GENERAL AGREEMENT ON TARIFFS AND TRADE

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TRADE POLICY REVIEW MECHANISM

BOLIVIA

MINUTES OF MEETING

Chairman: H.E. Mr. A. Bisley

93-0749

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the review of Bolivia's trade policies and practices, noted that the Council was to base its work on reports by the Government of Bolivia (C/RM/G/34), and by the Secretariat drawn up on its own responsibility (C/RM/S/34A, 34A/Add.1 and 34B). As the Government report of Bolivia was not provided by the initially agreed deadlines, the original review date of January 1993 was changed. The Chairman urged contracting parties to strictly observe the deadlines under the TPRM, to allow timely preparation of the documentation in the three working languages, and therefore ensure the smooth functioning of the TPR mechanism.

2. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Bolivia on its trade policies and practices, as far as factual information contained in the six chapters of the Secretariat report was concerned.

3. Australia, Canada and the United States had submitted in writing, prior to the meeting, some questions, which had been passed to the representatives of Bolivia.

4. With respect to the procedures for the debate, the Chairman suggested the following two main themes:

(1) General objectives of Bolivia's economic and trade policies. This would cover questions relating to the evolution of the Bolivian economy; its macro-economic reform strategy and its effects on production, growth and investment; the abandonment of import-substitution policies; the impact of reforms on better resource allocation; moves and recent obstacles toward privatization of the economy; the rôle of the State in productive activities; exchange rate policies to foster exports; the efforts to develop new exports and new markets; and Bolivia's policy approach toward multilateral and regional trade liberalization;

(2) Use of major trade and trade-related policy instruments. In this theme, the Council would focus on recent tariff reforms; customs valuation and minimum import price practices; scope of implementation of internal taxes and rail freight charges; government procurement practices; the new anti-dumping legislation; State trading; export incentives; the type of legal instruments used to enforce trade legislation; and recent or planned developments progress in further deregulation of foreign trade and investment, particularly with regard to the hydrocarbons and mining sectors.

5. The Chairman invited the representative of Bolivia to make his introductory remarks, to be followed by the two discussants. Ambassador Manhusen would speak first, followed by Minister Counsellor Graça Lima.

II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF BOLIVIA

6. The representative of Bolivia stated that his country, two years after its accession to the General Agreement, was participating, on a voluntary basis, in the Trade Policy Review exercise. This was indicative of its interest in attaining a higher degree of integration in international trade.

7. Macroeconomic policies changed radically in 1985 from a framework characterized by import-substitution policies, affording high levels of protection to domestic industry through tariffs, an overvalued exchange rate, subsidies for specific sectors, and negative or subsidized interest rates. The public sector, which was heavily involved in productive activities, had exerted price controls over raw materials and consumer goods. In the 1960s and 1970s high growth rates ranging from 4 to 5 per cent, had been experienced; however, in the early 1980s, declining capital in flows, falling international commodity prices, and the increase in the public sector deficit had led to a severe economic crisis.

8. In 1985, Bolivia had moved from an inward- to an outward-oriented growth strategy. Measures conducive to a much more open market, such as tariff cuts, liberalization of price, wage and exchange rate controls, and the elimination of all quantitative restrictions and subsidies, had been adopted. Fiscal reform had been undertaken; new investment rules providing the same treatment to domestic and foreign investors had been introduced; and privatization had been initiated.

9. Positive growth rates had been experienced since 1987. Inflation was expected to be brought down to a single-digit level by 1993. Private sector participation in exports had increased while domestic and investment had grown. International reserves had accumulated and public finance was relatively sound. External debt had been reduced by around US$2,000 million through buy-backs. An agreement for clearing the country's commercial debt was being signed in Hamburg. Given the pressure of debt which was exerted on the balance-of-payments and public finance, without such an arrangement, in 1993, almost all export receipts would probably have to be devoted to the servicing of external debt obligations.

10. In March 1993, two months after the submission of his Government's report for the TPRM exercise, new statistical data produced by the National Statistics Institute had revealed important developments in the structure of the Bolivian economy. These differed from those contained in the report which had been circulated for the meeting.

11. The Bolivian economy had been progressively engaged in the process of modernization. Sectors like agriculture and mining were losing their relative weight while others, like manufacturing and finance, were gaining

in importance. The relative impact of the coca sector on the national economy had diminished as a result of the Alternative Development Programme. Other sectors, set on a more solid basis, constituted the driving force for growth.

12. Since 1985, with the exception of 1990, the reactivation of the economy had increased import levels. These had led to deficits in both trade and current accounts; but these had been compensated by capital inflows, which had contributed to raising the level of international reserves.

13. A number of structural reforms, such as a programme on civil service renewal, draft laws on banks and financial institutions, on exports, and on the management of public sector resources, were underway. Changes in the education and social security systems and the labour market were also under consideration.

14. Bolivia complied with all GATT rules and commitments. Import policy was based on the principle of sectoral neutrality. Average tariff rates had been progressively cut; while tariff concessions were also introduced for capital goods. All quantitative restrictions were phased out while price bands were not applied. Private inspection enterprises were responsible for establishing the import and export values of traded goods but did not fix minimum import prices. An import fee for the National Chamber of Commerce was paid on a voluntary basis by its members. The new anti-dumping legislation, elaborated with technical assistance from the GATT Secretariat, was considered as a means for protecting domestic industry against certain unfair practices.

15. Maintenance of an undistorted exchange rate régime, non-existence of direct or cross-subsidies and export promotion assistance afforded to non-traditional exports constituted the pillars of Bolivia's export policy. The incidence of indirect tax refund certificates for exports had been reduced and an import tariffs drawback scheme had been established. Export registration, documentation and procedures had been reduced. A temporary admission régime provided for duty-free imports of raw materials which would subsequently be exported. Free-trade zones were responsible for investments of more than US$18 million, imports of more than US$90 million and tax revenue of about US$10 million. An Exports Law, under consideration in Congress, would cover guarantees for exporters, fiscal treatment, and the formulation of export guidelines by a high level Council under the President of the Republic.

16. Bolivia was a GSP beneficiary. With the objective of promoting alternatives to coca, Bolivia was authorized through the Andean Trade Preferences Act to export more than 6,000 items to the United States. Similar facilities were extended by the EC to Andean countries.

17. Various types of regional agreements had been signed with LAIA members, while a Free Trade Area had been established in the framework of the Andean Group. Similar duty-free treatment was extended to Peru under a bilateral Free Trade Agreement in accordance with an Andean Group Decision. Bolivia was negotiating LAIA Economic Complementarity Agreements with Chile and Mexico, to replace LAIA Partial-Scope agreements due to expire. These regional integration schemes were considered as compatible with Bolivia's international commitments. The forthcoming adoption of the Common External Tariff of the Andean Group would affect neither the tariff levels applied in Bolivia nor other LAIA Economic Complementarity Agreements, because both types of instruments were components of the LAIA framework whose objective was regional integration in Latin America.

18. Despite declining terms of trade, the export structure had been modified considerably in the 1980s. The share of natural gas and other non-traditional products had almost compensated for the fall in exports of traditional goods, while zinc and gold had replaced tin as the most important mineral exports. Non-traditional exports had increased from an average of about 80 items, between 1980 and 1985, to more than 240 items in 1992. Around 70 per cent of Bolivian exports went to the EC, North America and the LAIA countries while the importance of the Andean Group markets was growing. Perspectives for further improvements in foreign trade should improve following the conclusion of a new contract to export natural gas to Brazil.

III. STATEMENTS BY DISCUSSANTS

(i) Statement by the first discussant (Ambassador Manhusen)

19. The first discussant said that Bolivia, one of the least developed countries in Latin America, had achieved remarkable macroeconomic improvements. It was a worthy example for others. The post-1985 New Economic Policy had succeeded in reducing inflation from record high to record low levels and attaining respectable annual growth rates. The far-reaching programme to open the economy had eliminated price controls, reconstructed public finances and reformed the tax system. The sluggish response of the industrial sector to the reforms might be due to shortcomings in transport, marketing and human resources. Additional investment and relevant action was required in these areas, including the struggle against poverty and the gradual integration of the informal sector to the mainstream economy.

20. Export diversification had broken the country's dependence on tin. Nevertheless, depressed international prices for key Bolivian export commodities and an often hostile trade policy environment for products in which the country had a competitive edge, constituted external constraints to economically sustainable development.

21. The impact of the cocaine sector on the Bolivian economy should not be disregarded. The sector generated export revenue which affected the exchange rate and distorted resource allocation from alternative activities.

22. Bolivia's radical trade policy reforms were to be commended. Deregulation and liberalization had gone hand in hand and had been mutually reinforcing. Predictability and efficiency in resource allocation were ensured by the uniform, moderate import tariff rate as well as the suppression of quantitative restrictions. Bolivia's accession to the GATT and the signing of the MTN Agreement on Customs Valuation were positive steps. Nevertheless, he asked why GATT-consistent customs valuation practices were not immediately introduced, and sought information on the operation and product coverage of the minimum import price system.

23. Some current or planned trade policy instruments seemed contrary to the rules or intentions of the General Agreement. Additional import fees could prejudice export expansion, as a tax on imports was a tax on exports. He requested the view of the Bolivian authorities on the effect on growth and development of deviations from GATT rules.

24. More specifically, Bolivia maintained quite important internal measures which seemed to erode the national treatment principle. He wondered how cost and topography considerations could justify the existence

of higher rail freight charges for imported than for domestic goods, and asked whether Bolivia was contemplating any change to these discriminatory freight charges and how they affected export competitiveness.

25. Apart from tariffs, imports were subject to various levies and charges whose status under GATT Article VIII was somewhat uncertain. These were calculated on an ad valorem basis and did not, therefore, reflect the cost of services provided. He sought the view of the Bolivian authorities on this issue.

26. He hoped that Bolivia would not use new trade legislation in a protectionist manner. The new Anti-dumping legislation should be implemented in strict accordance with GATT rules; and Bolivia should sign the MTN Anti-Dumping and Subsidies Agreements. In particular, he sought comments on the provision for suspension of imports for 10 days in emergency situations and its consistency with the General Agreement.

27. The adoption of a Law on Public Procurement in the near future would allow a transparent regulatory framework in the area of government procurement, an important economic activity given the size of State ownership in Bolivia. The preference afforded to domestic suppliers in government procurement contracts was not necessary and would disappear at a later development stage. He asked when this preference could be abolished.

28. He requested information on the issues dealt with in the forthcoming Law on Exports.

29. Bolivia's regional commitments had expanded in all directions. Current objectives comprised MERCOSUR and, by negotiating an agreement with Mexico, the NAFTA. Bolivian export interests were moving towards MERCOSUR, rather than the Andean Group markets. He sought comments on how the uniform rate Bolivian customs tariff could be compatible with the envisaged four-tier Common External Tariff of the Andean Group. Should the Andean Free Trade Area be notified under Article XXIV of the General Agreement? Would Bolivia leave the Andean Group to join MERCOSUR? He was interested in knowing whether Bolivia planned to join the NAFTA, and the view of the Bolivian authorities on an all embracing free-trade area for the Americas.

(ii) Statement by the second discussant (Mr. Graça Lima)

30. The second discussant praised the achievements of Bolivia for its restoration of macroeconomic stability, reduction in inflation, implementation of tight fiscal and monetary policies, stabilization of the exchange rate, fall in the external debt, improvement of recorded export performance and diversification of trade. The reforms had been undertaken in a context of declining terms of trade and purchasing power for Bolivian exports, and had been accompanied by trade deficits. The social impact of

the adjustment process had been dealt with through the establishment of special funds aimed at improving health and educational standards.

31. Efforts to integrate the Bolivian economy into the world market had been highly successful. Tariffs had been lowered, unified and simplified. Quantitative restrictions and import prohibitions had been eliminated while State intervention in productive activities had been reduced. Bolivia's trade policies could have a very limited impact on the functioning of the multilateral trading system; nevertheless, the country had acceded to the GATT and had made a comprehensive offer in the Uruguay Round.

32. Despite the fact that trade and industrial policies did not explicitly favour specific sectors, the implementation of reference and minimum import prices could have done so. He was interested in knowing how the Bolivian authorities would implement the recently signed Customs Valuation Agreement.

33. The efforts of the private sector to diversify and improve export performance faced obstacles raised by the continuing intervention by major producers in international markets for farm products. Government assistance for improving export competitiveness had been requested. Council members would like to know the general thrust of the forthcoming Law on Exports.

34. He could easily understand Bolivia's regional trade interest in joining MERCOSUR. However, he was of the view that non-traditional exports could benefit more from import liberalization measures by the major trading partners.

35. In view of the importance of the coca-cocaine sector to the domestic economy, he was interested in finding out to what extent this affected exchange rates, money supply and competitivity in other sectors.

IV. STATEMENTS AND COMMENTS BY OTHER MEMBERS OF THE COUNCIL

36. The representative of Argentina supported the Trade Policy Review Mechanism, which had strengthened the multilateral trading system and constituted an important GATT activity. The presence of a large number of delegations at the review meetings was required. Special consideration should be given to contracting parties under review which had limited resources, such as Bolivia.

37. External factors, such as the decline of international prices of tin and silver, were crucial for an appraisal of Bolivia's trade policies, which were consistent with its commitments and obligations in the multilateral trading system. Trade liberalization measures, including the signing of the Agreement on Customs Valuation, were appreciated. New export markets had been sought. Efforts to attain stable real exchange rates, improve export competitiveness and introduce non-discriminatory investment regulations would contribute to the development of the external sector.

38. Certain internal taxes might discriminate against foreign producers. Trade distortions might also result from concessional tariff reductions. He sought information on Bolivia's plans to accelerate the participation of the private sector, including foreign suppliers, in government procurement contracts.

39. Regarding the impact of coca-cocaine production and consumption, he thought that efficient international action should take the form of market openings for alternative products. Although the drug problem was not the topic under review, he was of the view that the Andean Trade Preferences granted by the United States were a positive step. International cooperation in the areas of debt, commodity prices and drugs, was needed for providing better social welfare conditions which could assist Bolivia's integration into the multilateral system. The Uruguay Round would be a major element in this cooperation.

40. The representative of the European Communities recognized that the effective return to democratic rule and the structural adjustment undertaken by Bolivia had led to a profound transformation. The New Economic Policy had created a "virtuous circle" where policies and economic results supported each other. In view of Bolivia's low social indicators and high debt servicing ratio, its remarkable progress should be strongly encouraged.

41. Structural reforms had been accompanied by trade policy re-orientation towards openness, non-discrimination and transparency. Tariffs had been unified, reduced and bound upon accession to the General Agreement in 1990.

All quantitative restrictions had been abolished. However, internal charges were excessively high.

42. In the field of customs valuation, private inspection enterprises had been contracted and the relevant Tokyo Round Agreement had been signed. The EC encouraged Bolivia to subscribe to the Agreement on Government Procurement, given the wide participation of the State in economic activities, as well as to the Anti-Dumping and Subsidies and Countervailing Measures Agreements.

43. His delegation supported the effort to reduce the impact of the coca-cocaine sector in the Bolivian economy. Bolivian exports covered by the GSP scheme of the European Communities were exempted from quantitative restrictions, while levies on certain agricultural products originating in Bolivia were reduced. The European Communities fully supported the Programme of Alternative Development.

44. By pursuing an appropriate exchange rate policy, Bolivia had managed to reduce hyperinflation and stabilize the economy. The evolution of both the inflation rate and the exchange rate of the Bolivian currency to the United States dollar, were probably the best managed indices of the economy.

45. The representative of Canada, recalling that he had submitted questions in writing, joined previous discussants in commending Bolivia for its impressive economic and trade policy reforms, which were a clear indication of its will to integrate the economy into the international trading system. The tariff structure had been unified. Most quantitative restrictions had been removed. Bolivia had acceded to the GATT, had bound almost all its tariff schedule and had recently signed two Tokyo Round Agreements. It also participated in a number of bilateral and regional trade agreements.

46. He noted that the fiscal burden generated by a number of levies and charges exceeded by far the level of protection afforded by the import duty. Some of these charges discriminated between domestic and imported goods, and amongst different contracting parties. Discriminatory rail freight charges contravened Article III of the General Agreement. He hoped that this measure would be revoked in the near future. Service charges reportedly exceeded the cost of provision, consequently contravening GATT Article VIII.

47. He sought further information on the recently enacted anti-dumping and countervailing duty legislation, including explanations on the provision on the immediate suspension of imports for 10 days and the existence of any sunset clauses. He also requested clarification on whether the new Exports Law would encompass all aspects of Bolivian trade policy.

48. Government involvement in the economy remained high. He encouraged Bolivia to maintain its drive towards a more open and stable market economy through the privatization of government enterprises, increased competition through deregulation and greater transparency and competitive bidding in public procurement.

49. The representative of Peru said that the greatest achievement of Bolivia's adjustment programme had been the reduction of the inflation rate, which was the worst tax levied on the poor. External debt reduction was another success. At the Hamburg meeting of the Inter-American Development Bank, Bolivia would buy back more than US$170 million of its external debt. He sought the view of the Bolivian authorities on the likely consequences of such an initiative for future financial inflows.

50. Tariff unification and Bolivia's accession to the GATT, including the binding of almost all tariffs were significant measures. In government procurement, he expressed the view that countries like Bolivia had the right to grant preferential margins to domestic suppliers.

51. The largest share of Bolivia's non-traditional exports was directed to the Andean Group countries. This trend should be extended to more developed or industrialized countries. Peru had adopted a number of measures which would support Bolivia's reform process and increase its access to world markets, including an industrial and tourist free-zone in the Peruvian port of Ilo.

52. Significant distortions in Bolivia's economy could be created by the coca-cocaine sector. He wanted to know whether trade support measures by the EC or the United States could compensate for the impact of this sector in Bolivia. In this context, he emphasized the undesirability of withdrawal of certain kinds of assistance granted by some donor countries with respect to the Programme of Voluntary Eradication of coca plants.

53. The representative of the United States said that although macroeconomic policies were not the direct focus of the TPRM exercise, he applauded the remarkable advances that Bolivia had made since 1985, particularly with regard to inflation and growth. This showed that tremendous advances were possible by pursuing orthodox macroeconomic stabilization policies.

54. Trade liberalization included a greatly condensed tariff structure, tariff reductions and the elimination of non-tariff barriers such as quotas. He also noted that import licensing requirements now remained on only a few products. He appreciated that Bolivia, in accordance with its GATT accession commitments, had recently signed the MTN Agreements on Customs Valuation and Import Licensing Procedures. Nevertheless, Bolivia should consider joining other Tokyo Round Agreements. He noted Bolivia's

desire to increase and diversify exports and, in this connection, expressed the hope that Bolivia would make full use of the opportunities afforded by the Andean Trade Preferences Act.

55. Some of Bolivia's additional border fees, which exceeded the value of the services for which they are charged, could be inconsistent with GATT Article VIII. The Special Consumption Tax and the railway transportation charges, he noted raised questions as to Bolivia's national treatment obligations. He asked would Bolivia, when converting to the Harmonized System, simplify its import fees, increase their transparency, and make them GATT-consistent? Transparency on regional tariff commitments - a GATT obligation - was also important and would also permit entrepreneurs to take advantage of market opportunities.

56. The administration, under anti-dumping and countervailing law, of the ten-day import suspension and the inclusion of private sector representatives in the Technical Secretariat, raised questions concerning its consistency with Article VI. Bolivia should adopt uniform and transparent government procurement procedures and consider the elimination of the preference margin. He asked whether Bolivia intended to streamline its lengthy and complicated import procedures for medicines and pharmacopeia. He also urged improvement in Industrial Property Rights, where Bolivia's régime was considered far below current standards of protection.

57. The United States strongly disagreed with an assertion in the Secretariat's report that Bolivia had lost control of its money supply because of "Dutch disease". The United States dollar had been authorized as legal tender in Bolivia to bolster confidence in the domestic financial system. He questioned why the Secretariat had indicated a relationship between international tin prices and the United States Strategic Stockpile disposals. The United States were also expecting responses to the additional written questions submitted to the Bolivian Government.

58. The representative of Chile, thanking the Bolivian representatives and the Secretariat for their contributions, expressed his concern on the inclusion of issues unrelated to the objectives of the TPRM exercise in the latter's report. Political and economic reforms had laid the ground for stable and sustainable development in Bolivia. The yields of the efficiently implemented free market policies were found in both the domestic economy and external trade. Reduced inflation, growth and the diversification of the economy reflected the domestic success of the reforms. The new investment framework and privatization efforts were appreciated.

59. He praised trade liberalization and developments in fields such as tariffs, quantitative restrictions, price controls, subsidies, State intervention in productive activities and Bolivia's accession to the GATT. Chile and Bolivia maintained an increasingly significant LAIA Partial Scope

Agreement which, in 1992, had generated bilateral trade flows of U$168 million. Although he was certain that a more open trading environment would contribute in increasing export and development opportunities for Bolivia, he would be interested in knowing how it could benefit from the outcome of the Uruguay Round.

60. The representative of Switzerland commended the wide scope of economic reforms undertaken in Bolivia since 1985. The results, reflected in inflation and growth, were impressive and prompt, although sacrifices had been made in terms of decline of purchasing power and unemployment. New investment legislation should boost foreign investment in flows.

61. The abandonment of import substitution had led to the unification of the tariff structure, reduction of tariffs to non-prohibitive levels, and elimination of quantitative restrictions. However, additional changes were required to bring Bolivian trade practices in line with GATT rules and disciplines. Several internal taxes and charges, including rail freight charges, seemed contrary to Article III of the General Agreement. Bolivia was requested to submit its list of tariff concessions in the NANDINA nomenclature within the time limits set by the GATT waiver. He also wondered whether, in view of the recently enforced anti-dumping and countervailing duties legislation, Bolivia contemplated adhering to the MTN Agreements on Anti-dumping, Subsidies and countervailing measures.

62. Regional agreements should not aim at erecting trade barriers and should be examined in the light of GATT Article XXIV. More information was requested on Bolivia's regional integration projects, including MERCOSUR and the Group of Three.

63. The domestic economy would benefit from additional competition from abroad if government procurement practices would be further and gradually liberalized. The current régime lacked uniform and transparent procedures. He sought clarification on the preparatory work undertaken with respect to the new Public Procurement Law.

64. The representative of Venezuela recalled that his country participated together with Bolivia in regional integration associations such as LAIA and the Andean Group. Painful economic reforms encompassing all sectors of the economy, including an ambitious privatization programme and a new investment law, had helped to attract foreign investment. Growth depended increasingly on exports of products from the agricultural, mining and energy sectors.

65. Trade liberalization had taken the form of progressive tariff reductions and the elimination of non-tariff measures. Bolivia had shown its support for the multilateral trading system by adhering to the General Agreement and participating to the Uruguay Round.

66. He expressed sympathy for Bolivia's struggle against the illicit drugs trade. The Andean Trade Preferences granted by the United States was an encouraging advance. He asked whether the Bolivian delegation could comment on the effects and difficulties encountered by traditional and non-traditional export items, such as soya, alpaca wool, textiles and tin, in industrialized countries' markets.

67. The representative of Mexico emphasized that the degree of certainty and the signals of irreversibility sent to economic agents constituted an essential element for success in economic reforms. He commended the Bolivian Government for implementing its adjustment programme firmly, in particular with respect to market opening, intended to increase efficiency in resource allocation and consolidating economic stability. In an unfavourable international context, characterized by weakness in the world economy and deteriorating terms of trade, inflation had dropped and growth had resumed.

68. Several structural deficiencies persisted, such as the falling share of the industrial sector, fragility of the tax base, stability, low levels of domestic savings, insufficient productive infrastructure, lack of dynamism of the external sector, and high dependence on international commodity prices. The private sector could only make a limited response as a large part of economic activities remained under State control. He asked whether the Bolivian Government intended to take measures promoting private investment. These would allow for more resources to be destined to infrastructure and social welfare programmes.

69. Bolivia's contribution to the multilateral trading system consisted of unifying its tariff structure and binding almost all its customs tariff. A comprehensive offer was also made in the framework of the Market Access Negotiating Group. Bolivia, a signatory to several regional and bilateral agreements, and his country were negotiating an agreement aimed at establishing closer relations.

70. Despite such positive signs, a high degree of effective protection for certain sectors impeded export diversification. Modernization of the agricultural sector, more dynamism in manufacturing, and the growth of the tertiary sector was required.

71. Unfair competition from the coca-cocaine sector was generated by inflows of foreign currency which affected the exchange rate. This reduced the relative competitiveness of other goods. He was interested in knowing more about measures and plans for reducing the impact of the coca-cocaine sector in the domestic economy.

72. The representative of Australia was interested in the domestic benefits of the Bolivian Government from undergoing the TPRM exercise,

including the preparation of their report. It was difficult to achieve an open and competitive economy, particularly in the context of the global pressures of the 1980s. Bolivia was not the first contracting party to choose this path, but its achievements had been highly impressive.

73. She briefly mentioned a number of measures in the public sector, foreign investment and trade fields which had been implemented. These reforms, as noticed by previous speakers, had led to substantial progress towards the stabilization of the economy. Despite the substantial liberalization of Bolivia's trade régime, she had some concerns on certain issues which had already been raised by the delegations of, among others Canada, Chile, and Switzerland. These points had also been highlighted in the written questions passed to the Bolivian delegation before the meeting. She would therefore only highlight the lack of transparency on the preferential treatment granted by Bolivia to imports from LAIA or Andean Group countries. Information on the exact share of such imports had not been made available to the Secretariat. Transparency and review of regional agreements involving preferences was an important safeguard built into the General Agreement. She therefore invited Bolivia to supply this information retrospectively as TPR reports were used in her country over a number of years.

74. The representative of Sweden, on behalf of the Nordic countries, praised Bolivia for the results obtained through consistent reforms in its economy and trade régime. He sought information on the prospects for privatization in the mining sector, in particular COMIBOL. Bolivia had clearly recognized the benefits of free trade and its expectations from a successful conclusion of the Uruguay Round. An agreement in agriculture could boost Bolivia's non-traditional exports and help to fight illegal coca trade through crop substitution. He asked whether improved tariff binding, which would reduce the gap between applied and bound rates, could be expected from Bolivia as a result of the Uruguay Round. He also sought comments on measures like the rail freight charges and the specific consumption tax, which seemed to be in conflict with Article III of the General Agreement.

75. Given the introduction of domestic legislation on areas covered by the Tokyo Round Agreements, he asked whether Bolivia intended to subscribe to those on Anti-dumping and Government Procurement. Pressure from domestic industry for direct government assistance to improve export competitiveness could be more easily countered if Bolivia joined the Subsidies Agreement.

76. The representative of El Salvador commended Bolivia for its structural reforms and its market opening. History had shown that the credibility and stability of the reforms in trade régimes depended in part on the continuity, efficiency and consistency of macroeconomic policies, in particular exchange rate and monetary policies. In this respect and in

connection with the impact of the coca-cocaine sector in the economy, she said that it would be useful to know whether the Bolivian delegation considered that there was excess money supply, whether this was so large that it made it difficult to keep the current exchange rate system and whether the Bolivian currency was overvalued.

77. The representative of Japan stated that his country supported Bolivia's economic reforms and trade liberalization, including its accession to the GATT. The stable political situation enabled steady growth and the promotion of sound economic management. Nevertheless, public enterprises remained important in the industrial sector. A key element for the revitalization of the economy would be further privatization and structural reform of public or State-owned entities.

78. Despite economic difficulties, quantitative restrictions had been abolished and two Tokyo Round Agreements had been signed. Government initiatives for deregulating the foreign exchange régime, simplifying export procedures and promoting non-traditional exports were appreciated. He encouraged Bolivia to continue in the path of liberalization and to accede to the Agreement on Government Procurement.

79. Bolivia had a well founded interest in participating in regional arrangements and was exploring the possibility of joining MERCOSUR. He urged Bolivia to consider only arrangements which were not restrictive, did not lead to exclusive regionalism, were GATT consistent and contributed to the strengthening of the multilateral trading system.

80. Sound economic development could contribute to eliminating dependence on the coca-cocaine sector. The Alternative Development Programme should be promoted and further pursued.

81. The representative of Brazil commended Bolivia on the achievements of its economic reforms. Sound economic policy measures had included macroeconomic stabilization, deregulation, privatization, liberalization of the foreign trade régime and the improvement of the foreign investment environment. However, any trade régime could have small flaws; Bolivia was no exception.

82. Export diversification efforts were intended to cope with declining terms of trade. He sought further information on prospects and, relevant programmes, which did not seem to resort to classical diversification patterns, such as import-substitution policies or subsidization.

83. He emphasized the importance of the international environment for a country which applied sound economic policy measures and raised a few questions. Could Bolivia's attempt to diversify, from coca products have success in the long term if, among other elements, the international agricultural market was completely distorted? He wondered whether, in the

long run, the preferences granted to the Andean countries by some contracting parties on a discriminatory basis, were sufficient for providing the environment needed by Bolivia. He was of the view that only a successful conclusion of the Uruguay Round would help solving Bolivia's problems.

84. The representative of Korea stated that the fast-growing Bolivian exports to his country, despite modest overall bilateral trade flows, were a good sign. He attributed this development to the success of the New Economic Policy which, in a difficult time for Bolivia's major traditional exports, had reduced inflation and had promoted market opening. Success of Bolivian trade policy would depend on market opening at both regional and international levels. He was interested in knowing whether Bolivia planned to improve its infrastructure and eliminate import discrimination in rail freight charges. He also asked what sectors would be privatized in 1993.

85. The representative of Austria said that the decline of international commodity prices had affected Bolivian exports to his country. These had fallen faster than Austria's exports to Bolivia in the past two years. He was concerned about this fall, the widening of the trade deficit and the rise of external debt. The New Economic Policy had been an instrument for the liberalization of the trade régime and had restored macroeconomic stability. Although it had positively affected inflation and growth rates, levels of rural poverty remained unchanged. The Emergency Social Fund and the Social Investment Fund were therefore of great importance. He sought information on recent developments in privatization, and in particular on the suspension of joint venture deals with the State mining corporation COMIBOL.

86. The representative of Uruguay recalled that Bolivia's firm democratic régime was an essential condition for balanced economic development and social improvement. Uruguayan and Bolivian trade links had been strengthened with a LAIA Economic Complementarity Agreement. The stabilization programme undertaken since 1985 had tremendous success in controlling inflation. Progress had been made in economic and social areas. Bolivia had become more integrated in the international economy by lowering its tariff rates and eliminating its quantitative restrictions. In order to maintain its current liberalization policies and reduce illicit activities, Bolivia required a more stable and open multilateral trading system.

87. Although Bolivia's future was partly related to regional agreements, the economic development of Latin America as a whole depended on the rest of the world. As a number of participants had referred to the contradiction between trade liberalization measures and regional integration efforts, he thought that it could be useful if the Bolivian delegation could elaborate on the compatibility between economic integration and the country's insertion in the wider international economy.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF BOLIVIA

88. In responding to the comments by discussants and delegations, the representative of Bolivia referred to the macroeconomic effects of the coca economy in Bolivia, while emphasizing that the production of coca leaves and the illegal production of coca derivatives were two separate issues. He said that five or ten years earlier, the impact of the coca-cocaine economy had been considerable. The increased demand for drugs from abroad had been translated into a tendency for the appreciation of the real exchange rate and into the reallocation of resources towards illegal activities. However, at present, despite its significance in employment terms, it would be difficult to maintain that the coca-cocaine sector was responsible for a "Dutch disease" effect. National and international institutions reported that the importance of the coca economy, including derivatives, had decreased as a result of the four-year-old Alternative Development Programme, the obligatory eradication of the illegal plantations and the decline in drugs prices.

89. Discrepancies in estimates of the impact of the coca-cocaine economy on the GDP and the legal exports had been very wide five or seven years earlier. Such discrepancies were now much less as a result of improved information from specialized organizations. In 1991, the coca-cocaine economy was responsible for around 4.5 to 5.3 per cent of registered GDP, while the ratio of coca-cocaine to legal exports varied between 31 and 38 per cent. One-third of the illegal export revenue had been repatriated and amounted at around US$100 million to US$120 million, equivalent to 11 to 13 per cent of legal exports. According to the National Statistics Institute, recent data indicated that the legal coca leaf production contributed by an average of 1.3 per cent to the GDP or 7 per cent to agricultural output in the last three years.

90. Turning to social indicators, the representative said that there had been significant improvements. Infant mortality and literacy rates had declined to 50 per cent of their 1976 level, according to data from the 1992 national population census. Access to electricity, sewerage and water supplies had also improved. In order to tackle remaining poverty problems, the Government's Social Strategy was determining target groups, on a priority basis, for public social expenditure.

91. The Privatization Law of April 1992 authorizing the sale of all public enterprises exempted, for constitutional reasons, YPFB and COMIBOL. The Regional Corporations owned 60 enterprises, some of which had already been privatized. Their productive activities covered sugar, cotton yarn, glass, cement, dairies and other goods. So far, ten public entities had been privatized.

92. Investment in the mining and oil sectors could take the form of joint ventures exclusively destined to exploration and exploitation. In 1992, the new investment regulations had attracted foreign direct investment of US$205 million of which 54.6 per cent and 36.1 per cent were concentrated in mining and hydrocarbons, respectively.

93. Bolivia's creditworthness with the private international banks would be restored with the signing of the debt buy-back agreement of 29 March 1993. This development would free Bolivian enterprises from the obligation to provide collateral on short-term foreign trade operations. The reduction of the external debt would allow for increased public investment in physical and social infrastructure. It would also encourage international private banks to invest in Bolivia and thus favour the private sector. At present, Bolivia's debt policy consisted of contracting loans from bilateral or multilateral organizations, excluding short-term, private sector loans and unfavourable lending conditions.

94. Bolivia considered that its GATT tariff commitments would not be modified by the establishment of its new schedule under the NANDINA nomenclature. This was due to the fact that the entire tariff schedule was bound at a 40 per cent rate, except for a few items at 30 per cent. However, Bolivia intended to submit to the Contracting Parties relevant information on this question and to conduct consultations in conformity with paragraphs 1 and 3 of Article XXVIII of the General Agreement.

95. The rail freight charges reflected the railway company's costs, although for a number of reasons these should be revised. A plan for the restructuring of the railway company had been adopted and it would allow for the reduction of the charges in the medium-run. Nevertheless, the Bolivian Government was obliged to maintain the current practice of differentiated rail freight charges to counter competitive subsidies from neighbouring countries. This policy was not related to cross-subsidization and would remain in force until neighbouring countries removed their competitive subsidies. Bolivia's land-locked situation implied major transport difficulties and costs.

96. Minimum import prices introduced in the early 1980s had caused problems for fiscal policy. They had been abolished by Supreme Decrees 21060 and 21660. However, minimum import prices were still set for air-polluting used cars. The private inspection companies used the customs valuation method provided by the General Agreement.

97. Bolivia would harmonize its customs valuation procedures with those of the Agreement on Customs Valuation which it had recently signed, according to the provisions of Article 21. Adherence to other Tokyo Round Agreements depended on the conclusion of the Uruguay Round.

98. The representative said that government procurement operations were carried out through independent specialized agencies of governmental or international organizations, which provided advice to the public entity making the purchase. The specialized agencies called for tenders, based on the terms of reference of the buyer, ensured the offers met the specifications of the contract, and submitted their opinion and recommendations. Domestic suppliers were entitled to ten additional qualification points which did not constitute a price preference. The final decision was taken by the purchasing public entity in a non-discriminatory manner. In general, public entities did not participate in commercial resales.

99. The 10-day import suspension, contained in the recent anti-dumping and compensatory measures legislation, was a measure to be taken in exceptional circumstances when the whole of the domestic production was affected. The participation of the representative of the Confederation of the Private Entrepreneurs of Bolivia to the Technical Secretariat did not mean that this private sector institution would have access to confidential information. Such information would be restricted to the representative of the Ministry of Exports and Economic Competitiveness.

100. The transparency of regional agreements where Bolivia was a participant was ensured by the GATT notification of such agreements by Andean Group and LAIA members in March and September 1992, respectively. Both LAIA and Andean Group integration schemes were increasing Latin American integration. Currently, Bolivia was seeking to strengthen its trade policy links with Chile and Mexico under the auspices of LAIA. In all integration schemes, Bolivia intended to preserve its present tariff policy.

101. Participation in the Uruguay Round was one of the reasons for Bolivia's adherence to the GATT. The tariff bindings upon accession to the GATT, the suppression of non-tariff barriers and the comprehensive offer in market access, agriculture and services constituted Bolivia's important contribution to the success of the Uruguay Round. Full credit should be given to Bolivia's developing country status and its autonomous trade liberalization measures. The programmes of economic adjustment and coca crop substitution required permanent and predictable market access conditions for exports of goods, such as textiles from alpaca and llama wool from the Altiplano, as well as natural-resource based and tropical products.

102. The Exports Law which was under consideration in the Parliament comprised: a régime of guarantees to the exporter regarding freedom of transit and transport in the national territory, and freedom to contract and use export services provided by public or private companies; the reimbursement of indirect taxes to exports by means of a transferable and

fractionable tax credit certificate; and the establishment of a National Council of Foreign Trade composed by representatives of the public and private sectors, ensuring export policy formulation and follow-up.

103. The legislation on Intellectual Property Rights had recently been modernized with the adoption of two laws. A project on Industrial Property Rights was under consideration.

VI. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

104. I would like to conclude this first review of Bolivia in the framework of the Trade Policy Review Mechanism with my own understanding of the salient points emerging from the discussion. These closing remarks, prepared on my own responsibility, are not intended to substitute for the Council's collective evaluation of Bolivia's trade policies and practices. The full discussion, including Bolivia's responses to points raised by the participants, will be reflected in the minutes of the meeting.

105. In his opening statement, the representative of Bolivia said that the New Economic Policy, introduced in 1985, had stabilized the economy and given it an outward-oriented direction. Inflation was dramatically reduced and was now under control; it was expected to be brought below 10 per cent in 1993. Since 1987, positive growth rates, now in the order of 4 per cent, had been achieved. Liberal foreign investment legislation and privatization efforts contributed to raising the level of private investment and the overall participation of the private sector in the economy. Fiscal reform had improved public sector finances. International reserves had risen steadily, while external debt was reduced considerably. An agreement to clear the country's commercial bank debt was currently being signed in Hamburg. New initiatives were underway to bring reforms in the banking sector, management of public sector resources and social security as well as in education and the labour market.

106. Trade liberalization and rationalization of trade policy measures, based on the principle of neutral sectoral protection, marked the abandonment of import-substitution policies. This had been carried out despite deteriorating terms of trade. Non-tariff measures had been eliminated; tariffs had been unified and reduced. Export promotion incentives were limited to non-traditional goods and subsidies had been abolished; export documentation and procedures had been simplified; and free-trade zones had been created. In the context of GSP treatment, the United States and the EC had expanded the coverage of their schemes for Bolivia. Renewed emphasis was being given to regional trade agreements, the intensification of preferential treatment within the Andean Group and the conclusion of new agreements with some LAIA partners. As the economy had opened up, there had been an increase in imports and a widening of the trade deficit, but the overall balance of payments was healthy. At the same time, the export structure had been diversified considerably, and the number and value of non-traditional export items was growing. The public sector's share in exports had been reduced. A forthcoming Law on Exports would constitute a new framework for Bolivia's export policy.

107. All participants complimented Bolivia warmly on the success achieved under the implementation of its new economic policies. They noted, inter alia, that this success had been achieved through a stable

macroeconomic policy, with fiscal and monetary discipline. Under the managed float, the real exchange rate had depreciated steadily, though not dramatically, since 1987. Participants commended the reduction of tariffs to a low and stable level; the elimination of quantitative restrictions on imports; the binding of virtually all tariffs upon accession to GATT in 1990; Bolivia's recent adherence to the MTN Agreements on Customs Valuation and Import Licensing Procedures; the simplification of export procedures; and the introduction of new investment policies, which put domestic and foreign investors on an equal footing.

108. Bolivia's move towards greater regional integration was also welcomed. Participants stressed that such moves should be fully consistent with, and notified to, GATT and should not lead to diversion of trade. Specific questions were raised concerning the consistency of Bolivia's unified tariff with the Andean Group common external tariff. In this connection, Bolivia was urged to notify its GATT tariff schedule, classified in the NANDINA nomenclature, within the time limit set in the recently-granted waiver.

109. The difficulties created by the rôle of the coca-cocaine sector in the Bolivian economy were recognized. Information was sought on the size of the sector and details of the eradication programme underway. Questions were raised concerning the consequences of revenues from this sector for exchange rate and money supply management. The reduction of inflation and interest rates was noted as a favourable sign, and note was taken of the falling real exchange rate. It was recognized that better market access conditions for substitute crops would favour the Alternative Development Programme. The dangers of withdrawing assistance were acknowledged.

110. A number of participants emphasised that the international trading community had a responsibility to support Bolivia's reforms and help the country realise the benefits of its restructuring. Declining terms of trade, reflecting falling export prices for minerals and restrictions on market access for agricultural products, inhibited the scope for diversification and expansion of exports.

111. While welcoming Bolivia's liberal trade policies, participants expressed concerns on the following issues:

- the gap between the levels of bound and applied tariff rates;

- the number of, and high overall level of protection afforded by, internal taxes and additional charges; some of these charges were unrelated to the cost of services provided and their status in relation to GATT Article VIII thus appeared uncertain;

- the discriminatory implementation of the Specific Consumption Tax on certain items;

- discrimination in the application of rail freight charges which, given the landlocked nature of the country, increased importers' costs considerably and appeared inconsistent with the national treatment provisions of Article III of GATT;

- the lack of uniform and transparent rules in government procurement; questions were raised concerning the level of preferences for domestic products and the contents of the proposed Public Procurement Law. Some members urged Bolivia to join the Government Procurement Code;

- certain features of the new anti-dumping and countervailing measures legislation, such as the GATT consistency of the provision for 10 days' import suspension; whether there was a sunset clause; and the participation of the private sector in the decision making process;

- the five-year exemption granted to Bolivia for implementation of the Agreement on Customs Valuation; and

- the use of minimum import prices.

112. Participants recognized that Bolivia's adjustment programme had implied considerable social costs. Overall, incomes had initially fallen, and the distribution of income within the country had deteriorated. A number of members sought information about the social programmes introduced to ease the burdens on the Bolivian population.

113. Some delegations sought information on the progress of privatization, including with regard to COMIBOL. One delegation raised questions concerning protection of intellectual property rights and the streamlining of import procedures for medicines and pharmaceuticals.

114. In reply, the representative of Bolivia discussed macro-economic issues, trade policy and responded to a number of specific questions. He said that recent data showed that the impact of coca-cocaine on the economy had declined considerably in recent years because of the Alternative Development Programme, the eradication programme and falling prices. Gross exports of the coca-cocaine economy had now fallen to between 31 and 38 per cent of legal exports; and only one-third of the revenue generated was retained in Bolivia. Thus, any repercussions on the real exchange rate and on resource allocation had been significantly diminished. New statistics on social programmes showed improvements in infant mortality and in literacy as well as access to basic utilities. The Government was also

addressing remaining problems. Under the Privatization Law of April 1992, the legal framework had been created for the privatization of all public enterprises, except YPFB and COMIBOL, which were excluded for constitutional reasons. Investment in mining and petroleum was mainly through joint ventures. With respect to foreign debt, the new agreement being signed in Hamburg would lead to the elimination of public debt with commercial banks, and it was expected that this would help the private sector to obtain new resources.

115. Turning to trade policy, the representative provided detailed information on Bolivia's public procurement policies. He noted that the ratification of Bolivia's adherence to the Customs Valuation Code was before Parliament. Accession to other Codes would be considered in the light of the Uruguay Round agreement. In its accession to GATT, Bolivia had made a number of commitments which were considered part of its Uruguay Round offer, and these had been supplemented by further offers, conditional on satisfaction of bilateral requests. Bolivia hoped to obtain improved market access in a contractual, enduring and predictable manner. Concerning the changeover to the Harmonized System, the CONTRACTING PARTIES would be notified of such changes and negotiations with any affected parties would be held under Article XXVIII. Details were provided on rail freight rates affecting imports and exports, intellectual property protection, the use of minimum prices (which now affected only imports of used cars), and the conditions for the application of the ten-day suspension of imports under the anti-dumping law. Bolivia's participation in the Andean Pact and the LAIA were to be perceived as liberalization within the framework of the multilateral system; these had been notified to the Committee on Trade and Development under the Enabling Clause. The Export Law, under consideration in Parliament, provided for certain export guarantees, the rebate of indirect taxes and the establishment of a National Foreign Trade Council to formulate export policy. Bolivia reaffirmed its commitment to the international trading system.

116. In addition, the Government of Bolivia provided written replies to written questions submitted by Australia, Canada and the United States.

117. The Council welcomed the importance attached by Bolivia to an open multilateral trading system and Bolivia's strong commitment as a participant in the Uruguay Round process. It recognized the major economic reforms Bolivia had undertaken, which had already shown tangible and, in some cases, dramatic results in terms of price stability, economic growth and external viability. It acknowledged that Bolivia's ability to sustain and expand its liberalization and reform would be greatly facilitated by a supportive external economic environment, and particularly by a successful conclusion to the Uruguay Round.