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Why Evo Morales is not going to be the next Hugo Chavez

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'Is Morales really acting as a radical populist, confirming the suspicion of critics such as Mexican politician Jorge Castañeda who argue that Bolivia is part of the axis of the "wrong" lefts in Latin America?'

After a year of record gas revenues in 2006, Bolivia has achieved a fiscal surplus for the first time in three decades. Gas exports reached $1.67 billion, up 57% from the previous year, generating substantial windfall revenues for the government.

When thinking about the possible implications that such a booming gas sector may have on Bolivia's policy-making, it is tempting to take Venezuela as the role model. Both countries are blessed with considerable high-priced natural resources, they are led by radical leftist governments with popular leaders, and they have a large number of poor people, who may be a perfect target on which to spend the windfall revenues. At first sight, the Morales-led government might look like the ideal candidate to follow the nationalistic and market-unfriendly populism of Chavez's policy-making (with moves such as nationalising public utilities or reforming the constitution to abolish limits on the length of presidential terms). But is Morales really acting as a radical populist, confirming the suspicion of critics such as Mexican politician Jorge Castañeda who argue that Bolivia is part of the axis of the 'wrong' lefts in Latin America?[1] Several signs suggest that he is not and that his government is actually departing from Chavez-type policy-making, acting more pragmatically and to some extent escaping his influence.

Signs of divergence between Bolivia and Venezuela

The most relevant signs of divergence between Bolivia and Venezuela come from the hydrocarbon sector itself. The new gas contracts signed by the Bolivian government with foreign companies last October are effectively closer to a revenue sharing model than to the nationalisation of the sector publicised by the government. According to the agreement, foreign companies should pay up to 82% of their revenues to the government in the form of royalties and taxes. Yet, given the rise in gas prices and production, this new agreement appears to be favourable for the companies as well. Silas Rondeau, Brazil's energy minister, speaking on behalf of Petrobras, the largest investor in the Bolivian gas sector, declared in a recent *Financial Times* article,[2] that it was 'still worthwhile' continuing to operate in Bolivia and that 'conditions of profitability' remained.

Morales also seems keen to mediate with foreign interests (especially Brazilian). He removed his radical and pro-Venezuelan hydrocarbons minister, Andrés Soliz Rada, after he had moved to nationalise two oil refineries that Petrobras managed. The former minister had pushed for a more prominent role for the state-owned Bolivian hydrocarbon company YPFB in managing the gas sector and he had supported the state-owned company of Venezuela PDVSA to take over the foreign companies' assets in marginal fields.

In general, the Morales-led government is showing a more accommodating attitude with foreign partners than the Chavez administration. This is particularly true with respect to the United States. Bolivia recently offered to co-operate with the US in the eradication of coca plantations, which had previously been opposed by Morales himself. In response, the Bush administration has included Bolivia in its request to Congress to renew the low-tariff regime for imports from the Andean countries (ATPDEA). Unlike Venezuela, Bolivia decided not to leave the Andean Community of Nations (CAN) as retaliation because other country members (Peru and Colombia) signed bilateral trade agreements with the US.

Morales' administration is also planning to follow the example of Chile in establishing a stabilisation fund to save part of the windfall revenues from the gas boom for leaner times. This strategy is profoundly different from that of Venezuela, where windfall revenues are mainly directed to social spending.

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Why Morales cannot afford to follow Chavez

Why is the supposedly populist Morales deciding to use pragmatism and care in Bolivia's policy-making and international relations, leaving to Chavez the role of the last radical leftist leader in the South American region?

In reality, the comparison between the two leaders may not be fair as it refers to two different points in time. Chavez is in his third term in office and has been in power for almost a decade, while Morales has recently finished his first year of presidency. However, it looks unlikely that the latter could ever pursue the radical nationalistic policy-making of the former. I would argue that the reasons for this are both political and economic.

Chavez is able to capture domestic political institutions to a greater extent than Morales could probably ever do in Bolivia. This follows from a structural difference between the two countries that emerged in their modern history. The instability of conflict-prone Bolivia has been a limiting factor on governability and governments' political control during the country's recent democratic history. Even now, the Bolivian government faces strong opposition, especially in the eastern part of the country which demands more autonomy and more discretionary power in managing its natural resources (most hydrocarbon deposits are located in the four lowland eastern provinces of Bolivia, Santa Cruz, Tarija, Beni and Pando). By contrast, Venezuela has historically enjoyed greater political stability and governments have been able to exert more control over political institutions. Chavez is turning this control into authoritarianism, which allows his government to pursue more radical policies than could be the case had the opposition been stronger.

Economic factors imply that Bolivia is more dependent than Venezuela on its foreign partners and international markets. First, Bolivia largely lacks domestic capacity to exploit gas resources, depending on foreign technology and investment to develop its gas sector. This is not the case in Venezuela, where PDVSA is the only player in the domestic oil sector and is one of the largest oil companies in the world.

Second, Bolivia relies on foreign partners (both countries and multilateral institutions) in financing its public debt while Venezuela does not. Although Bolivia is moving from concessional to non-concessional loans, multilateral and bilateral lending (which is mainly concessional) accounted for 4.8% of GDP and grants accounted for over 1% of GDP in 2005 (Weisbrot and Sandoval, 2006). On the contrary Venezuela is a lending country.

Third, the oil and gas markets differ. Because of different market structures and price elasticities of demand, the level of surplus guaranteed by oil is usually higher than that obtained through gas. Hence, it may be more difficult to build a sustainable economy on gas than it is to do it with oil, especially given the oil reserves that Venezuela has. For example, in 2005, Venezuela's oil exports totalled over US$ 1,800 per capita and accounted for 87% of total export earnings, whereas Bolivia's gas exports were roughly US$118 per capita and accounted for 41% of total exports in 2006. The dominating role of the natural resource sector in Venezuela is confirmed by the fact that PDVSA revenues in 2005 were US$85 billion. Venezuela's GDP was US$139 billion.

Morales also has an incentive to promote other (non traditional) sectors of the economy, which might represent the best chance for Bolivia's growth in the long-run. This may provide a rationale to save money from the boom to avoid the appreciation of the real exchange rate that could penalise these sectors. Moreover, as these sectors largely depend on exports for their development, the Bolivian government has an incentive to follow policies that do not hurt its foreign commercial partners. Finally, gas has more transport constraints (and thus higher transport costs) than oil, which makes its market geographically limited (i.e. South America in the case of Bolivia). As Brazil and Argentina represent the main regional markets for Bolivian gas, the development of the sector crucially depends on these two countries (and on Brazil in particular). This may provide a further incentive for Bolivia to nurture the relations with its large neighbours.

Concluding remarks

These factors make the 'unexpected' accommodating behaviour of Morales seem perfectly rational. However, this is only the beginning of the path for Bolivia and it remains to be seen whether the types of incentives described may work in the same direction throughout Morales' entire presidency in a historically unstable country. The direction of Bolivia's policy-making is likely to be important in shaping the balance of power at regional level. More generally, this analysis poses the question of what kind of incentives induce governments to adopt particular sets of policies following a natural resource boom. Answers to this question may be important in order for resource-rich developing countries to exploit the current natural resources' boom.

Reference

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Endnotes

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2. *Financial Times*, 'Foreign investors agree to Bolivia's gas plans', 30 October 2006.

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