BOLIVIA IS PUTTING ITS SOCIO-ECONOMIC HOUSE IN ORDER

A major macro-economic stabilization programme, launched in 1985, has brought down inflation from 24,000 to some 11 per cent in 1992 and restored economic growth, according to the GATT Secretariat's report on the trade policies and practices of Bolivia. The import substitution policy, introduced in the 1950s, has been abandoned; import duties ranging from zero to 70 per cent have been replaced by a uniform tariff currently standing at 10 per cent; quantitative restrictions were eliminated in 1985; the last import prohibition - on sugar - was abolished in late 1992; and an anti-dumping and countervailing measures régime was introduced at the beginning of 1993. Efforts are also being made to reduce State participation in productive sectors and trade, and to place the management of public finances on a sound footing.

Under the New Economic Policy (NEP) of August 1985, tight fiscal and monetary policies were implemented and the exchange rate stabilized. The NEP also started the process of liberalizing foreign trade and capital markets, deregulating the economy and privatizing public enterprises, with the objective of creating economic conditions suitable for renewed growth and foreign and direct investment. However, these dramatic changes, coupled with existing structural problems, led to very high levels of unemployment, and two separate funds were established to palliate the worst effects from the adjustment process and to assist in combating poverty: the Emergency Social Fund and, later, the Social Investment Fund.

The GATT Secretariat's report also points out that despite the liberalization measures introduced under the NEP, Bolivia's external trade
sector still faces many difficulties. Inadequate infrastructure is compounded by inefficient and expensive transport, and the structure of rail freight charges discriminates against imports. State trading is still widespread throughout major export sectors, such as tin and natural gas, while involvement in production of other goods may constitute an import restraint, including through government procurement. Hidden protection may also be provided by customs valuation procedures which are based on constructed, rather than transaction, values.

Smuggling, endemic before the NEP, has increased in scope; both legal and illegal imports have grown since 1985, partly linked to the use of revenues from illicit exports. The report estimates that the coca-cocaine economy, which is Bolivia's largest source of foreign exchange, contributes some 13-15 per cent to the GDP, and has led to a problem of excess money supply in the economy and caused a serious upward pressure on the exchange rate of the boliviano, affecting competitiveness in other sectors. Bilateral relations with the United States are largely conditioned by the progress on coca eradication and cooperation in the fight against illegal drugs trade. Efforts have been made to introduce coca leaf tea and quinoa (a traditional cereal) to the world market. A campaign to promote coca leaf tea as a herbal remedy has not so far been successful. According to the report, "a lower level of intervention by major producers in international markets for farm products - particularly oilseeds - could, by stabilizing world prices, contribute to encouraging new crops under the Alternative Development Programme."

The report also highlights Bolivia's strong interest in, and readiness to, conclude regional agreements. "While such regional initiatives will no doubt contribute to the growth of Bolivia's trade, the country has a clear interest in promoting broader export and economic development opportunities as part of its economic and social reform programme. In this context," emphasizes the report, "an open and stable multilateral environment, including freer access to major markets and greater certainty in commodity markets, could greatly assist both the Government and the private sector in their efforts to diversify and improve the competitiveness of the economy."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Bolivian Government, will be discussed by the GATT Council on 29-30 March 1993 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The current reports cover all aspects of the trade policies of Bolivia, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements;
the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Summer 1993 as the complete trade policy review of Bolivia and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since 1985, Bolivia has opened its market in the context of a major macro-economic stabilization programme, which has brought down annual inflation from 24,000 to some 11 per cent in 1992 and restored economic growth. The import substitution policy introduced in the 1950s has been abandoned. Import duties ranging from zero to 70 per cent have been replaced by a uniform tariff, which now stands at 10 per cent. Quantitative restrictions were eliminated in 1985, and the last import prohibition - on sugar - was abolished in late 1992. Efforts are being made to reduce State participation in productive sectors and trade, and to place the management of public finances on a sound footing. However, inducing a supply response has been a major preoccupation of the Bolivian authorities, and in 1992 additional incentives were taken to strengthen export competitiveness.

During the 1970s, Bolivia was the world's second supplier of tin and an oil exporter. At that time, foreign exchange earnings grew to the equivalent to one fifth of its GDP. During the 1980s, earnings from minerals and other commodities declined sharply. It is now estimated that Bolivia's largest foreign exchange earner is coca paste and cocaine, exported to serve illicit demand in Western and other economies. The coca-cocaine economy is estimated to contribute some 13-15 per cent to GDP; it has created a "Dutch disease" problem of excess money supply in the economy, contributing to a recent construction boom, and caused a serious upward pressure on the exchange rate of the boliviano, affecting competitiveness in other sectors. The illicit nature of the trade and the large informal sector in Bolivia, also mean that recorded production and trade data can be quite misleading.

In the early 1980s, as a result of poor economic management, recorded GDP, investment and savings shrank and the public sector deficit grew rapidly. Inflation rose to a peak of almost 24,000 per cent in the 12 months to September 1985. Under the New Economic Policy (NEP) of August 1985, tight fiscal and monetary policies were implemented and the exchange rate stabilized. The policies initiated at that time have contributed to a fall in external debt (although Bolivia's debt-to-GDP ratio remains high), and have reduced inflation to one of the lowest levels in Latin America. The NEP also started the process of liberalizing foreign trade and capital markets, deregulating the economy and privatizing public enterprises, thus opening the economy to increased competition. The objective was to create economic conditions which would pave the way for renewed growth and attract foreign and domestic investment. However, these dramatic changes, coupled with existing structural problems, led to very high levels of unemployment, and an Emergency Social Fund was established to palliate the worst effects on employment from the adjustment process.
Since 1985, Bolivia's recorded export performance has improved, there has been a significant diversification of the economy and trade, and inflation has been brought firmly under control. Growth of real GDP has risen to 4.1 per cent in 1991, falling slightly to 3.8 per cent in 1992. Real incomes, which initially declined, have also started to recover, although they have not yet overtaken their 1980 levels. A Social Investment Fund, financed by the World Bank and individual governments through UNDP, has replaced the Emergency Social Fund in a concerted attempt to improve health and education standards.

Exchange rate policy was central to the efforts to reduce hyperinflation and attain stability in the country's highly dollarized economy. Recently, the Bolivian currency has been subject to a managed float, under which smooth, gradual downward adjustments of the real effective exchange rate have increased the competitiveness of exports, without significantly reviving inflationary pressures. No significant gaps have appeared between the official and parallel exchange rates since 1987.

Despite the low level of import protection, contraband imports remain a serious problem, partly linked to the use of revenues from illicit exports. Contraband covers a wide range of goods, ranging from raw materials to consumer goods.

Domestic producers receive considerable "natural" protection from the country's land-locked position, topography and inadequate transport infrastructure. Moreover, a large part of recorded economic activity is still under the control of State-owned enterprises and therefore subject to government procurement conditions including, usually, a 10 per cent preference margin supplementary to the customs duty. Finally, the application of the Brussels Definition of Value (which allows constructed prices on imports) allows, in some cases, customs duty to be effectively greater than the nominal ad valorem rate if applied to the transaction value. This is to be changed over the next five years, following Bolivia's adherence to the GATT Customs Valuation Code in January 1993.

The private sector has responded to the changed trading environment only to a limited extent. To some extent, this results from structural problems in the economy, including lack of export experience, infrastructural bottlenecks, and some uncertainty as to the stability of government policy combined with little tradition of productive investment. The response has been most positive in mining, where foreign investment is concentrated, and non-traditional agricultural products, where Bolivia appears to have a comparative advantage and potential for growth. Mineral exports have become more diversified, breaking the country's dependence on tin, while the share of other non-traditional exports has increased. Despite the availability of export incentives, including duty drawbacks on imported inputs, reimbursement of value-added tax and free-trade zones, Bolivian entrepreneurs consider that more direct Government assistance would improve their competitiveness abroad. However, efforts to reduce bureaucratic procedures and to facilitate trade would seem more appropriate, and could be further strengthened.
In October 1992, a new anti-dumping and countervailing régime was introduced; regulatory provisions are now being elaborated. A new law on exports is about to be promulgated. The Government has largely resisted pressure to adopt trade-distorting measures, and has focused on reducing the degree of State involvement in the economy, despite resistance from labour unions to privatization and to restructuring State companies.

A new foreign investment law, introduced in 1990, guarantees foreign enterprises free exchange convertibility, unrestricted rights to repatriate capital and freedom to import goods and services as required. Foreign direct investment is almost entirely concentrated in the mining and energy sectors. Bolivian law does not provide for full privatization of the nationalized mining, oil and natural gas companies. Joint ventures or exploration and exploitation contracts remain the sole channels available to foreign investors in these fields. Even these possibilities for international investment have recently been suspended, following strong opposition by labour unions and a reported Supreme Court judgement.

**Bolivia in World Trade**

Bolivia's estimated share in world trade is around 0.02 per cent. On the basis of recorded trade, Bolivia's main trading partners are the European Communities, Argentina, the United States and Brazil. However, excluding minerals and natural gas, almost 69 per cent of its recorded exports go to neighbouring countries. In this context, Argentina becomes fourth in terms of importance as a market, preceded by Peru, Brazil, and Chile.

In recorded trade, Bolivia's recorded export earnings are highly dependent on a few items, mainly minerals and natural gas, although the share of these in total exports has fallen from around 93 per cent in 1965 to about 69 per cent in 1990, partly because of the decline in tin prices over the last 20 years. Bolivia still supplies around 4 per cent of world tin exports and about 6.4 per cent of precious and "other" metal ores and waste. Fuels (oil in the 1970s and gas in the 1980s) have emerged as the principal export items. Natural gas is currently sold only to Argentina, which is itself likely to become a net exporter by the end of the decade. Agricultural and agro-industrial exports, mainly soybeans and derivatives, have increased in importance in recent years. Bolivia supplies over 6 per cent of the world market in "other" cereal (soya) flours. As such, Bolivia has a keen interest in the development of world commodity prices in areas which are subject to subsidized competition.

Bolivia is also the leading producer of coca leaves. The coca plant has been grown in Bolivia since pre-Columbian times and coca leaves are not themselves regarded as an illegal commodity by the Bolivian Government, although coca and all its derivatives are controlled substances under the U.N. Convention on Psychotropic Substances. Trade in cocaine has grown rapidly since the early 1970s as a response to illicit world demand; giving rise to a considerable increase in the area cultivated. A Bolivian private consultancy company has estimated that, if included in total recorded exports, cocaine would account for between 23 and 43 per cent of
the total. The combination of huge returns to the industry (boosted by the illegal nature of the trade) with the decline in earnings and employment from other commodities, explains some of the difficulties confronting the Government in implementing eradication programmes and in persuading growers to switch to alternative crops.

Institutional Framework

Bolivia's legal regulatory framework is relatively simple. It is based on Laws, Supreme Decrees and Resolutions, mainly issued in the past seven years in the context of the New Economic Policy. Trade legislation is exclusively based on Supreme Decrees. Although these may constitute efficient and flexible tools for prompt enforcement of the Government's policy, they do not provide the stability and predictability of enacted legislation.

The Ministry of Exports and Economic Competitiveness is responsible for foreign trade policy formulation and implementation within the general economic policy framework set by the Ministry of Planning and Co-ordination. The Ministry of External Relations and Worship (culto) co-ordinates Bolivia's participation in regional and multilateral agreements.

The Economic Policy Analysis Unit (UDAPE) of the Ministry of Planning and Co-ordination provides advice to the Government on trade and industrial policy, based on research conducted with a large measure of independence. Private-sector institutions, including the Institute of Socio-economic Research of the Catholic University publish papers, reports and periodicals with the objective of contributing to the debate on economic policy issues.

Bolivia initiated the process of its accession to GATT one year after the launching of the Uruguay Round, and became a contracting party on 8 September 1990. In January 1993 it signed the Tokyo Round Agreements on Import Licensing Procedures and Customs Valuation.

In addition to binding its whole tariff schedule upon its accession to the GATT, originally regarded as the country's contribution to the Uruguay Round, Bolivia has made a comprehensive offer in the framework of the Market Access Negotiating Group.

Trade Policy Features and Trends

Bolivia conducts its main formal trade relations through GATT, the Latin American Integration Association (LAIA) and the Andean Group. More than one-third of total recorded imports came from LAIA and Andean Group countries in 1989; the exact share of imports subject to preferential rates was not available to the Secretariat and no assessment can therefore be made as to the impact of preferential agreements on trade flows. Currently, the Government attaches great importance to the development of regional trade agreements.
Bolivia has signed preferential agreements with most LAIA members. A bilateral free-trade agreement with Mexico is understood to be close to signature. The most important agreements, in terms of the number of tariff concessions (although not in value of trade), may be considered the Economic Complementarity Agreements with Uruguay and Argentina, signed in 1991 and 1992 respectively.

Since October 1992, Bolivia has extended duty-free entry to all imports from its Andean Group partners within the framework of the Act of Barahona of 5 December 1991, which aims to create a regional customs union. A four-tier Common External Tariff (CET) of the Andean Group is due to enter into force on 1 January 1994. It remains unclear how Bolivia's uniform tariff will be accommodated within the Andean Group's new CET.

Peru's temporary observer status within the Andean Group until the end of 1993, and its significance for Bolivian trade, led to the conclusion of a bilateral arrangement with Peru in 1992. It provides preferential treatment for a large number of Bolivian exports to Peru in exchange for duty-free entry for Peruvian exports to Bolivia.

Bolivia has also been exploring the possibility of adhering to MERCOSUR, the Southern Common Market grouping Argentina, Brazil, Paraguay and Uruguay. However, no accessions to MERCOSUR are envisaged until its completion, planned for the end of 1994. More than four-fifths of Bolivia's regional trade is carried out with these countries.

Evolution of trade policies and instruments

The goods-producing sectors of the Bolivian economy comprise, on the one hand, export-oriented mining activities (including natural gas) and, on the other, largely inward-oriented agriculture (except for soybeans) and manufacturing. Until 1985, Bolivia made little effort to integrate its economy to world markets. Trade distortive policies, loosely implemented, encouraged smuggling from neighbouring countries and corruption.

Bolivia made a major reform of its trading system in 1985. The formal guidelines of trade policy, set at that time, remain unchanged today. The tariff structure was simplified under a uniform rate, successively reduced to 10 per cent since 1990. So far, no loss of Government revenue from import duties has been reported.

The radical move away from import substitution policies opened domestic production to increased competition from abroad. This has generated pressures from import-competing sectors for support measures. In an effort to meet specific industry demands, trade measures such as prior import licensing or minimum import prices, were temporarily introduced in 1985. The last such measure (on sugar) was eliminated in late 1992.

An important additional tariff concession, introduced in 1988, was a temporary 50 per cent reduction in import duty for imports of capital goods, which are now subject to a 5 per cent customs duty. All legally-donated items enter Bolivia duty-free. This concession also
applies to U.S. donations of subsidized wheat under P.L. 480, which provides local millers with a low-cost source of supply, but which is also likely to distort the price and incentives structure for local production.

Bolivia's GATT tariff binding commitments cover the entire schedule. Four items are bound at 30 per cent, and all others at 40 per cent. A one-year waiver from Article II obligations was granted to Bolivia by the CONTRACTING PARTIES in December 1992 to transform the original list of its tariff concessions to the Harmonized System.

Indirect taxes include value-added tax, transactions tax, and specific consumption tax (ICE). VAT and transactions tax appear uniformly applied among goods and between domestic output and imports, while ICE is selective in product coverage and has differing rates, ranging up to 50 and 60 per cent on cigarettes and beer. For certain items, it also discriminates in favour of domestic products; thus domestic wines, liqueurs and spirits qualify for half or one-third of the ICE rate applied to similar imported items.

Rail freight charges on imports are levied at a rate 30 per cent or more above those levied for transportation of domestic products or of exports. According to the Bolivian authorities, this measure reflects the operational cost of the railway company and is aimed at improving the competitiveness of Bolivian exports by offsetting rail freight rates, which are much higher than in neighbouring countries, partly because of the difficult terrain. Effectively, the policy of cross-subsidization works like a selective devaluation, reducing the delivered cost of exports and implicitly taxing imports.

A drawback scheme for partially reimbursing import duties paid on inputs incorporated in exported products operates at rates of 2 and 4 per cent. These were recently brought down from 10 per cent, both for fiscal reasons and because of alleged fraud in the use of the system. VAT is partly reimbursed on exported goods, up to 10 per cent of export value. Exports are not exempt from the ICE, nor from the transactions tax. Inspection fees charged by private companies contracted to the Government for exports are covered by the State. Royalties are levied on exports of mineral products and timber. A new tax régime for mineral products, introduced in April 1991, will have completely replaced royalties by 1999.

Major changes in customs valuation and pre-shipment inspection were also introduced since 1985. In order to increase Government revenues and discourage fraud (by under- or over-invoicing) and corruption, private inspection companies contracted by the Government ensure price, quality, and quantity controls on imports and exports. Generally, Bolivia applies the Brussels Definition of value; however, when calculating the c.i.f. customs value of merchandise arriving by air, account is taken of 25 per cent of the freight only. Bolivia signed the Tokyo Round Customs Valuation Agreement in January 1993: however, it will not come into force until five years after ratification.
Since 1968, a Water Transport Shipment Reservation Scheme (Reserva de Carga Marítima del Transporte Acuático) has set minimum overall merchandise quantities, traded by both the private and public sector, to be transported by Bolivian-flag vessels, where available. The limited size of the Bolivian-owned fleet means that this is not, in practice, a major constraint on trade.

Bolivian producers note that the domestic natural gas price is much higher than the export price, contributing to their lack of competitiveness.

Attempts to reduce the extensive State involvement in productive activities have met a number of difficulties. Trade unions are opposed to privatization, and foreign (and domestic) investors have not come forward to the extent hoped by the Government. According to the Government, only the oil and natural gas State company (YPFB), the State mining company (COMIBOL) and the armed forces holding company (COFADENA) are currently involved in State trading activities. However, apart from these entities, a large number of public firms owned by regional development corporations are also involved in a variety of productive activities. The Secretariat has no recent information on this matter.

The number and size of public sector enterprises mean that Government procurement of goods and services constitutes an important share of foreign trade. The current procurement régime is operated through two foreign agencies (Crown Agents and Caisse des Dépôts et Consignations - Développement (C3D)) for purchases above US$26,000; for smaller amounts, interested Government agencies conduct their own procurement. A 10 per cent preferential margin is given to domestic suppliers. Although new procurement practices, introduced in 1988, apparently reduced costs and bureaucratic procedures, they are still alleged by private operators to lack uniform requirements, standardized acquisition procedures and a clear framework of rules governing the relations between the Government and foreign specialized agencies. The Economic Commission of the Senate is now proposing to centralize Government procurement under a single "superintendencia". While this could reduce costs of procurement through standardization, it could also remove the element of competition that exists under the present system. It would also concentrate considerable power and influence within the country with respect to imports. Should the proposal be put into effect, care will need to be taken to ensure the maximum transparency and fairness of the procedures to be followed.

Temporary measures

Bolivia has never taken temporary measures under the provisions of GATT Article XIX or for balance of payments purposes.

Until recently, Bolivia has had no specific legislation or regulations under which to implement anti-dumping or countervailing measures. According to the Bolivian authorities, minimum import prices were used once in the past, in response to a petition for anti-dumping action against iron
for construction from Brazil. New initiatives on anti-dumping are discussed below.

New initiatives

Since mid-1990, more emphasis has been given to foreign trade by increasing the rôle of, and restructuring the Ministry of Industry, Commerce and Tourism, renamed Ministry of Exports and Economic Competitiveness. Since 1985, according to the Government, the most urgent changes in economic policies have been accomplished; unfinished business relates to the regulatory framework. An Export Law, in the process of formulation, aims to consolidate and improve the existing export régime contained in various Supreme Decrees. Under this, the drawback scheme may be extended to the ICE indirect internal tax and the transactions tax, and the Water Transport Shipment Reservation Scheme may be abolished.

In mid-June 1992, the minimum import value subject to inspection by pre-shipment agencies and duties was brought down to US$1, internal indirect taxes for imported goods were to be collected at agencies of the Bank of the State, established at customs offices, and the domestic customs police was abolished.

An important new development was the signing of Supreme Decree 23308 of 22 October 1992, introducing an anti-dumping and countervailing measures régime. Regulations for the implementation of this Decree were promulgated in January 1993.

The preparation of a Public Procurement Law with the objective of establishing a transparent regulatory framework has been widely discussed. The establishment of a Surveillance Body (Superintendencia), originally proposed by an international institution involved in this field over several years in Bolivia, was opposed by both the private sector and the then Minister of Finance, on the grounds that such a body could cause delays and bring unnecessary rigidity to the regulatory régime.

Efforts have been made to introduce coca leaf tea and quinoa (a traditional cereal) to the world market. A campaign to promote coca leaf tea as a soothing beverage and herbal remedy has not so far been successful.

Upon pressure from the beverages sector, import restrictions on sugar were eliminated in October 1992. However, sugar cane production quotas are still maintained. Full details on measures affecting the sugar sector were not made available to the GATT Secretariat.

Trade Policies and Foreign Trading Partners

Bolivia's major trading partners are the European Communities, Argentina and the United States. Bilateral relations with the United States are largely conditioned by the progress on coca eradication and cooperation in the fight against illegal drugs trade. Nevertheless, these trade relations are also affected both by exclusions from U.S. preferential arrangements
and by the effects of U.S. policy on prices of commodities of interest to Bolivia. Thus, the Andean Trade Preferences Act of 1991, while boosting GSP preferences for Andean countries, excludes certain products of export interest to Bolivia. Additionally, the level of world tin prices is heavily dependent on decisions by the United States concerning sales from its strategic stockpile. Finally, a lower level of intervention by major producers in international markets for farm products - particularly oilseeds - could, by stabilizing world prices, contribute to encouraging new crops under the Alternative Development Programme. Bolivia's interests in this regard are similar to those of other small producers.

Despite good expectations for natural gas sales by Bolivia to Argentina, the Argentinian gas sector is likely to be fully competitive with Bolivian exports within some years. Consideration is being given by Bolivia to the conclusion of a market-sharing arrangement with Argentina.

Bolivia's strong interest in, and readiness to, conclude regional agreements stem from geographical, production and employment considerations. In view of its position, all natural gas and the largest part of non-traditional exports - which are particularly labour intensive - are directed to neighbouring markets. Further development is therefore conditioned by trade agreements in the Latin American region, including the Andean Group and MERCOSUR.

While such regional initiatives will no doubt contribute to the growth of Bolivia's trade, the country has a clear interest in promoting broader export and economic development opportunities is part of its economic and social reform programme. In this context, an open and stable multilateral environment, including freer access to major markets and greater certainty in commodity markets (which could, inter alia, be promoted by a reduction in subsidized agricultural trade), could greatly assist both the Government and the private sector in their efforts to diversify and improve the competitiveness of the economy and, by giving the confidence necessary for trade and investment, contribute to improving the supply response to the opening of Bolivia's own trading system.
There is no better way to show Bolivia's transformation in recent years than by comparing some economic indicators from the culmination of the country's hyperinflationary process during the first half of the 1980s with the present-day situation.

- Average inflation in 1985 exceeded 11,700 per cent; in 1992 inflation was around 10 per cent, the lowest rate in Latin America.

- Net international reserves were negative during the first four years of the last decade. In 1985, months after the stabilization programme was introduced, reserves stood at nearly $100 million, and they currently exceed $260 million.

- The tax/GDP ratio, based on internal tax receipts, amounted to 2.4 per cent in the mid-1980s, compared with over 12 per cent today.

- The inflow of foreign exchange doubled during the period under consideration. Foreign-debt service absorbed nearly half of total foreign-exchange inflows, compared with only a sixth in 1992.

- The structure of the foreign debt changed significantly. Up to 1985, bilateral debt and debt with private financial entities, both on commercial terms, represented three-quarters of the total. At the end of 1991 they represented only half, the rest being made up of loans from multilateral financial institutions.

- The Gross Domestic Product fell steadily from 1982 to 1986, with a cumulative decline of over 12 per cent. Growth resumed in 1987, and the 1992 GDP was 20 per cent above that of 1986. The fastest growing sectors of the economy during this period were mining, industry and construction.

- While the value of exports has risen by a little over 25 per cent since 1984, it has still not reached the level of 1980, owing to the continuing decline in world prices.

Two key factors underlie this transformation: the establishment of a market economy and the deepening of the democratic process.

Bolivia's economic policy starts from the principle that the market is the most efficient instrument for the allocation of resources. To that end, the Government fully opened up the economy, eliminated all controls on
prices, including the exchange rate, and overhauled public finances, reducing unnecessary expenditure and carrying out a thorough tax reform.

As of 1989 these measures were accompanied by radical structural reforms reflected in new laws on investment, the hydrocarbons sector (oil and natural gas), mining and State participation in production activity.

Nevertheless, the fundamental features of Bolivia's economic structure persist: high share of agriculture in the product, low share of industry, and a growing tertiary sector. In addition, a number of problems will have to be tackled in the coming years, such as the weak tax base underpinning economic stability, institutional weaknesses for sustaining the growth process, inadequate infrastructure for producer services, low domestic saving capacity, weakness of the financial system, shortage of resources to meet education and health needs and sluggishness of the external sector.

A sectoral analysis of the economy shows that agriculture generates a fifth of the product and employs two-fifths of the economically active population. The sector suffers from low output and productivity owing to the use of inappropriate technology, land tenure problems in the western region, insufficient production infrastructure and weak organization and training of producers. Nevertheless, a modern, highly productive and competitive agricultural economy, underpinning the growth of agricultural exports, has developed in the eastern region.

The mining sector, traditionally linked with foreign trade, has suffered from a steady fall in world prices in recent years. This has led to a radical transformation of the sector, with the emergence of new export minerals and the closure of major production centres.

As for the oil and natural gas industry, the problem of the low proportion of liquid hydrocarbons in production is being resolved by greater participation of private capital in exploration and development of new fields, as well as their substitution by national gas on the consumption side.

The industrial sector's share of the product is around 15 per cent, which may be attributed to the lack of dynamism of the domestic market, uncompetitiveness compared with foreign producers, and shortcomings in transport and marketing infrastructure.

Fiscal policy is aimed at closing off the major source of money supply growth stemming from the fiscal deficit, increasing public saving and greater efficiency in the management of investment.

Money supply growth is linked with the demand for money and underpinned by international reserves. Growth of the means of payment responds to demand from economic operators, with two guiding principles: maintenance of stability and meeting the needs of producers.
Exchange policy seeks to maintain a competitive real exchange rate by means of a foreign-exchange auction system which reflects market conditions.

Bolivia's trade policy aims at increasing economic efficiency and productivity by expanding economic relations with other countries and increasing trade flows of goods and services.

Since Bolivia's accession to the General Agreement, changes have been made with a view to further liberalization of the economy in accordance with GATT objectives and mechanisms.

Bolivia views economic integration as a valid instrument for increasing international trade flows on free-trade principles.

Bolivia is a full member of the Andean Pact, an agreement which has undergone a major development in the last year with the total removal of tariff barriers among its members, elimination of the lists of exceptions, harmonization of export promotion policies and adoption of a Common External Tariff with a narrow range of rates and low tariffs for trade with third parties.

Bolivia intends to sign specific agreements with MERCOSUR that will enable it to expand its trade links without affecting its foreign trade policy. It also plays an active part in LAIA.

The export régime is based on freedom to engage in any type of transaction involving goods and services without any need for prior permits or licences, except in the case of products that could impair State security, or the flora, fauna and historical and cultural heritage of the nation.

The basic policy instruments centre on the continued existence of a real and flexible exchange rate that is attractive for the exporting sector and for import-competing sectors; on providing exporters with a free trade régime through the use of instruments enabling them to acquire inputs at international prices; and on keeping the prices of goods and services used by the export sector competitive.

Exports of goods and services are exempt from payment of any kind of taxes or equivalent charges. Furthermore, mechanisms have been introduced to eliminate the indirect tax component in the price of exported goods. The instruments used are the GENOCREN (for the refund of value-added tax on inputs), a draw-back system (duties paid on imported inputs are refunded), temporary import mechanisms and free zones.

The main export promotion body in Bolivia is the National Export Promotion Institute (INPEX), an independent entity governed by public law.

With a view to continuity of export policy, the Government of Bolivia has submitted a draft export law to the National Congress for study.

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This bill refers to the guarantees provided to the export sector for its activities (freedom to import and export without restriction, direct access to international financing, free transit through the national territory without restriction, and use, at the time of export, of the services of the enterprises or entities of the exporter's choice); tax treatment for the sector (exemption from any export tax and refund of consumption taxes and import duties paid) and the process of formulation of export policy.

The import régime is based on the principle of free trade in goods and services with the exception of those that affect public health and/or State security.

Only goods affecting the health and physical and moral safety of the country's inhabitants are subject to an import prohibition.

Bolivia announced its intention to sign the Import Licensing Code at the beginning of 1993. Only products that may be harmful to health or affect State security are subject to this requirement.

Imports of food, live animals, plants and medicaments must be accompanied by health or phytosanitary certificates issued by national entities.

Import duties are currently at two levels: 5 per cent for imports of capital goods, a rate which will be in force until January 1994, and 10 per cent for other products.

The exceptions to this tariff régime stem from commitments entered into prior to the liberalization of trade and from international integration agreements to which the country is a party.

In addition to the payment of the Consolidated Customs Duty, imports are subject to internal taxes (value-added tax and specific consumption taxes which also apply to domestically produced goods), fees for services provided (handling, loading, unloading and storage of goods) and fees of customs offices and foreign-trade inspection agencies.

Bolivia has announced its intention to accede to the Agreement on Implementation of Article VII of the General Agreement (Customs Valuation Code).

Determination of the value of goods imported into the country is based on the price and quality certificate issued by international bodies employed by the State for this purpose, which follow the criteria laid down by the General Agreement for carrying out such activities.

There are legal provisions aimed at providing equitable conditions for domestic producers against imports which, whether as a result of governmental measures (subsidies) or through the practices of companies
themselves (dumping), constitute unfair competition from external competitors.

Bolivia's accession to the General Agreement on Tariffs and Trade is a reaffirmation of the great importance of the structural changes carried out since 1985.

The principles and mechanisms of the General Agreement are an integral part of Bolivia's development programme. Bolivia trusts that the international economic community will likewise adopt these principles so as to enhance the prosperity of the world as a whole.