The gap between two countries grows

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The free flow of capital and attraction of foreign direct investment are not per se the moving power behind national development as promised by the partisans of structural adjustment. On the contrary, privatisation of the economy has left the government with no genuine sources of income and modified the pattern of accumulation in Bolivia, privileging transnational capital and putting most of its citizens at a disadvantage.

Economic globalisation is characterised by free markets for goods and services, unrestricted capital flows, promotion of technical innovation and increasing hegemony of neo-liberal economic policies. This process has dramatically modified conditions for development in backward countries and for their international insertion.

While globalisation presents potential advantages, such as new and larger markets, it also presents incommensurable risks arising from the instability of these markets, *eg*, the instability of financial markets when effective regulation is missing.

Opening up without development

Globalisation in Bolivia has occurred primarily through the indiscriminate opening to foreign trade and foreign direct investment (FDI), which have created a new scenario, characterised by: i) the imposition of new conditions for competitiveness on the weak national productive apparatus, which now faces more demanding foreign markets and the free flow of cheaper foreign products, ii) an in-depth restructuring of the national productive apparatus and of the composition of economic agents.

TABLE 1

Foreign Direct Investment

Amount of investment by economic activity 1993 – 2001*

ACTIVITY	AMOUNT (IN THOUSANDS OF USD)
Hydrocarbons	1,899,536
Mining	284,532
Industry and agro-industries	417,799
Trade and services	2,363,402
TOTAL	4,965,269

* Data up to and including the first semester of 2001.

Source: Vice-ministry of Investment and Privatisation, Ministry of Foreign Trade and Investment.

These in-depth changes are fueling major uncertainty about the future of the national economy. Their most visible consequences are, on the one hand, increased vulnerability of the national productive system to pressures from recurrent international crises and, on the other, the contradiction between FDI corporate objectives and the interests of the population. These contradictions are manifest in a constant rise in prices and tariffs, a situation deriving from the permissive regulations arranged to favour privatisation and the weakness of the existing regulatory system.

Reliance on FDI as a means to transform processes and disseminate technical progress in the national productive system has not had the expected results. This is because investment is concentrated on items that have little to do with the rest of the economy in terms of demand for inputs and intermediary goods.

These factors – linked to the persistence of a high fiscal deficit, uneven balance of payments and low internal savings rates – limit the availability of resources for public investment and their allocation to the productive and social sectors. In this way, the general economic environment is characterised by a competitiveness based on a greater exploitation of labour that does not ensure a stronger and long-term cycle for economic growth.

This situation has become evident in the last two years, when domestic and foreign factors joined to create a scenario of economic recession. The rate of growth of the Gross Domestic Product (GDP) dropped to 0.6% in 1999 and everything indicates similar behaviour in 2001,[1] with a very slow recovery over the following two years. Furthermore, the economic crisis is developing in a context of contraction of the domestic market and a less competitive position for exports.

Hydrocarbons: more FDI, less tax weight[2]

The two sectors of Bolivian economy contributing most to economic growth are hydrocarbons and communications.[3] This pace is generated by important flows of FDI in those sectors (See Table 1). However, growth in those sectors is not having the expected effects on the population, since their use of labour is marginal vis-à-vis the economically active population, and their contribution in taxes to the national treasury is minor relative to taxes paid by most of the population through consumer and transaction taxes. Let us look at the situation in the hydrocarbon sector.

In 2000, the production of natural gas rose by 38% and the export of gas to Brazil rose by 242%. Despite this significant increase in sectoral economic activity, the percentage of tax income from hydrocarbons in relation to the total tax and current income of the national treasury dropped between 1999 and 2000 (Table 2).

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1 Up to the third quarter of this year, Bolivian economy grew at a rate of 0.7%.

2 Part of this analysis is by Carlos Arze, for a presentation on "The Bolivian economy: crisis and possible solutions" at a seminar held in La Paz by the Association Network of Promotion and Education Institutions (AIPE) at the beginning of 2001.

3 Up to the third quarter of 2001, the oil and natural gas sector grew by 31.7%, while communications grew 9.8%.

TABLE 2

Percentage of tax income from hydrocarbons in relation to total tax and current income 1999 - 2000

TAX INCOME FROM HYDROCARBONS	1999 %	2000 %
Total tax income	28	27
Total current income	17	16

Source: Unit for the Analysis of Economic Policy (UDAPE).

This implies that the most dynamic sector of the national economy (31.7% growth so far in 2001), the sector most privileged by policies to attract FDI (it has concentrated 38% of the total FDI since 1993), does not increase tax contributions to the public treasury and, therefore does not generate genuine national resources for development purposes. Furthermore, the heaviest tax burden continues to fall on the majority of the Bolivian population through consumer and transaction taxes.

Unresolved fiscal fragility

The government's fiscal fragility continues to require a solution. The international crisis brought with it a gradual increase in the fiscal deficit: in 1999 the fiscal deficit was 3.9% of the GDP, in 2000 this figure increased to 4.05% and by the third quarter of 2001, the deficit was 8.3% of GDP.[4]

In the same way, government sources of funding to cover the deficit have varied over the past three years. In 1999, 60% came from to foreign sources, in 2000, this figure was 57%, and in 2001, the situation was reversed as domestic credit funded over 65% of the fiscal deficit.

These figures show that: i) the government, despite having reduced its expenses as a result of the crisis, has fewer resources with which to face its obligations; ii) normally, the government depended on foreign resources to cover its deficit, but the external debt taken on in 2001 is more expensive than the debt from foreign resources.

This fiscal fragility is even more pronounced in times of crisis because the tax burden continues to be regressive; that is to say, while the most dynamic sectors continue along their outwards spiral of growth, with very favourable fiscal measures, the most depressed sectors continue to generate the major part of the government's resources through taxes on consumption and commercial transactions.

More social expenditure: a mere formality?

The social adjustment policy has noted the need to increase social expenditure, as this contributes to capacity building of the population, and to improving health and living conditions. This has been reflected in a gradual increase of investment in social sectors. Between 1996 and 2000, social expenditure – which includes both current expenditure and capital expenditure – has increased by 10 percentage points, from 42.9% to 52.9% of the Non Financial Public Sector.[5] This increase implies that, by 2000, social expenditure had reached 17.2% of the GDP.[6]

An increase in social expenditure was foreseen for the year 2001, since Bolivia was to have resources from the enhanced initiative for heavily indebted poor countries (HIPC). However, the effects of the international crisis on Bolivian economy conspired against this possible increase.[7]

In any case, the results of this increase in social investment are not yet visible to the population, not only because it is an investment with long-term results, but also because of contradictions generated by this same model of development.

To reflect on the results of this policy, let us look at the relationship between education and employment.[8] This relationship presents a contradiction showing a structural problem: the educational system is not geared to current employment opportunities, and the private sector offers few job opportunities with labour conditions that lead to a better quality of life.

The market absorbs those with less schooling

Job insecurity affects a major part of the employed population. The understanding of this phenomenon can be enhanced with an analysis of educational levels, both of the employed and unemployed population in La Paz.

Forty-eight per cent of the population in La Paz did not complete basic schooling while 15.7% completed the basic cycle. Hence most of the employed (64.3%) have low levels of education. Furthermore, if the educational profile is observed for the unemployed in the city of La Paz, the following trend will be noted: the proportion of unemployed population with incomplete or complete higher education (40.9%) is higher than the proportion of the employed population with this same educational level (35.07%).

The average number of years of study of the unemployed has increased in the last few years. In 1995, the average years of study of the unemployed was 8.6, while in 2000, this average rose to 11.6 years. That is to say, social policies helped to increase the level of education of the population of La Paz, but did not significantly change their insertion into the job market.

The enhancement of human capital should entail an increase in access to jobs, improved income and better living conditions. In La Paz, this did not happen. How can this situation be explained?

To answer this question, we look at the type of employment presently demanded. It was mentioned earlier that jobs in general are insecure and of low quality. This is because most jobs (58.6%) in the city of La Paz are in the informal sector.

Furthermore, 41% of the jobs correspond to self-employed workers, non-remunerated family workers and home employees. These are jobs created by households and not by companies. As a result they have low levels of capitalisation and technological sophistication.

Some conclusions

The free flow of capital and attraction of foreign direct investment are not *per se* the moving power behind national development as promised by the partisans of structural adjustment. On the contrary, privatisation of the economy has left the government with no genuine sources of income and modified the pattern of accumulation in Bolivia, privileging transnational capital and putting most of its citizens at a disadvantage.

The relationship between economic growth and human development must be reciprocal. That is to say, although the levels of investment enable the population to be more productive and efficient, the state must provide means of production, economic opportunities and better working conditions. In Bolivia this reciprocity is not effective: high unemployment, precarious working conditions and the growth of informal activities are a reflection of this situation.

With this policy orientation, what has been promoted is the gap between two Bolivias. In the midst of a galloping economic crisis, while a small sector linked to the dynamics of transnational capital benefits from surpluses generated by the economy, the great majority are smothered in the mire of the domestic economy. ■

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4 Preliminary data.

5 Data from the unit for fiscal programming, Vice-Ministry of Public Investment and Foreign Funding, Ministry of Finance of the Bolivian government.

6 *Ibid.*

7 The amount of debt alleviation for 2001 reached USD 28 million. However due to the effect of the crisis on fiscal co-participation resources for the municipalities – the main agents for public social investment at local level – reduction is calculated at approximately USD 40 million. Cf. "Los tropiezos de la estrategia antipobreza" in *Boletín Control Ciudadano N°1*, Cedla - Proyecto Control Ciudadano, November 2001, La Paz.

8 For more details of this analysis see: "Desempleo ilustrado o la política social desencantada" in *Boletín Control Ciudadano N°1*, Cedla - Proyecto Control Ciudadano, November 2001, La Paz.