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**Research Report**

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## Democracy in Crisis in Latin America

Bolivia and Venezuela Test the International Community's Democratic Commitment

*Günther Maihold / Jörg Husar*

Bolivia appears to be over the worst of its current crisis, now that parliament has accepted President Carlos Mesa's resignation and early elections are in prospect. Mesa held the office of president from October 2003 to June 2005 after Gonzalo Sánchez de Losada was toppled and fled to the United States after just 14 months in office. Mesa's resignation and the decision to hold new elections have initially succeeded in calming feelings in a strongly polarized civil society, but any elected successor to the appointed interim President Eduardo Rodríguez will face the same dramatic challenges. Democracy in Bolivia—and in other nearby countries in the Andes region—is heading for a crucial test that could become a great danger for the whole continent. The same also applies to Venezuela, whose leader President Hugo Chávez champions a "Bolivarian ideology of integration" for Latin America that involves a fundamentally different model of democracy.

The wave of neopopulism currently sweeping Latin America is more likely to be a sign of the dissolution of the institutional foundations of democracy than a new project of the Latin American left, as some observers would like to believe. The failure of the traditional elites and a political agenda of old and new conflicts over power and resources suggest that we are looking at situations lacking the basic consensus required to bind social forces together and make democratic rule possible, rather than a renewal of the pillars of democracy. The international community will have to pay more attention to Latin America if democracy is to be preserved in the troubled Andes region.

Today, it would appear, the danger is no longer of open intervention by the military, but instead of presidents being dismissed by their parliaments or forced to resign in the face of massive demonstrations and a calculated escalation of violence. This modern form of ouster, known in Latin America as the "popular coup," owes its success above all to the mobilization of social groups who successfully link their demands with a widespread general mistrust against the "political class." This is symptomatic of the very low reserves of legitimacy of presidents and parliaments, especially in the Andean countries. It is clear that the foundations of electoral democracy in Bolivia, Ecuador, Peru, and

Venezuela are subject to a process of creeping erosion; central political actors are discredited and social cohesion has been undermined to a point where authoritarian regression or severe social conflict cannot be ruled out. Many observers in Latin America see the moments of instability here as harbingers of a transition from the representative democracy of the past to a participative democracy in the future. This interpretation rests on the observation that although Latin Americans closely link the ideas of democracy and social justice, most of the continent's states largely fail to live up to this expectation.

The international community stands before the challenge of having to devote great energy to Latin America again. Otherwise it risks seeing the achievements of the wave of democratization of the 1980s and 1990s being lost again.

### **Bolivia—Test Case for Democratic Development in a Divided Country**

After 20 years of relative stability, Bolivia has reached a critical point once again. Three issues shaped the political crisis of recent weeks: nationalization of oil and gas production, the demand for a constitutional assembly, and growing calls for autonomy in the southern and eastern regions of Tarija and Santa Cruz. But behind these controversies there is a second—and much more fundamental—set of problems: creeping disintegration of the political system, degeneration of the political parties, and the rise of new social actors repeatedly setting established institutions under pressure through mass mobilizations and calling the shots in the conflict. Although none of these challenges are new to the Bolivian political system, the institutional system (parliament, government, judiciary, regional authorities) is proving increasingly incapable of combining authority with the necessary social consensus. In political terms, Bolivia is still facing the same questions that were on the agenda in the nineteenth and early twen-

tieth century, issues that the political elite always put off dealing with or swept under the carpet. This applies in particular to the tasks of creating a shared identity for the Bolivian nation including the indigenous communities and involving the different departments in shaping the country's politics. Confrontations, on the one side with new social actors such as the coca growers' movement led by Evo Morales, the miners and neighborhood assemblies, and the indigenous groups in the highlands, and on the other with civic committees striving for autonomy for Santa Cruz and Tarija have created political fissures that acutely endanger the national unity and very existence of the state of Bolivia. At the moment, there is no sign of a political force capable of drawing these centrifugal tendencies back into a political consensus.

**The Departments of Bolivia**



Source: [http://de.wikipedia.org/wiki/Bild:Bolivia\\_departments\\_named.png](http://de.wikipedia.org/wiki/Bild:Bolivia_departments_named.png)

After years of dynamic reform during the first presidential term of Sánchez de Losada (1993–97), renewal of the institutional framework of Bolivian politics has slowed considerably and development of sustainable initiatives has ceased. Important reforms such as the realization of new forms of participation for civil society and the

indigenous communities remain unfinished. To that extent it comes as no surprise that in particular the question of use of the natural resources of oil and gas and the distribution of the resulting revenues serves as the point of crystallization for a whole plethora of interests.

### **Squabbling over gas**

The passing of an investor-friendly hydrocarbon law, which reduced the royalties on oil and gas production from 50% to 18%, led to a regular oil and gas boom in Bolivia between 1997 and 2003. Extensive investment in exploration increased Bolivian gas reserves sevenfold, and at 810 billion cubic meters they are now the second largest in South America. Since then the global players of the gas business have been operating in Bolivia, led by RepsolYPF of Spain (24.8% of the reserves), British Gas (16.1%), Total-FinaElf (14.0%), Petrobras of Brazil (13.8%), and BP (10.5%). Construction of the 3,150-kilometer GasBol pipeline from eastern Bolivia to the Brazilian coast began in 1997 after the conclusion of a long-term export agreement between Bolivia and Brazil, with funding from the World Bank (22% of external capital), the Inter-American Development Bank (17%), and amongst others also the European Investment Bank (4.3%). Since mid-2004 Argentina has also been importing natural gas, but in view of Bolivia's enormous reserves, overall market potential in the neighboring states must be regarded as inadequate. However, attempts by the corporations to exploit the newly-discovered natural gas reserves by exporting liquid natural gas have met with stiff resistance. In 2001, a multinational consortium (RepsolYPF, British Gas, and BP/Bridas) put forward plans to export a total of 168 billion cubic meters of Bolivian natural gas in liquid form to North America over a period of twenty years. The gas was to be transported by pipeline to a Chilean port, liquefied there, shipped in special tankers to Mexico, and piped from there to California. Involving Chile in the project was

unavoidable because Bolivia lost its access to the ocean to its neighbor in the War of the Pacific (1879–83). To this day Bolivia maintains territorial claims against Chile, which rejects them with reference to a peace treaty of 1904. An alternative route through Peruvian territory would have been 240 kilometers longer and was rejected by the consortium as uneconomical.

Various opposition groups successfully drew political capital from the controversial involvement of the arch-enemy Chile, by exploiting the burgeoning controversy over the liquid gas project to mobilize for their own particular demands. Alongside criticism of Chilean participation, the project's supporters were also accused of robbing Bolivia of its last valuable mineral resources without the users being made to pay sufficient taxes. The Bolivian royalty rate of 18% may have been low in regional comparison, but this increased the willingness of foreign corporations to invest. In September 2003, when negotiations with Chile over the construction of the pipeline were close to completion, bloody protests caused more than 60 deaths and eventually led to the hasty resignation of Sánchez de Losada. He was succeeded by his vice-president Carlos Mesa, whose attempt to find a compromise in the gas question recently ended in failure following 20 turbulent months of resistance by the now extremely well-organized protest groups. Mesa resigned after several hundred demonstrators armed with dynamite attempted to storm the president's office on June 6, 2005. Previously, in mid-May, he had refused to sign a hydrocarbon law passed by Congress that would have returned the effective tax rate on oil and gas production to 50%. However, because Mesa decided not to use his right of veto, the constitution allowed the president of the Senate to promulgate the law. Now 72 contracts with multinationals will have to be brought into line with the new legal situation within 180 days. The most important gas companies in the country have already announced that they will lodge violation of contract complaints with the

International Center for Settlement of Investment Disputes (World Bank) and otherwise reduce their investments in Bolivia to a minimum. Now, under interim President Eduardo Rodríguez, the country is heading for early elections that are likely to be won by forces demanding complete nationalization of the Bolivian oil and gas sector. This would mean a further escalation of the ethnically charged conflict between the (gas-)rich departments of Tarija and Santa Cruz (which together hold 96.8% of the reserves) and the poor indigenous regions in the western Andean highlands—the power base of the best-placed presidential candidate Evo Morales and his *Movimiento al Socialismo* (Movement Toward Socialism).

#### **Can a constitutional assembly solve the problems?**

This explosive situation is further exacerbated by calls for greater autonomy from the central state, articulated especially by the socioeconomically better off departments in the south and east. Indigenous groups also want greater self-determination, but combine that demand with calls for a say in decisions about the exploitation of the country's natural resources. A constitutional assembly—extolled as a cure-all by various actors—would have to reconcile these sometimes very contradictory interests. Recent history gives no grounds to believe that the participating forces would be able to find the necessary willingness to compromise. Instead it must be expected that such an assembly would come under enormous pressure from a wide range of socialist and indigenous protest groups and largely give in to their maximum demands. Under these circumstances a constitutional reform would hasten the division of the country rather than leading to a resolution of the conflict. The heart of the problem in Bolivia is that the various conflicts are no longer being played out within the political system (and can no longer be played out there), because

the diverging maximum demands are plainly irreconcilable and the actors show not a shred of willingness to compromise.

#### **Venezuela under Hugo Chávez at the Heart of a New South America?**

The recent electoral successes of many left-leaning parties and candidates in Latin America have given credence to the theory that a new community of “progressive” governments is forming in South America, extending from Chile and Uruguay through Brazil and Argentina to Venezuela. Proponents of this view believe that Bolivia could join the group after an election victory for Evo Morales. The ideological closeness of the heads of government of the listed states, they say, would then prove to be a stabilizing girdle for this new block. Venezuela and its President Hugo Chávez are seen as the decisive element strengthening sub-regional cooperation for closer integration. Chávez, they say, is pursuing a thoroughly statist approach—underpinned by populist rhetoric—and has for example set himself the goal of creating an integrated industrial sector on the 1960s model, through regional cooperation between state-run oil and gas corporations and even founding a joint oil corporation, *Petrosur*. In domestic policy, too, the Chávez discourse finds an echo in many Latin American countries, which is one reason why their respective governments are interested in maintaining harmonious relations with their resource-rich neighbor.

However, closer examination of the positions within the “new block” shows that they do not actually have all that much in common. For example, in terms of (external) economic policy paradigms there is hardly a point of agreement to be found. Chile's open market policy is irreconcilable with Brazil's protection of its domestic market and the Venezuelan concept of the role of the state. The course set by the Kirchner government in Argentina primarily follows domestic policy imperatives. Kirchner's policies are designed to cope

with internal financial and energy crises rather than coordinating with partners in Brazil and Chile on an ideological basis. Uruguay's new president Tabaré Vázquez hopes to increase his country's weight in the Mercosur framework, and is attempting to maximize his country's limited potential by demonstratively closing ranks with Chávez. Brazil has so far succeeded very adroitly in pursuing a policy of expanding its regional leadership role.

Greater agreement can be found in the field of foreign policy. Although no partner in South America has yet adopted Chávez's Bolivarian ideology of integration, all involved are keen to include Venezuela in South American integration initiatives, specifically in the Mercosur framework and the South American Community of Nations. Venezuela's wealth of resources is one reason for this, but there has also so far been a consensus that the country should not be placed in a position of isolation that would bind it even more closely to Cuba. So far, the "new block" has proved to be effective at rebuffing the United States in negotiations. Plans for a Free Trade Area of the Americas (FTAA) have been put on hold and in the appointment of the new secretary general of the OAS it successfully backed the Chilean candidate José Miguel Insulza against the Mexican foreign minister favored by the United States. In both matters Venezuela often played a rather unhelpful diplomatic role, but still provided considerable support for the efforts of the other partners. However, Chávez's real influence in the region has remained limited, even though his neopopulist discourse finds an eager audience in most of the countries. So far Brazil has always managed to exert a moderating and guiding influence on the Venezuelan leadership and thus demonstrated the productiveness of its strategy of integration.

However, in following this line the South American leaderships find themselves in opposition to the United States, which insists ever more vehemently on isolating Venezuela. The administration in Washing-

ton sees the government in Caracas as a destabilizing influence on its neighbors, not least because of its cooperation with Cuba and its latest arms purchases. These worries also apply to Bolivia, where the Americans suspect a close relationship between cocalero leader Evo Morales and Hugo Chávez. This increases the urgency for the European Union to decide how to respond to the neopopulist regime of Chávez, not only under the aspect of his possible influence in Latin America, but also in view of the interests of European industry in competing for contracts awarded by the Venezuelan government. This economic involvement by the Europeans takes place largely outside of the transparency safeguards of international tendering rules, an aspect that deserves particularly critical scrutiny in view of the populist character of the Chávez government.

### **The Role of the Regional Actors— Intervention or Integration?**

When considering options for action to safeguard democracy in Bolivia and Venezuela, the first place to look is among the actors in the region and to the Organization of American States (OAS).

In view of the uncertainties that accompanied his resignation and the nomination of his successor Rodríguez, Bolivia's President Carlos Mesa asked the Argentine and Brazilian governments and the United Nations to send observers to the session of parliament in the Bolivian capital Sucre. In so doing, he omitted the OAS, which would normally have been the first port of call, because its new secretary general comes from Chile, with which Bolivia, as described above, has a conflict dating back more than a century over its lost access to the Pacific. In the discussion over the use of a Chilean port Mesa had strongly spotlighted this issue, so the OAS has no possibility to operate on the basis of the Inter-American Democratic Charter. At the OAS general assembly in Florida at the beginning of June the United States made it clear that it

would like to establish preventative mechanisms for safeguarding democracy in Latin America, which could be activated on the initiative of the civil society of a threatened democracy. This proposal, however, met with broad rejection from the member states, which feared that their national sovereignty would be undermined if the OAS were granted such means of intervention. To that extent, the instruments available to the OAS for ensuring the sustainability of democratic processes remain restricted to mediation initiatives and observer missions. Due to the prevailing understanding of sovereignty in Latin America, intervention-based strategies find little resonance there, even though a good case could be made for them in certain instances in view of the precarious state of democracy in some of these countries. The United States would like to see its proposed mechanisms applied first and foremost to influence the situation in Venezuela. According to Washington, Venezuela's expansive role in South America and the domestic policies of the Chávez government are likely to cause long-term harm to democratic freedoms in the region.

The majority of Latin American states, by contrast, are largely confident that helpful neighbors will take on a mediating diplomatic role with respect to internal conflicts. This means that—as in the cases of Bolivia and Venezuela—the big neighbors, Argentina and Brazil, are called on first of all. Both also have direct interests of their own in guaranteeing their supplies of Bolivian gas. In other conflicts in the Andes region (for example in the border war of 1995 between Peru and Ecuador) they have already amply demonstrated their ability to act as arbitrators and guarantor powers. But in the Bolivian case they would be entering a domestic conflict with strong secessionist tendencies where they could become entangled themselves as direct neighbors of the “renegade” regions. That means that this solution promises only small hope of success, especially considering that the centrifugal forces in Bolivia are

extremely strong due to the power rivalry between ideologically extremely polarized groups.

## Options for European and German Policy

For the international community Bolivia and Venezuela represent central challenges as model cases of fragile democracy and the temptations of neopopulism. The positions taken by Germany and Europe will be significant for the course of developments because Bolivia is a major recipient of German development aid and Venezuela has become a point of conflict in international relations because of its wealth of resources and the growing regional influence of the Chávez government.

In both cases foreign policy initiatives should be based on the following considerations:

- ▶ The response to an advance of populist political styles should be to strengthen democratic institutions and the individuals operating within them. An expansion of non-institutional politics in Bolivia or Venezuela would reopen the door to totalitarianism at the expense of transparency and calculability. The institutional approach should be closely tied to the consolidation of democratic and constitutional structures, which are traditionally underdeveloped in both countries due to the lack of independence of the judiciary. Critical observation and accompaniment of democratic developments could represent a specifically European contribution, because the understanding of democracy in continental Europe—in contrast to the United States—always also encompasses the social *Lebenswelt* above and beyond electoral procedures. In concrete terms, this means strengthening parliaments, mayoral offices, and prefectures with the goal of administering social and political conflicts at these levels rather than in extrainstitutional forms. For that reason, development cooperation should priori-

tize support for activities and programs in the field of democratic governance—if necessary at the expense of sending out experts and organizing extrainstitutional forums for dialogue. Alternative consensual forums, which take the political debate out of the institutions and thus diminish their political legitimacy, are counterproductive in the current situation. This applies above all to the programs of political foundations and development organizations; the current concentration of such activities could foster unclarity regarding political responsibility. The democratic and constitutional conduct of parties, leadership elites, candidates, and officeholders must articulate itself in concrete political decisions. The only way to encourage democratic structures is to provide international incentives for pro-institutional attitudes. Such a signal should be sent to Venezuela in particular. This is the only way to counteract the extrainstitutional tendencies of populism.

- ▶ The international community, which has already made a massive contribution to relieving Bolivia's debt with the Heavily Indebted Poor Countries Initiative (HIPC II), and is set to offer still more help in the form of the current initiative by the G-8 finance ministers, needs to decide how to continue its strategic involvement in the light of the country's acute problems. This also applies to Germany, which has given Bolivia great support through bilateral debt relief and made the country a major recipient of German development aid for the past thirty years, especially in the field of governance. Bolivia is currently the biggest recipient of German development aid in Latin America (receiving a total of €956 million since the 1970s) and can be counted among the countries that are extremely dependent on development aid funds. In the field of development aid, the current constellation raises the question of whether the country would not be better served by direct budgetary

aid, which would have to be tied to clear conditions regarding its use and the application of transparency rules. Although this development instrument—which has been rarely used to date—would restrict the influence of German intermediaries such as the KfW development bank, it could go some way toward solving the current problem that a country may be able to collect promises of credit, but is unable to cash them in due to a lack of capital and resources of its own. In any case it would be sensible to start considering which controlling instruments would be appropriate if a decision were to be made to offer budgetary aid, especially given that Bolivia fails to meet the conditions of good governance.

- ▶ The European Union should support the efforts of Latin American states to integrate rather than isolate Bolivia and Venezuela. Exclusion would offer no advantages to Europe—especially in the case of a country with Venezuela's strong finances and wealth of resources—because the Union can only influence the situation in the country if it participates constructively in the processes. Even if the United States should increase its pressure on Venezuela (not least in pursuit of its own particular interests in fighting drug cultivation, securing oil imports from Venezuela, and isolating Cuba), the more promising course for Europe would be to promote the mediation function adopted, for example, by Brazil in the region and to accompany the process as an active observer.
- ▶ The problem of institutional fragility and extrainstitutional political styles gradually undermining democracy are not restricted to Bolivia and Venezuela. Other Latin American countries are facing similar challenges, so it would be sensible to consider setting up a fund for democracy—similar to the OAS Peace Fund—that would bundle multilateral cooperation for dealing with crises of democracy and free it from bilateral preferences. This could also give the



Inter-American Democratic Charter an operative dimension that would permit the international community to make a contribution to dealing with acute crises of democracy in Latin America.

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