seem to pose a grand narrative or arch. As noted in the introduction, many of the usual explanations on Bolivian policy reversals tend to beg the question of why they were initiated in the first place. There are at least three reasons that add to the contingency of foreign policymaking in Bolivia.

First, Bolivian foreign policy exhibits both a pragmatic streak –in negotiations over natural gas with Brazil and Argentina, and frontier issues with Chile, for example--- and an ideological streak –in its bilateral relations with the United States, and with trade and aid issues. The foreign policy association with Venezuela and other ALBA countries (Nicaragua, Ecuador and Cuba) is large enough to address many small-economy concerns, but too small to affect the regional or global trade or aid regimes. This "limited space" is used aggressively by Bolivian ministry officials and business interests. While prominent, the Venezuela tie introduces a certain degree of unpredictability to Bolivian foreign policy, as Venezuela itself reverses positions on energy, trade and security issues in the region and the world. It is not, strictly speaking an ideological tie –Venezuela continues to maintain a healthy trade relationship with the United States— but it does tend to exacerbate the ideological streak in multilateral forums.

Second, the decision-making process behind Bolivian policy reversals is time-sensitive. Decisions are made issue-by-issue, incrementally, and are usually forced by deadlines or crises, rather than by strategic planning. Top level decisions on whether to expel or downsize United States cooperation agencies, for example, were precipitated by a violent confrontation between government and opposition that threatened regime stability. Decisions are typically made with respect to different sets of "binding constraints" each time: the fact that binding constraints can quickly shift from fiscal to security issues, undermines medium and long-term policy planning. It also suggests that the parameters that are "known" to infer strategic behavior –polarized political setting, fiscally vulnerable, macro volatility—also shift contingently. Decision-making is also affected by past decisions. Besides the structural binding constraints, there are places Bolivian policymakers "cannot go" within existing policy space; president Morales, for example, cannot currently sell natural gas to Chile –which would provide a multi-billion dollar windfall, and much strategic advantage to a landlocked nation— because that was the public issue that framed the downfall of president Sanchez de Lozada in 2003. Path dependence weighs heavily on current decisions.

© August 2013 / GEG WP 2013/84.

Third, decisions on international regimes issues typically impinge on domestic politics before they become a "problem" for Bolivian policymakers. There are a number of global problems that have never made it to the Bolivian "problem" list, including many global governance questions. In a growingly interdependent global economy, that space is shrinking. However, it is telling that the financial crisis of September 2008 only became problematic in Bolivia when migrant remittances declined, export orders faltered, and aid dried up. Weak state capabilities also mean that issues are framed outside of the state –by NGOs, international donors, multinational corporations, and other relevant non-state actors. Bureaucratic politics and the practice of leveraging global actors to domestic advantage adds contingency to the political process. In addition, the payoffs from joining or exiting international regimes are usually uncertain from a domestic perspective. For some issue areas, marginal changes in global rules create (or reduce) significant policy space back home. This is probably the case for bilateral trade agreements and aid facilities with the IMF which have signaled hard binding constraints in the past. For other issues, large changes in global governance do not necessarily translate into binding constraints for domestic policy. This is probably the case for climate change funds for mitigation or adaption that are virtually indistinguishable at present from "normal aid".

The most discussed example of shifting payoffs in Bolivia is the nationalization of natural gas. Most specialists assumed multinational firms would leave the country under tougher tax and investment conditions. When firms accepted high taxes and renegotiated contracts that were previously deemed inviolable, experts backtracked and posited that they preferred a stable political horizon for investment. When, against the tide, firms started to make investments for future operations, experts backtracked again, and argued that the time horizon for exploration was long, and would probably outlast the current administration. The payoff for investment is a moving target for investors. Something similar seems to describe regulatory power. A small, weak developing state may have lifted one set of binding constraints through regulatory power, but in doing so has also moved the locus on constraints to other arenas of policymaking –new rules to attract investment, new markets for hydrocarbons, and so on.

The apparent "inconsistency" of Bolivian foreign policy leaves us with a messy story. Leverage (or exit) from existing regimes happened adaptively, as policy space opened and closed along different dimensions. Decisions to exit become prominent when the constraints posed by international regimes become binding for domestic politics and policymakers. In the good times, this has usually meant leveraging global regulatory power *into* domestic policy space; in the bad times, it means fending *off* global regulation to release a binding constraint. This question –when does a binding constraint become *binding*? — bridges both domestic and global politics.

From the point of view of International Political Economy

In the comparative IPE literature, the threat of exit from international regimes attracts attention because of its potential deterrent effects among major powers. It is seen as an incentive for cooperation. For small developing countries, however, attention focuses to other dimensions of foreign policy behavior. From a realist point of view, small countries tend either to bandwagon (join a winning coalition) or balance (against an adversarial coalition) for advantage within a regime (Waltz 1979). In Stephen Krasner's (1985) words, "the desire to secure international regimes embodying authoritarian rather than market allocation of resources" is an enduring feature of small developing country strategy and reflects the "inability to influence unilaterally or to adjust internally to the

© August 2013 / GEG WP 2013/84.

pressures of global markets (p.11)". Exit or contestation to international regimes, can be explained, in realist accounts, by structural features of power –in particular the power capabilities of small countries-- rather than by radical ideology or poor strategizing.

Robert Keohane (1969), in a review of books on small states, frames the discussion in terms of the dynamic rather than static features of small country strategizing: "In a fluid international system…a small state must still maneuver, in order to prosper, if not to survive. Maneuvering involves making alliances –or finding an appropriate alternative policy (p. 64)." Adaptation and maneuverability are key to a dynamic understanding of small developing state decisions. Later contributions in institutionalist theory advanced by unpacking the state, and taking a closer look at how domestic politics defines whose interests are represented in the international arena.

From an institutionalist perspective, the binding constraints for global engagement are developed iteratively in domestic and global politics. In a two-step process, domestic preferences for voice, contestation or exit from international regimes are defined prior to decision making at the regional or global stage. Incentives favor cooperation in an interdependent economy. However, even in an established international regime, with ample space to maneuver, there might be a set of conditions where the payoff to cooperation is negative –where defection or exit is "rational".

In the particular circumstance of small developing economies, what is missing is a discussion of how "binding constraints" become binding in this two-step process. I would argue that much of the advances in economic analysis on growth and development are useful for this political economy question. Rodrik and Hausmann reflect on the puzzle that for countries where "everything is missing" (macroeconomic stability, political stability, rule of law, infrastructure, and so on), "everything" cannot be equally binding for long run development. Some binding constraints have a higher payoff than others: in countries with moderate political stability and macroeconomic stability –like Bolivia—the highest payoff is not likely to be an additional unit of macro or political stability.

In these circumstances, "other constraints" begin to matter: these include global regulatory constraints on trade, financial or aid policy. A closer look at how binding constraints from global regulatory regimes become "binding" in small developing countries might go a long way in explaining whether and how pragmatic foreign policymaking develops. The incremental view for Bolivian foreign policy described above, messy as it is, tends to ratify this intuition: decisions are made on a piece-by-piece basis, under duress, usually under great domestic political pressure. Only when global constraints become domestic are decisions weighted and made. The impact of small changes in global governance rules seem to matter at home. However, policy space matters to small developing countries not only because it may constrain policy space, but also because it can create space on the margins.

Besides the relative weights of constraints, however, the question of "ideology" remains unexplained in current policy reversals. In Bolivia, what is gained and what is lost from moving from "neoliberal" to "anti-globalization" best-practice? From the point of view of binding constraints, an ideologically informed "liberalization" policy seems to be strategically self-defeating; it undermines the need to address relevant binding constraints as they emerge dynamically in the economy. Likewise, with a blanket "anti-liberalization" stance, which undermines strategic advantages to be made *within* trade, aid or financing regimes. The strength of ideological framing, it would seem, is mostly *domestic* rather than global or international. Even then, the earlier question of why some contestative policies

© August 2013 / GEG WP 2013/84.

are adopted, but some non-contestative policies remain in place, is still relevant. Beyond the instrumental uses of ideology and political framing, the intrinsic worth of a broad narrative signals a dimension of political behavior not easily explained with the conventional IPE toolkit.

Conclusions

This paper considers Bolivian examples of policy reversals on aid, trade and climate change. Bolivian foreign policy decisions have been moving in the direction of contestation and/or exit from international regimes over the past several years. However, contestation has not occurred in every dimension of development policy. In fact, most dimensions of economic policymaking have remained untouched. Why the selective contestation of global policy rules? This is the key question addressed in the paper.

Beyond the Bolivian case, an interesting analytical question is how to account for exit or threats of exit from international regimes. Small states, in particular, are assumed to gain strategically from regimes where shared rules, information and transparency reduce transaction costs for cooperation. Examples of small-state maneuvering are plentiful, and are the object of growing scholarly attention. I focus here on exit and the threat of exit, because it closely describes Bolivian foreign policy over the past few years, but also because it provides a measure of how global regulatory rules become *binding* (either constraining or providing leverage) for many small developing economies.

The idea of binding constraints, loosely borrowed from the economic literature on growth and development, helps to tackle the policy question posed above. Not every global regulation impinges on the sovereignty of small developing states, and vice versa, not every small country constraint is binding for the global economy. If we were to map out the effective size of “policy space” for a developing economy, we would envision both the *de jure* space between loyalty and exit, and also the *de facto* space where global regulatory power can be leveraged into a country (at the point of loyalty) or where domestic policy space increases (at the point of exit).

There are two implications of this view of policy space. First, exit should not be taken literally; it signals an inflection point on the country assessment of a global regulatory regime. Policy reversals, which are relatively frequent for small developing countries, tell us *where* global regulations are binding; if global constraints were less binding, exit would be used less often. A casual look at different regimes and the strategies employed by small developing countries tends to confirm this view. Most room to maneuver is found in regimes that endorse policy pluralism, rather than strict policy convergence or preferential treatment, which tend to compartmentalize policy space more tightly. Perhaps the classic example of contestation at the margins is the historical experience of non-alignment in the 1960s, which was pursued more as a “space-opener” by small countries, rather than as an alternative to the prevailing economic order. It succeeded not because it delivered public goods or enabled cooperation, but because it leveraged policy space at the margins.

Second, this approach also suggests that, for small developing economies, policy *divergence*, rather than convergence, is the default position with respect to international regimes. Harmonization (keeping Bolivia, Mali and Cambodia, but also, China, India and Brazil, on the same page on intellectual property rights, for example) is bound to be costly to a small state. By definition, harmonization places an equal weight on constraints that may not be binding for country x, and

© August 2013 / GEG WP 2013/84.

perhaps not sufficient weight to those constraints that have a large effect over long run prospects for development. For large developed economies, harmonization tends to occur *above* an achievement threshold, so that policy convergence is less biting –as shown by harmonization of macroeconomic policy in the European Union. For small developing economies, differential space is likely to allow a more effective self-discovery process, until a sustainable development path is charted.

Back to Bolivia

What is interesting, from a Bolivian perspective, is that policy reversals that resulted in threats to exit or exit itself, were preceded by visible shifts in policy space back home. Taxes on natural gas released a number of constraints in sequential fashion –first, fiscal room; then, balance of payments space and, finally, central bank reserves, in the lead-up to the recent financial crisis. While releasing some constraints, nationalization also added new ones –in the form of foreign investment constraints, regulatory problems, and skewed institutional incentives after the commodity boom. The policy reversals on aid, trade and climate change follow a similar sequence: first, state control over fiscal space; then, policy room to engage in unorthodox foreign policy.

Exit, and the threat of exit, thus tells us more about how Bolivian foreign policy has leveraged global constraints, than about the substantive issues themselves. While changes in Bolivian policy on aid, for example, may have expanded domestic policy space in the short run, changes in trade policy are very likely to have restricted it. Climate change contestation has a more uncertain payoff; it would seem to translate into a plea for voice, rather than exit from the Copenhagen negotiation path. Bolivia can be expected to continue to play a contestative role in regional and global politics, to the extent that domestic political conditions allow space for this. Evo Morales' landslide re-election in December of 2009 would tend to strengthen this position for the foreseeable future.

I would argue that the ideological sway of policy reversals is part of this political story. Bolivia's move from "WC-model" to "anti-globalization model" is not a foreign policy blunder. It suggests, rather, that the framing process is just as important for foreign policy leveraging. While a small Andean nation is unlikely to gain much leverage at Copenhagen-Cancun, it *is* likely to gain some leverage back home --if it can deliver an "alternative climate change" agenda. NGOs, activists, academia and other transnational actors can provide resources, legitimacy and policy space for tough domestic decisions on land reform and indigenous autonomies, for example.

To what extent is the Bolivian case generalizable to other small developing states? Do contingencies explain which constraints become binding, or do binding constraints drive foreign policy decisions beyond contingencies? An answer to these questions could only emerge from cross-country comparisons, which are beyond the scope of this paper. I do believe, however, that a closer look at the conditions that induce "exit" adds to the understanding of how small developing economies navigate international regimes. In more than one way, the Bolivias of the world are a test case. If global governance is to be sustainable, it needs to be more politically viable, especially at the margins.

© August 2013 / GEG WP 2013/84.

References

Booth, David and Piron, L.-H. ,2004, *Politics and the PRSP Approach: Bolivia Case Study,* Working Paper No. 238, London: Overseas Development Institute.

Dangl, Benjamin, 2007, *The Price of Fire: Resource Wars and Social Movements in Bolivia*, Edinburgh: AK Press.

Gallagher, Kevin, 2005, *Putting Development First: The Importance of Policy Space in the WTO and IFIs*, London: Zed Books.

Government of Bolivia, 2006, *Plan Nacional de Desarrollo*, La Paz: Ministry of Development Planning.
Gray Molina, 2009, "Governing Pockets of Growth", paper presented at the 1st GLF Colloquium, University College, University of Oxford, May 2009, Oxford: GEG.

Gray Molina, 2009b, "The United States and Bolivia: Test Case for Change", in Abraham Lowenthal, Ted Piccone and Laurence Whitehead, *The Obama Administration and the Americas: Agenda for Change,* Washington, DC: The Brookings Institution.

Gray Molina, George and Fernanda Wanderley, 2007, "Pockets of Growth in a Low-Income Economy", paper presented at CAF-CID-Harvard University Seminar on the "Bolivian Growth Puzzle", Cambridge, MA: CAF.

Hausmann, Ricardo, Dani Rodrik and Andres Velasco, 2004, "Growth Diagnostics", CID Working Paper, Cambridge, MA: Harvard University.

Hausmann, Ricardo, Bailey Klinger and Rodrigo Wagner, 2008, "Doing Growth Diagnostics: A Mindbook, CID Working Paper # 177, Cambridge, MA: Harvard University.

Holmqvist, G. and Metell Cueva, K. , 2006, "If the PRS Experience in Latin America is a Disappointment, What is the Alternative?" *Development Policy Review* 24 (4): pp. 477-80.

International Monetary Fund and International Development Association, 1999, *Heavily Indebted Poor Countries (HIPC) Initiative: Strengthening the Link Between Debt Relief and Poverty Reduction*. Washington, DC: IMF and IDA.

Jones, Emily, Carolyn Deere-Birbeck and Ngaire Woods, 2010, *Manoeuvring at the Margins: Constraints Faced by Small States in International Trade Negotiations*, London: Commonwealth Secretariat.

Katztenstein, Peter, 1985, Small States in World Markets: Industrial Policy in Europe, Ithaca: Cornell University Press.

Keohane, Robert, 1984, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton: Princeton University Press.

___ 1971, "The Big Influence of Small Allies", *Foreign Policy*, No. 2. Spring 1971, pp. 161-182.

© August 2013 / GEG WP 2013/84.

___ 1969, “Lilliputian’s Dilemmas: Small States in International Politics”, *International Organization*, Vol. 23, 1969, pp. 291-310.

Keohane, Robert and David Victor, 2009, “The Regime Complex for Climate Change”, manuscript, Princeton: Princeton University.

Kohl, Benjamin and Linda Farthing, 2006, *Impasse in Bolivia: Neoliberal Hegemony and Popular Resistance*, London: Zed Books.

Krasner, Stephen,1985, *Structural Conflict: The Third World Against Global Liberalism*, Los Angeles: University of California Press.

Medinacelli, Mauricio, 2007a, “Aspectos economicos de los nuevos contratos” in Fundacion Boliviana para la Democracia Multipartidaria (FBDM), *El nuevo ciclo de los hidrocarburos*, La Paz: FBDM.

____, 2007b, *La nacionalización del nuevo milenio: cuando el precio fue un aliado*, La Paz: Fundemos.

Morrison, Kenneth and Mathew Singer, 2007, “Inequality and Deliberative Development: Revisiting Bolivia’s Experience with the PRSP, *Development Policy Review*, 2007, 25 (6): 721-740.

Raustiala, Kal and David Victor, 2004, “The Regime Complex for Plant Genetic Resources”, *International Organization* (58) 2: pp. 277-310.

Rodrik, Dani, 2007, “How to Save Globalization from its Cheerleaders”, *The Journal of International Trade and Diplomacy* (1) 2, Fall 2007, pp. 1-33.

Schultz, Jim and Melissa Crane Draper, 2008, *Dignity and Defiance: Stories from Bolivia’s Challenge to Globalization*, Los Angeles: University of California Press.

UNDP, 2008, *La otra frontera: informe temático de desarrollo humano de Bolivia*: La Paz: UNDP.

UNDP, 2007, *El estado del Estado: informe nacional de desarrollo humano de Bolivia*, La Paz: UNDP.

UNDP, 2005, *La economía mas allá del gas: informe temático de desarrollo humano de Bolivia*, La Paz: UNDP.

Zaratti, Francesco, 2007, “Repercusiones de la nacionalización y el futuro de los hidrocarburos en Bolivia, tras la firma de los nuevos contratos petroleros”, in Fundación Boliviana para la Democracia Multipartidaria (FBDM), *El nuevo ciclo de los hidrocarburos*, La Paz: FBDM.

© August 2013 / GEG WP 2013/84.

Working Papers

The following GEG Working Papers can be downloaded at
www.globaleconomicgovernance.org/working-papers

Nilima Gulrajani	WP 2013/87 An Analytical Framework for Improving Aid Effectiveness Policies
Carolyn Deere-Birkbeck	WP 2013/86 How Should WTO Members Choose Among the Nine Candidates for Director-General?
Alexander Kupatadze	WP 2013/85 Moving away from corrupt equilibrium: 'big bang' push factors and progress maintenance
George Gray Molina	WP 2013/84 Global Governance Exit: A Bolivian Case Study
Steven L. Schwarcz	WP 2013/83 Shadow Banking, Financial Risk, and Regulation in China and Other Developing Countries
Pichamon Yeophantong	WP 2013/82 China, Corporate Responsibility and the Contentious Politics of Hydropower Development: transnational activism in the Mekong region?
Pichamon Yeophantong	WP 2013/81 China and the Politics of Hydropower Development: governing water and contesting responsibilities in the Mekong River Basin
Rachael Burke and Devi Sridhar	WP 2013/80 Health financing in Ghana, South Africa and Nigeria: Are they meeting the Abuja target?
Dima Noggo Sarbo	WP 2013/79 The Ethiopia-Eritrea Conflict: Domestic and Regional Ramifications and the Role of the International Community
Dima Noggo Sarbo	WP 2013/78 Reconceptualizing Regional Integration in Africa: The European Model and Africa's Priorities
Abdourahmane Idrissa	WP 2013/77 Divided Commitment: UEMOA, the Franc Zone, and ECOWAS
Abdourahmane Idrissa	WP 2013/76 Out of the Penkelemes: The ECOWAS Project as Transformation
Pooja Sharma	WP 2013/75 Role of Rules and Relations in Global Trade Governance
Le Thanh Forsberg	WP 2013/74 The Political Economy of Health Care Commercialization in Vietnam
Hongsheng Ren	WP 2013/73 Enterprise Hegemony and Embedded Hierarchy Network: The Political Economy and Process of Global Compact Governance in China
Devi Sridhar and Ngaire Woods	WP2013/72 'Trojan Multilateralism: Global Cooperation in Health'
Valéria Guimarães de Lima e Silva	WP2012/71 'International Regime Complexity and Enhanced Enforcement of Intellectual Property Rights: The Use of Networks at the Multilateral Level'
Ousseni Illy	WP2012/70 'Trade Remedies in Africa: Experience, Challenges and Prospects'
Carolyn Deere Birckbeck and Emily Jones	WP2012/69 'Beyond the Eighth Ministerial Conference of the WTO: A Forward Looking Agenda for Development'
Devi Sridhar and Kate Smolina	WP2012/68' Motives behind national and regional approaches to health and foreign policy'
Omobolaji Olarinmoye	WP2011/67 'Accountability in Faith-Based Organizations in Nigeria: Preliminary Explorations'
Ngaire Woods	WP2011/66 'Rethinking Aid Coordination'
Paolo de Renzio	WP2011/65 'Buying Better Governance: The Political Economy of Budget Reforms in Aid-Dependent Countries'
Carolyn Deere Birckbeck	WP2011/64 'Development-oriented Perspectives on Global Trade Governance: A Summary of Proposals for Making Global Trade Governance Work for Development'
Carolyn Deere Birckbeck and Meg Harbourd	WP2011/63 'Developing Country Coalitions in the WTO: Strategies for Improving the Influence of the WTO's Weakest and Poorest Members'

© August 2013 / GEG WP 2013/84.

Leany Lemos	WP 2011/62 'Determinants of Oversight in a Reactive Legislature: The Case of Brazil, 1988 – 2005'
Valéria Guimarães de Lima e Silva	WP 2011/61 'Sham Litigation in the Pharmaceutical Sector'.
Michele de Nevers	WP 2011/60 'Climate Finance - Mobilizing Private Investment to Transform Development.'
Ngaire Woods	WP 2010/59 ' The G20 Leaders and Global Governance'
Leany Lemos	WP 2010/58 'Brazilian Congress and Foreign Affairs: Abdication or Delegation?'
Leany Lemos & Rosara Jospeh	WP 2010/57 'Parliamentarians' Expenses Recent Reforms: a briefing on Australia, Canada, United Kingdom and Brazil'
Nilima Gulrajani	WP 2010/56 'Challenging Global Accountability: The Intersection of Contracts and Culture in the World Bank'
Devi Sridhar & Eduardo Gómez	WP 2009/55 'Comparative Assessment of Health Financing in Brazil, Russia and India: Unpacking Budgetary Allocations in Health'
Ngaire Woods	WP 2009/54 'Global Governance after the Financial Crisis: A new multilateralism or the last gasp of the great powers?
Arunabha Ghosh and Kevin Watkins	WP 2009/53 'Avoiding dangerous climate change – why financing for technology transfer matters'
Ranjit Lall	WP 2009/52 'Why Basel II Failed and Why Any Basel III is Doomed'
Arunabha Ghosh and Ngaire Woods	WP 2009/51 'Governing Climate Change: Lessons from other Governance Regimes'
Carolyn Deere - Birkbeck	WP 2009/50 'Reinvigorating Debate on WTO Reform: The Contours of a Functional and Normative Approach to Analyzing the WTO System'
Matthew Stilwell	WP 2009/49 'Improving Institutional Coherence: Managing Interplay Between Trade and Climate Change'
Carolyn Deere	WP 2009/48 'La mise en application de l'Accord sur les ADPIC en Afrique francophone'
Hunter Nottage	WP 2009/47 'Developing Countries in the WTO Dispute Settlement System'
Ngaire Woods	WP 2008/46 'Governing the Global Economy: Strengthening Multilateral Institutions' (Chinese version)
Nilima Gulrajani	WP 2008/45 'Making Global Accountability Street-Smart: Re-conceptualizing Dilemmas and Explaining Dynamics'
Alexander Betts	WP 2008/44 'International Cooperation in the Global Refugee Regime'
Alexander Betts	WP 2008/43 'Global Migration Governance'
Alastair Fraser and Lindsay Whitfield	WP 2008/42 'The Politics of Aid: African Strategies for Dealing with Donors'
Isaline Bergamaschi	WP 2008/41 'Mali: Patterns and Limits of Donor-Driven Ownership'
Arunabha Ghosh	WP 2008/40 'Information Gaps, Information Systems, and the WTO's Trade Policy Review Mechanism'
Devi Sridhar and Rajaie Batniji	WP 2008/39 'Misfinancing Global Health: The Case for Transparency in Disbursements and Decision-Making'
W. Max Corden, Brett House and David Vines	WP 2008/38 'The International Monetary Fund: Retrospect and Prospect in a Time of Reform'
Domenico Lombardi	WP 2008/37 'The Corporate Governance of the World Bank Group'
Ngaire Woods	WP 2007/36 'The Shifting Politics of Foreign Aid'
Devi Sridhar and Rajaie Batniji	WP 2007/35 'Misfinancing Global Health: The Case for Transparency in Disbursements and Decision-Making'
Louis W. Pauly	WP 2007/34 'Political Authority and Global Finance: Crisis Prevention in Europe and Beyond'
Mayur Patel	WP 2007/33 'New Faces in the Green Room: Developing Country Coalitions and Decision Making in the WTO'
Lindsay Whitfield and Emily Jones	WP 2007/32 'Ghana: Economic Policymaking and the Politics of Aid Dependence' (revised October 2007)

© August 2013 / GEG WP 2013/84.

Isaline Bergamaschi	WP 2007/31 'Mali: Patterns and Limits of Donor-driven Ownership'
Alastair Fraser	WP 2007/30 'Zambia: Back to the Future?'
Graham Harrison and Sarah Mulley	WP 2007/29 'Tanzania: A Genuine Case of Recipient Leadership in the Aid System?'
Xavier Furtado and W. James Smith	WP 2007/28 'Ethiopia: Aid, Ownership, and Sovereignty'
Clare Lockhart	WP 2007/27 'The Aid Relationship in Afghanistan: Struggling for Government Leadership'
Rachel Hayman	WP 2007/26 '"Milking the Cow": Negotiating Ownership of Aid and Policy in Rwanda'
Paolo de Renzio and Joseph Hanlon	WP 2007/25 'Contested Sovereignty in Mozambique: The Dilemmas of Aid Dependence'
Lindsay Whitfield	WP 2006/24 'Aid's Political Consequences: the Embedded Aid System in Ghana'
Alastair Fraser	WP 2006/23 'Aid-Recipient Sovereignty in Global Governance'
David Williams	WP 2006/22 '"Ownership," Sovereignty and Global Governance'
Paolo de Renzio and Sarah Mulley	WP 2006/21 'Donor Coordination and Good Governance: Donor-led and Recipient-led Approaches'
Andrew Eggers, Ann Florini, and Ngaire Woods	WP 2005/20 'Democratizing the IMF'
Ngaire Woods and Research Team	WP 2005/19 'Reconciling Effective Aid and Global Security: Implications for the Emerging International Development Architecture'
Sue Unsworth	WP 2005/18 'Focusing Aid on Good Governance'
Ngaire Woods and Domenico Lombardi	WP 2005/17 'Effective Representation and the Role of Coalitions Within the IMF'
Dara O'Rourke	WP 2005/16 'Locally Accountable Good Governance: Strengthening Non-Governmental Systems of Labour Regulation'.
John Braithwaite	WP 2005/15 'Responsive Regulation and Developing Economics'.
David Graham and Ngaire Woods	WP 2005/14 'Making Corporate Self-Regulation Effective in Developing Countries'.
Sandra Polaski	WP 2004/13 'Combining Global and Local Force: The Case of Labour Rights in Cambodia'
Michael Lenox	WP 2004/12 'The Prospects for Industry Self-Regulation of Environmental Externalities'
Robert Repetto	WP 2004/11 'Protecting Investors and the Environment through Financial Disclosure'
Bronwen Morgan	WP 2004/10 'Global Business, Local Constraints: The Case of Water in South Africa'
Andrew Walker	WP 2004/09 'When do Governments Implement Voluntary Codes and Standards? The Experience of Financial Standards and Codes in East Asia'
Jomo K.S.	WP 2004/08 'Malaysia's Pathway through Financial Crisis'
Cyrus Rustomjee	WP 2004/07 'South Africa's Pathway through Financial Crisis'
Arunabha Ghosh	WP 2004/06 'India's Pathway through Financial Crisis'
Calum Miller	WP 2004/05 'Turkey's Pathway through Financial Crisis'
Alexander Zaslavsky and Ngaire Woods	WP 2004/04 'Russia's Pathway through Financial Crisis'
Leonardo Martinez-Diaz	WP 2004/03 'Indonesia's Pathway through Financial Crisis'
Brad Setser and Anna Gelpern	WP 2004/02 'Argentina's Pathway through Financial Crisis'
Ngaire Woods	WP 2004/01 'Pathways through Financial Crises: Overview'

© August 2013 / GEG WP 2013/84.