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Review

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CONTENTS

The transnational corporations and Latin America's present form of economic growth <i>Luiz Claudio Marinho</i>	9
The transnational corporations in a new planning process. <i>Arturo Núñez del Prado.</i>	35
The east, the south and the transnational corporations. <i>Alberto Jiménez de Lucio.</i>	51
Transnationals and mining development in Bolivia, Chile and Peru. <i>Jan Křákal.</i>	63
Transnational enterprises and the internationalization of capital in Brazilian industry. <i>Maria da Conceição Tavares and Aloisio Teixeira.</i>	85
The transnational corporations in the Chilean economy. <i>Eugenio Lahera.</i>	107
The State and transnational banks: Lessons from the Bolivian crisis of external public indebtedness. <i>Michael D. Mortimore.</i>	127
Transnational banks, external debt and Peru. Results of a recent study. <i>Robert Devlin.</i>	153
Some CEPAL publications	

The State and transnational banks

Lessons from the Bolivian crisis of external public indebtedness

*Michael D. Mortimore**

In order to examine the decisive role played by transnational private banks in the Bolivian economy in recent years, the author considers the concept of external dependence. After analysing in his introduction the usual meanings of this concept as referred to external vulnerability and foreign participation in the economy, he concentrates on what he calls 'voluntary dependence', where such dependence is generated or increased due to the actual economic policy adopted by the State.

In order to explain fully this type of external dependence, a conceptual framework is developed based on the predominant types of development strategies defined in accordance with their peculiar distribution of benefits (neocolonial, national private and national popular) and the functions of the State (mediatory, infrastructural and sectoral).

On the basis of this conceptual framework, the author analyses external dependence in Bolivia since 1952, paying special attention to the changes which took place in the different phases 1952-1964, 1965-1973 and 1974-1978. In the final section he focuses his analysis on the internal contradictions of the State in the period 1974-1978 and the way in which these weakened its power compared with the transnational banks; more specifically, he examines the economic policy followed during these years and the negative effect which it had on the performance of public enterprises, using as an example the case of the State petroleum company, YPFB.

In conclusion, the author suggests that the Bolivian experience contains some lessons for the developing countries, especially that external financing on commercial terms should be considered with extreme prudence and as part of an overall rationale in order to avoid contributing to an increase in external dependence and a precipitation of political and economic crises.

*The author is a member of the CEPAL/CTC Joint Unit of Transnational Corporations.

I

The general nature of the Bolivian crisis and the strategic role of the transnational banks*

The importance of the present crisis of external public indebtedness in Bolivia lies only in its magnitude as manifest in typical indicators such as debt service as a proportion of export earnings or international reserves in comparison to imports, but in the fact that Bolivian decision-makers had put themselves in a position where a decision by transnational banks (TNBs) not to refinance the Bolivian debt would prove fundamental to a generalized crisis in the Bolivian economy. As will become apparent below, instead of negotiating better terms for its external finances on the basis of a much improved bargaining position with foreign creditors the Bolivian decision-makers fell victims to certain internal contradictions of the State, such as that between the economic policy of the Central Government and its impact on the dominant public enterprises, which debilitated the State to such an extent that its dependence on foreign participants (primarily the transnational banks) became an essential element in the present crisis of external public indebtedness.

As is suggested by the data presented in table 1, after enjoying several years of impressive economic expansion in the mid-1970s the Bolivian economy has come to be characterized by all the features common to a severe crisis. Exports have fallen off sharply in real terms, and in 1980 the value of exports of goods and services was below that of 1970, while the rate

*This is a preliminary report on the research project undertaken by Robert Devlin and the author on the transnational banks and the external finances of Bolivia. The main report on the research results of the project will be published later. The author wishes to express his thanks for the close collaboration provided by the members of the CEPAL/CTC Joint Unit, the valuable comments of Eduardo Gana and the criticisms of R. Sanz Guerrero and L. Willmore, but assumes exclusive responsibility, of course for any error of fact or of interpretation.

Table 1

BOLIVIA: INDICATORS OF THE CRISIS
(Real annual rates of growth)

Year	Exports (goods and services)	Gross domestic product	Gross domestic investment	Public external debt	
				All sources	TNBs
1974	5.5	6.1	a	-2.1	76.7
1975	-3.4	5.1	a	23.8	57.3
1976	10.8	6.8	-6.7	25.4	87.0
1977	-5.6	3.4	2.5	17.3	36.5
1978	-12.7	3.1	-7.5	10.5	11.4
1979	-10.5	2.0	-13.4	3.1	4.9
1980 (est.)	-9.5	0.3	-32.5	ND ^b	ND

Source: CEPAL, on the basis of official information supplied by the Central Bank of Bolivia, the World Bank and the Inter-American Development Bank.

^aA new series began in 1975.

^bNo data available.

of growth of the gross domestic product had fallen to an estimated real annual level of 0.3%. Likewise, the real decline of the level of gross domestic investment between 1975 and 1980 was of the order of 50%. One could reason that the boom of the mid-1970s and the crisis thereafter were both related directly to external financing or the lack of it. The boom years correspond with an impressive increase in foreign borrowing, especially from the transnational

banks, and the crisis years are characterized by a steep decline in the real rate of increase of public external indebtedness. Table 2 indicates that during the period 1974-1978, which we shall later classify as a well-defined political project, external financing was totally dominated by transnational banks, which were responsible for 62% of total disbursements, 74% of total payments of amortization and interest and 71% of total net receipts from external

Table 2

**BOLIVIA: RELATIVE IMPORTANCE OF THE TRANSNATIONAL BANKS IN
STATE-GUARANTEED EXTERNAL FINANCING, 1970-1979**
(Percentages)

Year	TNB financing as proportion of total:		
	Disbursements	Amortization and interest payments	Net receipts
1970	0.3	2.0	-0.5
1971-1973 ^a	20.5	16.3	19.4
1974	39.6	19.2	71.3
1975	47.4	23.8	67.6
1976	52.5	32.4	64.2
1977	57.9	46.2	64.7
1978	61.8	73.7	40.8
1979	38.2	52.9	-31.4

Source: CEPAL, on the basis of official information provided by the Central Bank of Bolivia.

^aAnnual averages.

sources during that period. The sharp decline in net receipts during 1977 and 1978, as debt service payments gained on disbursements coincides precisely with the beginning of the economic and financial crisis of the Bolivian economy. The fall in the proportion of total net receipts coming from transnational banks (from 65% in 1977 to -31% in 1979) was fundamental to the ensuing crisis. In effect, the transnational banks pulled the plug on Bolivia.

One may legitimately enquire wherein this awesome power of decision on the part of TNBs lies and how it is acquired. The first part of this question can be answered immediately, the second part forms the subject matter of this article. The power of decision of transnational banks depends essentially on two factors. First, the loans provided by those banks must represent a significant proportion of the total external public debt of the borrower. Second, the TNBs must represent the principal source of new loans for that borrower. In such circumstances, the borrower is heavily indebted with

the TNBs and the power of decision of the TNBs to continue financing or, in times of economic difficulties, to refinance existing debt can become a matter of life or death for a particular régime or a specific project. One need not read sinister intentions into the outlooks or the activities of the transnational banks: all this is merely a natural consequence of the normal business practices of a private enterprise dedicated to lending money for profit. Thus, the credit rating system employed by TNBs to distinguish among the multitudes of credit seekers on the basis of the profitability and security of those investments simply reflects the normal business considerations of those private enterprises. Table 3 indicates that during the more recent crisis years in Bolivia, using the *Institutional Investor* ranking as an example, that country was close to the bottom of the list both in Latin America and the world as a whole.

In the case of Bolivia, this credit rating aptly reflects the TNBs' appraisal of that coun-

Table 3

LATIN AMERICA: CREDIT WORTHINESS RANKING OF THE INSTITUTIONAL INVESTOR, 1979-1980

Regional ranking		Country	World ranking 1980	Points ^a
1980	1979			
1	2	Mexico	25	71.8
2	1	Venezuela	27	71.2
3	4	Argentina	31	62.6
4	5	Colombia	37	59.6
5	6	Trinidad and Tobago	41	58.5
6	3	Brazil	43	58.0
7	7	Chile	52	52.9
8	8	Ecuador	54	52.3
9	9	Panama	61	45.2
10	11	Paraguay	63	44.6
11	12	Uruguay	66	42.2
12	10	Costa Rica	68	41.1
13	15	Peru	72	35.2
14	13	Dominican Republic	75	32.5
15	-	Cuba	76	32.2
16	14	Bolivia	78	27.8
17	16	Jamaica	84	19.9
18	17	Nicaragua	94	9.8

Source: *Institutional Investor*, July 1980.

^aThis credit rating reflects bankers' perceptions of each country's credit standing as of March 1980.

try's prospects of obtaining new loans. Moreover, the decision of most TNBs *not* to continue refinancing Bolivia's external public debt, which was taken most probably after a relatively large refinancing package was negotiated in 1978 with a syndicate headed by Citicorp (US\$ 155 million), was an essential ingredient in the failure of the 1974-1978 political project and the disastrous economic crisis which followed.

In effect, Bolivia was defenceless in the face of this unilateral evaluation by the consortium of TNBs, as may be seen from the following quotation: "...when Bolivia does nego-

tiate a plan with its creditors, the country will be forced to accept almost any refinancing terms that are offered."¹

The external public indebtedness of the Bolivian economy with the TNBs thus became the core element of the new dependency situation affecting that country. The explanation of how that dependency situation was created and how the TNBs acquired the awesome power to make decisions directly affecting the economic well-being of most Bolivians without the latter's effective participation in the taking of that decision makes up the rest of this article.

II

The concept of external dependence as an analytical aid and its utility in understanding the role of the State in development

Without doubt, the concept of external dependence has been one of those most often discussed in the course of the analysis of the Latin American developmental experience. However, its use as an analytical aid to improve understanding of the various dependency situations affecting the developing countries has been on the wane. In the present article it is suggested that the concept of dependence not only continues to be appropriate for analysis of the relative negotiating positions of the local and foreign participants in the process of local development but actually forms a requisite for the detailed examination of the new situations of dependence affecting various countries of the region.

One can distinguish at least three principal streams of dependency analysis. For example, one stream views external dependence as economic vulnerability of the external sector (Prebisch-CEPAL); a second stream sees external dependence in terms of the nature and degree of foreign participation in local development (Furtado, Sunkel, and to a significant extent, Cardoso); and, of course, the Marxist stream considers external dependence as an expression of neo-imperialism (Frank and the CESO group of the University of Chile). Leaving

aside the third stream of dependency thought because of its ideological predilections, it may be reasonably maintained that, in an age of increasingly more complex negotiations between transnational corporations and the host State with regard to the nature and extent of foreign participation in local development, the remaining two streams of dependency thought are of considerable analytical utility for public decision-makers. These two streams of dependency thought may be considered as common measures of external dependence understood as factors which contribute to the weakening of the negotiating position of local entities *vis-à-vis* foreign participants in local development.

1. Some common measures: economic vulnerability of the external sector and the degree of foreign participation in national development

The principal idea behind the concept of economic vulnerability of the external (export)

¹*Institutional Investor*, New York, July 1980, p. 163. Thus, in March 1981 Bolivia accepted without further negotiation the refinancing terms demanded by the consortium headed by Bank of America. In accepting these

sector is that the fluctuations in the demand of the industrial countries for the primary commodities exported by the developing countries contribute to and aggravate the secular balance-of-payments problems which plague the peripheral economies. For example, any country may be subject to a favourable or unfavourable terms of trade relationship during a given period, but in general terms, the more diverse the export items and the more disperse the buyers, the less vulnerable will be the exporting developing country. Conversely, a monoproducer selling in a less than perfect market will generally suffer prolonged periods of extreme economic vulnerability of the external sector and consequent balance-of-payments crises. The more open an economy (e.g., high foreign trade coefficients) the more easily will the economic vulnerability of the export sector affect the internal pattern of growth and development. Although the economic vulnerability of the export sector is not generally the subject of State/TNC negotiations, the degree of economic vulnerability is a contextual factor of critical importance in State/TNC negotiations over the nature and level of foreign participation in national development. Thus, an exporter enjoying a very favourable terms of trade relationship will have a much better bargaining position with interested transnational corporations than an exporter suffering from a very unfavourable terms of trade relationship. In sum, it is possible to measure with some degree of accuracy the nature and degree of economic vulnerability in the external sector and relate it in an impartial manner to the general bargaining position of a developing country. No doubt this notion could be of significant analytical utility for policy-makers responsible for the framing and carrying out of State/TNC negotiations.

The basic idea underlying the concept of the nature and degree of foreign participation in national development is that there are several relevant structural factors which directly affect the outcome of State/TNC negotiations and influence to a considerable extent the style

harsh terms (such as an interest rate of 2.25% over LIBOR) the Bolivian Government wished to improve its creditworthiness in the eyes of the TNBs.

of national development. The general premise is that the more direct the nature of foreign participation (e.g., direct foreign investment compared to technology transfer) and the greater the degree of foreign participation (e.g., the proportion of total exports or production accounted for by foreign enterprises), the weaker and more complicated will be the bargaining position of the host country. The principal State/TNC negotiations concern, *inter alia*, the terms of entry for direct foreign investment, the conditions (especially the use of State guarantees), for contracting external credits and the cost of the local utilization of foreign technology. For the most part, one does not see with clarity the results of these multifarious negotiations except in simplistic form, as manifest in the balance of payments, or in indicative form, as in new legislation dealing with these forms of foreign participation, or in very general form such as the data on the total amount of direct foreign investment, external public indebtedness, etc. Nevertheless, it should be evident that the more direct the nature and the higher the degree of foreign participation, the more complex and difficult will be any attempt on the part of the State to alter the existing *status quo* of foreign participation, given the plethora of commercial and financial relations based on the existing rules of the game. Obviously, for any government interested in reducing the explicit costs of the foreign participation in national development (e.g., profit, interest and royalty payments) and directing that foreign participation more clearly toward the priorities of the national plans, or otherwise increasing the net contribution of the foreign participants, a considered appreciation of the nature and degree of foreign participation and its relation to the host country's bargaining position are basic requirements for the latter's negotiators and policy-makers.

In this manner, it is possible to measure with some degree of accuracy various objective components of a given country's dependency situation for the purpose of better understanding the nature of its bargaining position with foreign participants, especially transnational corporations. Common measures such as the economic vulnerability of the external sector or the nature and degree of foreign participation

in national development can be viewed as essential aspects of that endeavour.

2. A less common measure: voluntary dependence stemming from internal contradictions of the State

The task of negotiating with foreign participants falls principally on the State (which consists of at least three dominant elements: the team of economic policy-makers associated with the régime in power, the bureaucracy and the principal public enterprises). It is quite possible that the State may weaken its own bargaining power in various ways which give greater influence to foreign participants than is warranted by existing conditions such as the economic vulnerability of the external sector or the degree of foreign participation in local development. A clear example is that of political instability; in these conditions a co-ordinated policy *vis-à-vis* foreign participation cannot be followed and therefore foreign participants enjoy an improved bargaining position. A less clear case would be one concerning internal contradictions within the State apparatus which create circumstances whereby the State is incapable of or decides not to make proper use of the improved bargaining position that it may enjoy due to other factors such as a reduced economic vulnerability of the external sector or a significant reduction in the nature or degree of foreign participation in national development. An example of this, which will be pertinent in the examination of the Bolivian experience, could be the case of the negative impact on dominant public enterprises caused by a given economic policy imposed by the team of economic policy-makers of a specific régime which weakens the bargaining position of those public enterprises and leads to economic and financial crisis in the public sector. However, in order to fully comprehend the essence of this kind of 'voluntary' dependency situation it is necessary to develop a suitable conceptual framework by which to understand the various roles of the State in national development, as well as elaborating a significant case study sufficient to demonstrate its relevance.

It is always a very difficult task to define

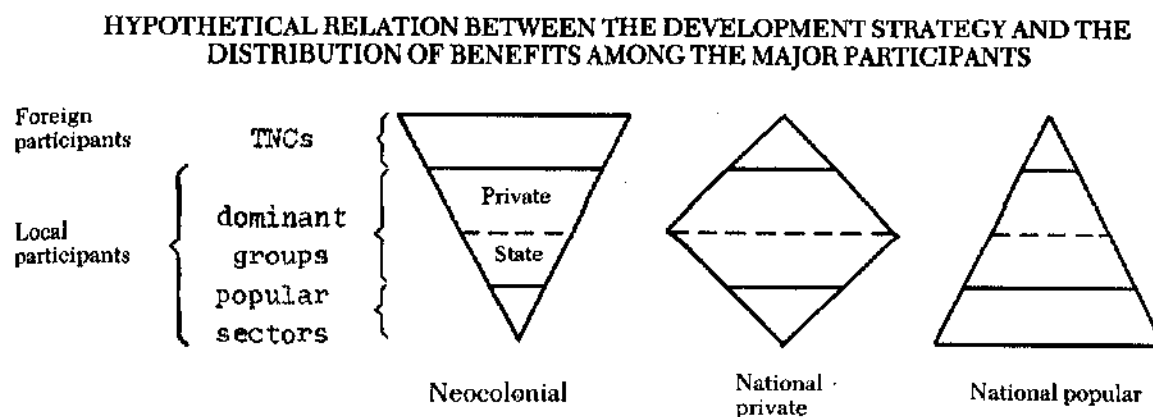
the various roles of the State, particularly in developing societies, and the significance of its economic policy in the context of the process of local development. The idea behind the concept of the 'role of the State' is generally so all-embracing and extensive as to include virtually any activity in any way associated with the State, from the political process itself to the provision of municipal services. In order to organize this amorphous mass into some kind of comprehensible framework it is necessary to simplify some of the conceptual mechanisms used.

Starting from the basis that any development strategy should in some way indicate the goals for the distribution of the benefits of national development, at least among the principal participants, it is possible to define at least three ideal-types which seem to have been basic to the developmental experience of the last 50 years. Figure 1 indicates these three simple strategies —neocolonial, national private and national popular— and the corresponding ideal distribution of benefits among the principal participants —transnational corporations, the local dominant sectors (private and public) and the popular sectors. These hypothetical ideal-type distributions of benefits associated with defined developmental strategies demonstrate a geometric simplicity which can be very useful for further understanding the distinct orientations of the State in the course of national development.

One can, without introducing economic determinism into the simplifying conceptual mechanism, consider the three ideal types to be successively prevalent orientations of development strategy which arise in the course of the development process. Viewed from this perspective, one notes that the proportion of benefits considered to correspond to foreign participants decreases and the share going to the popular sectors increases in the transition from one ideal-type strategy to another.

The part seen to relate to the local dominant sectors increases in the transition from the orientation to the national private one and declines in the shift from the national private to the national popular orientation of development strategy. The local dominant sectors can be thought of as consisting of two components

Figure 1



Source: Adapted from Petras, J., "New Perspectives on Imperialism and Social Classes in the Periphery", *Journal of Contemporary Asia*, Vol. V, No. 5, 1975.

—private dominant groups and the State— but the line dividing the internal distribution of benefits within this category must be understood in the context of local conditions and the specificities of the local development experience. Nonetheless, as a general rule it is reasonable to assume that the private dominant groups would predominate in the neocolonial orientation and the State would predominate under the national popular orientation. In similar fashion, these two components may be considered to be roughly equal with regard to benefits for the purposes of the general case of the national private orientation. Thus, this simplifying conceptual mechanism allows three principal points of reference to be proposed in respect of the distributional consequences of development strategy.

The neocolonial orientation of development strategy has little relevance to contemporary Latin American development experiences, but the other two ideal type orientations continue to have much significance for the region and capture certain fundamental aspects of the roles of the State in the development process.

For example, a national private orientation of development strategy suggests that the State is associated with and subordinate to the political leadership of the private dominant groups. The political project presented by those private dominant groups includes, in greater or lesser degree, some kind of association with foreign

participants. The principal general economic tasks which would fall upon the State probably would consist of promoting private enterprise (local and foreign) and resisting or dissuading any increase in popular sector participation in the distribution of the benefits of development. Although one would expect the State to enact certain controls over foreign participation, especially where tensions develop between local and foreign participants, those controls generally can be considered subordinate to the promotional task given to the State. For the most part, the State/TNC negotiations would consist of the State establishing general guidelines, in keeping with the priorities of the national plans, for increased foreign participation.

The example of the national popular orientation of development strategy suggests other priorities for the State, which in this case often assumes a significant degree of political leadership based on popular electoral support, while public enterprise becomes the focus of its policy. With the expansion of the entrepreneurial role of the State, the tensions with foreign participants rise and become considerably more complicated. State controls over the nature and degree of foreign participation become more severe and the State/TNC negotiations generally involve the direct relations between these two major participants.

The simplifying conceptual mechanism thus offers certain fundamental insights into the role of the State in the process of develop-

ment, particularly in respect of the State/TNCs negotiations and the general nature of foreign participation in national development. Oszlak, in a recent article,² has identified three essential roles of the State which contribute to this discussion and which he distinguishes in accordance to the principal interests served by the State apparatus. The 'mediatory' role of the State relates to the activities of the State destined to satisfy the interests of the dominant economic groups. The 'infrastructural' role consists of the activities in which the State operates in the common interest of society. The 'sectoral' role of the State comprises those functions and actions which serve its own interests as a sector apart from the others. This is no doubt a very simplified conceptual construct with labels which strike the reader as perhaps inappropriate, nevertheless, it does capture certain basic realities of the various roles of the State in developing societies.

Relating these separate roles of the State to the simplifying conceptual mechanism dealing with the distributional consequences of the neocolonial, national private and national popular orientations of developmental strategy provides us with the raw materials needed to serve as the framework for an improved understanding of the role of the State in the context of different orientations of developmental strategy.

For a régime following a neocolonial orientation of developmental strategy, the principal role of the State would be the mediatory one in the interests of the dominant foreign and local participants. Historically, countries employing this orientation have very underdeveloped State apparatus, particularly in respect of the entrepreneurial functions carried out by public enterprises, so that the sectoral role of the State is not at all important. Given the very unequal participation in the benefits of local development, the infrastructural role is not at all pronounced either. On the other hand, a régime employing a national private orientation usually expects that the growing role of the

State in local society will continue to focus on serving the dominant local interests (and to a much lesser extent foreign ones) via its mediatory role. While this is generally the case, one notes however that the infrastructural and sectoral roles of the State increase *considerably* in keeping with the level of development of the country and especially in relation to the local process of industrialization. Thus, in the national private orientation the principal role of the State continues to be the mediatory one (although it is much reduced from the previous case of a neocolonial orientation), even though the infrastructural and sectoral roles have been considerably increased. Finally, in a régime which implements a national popular orientation of development strategy, the sectoral and infrastructural roles of the State are seen as more important than the mediatory one, although the latter is never completely forgotten. The relative importance of the sectoral and infrastructural roles will depend on the particular features of the State apparatus (especially the size and nature of the dominant public enterprises). In this simplified fashion, one can develop a conceptual framework by which to understand the dominant features of the role of the State in national development and the national environment for the State/TNC negotiations in the context of the specific and changing dependency situations of individual countries.

Returning to the discussion of the various measures of the concept of external dependence, it is necessary to explain the significance of the concept of voluntary dependence which results from certain internal contradictions of the State. For the most part, this type of dependency situation seems to result from a *return* to an extreme form of national private orientation of development strategy following a period in which the national popular orientation was predominant. For that reason, the State apparatus is usually quite extensive and the sectoral and infrastructural roles of the State well developed so that it is very difficult to implant the mediatory role desired by the new team of economic policy-makers in a bureaucracy and in public enterprises accustomed to relatively greater decision-making autonomy, serving broader interests and, last but not least, receiving a greater share of the bene-

²Oszlak, O., "Critical approaches to the study of the State bureaucracy: a Latin American perspective", *International Social Science Journal* (UNESCO), Vol. XXXI, No. 4, 1979.

fits of local development. In these terms, one can identify internal contradictions in the State concerning the conflicting roles played by the various components of the State apparatus. As well as having a rather negative impact on the general well-being of the local economy, these internal contradictions, in extreme cases, can produce situations in which the dominant component of the State—the team of economic policy-makers of the new régime—find that they have more in common with foreign participants in respect of the national private orientation of development policy than they have with the rest of the State apparatus (particularly the principal public enterprises). The closer association of the team of economic policy-makers with foreign participants, which usually entails an easing of controls and restrictions on foreign participation, can lead to the State *voluntarily*

ceding influence to foreign participants above and beyond what would normally result from other conditions such as economic vulnerability of the external sector or the existing nature and degree of foreign participation in local development. In sum, the State *purposefully* restricts the implementation of its available bargaining strength in negotiations with TNCs in order to cement the new association with foreign participants and the particular benefits which that brings to the private dominant groups defining the project. In this sense, the new dependency situation can be very convenient for the dominant private participants, but as will become apparent in the Bolivian case study, in extreme circumstances it can easily result in profound economic and financial crisis for the local economy.

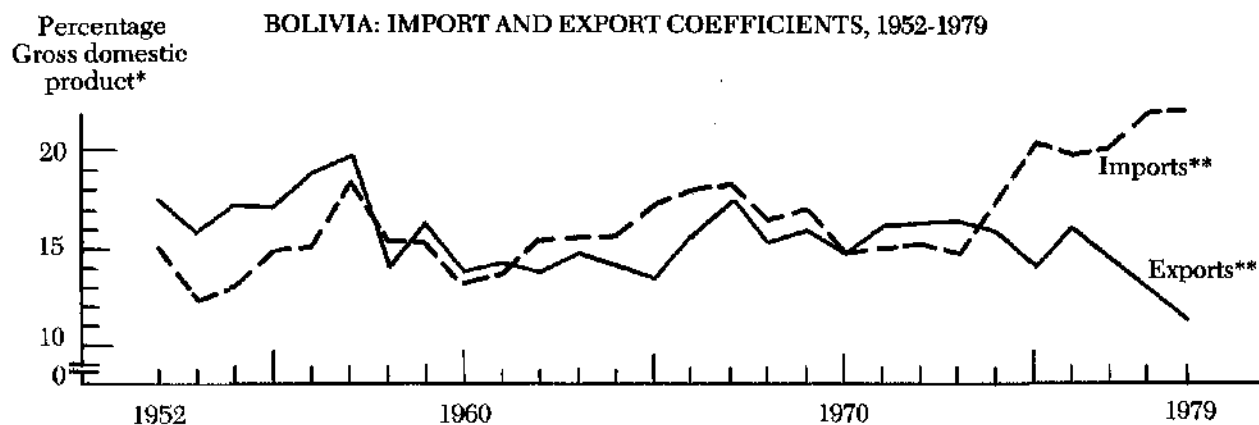
III

An overview of external dependence in Bolivia, 1952-1979

Generally the Bolivian economy can be thought of as a very open one in the context of Latin America and it has demonstrated a tendency towards higher foreign trade coefficients in the recent period. For the most part, the foreign trade coefficients have been in the 30-

34% range in the 1952-1979 period, with the exception of the 1960-1964 period of extreme economic vulnerability (below 30%) and the 1974-1978 period of exaggerated imports (above 34%). Figure 2 demonstrates the change in export and import coefficients over the 1952-

Figure 2



Source: CEPAL, on the basis of official information.

Note: Calculated on the basis of constant values (millions of 1970 US dollars).

*At market prices.

**Goods and services.

1979 period in general and captures admirably the exaggerated importation which occurred in the period following 1974.³

The export experience of Bolivia is indicated in figure 3. This experience appears to consist of three separate phases: extreme economic vulnerability (1952-1964); exceptional growth and diversification (1965-1976); and decline (1977-1979). During the phase of extreme economic vulnerability of the export sector the country was a typical mono-product exporter (minerals in general and tin in particular) operating in a very imperfect market. Thus, when that market weakened after the

Korean War and tin and other mineral prices declined sharply, the economic vulnerability of the export sector quickly affected the balance-of-payments position of the country and rapidly spread to internal economic activity. The export sector remained in a state of depression for more than a decade and this was reflected in the erratic pattern of internal growth, in which the 1952 value of the gross domestic product, in constant terms, was not surpassed until 1962. In effect, as is suggested in table 4, Bolivia was buffeted by extremely unfavourable terms of trade until at least 1965.

Table 4

BOLIVIA: TERMS OF TRADE, FIVE-YEAR AVERAGES, 1952-1979
(1970 = 100)

	Periods					
	1952-54	1955-59	1960-64	1965-69	1970-74	1975-79
Average	55.7	64.3	66.8	91.9	97.9	120.7

Source: CEPAL, on the basis of official information.

These data also clearly show that after 1965 the Bolivian export sector enjoyed substantial and sustained growth based on the recovery of the markets for tin and other minerals and the diversification of exports by way of new and expanded exports of crude petroleum, natural gas and agro-industrial items. To all intents and purposes, economic vulnerability of the export sector disappeared as a constituent of the Bolivia dependency situation and as an unfavourable influence on the bargaining position of the State, particularly after 1975 when the country enjoyed an especially favourable terms of trade situation.

The nature and degree of foreign participation in Bolivia between 1952 and 1979 played an important part in the dependency situations

in which Bolivia was placed. It should be mentioned that for the most part these situations were of what has become known as classic dependency, that is, extensive foreign influence in the export nexus between the local economy and the international market, and not the high degree of foreign participation via direct foreign investment in the local process of industrialization which typifies what has become known as 'dependent development'. It should be noted, however, that the financial dependency that characterized the Bolivian economy in the later 1970s is often considered to be more clearly related to the dependent development variant than that of classic dependency. These distinctions will become more evident with further elaboration of the Bolivian case study, particularly examination of the 1974-1978 experience.

Viewed from the balance-of-payments perspective, that is, the net inflows of foreign capital, table 5 summarizes that aspect of foreign participation in local development over

³The increase in the import and export coefficients during the period 1953-1957 was partly the result of the relative decline of the real value of the gross domestic product.

Figure 3

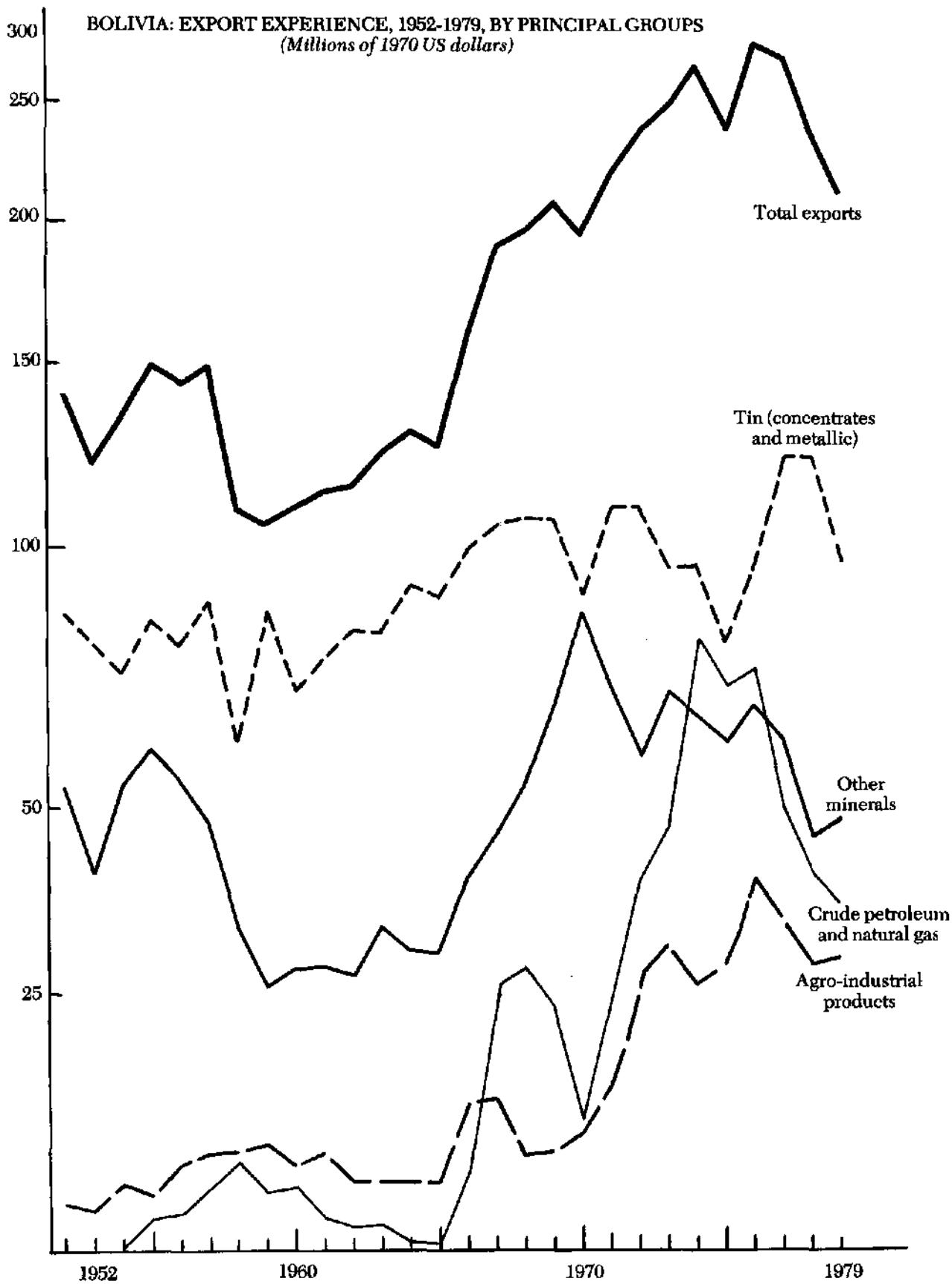


Table 5

BOLIVIA: NET INFLOWS OF FOREIGN CAPITAL, 1952-1978, BY FIVE-YEAR PERIODS
(Annual averages in millions of 1970 US dollars and percentages)

Category	1952-54	1955-59	1960-64	1965-69	1970-74	1975-78
Donations	6.9	31.1	25.8	14.2	8.7	8.4
Direct foreign investment (DFI)	11.2	11.5	13.4	-3.7	-20.9	12.0
External loans	-3.8	5.2	13.5	27.3	53.7	65.1
<i>Total</i>	<i>14.3</i>	<i>47.8</i>	<i>52.7</i>	<i>37.8</i>	<i>41.5</i>	<i>85.5</i>
DFI + loans as % of exports	5.3	12.1	21.0	12.5	11.8	27.3

Source: CEPAL, on the basis of information supplied by the International Monetary Fund.

the 1952-1979 period. Measured in these terms, it is clear that the nature of foreign participation has changed significantly over the more recent period and there have been two periods—1960-1964 and 1975-1978—in which the degree of foreign participation has been notably high.

During the phase of extreme economic vulnerability of the external sector, 1952-1964, foreign participation came mainly in the form of official donations: the least costly form of foreign participation in terms of the explicit costs involved. Direct foreign investment was a significant, if subordinate in magnitude, element of the foreign participation during this phase. In the period which followed, official donations declined sharply and there was pronounced disinvestment by foreign participants,⁴ so that foreign loans became by far the most important form of foreign participation in Bolivian development. That form of participation, however, implied certain explicit costs in respect of commissions, amortization and interest payments. In summary terms, it might be suggested that the increased foreign participation (via official donations) of the 1955-1964 period was a result of the extreme economic vulnerability of the external sector, whereas that of the 1975-1978 period (via external loans)

stemmed from the local proclivity to import to an extent far beyond the parameters of export earnings. The first form of pronounced foreign participation was relatively costless in financial terms (although it did provide a high degree of foreign influence in the local export sector for the principal donor country) whereas the second category of participation carried rather onerous costs in the form of commissions, amortization and interest payments.

Turning to the role of the State in Bolivian development, which, as already noted, is a necessary antecedent for the examination of what has been called "voluntary dependency" resulting from the internal contradictions of the State, it may be said that the Bolivian case is not at all simple in the sense that there were continuous and constant trends in the orientation of development strategy. Rather, the Bolivian case is one of leaps, reverses and vicissitudes. Nevertheless, in the context of this overview of the subject, it may be suggested that the Bolivian experience has consisted of the following phases: the prerevolutionary period before 1952, which displayed a neocolonial orientation; the 1952-1964 period, which witnessed a jump to a defined national popular orientation; the 1965-1973 period, which was characterized by transition and uncertainty manifest in various changes in orientation of a national private and national popular nature, none of which were very well-defined; the 1974-1978 period, when a well-defined orientation of the national private variety was implemented; and the post-1978 period, in which transition and uncertain-

⁴The figures for direct foreign investment during the 1965-1974 period reflect mainly the profit remittances of the foreign petroleum enterprise, Bolivian Gulf Co., its subsequent nationalization in 1969 and disinvestment of the mining enterprise, Mina Matilde, in 1971.

ty have again come to characterize the orientation of development strategy.

Before the Bolivian revolution which began in 1952 the orientation of development strategy may be thought of as a form of the neocolonial perspective, due to the fact that a small group of large and nominally Bolivian mining enterprises linked closely to the local landholding oligarchy monopolized the benefits deriving from Bolivian development. The particular case of Simón Patiño is illustrative because from that basis he created what is today a fully-fledged transnational corporation.⁵ The mediatory role was almost the only one undertaken by the State, although there were weak efforts to promote the infrastructural role of physically integrating the country, primarily on the basis of development assistance from the United States. The excesses of the mediatory role implemented by the State in the hands of the mining companies and local oligarchs undoubtedly account for the revolutionary initiatives which took place in the early 1950s.

The revolution brought with it a leap from the neocolonial to the national popular orientation of development strategy, based on co-government by the National Revolutionary Movement party and the Bolivian Workers' Central. The new orientation was manifest in the nationalization of the large mining companies, large-scale agrarian reform, the widening of popular political participation by way of universal suffrage and the institutionalization of the State and its public investment as the basic impulse for national development. With the obliteration of the power bases of the previous local dominant private groups, the dominant roles of the State became the infrastructural and sectoral ones. However, the revolutionary chaos and the extreme economic vulnerability of the external sector soon brought this political project to the edge of economic and financial bankruptcy, and the Immediate Economic Policy Plan of the Government of the National Revolution issued in 1955 became, in essence, an appeal to the

United States Government for emergency and continuing economic assistance.⁶ The ample literature on the subject has demonstrated that although this assistance was relatively costless in financial terms, the foreign influence that it permitted caused a split between the two partners of the revolutionary government and the orientation of development strategy deviated in the national private direction.⁷ This was demonstrated, *inter alia*, by the opening up of the petroleum sector to transnational petroleum corporations, the orientation of the stabilization programme of the International Monetary Fund implemented in 1957-1958 and the new foreign influence introduced into the nationalized mining sector by way of the Triangular Plan. In the meantime, the fiscal deficit of the public sector was being met through external official donations. Table 6 suggests that to the extent that the revolutionary government eased up on its propensity to Statism in the distribution of internal credit, it was able to obtain external resources for investment purposes. Nevertheless, this experience with the national popular orientation of development strategy resulted in tremendous growth and expansion of the public sector (estimated in 1961 to account for 45% of the national GDP⁸ and the establishment of State infrastructural and sectoral roles much in advance of the local process of industrialization, in spite of the foreign influence which accompanied the extreme economic vulnerability of the external sector during this period.

The following period, 1965-1973, consisted of various opposed changes or zigzags in the orientation of development strategy, none of which can be considered *both* clearly defined and effective. This period is best characterized as one of transition and uncertainty made up of a kind of national private orienta-

⁵See Guevara Arze, W., *Plan de Política Económica de la Revolución Nacional*, Ministerio de Relaciones Exteriores y Culto, La Paz, 1955.

⁷For example, Malloy, J. M. and R. S. Thorn (eds.), *Beyond revolution: Bolivia since 1952*, University of Pittsburgh Press, 1971; Arze Cuadros, E., *La economía boliviana: ordenamiento territorial y dominación externa, 1492-1979*, Ed. Los Amigos del Libro, La Paz, 1979, chapter XV.

⁸Plan General de Desarrollo, *Planeamiento*, 3-5, La Paz, September 1961, introductory letter of Vicepresident Juan Lechín Oquendo.

⁵See Arce, R., "Influencia de las empresas transnacionales en la minería del estaño: el caso boliviano", CEPAL/CTC, working paper No. 4, July 1977, pp. 21-28.

tion during 1965-1969, a pronounced but ineffective national popular orientation, 1969-1971, and once again a sort of national private orientation implemented during the crisis years 1972-1973. Again, table 6 shows basic aspects of these changes of orientation, as reflected by the sectoral placing of internal credit and the source of gross domestic investment. In many ways, the about-faces which took place represented reactions to the previous orientations. It should be emphasized, however, that the national popular orientation of the 1969-1971 period resulted in the nationalization of the largest foreign enterprise in Bolivia—Bolivian Gulf Co.—which gave the State almost complete control over the local export sector (in association with the nationalized mining sector). Thus, although the populist project contained in the strategy defined⁹ during this period never came to be, the public sector experienced a noteworthy expansion, again above and beyond the requirements of the local process of industrialization. Furthermore, the transition from this national popular orientation to the national private one which followed was particularly violent and characterized by economic and social dislocation which required quite a strong stabilization programme to establish order. The new national private orientation was evident in the reopening of the petroleum sector to private participation (this time, however, via contracts of association between the State petroleum company and foreign petroleum enterprises) and the new investment law which promoted private (local and foreign) enterprise. In other words, the 1965-1973 period was one of political instability in which the orientation of development strategy underwent continual and opposed changes. Concomitantly, the various roles of the State went from one extreme to the other without clear or effective definition, and following the nationalization of the largest foreign enterprise in the country, foreign participation in Bolivia (except with regard to the financing of the nationalization) demonstrated a tendency towards decline. By and large, this period was one of transition and uncertainty.

⁹Ministerio de Planificación y Coordinación, *Estrategia socio-económica del desarrollo nacional, 1971-1979*, La Paz, 1970.

The 1974-1978 period witnessed the clear and definite implementation of a national private orientation of development strategy which heavily favoured the private sector and its dominant interests. In the context of a volume of internal credit which doubled in real terms during this period, over three quarters of that credit was placed with the private sector. Furthermore, in spite of the fact that the country was enjoying an export boom of unprecedented proportions, a rapidly increasing proportion of the resources destined for domestic investment came from external sources, reaching 42% in 1978 (see table 6). As a consequence of this increased foreign participation, based on external loans, the external public debt of Bolivia shot up dramatically, doubling in real terms between 1974 and 1978, as shown in table 7. Nevertheless, in spite of this clear orientation of development strategy and the volume of resources available in the context of the export boom and the increase in foreign participation in local development, the economic situation of the State and, increasingly, the economy, was one of deepening crisis, as is suggested by the data in table 8. The fiscal deficit of the State and more generally the deteriorating state of public finances aptly bring out the principal factor in the voluntary dependency situation which led to the undoing of the Bolivian economy: public investment for private profit. However, in order to understand in greater detail this particular dependency situation, it is necessary to focus more closely on the specific internal contradictions of the State, which accompanied the national private orientation of development strategy during the 1974-1978 period.

Before turning to that task it should be mentioned that since 1978 there has been a worsening of the crisis born of the 1974-1978 period. Again, transition and uncertainty are dominant elements of public policy, most notably in relation to the renegotiation of the external public debt. The indications are, as was suggested by the quotation from the *Institutional Investor*, that the dependency situation in respect of the transnational banks is such that the Bolivian authorities will have to accept virtually any terms offered to them.¹⁰

¹⁰See footnote 1.

Table 6

**BOLIVIA: SECTORAL DISTRIBUTION OF INTERNAL CREDIT AND SOURCE OF
FINANCING OF GROSS DOMESTIC INVESTMENT, 1952-1979**
(Millions of 1970 pesos and percentages)

Year	Internal credit				Gross domestic investment			
	Current values	Constant values ^a	Sector (%)		Current values	Constant values ^a	Source (%)	
			Public	Private			Internal	External
1952	10	714.3	65	35	18	1 285.7	94	6
1953	20	408.2	65	35	34	693.9	79	21
1954	28	297.9	61	39	88	936.2	99	1
1955	62	301.0	74	26	318	1 543.6	99	1
1956	327	819.5	90	10	551	1 380.9	99	1
1957	406	955.3	85	15	558	1 312.9	93	7
1958	537	1 100.4	87	13	565	1 157.8	78	22
1959	632	1 134.6	88	12	477	856.4	83	17
1960	721	1 151.7	89	11	675	1 078.3	76	24
1961	803	1 216.7	86	14	546	827.3	82	18
1962	858	1 243.5	83	17	876	1 269.6	75	25
1963	934	1 338.1	79	21	909	1 302.3	76	24
1964	1 014	1 350.2	75	25	1 009	1 343.5	105	-5
1965	1 161	1 488.5	74	26	1 218	1 561.5	79	21
1966	1 340	1 660.5	71	29	1 291	1 599.8	81	19
1967	1 538	1 792.5	72	28	1 284	1 496.5	68	32
1968	1 685	1 855.7	66	34	1 836	2 022.0	66	34
1969	1 765	1 873.7	64	36	1 714	1 819.5	64	36
1970	2 071	2 071.0	63	37	2 111	2 111.0	88	12
1971	2 510	2 408.8	61	39	2 302	2 210.2	80	20
1972	3 219	2 567.0	58	42	3 364	2 682.6	82	18
1973	4 223	2 368.5	46	54	5 311	2 978.7	92	8
1974	4 118	1 462.4	11	89	7 026	2 495.0	133	-33
1975	5 702	1 885.0	23	77	11 801	3 901.2	73	27
1976	8 233	2 488.8	26	74	11 861	3 585.6	83	17
1977	11 188	3 027.9	21	79	13 523	3 659.8	77	23
1978	15 135	3 498.6	26	74	18 505 ^b	4 277.6	58	42
1979	21 274	3 953.5	37	63	21 683 ^c	4 029.5	50	50

Source: International Monetary Fund, *International Financial Statistics*, 1980; Central Bank of Bolivia, *Cuentas Nacionales, 1970-1977*.

^aUsing implicit deflator for GDP.

^bPreliminary figures.

^cEstimate.

Table 7

BOLIVIA: PUBLIC EXTERNAL DEBT AND ITS SERVICING, 1974-1979
(Millions of 1970 US dollars and percentages)^a

Year	Private sources ^b	Official sources ^c	Total	Debt service (% exports)
1974	219	404	623	11
1975	267	504	771	15
1976	385	581	967	16
1977	472	662	1 134	21
1978	508	745	1 253	49
1979	509	787	1 292	30 ^d

Source: Inter-American Development Bank, *External Public Debt of the Latin American Countries*, Washington, D.C., July, 1980, and information supplied by the World Bank.

^aDeflated by the wholesale price index of the USA.

^bMainly transnational banks and suppliers.

^cBilateral and multilateral loans.

^dBased on payments made, amortization payments overdue.

Table 8

BOLIVIA: THE DEFICIT OF THE FISCAL SECTOR, 1974-1979
(Millions of 1970 pesos and percentages)

Year	Fiscal deficit	Deficit		
		GDP	Exports	Fiscal receipts
1974	161.6	1.0	5.2	9.0
1975	233.6	1.4	8.1	12.4
1976	422.9	2.4	12.9	20.4
1977	896.5	5.0	29.0	43.4
1978	693.9	3.8	23.9	35.2
1979	1 244.2	6.5	43.9	81.1

Source: Central Bank of Bolivia, *Cuentas Nacionales, 1970-1977*, and *Boletín Estadístico*, No. 237.

IV

A short examination of the internal contradictions of the State which derive from the national private orientation, 1974-1978

1. *The general situation*

One of the anomalies of the experience with the national private orientation during the 1974-1978 period is that the financial crisis in the public sector came hard on the heels of the most notable export boom in modern Bolivian history, despite the fact that the State exercised almost complete direct control over the major export items (mineral concentrates and metals, and crude petroleum and natural gas) through the main public enterprises COMIBOL, ENAF and YPFB. Table 9 demonstrates that during the 1974-1978 period, public sector fiscal income was to a very high degree (57-69% of total fiscal receipts) generated by the external sector, particularly the export sector. How then, should one interpret the resulting crisis which coincided with the vastly increased economic potential of the State?

Without doubt, one important factor involved was the false expectations generated by the export boom. Evidently, the team of decision-makers associated with the central government believed that the export boom provided a self-sustaining basis for contracting external loans, as did the transnational banks, which provided the major part of that external financing. It seems, however, that the latter were quicker to spot the artificial basis of the country's economic policy, that is, they realized that the export boom was mostly based on a favourable price effect that simultaneously affected most Bolivian export items. Indeed, the physical volume of most export items did not increase, and several even experienced a decline, especially after 1977. Thus, one could conclude that the increase in external financing was based on a false export perspective and that, when those expectations did not develop, the export earnings received were not enough to sustain the dimension of external public indebtedness already contracted. However, as

will be explained later, the decline in Bolivian export performance was *not*, in fact, primarily a result of bad luck, it was largely a direct consequence of the general economic policy followed during this period.

On the one hand, the decline in the real value of export earnings can be associated with the level to which the Bolivian peso was overvalued. Table 10 makes a rough estimate of the extent of that overvaluation—between 25 and 37% during the 1974-1978 period—using the 68% devaluation in 1972 as the basis for parity. Undoubtedly, the overvaluation of the peso served as a consequential disincentive for local exports, most of which were generated by the local public sector. Moreover, the ability to maintain the exchange rate in that state of overvaluation resulted in good part from the level of net receipts from external financing, and because of a reduction in that external financing there was a 25% devaluation of the peso in November 1979.

On the other hand, the team of economic policy-makers followed an explicit policy of financial drainage of the dominant public enterprises. Table 11 illustrates this aspect of local economic policy. In essence, the export boom was channelled *through* the dominant public enterprises to the National Treasury (where the lion's share was further directed to the private sector). Furthermore, the rate of taxation of these public enterprises exceeded their rate of return from export activities, as measured by the indices of table 11. Obviously, this degree of financial drainage of the principal export enterprises explains a significant part of the poor export performance which resulted.

Finally, because of this financial drainage and the placing of about three-quarters of all internal credit in the private sector, the major public enterprises were forced to rely on exter-

Table 9

**BOLIVIA: RELATION BETWEEN THE FISCAL RECEIPTS OF THE CENTRAL GOVERNMENT^a
AND THE EXTERNAL SECTOR, 1964-1979**
(Millions of 1970 pesos and percentages)

Year	Current values	Constant values	Percentage distribution in external sector						Total	
			Customs	Royalties ^b		Tax on exports	External sector	Internal taxation		All others
				Mining	Petroleum					
1964	511.3	680.8	(53.5)	-	-	-	53.5	42.8	3.7	100
1965	613.0	785.9	(56.0)	(0.2)	-	-	56.2	41.3	2.6	100
1966	723.5	896.5	(47.4)	(6.5)	-	-	53.9	43.0	3.1	100
1967	771.8	899.5	(51.0)	(0.9)	-	-	51.9	45.2	2.8	100
1968	836.9	921.7	(41.7)	(4.0)	(6.2)	-	51.9	44.7	3.5	100
1969	871.4	925.1	(41.5)	(7.1)	(1.1)	-	49.7	47.8	2.4	100
1970	1 070.4	1 070.4	(39.1)	(16.3)	-	-	55.4	41.0	3.7	100
1971	1 093.1	1 049.0	(34.6)	(4.2)	(3.3)	-	42.1	50.4	7.4	100
1972	1 330.1	1 060.7	(31.4)	(3.2)	(4.4)	(10.5)	49.5	45.2	5.2	100
1973	2 460.5	1 385.0	(21.0)	(7.7)	(11.3)	(18.3)	58.3	36.7	5.1	100
1974	5 069.7	1 800.3	(18.7)	(17.9)	(17.4)	(15.8)	69.7	25.6	4.6	100
1975	5 688.8	1 880.6	(27.2)	(8.4)	(14.4)	(10.9)	60.9	30.3	8.7	100
1976	6 840.9	2 068.0	(21.2)	(12.5)	(18.6)	(8.6)	60.9	34.1	4.9	100
1977	7 641.2	2 068.0	(22.2)	(16.5)	(12.0)	(7.0)	57.7	36.0	6.4	100
1978	8 540.1	1 974.1	(22.9)	(18.1)	(10.8)	(5.5)	57.3	37.1	5.6	100
1979	8 255.0	1 534.1	(25.0)	(16.1)	(0.6)	(9.8)	51.5	42.7	5.8	100

Source: Central Bank of Bolivia, *Boletín Estadístico*, various numbers.

^aMeasured by the current receipts of the National Treasury.

^bApplied to mainly export activities.

Table 10

BOLIVIA: APPARENT PURCHASING POWER OF THE PESO, 1973-1979
(1973 = 100)

Year	(1)	(2)	(3)		(4)	(5)	(6)
	Pesos per dollar	Exchange rate index	Comparative inflation indices		Parity index	(5)	(2)
			Bolivia ^a	USA ^b			
1973	20.00	100	100	100	100	100	100
1974	20.00	100	157.9	118.9	132.8	75.3	
1975	20.00	100	169.2	129.9	130.3	76.7	
1976	20.00	100	184.5	135.8	135.9	73.6	
1977	20.00	100	209.8	144.2	145.5	68.7	
1978	20.00	100	231.4	155.5	148.8	67.2	
1979	20.86	104.3	277.0	174.9	158.4	65.8	

Source: CEPAL, on the basis of IMF data.

^aUsing implicit GDP deflator.

^bWholesale prices.

Table 11

**BOLIVIA: TAX AND ROYALTY PAYMENTS TO THE NATIONAL TREASURY BY THE
PRINCIPAL EXPORTING PUBLIC ENTERPRISES AND COMPARISON WITH
THE EXPORT EXPERIENCE, 1971-1978**
(Millions of 1970 pesos, percentages and indices)

Year	Tax and royalty payments			Percentage of fiscal receipts of Treasury
	COMIBOL- ENAF	YPFB	Total	
1971-1973 ^a	110.8	109.5	220.3	18.9
1974	307.2	425.6	723.8	40.7
1975	171.2	356.8	528.0	28.1
1976	248.1	467.7	715.0	34.6
1977	317.4	291.7	609.1	29.5
1978	329.7	235.8	565.5	28.6

Source: Calculated on the basis of information from the Dirección General del Presupuesto of the central government.

Note: Excludes royalty payments to regional authorities and taxes on local sales.

^aAnnual average.

nal financing for their investment programmes. Table 12 shows how the main public enterprises in the productive sector became dependent on external financing, almost all of it from transnational banks. The figures for total credit to public enterprises in the productive sector are almost identical with those for total external financing from transnational banks. Furthermore, although these public enterprises received only 38% of the total net receipts from external financing during the 1974-1978 period, they were the recipients of over 68% of loans from the transnational banks. In other words, 'productive' public investment was, to a very significant degree, financed by foreign participants, namely the transnational banks. In the context of national economic policy, which militated against the continued solvency of these productive public enterprises, particularly the major exporters, a decision by transnational banks not to refinance the growing public external debt of these enterprises meant the collapse of most public investment programmes in the productive sector,¹¹ and in an economy like that of Bolivia, where

¹¹The effect of the external financing, by transnational banks, of public investment in the services and other sectors will not be dealt with in this article. This aspect will, however, receive explicit treatment in the larger document currently in preparation.

the public sector is such an important part of local economic activity and is almost the sole major exporter, the collapse of the programme of public investment signals oncoming crisis.

Until this state of affairs went to such an extreme that it called into question the solvency of the public enterprises in particular, and the economy as a whole, this form of voluntary dependency was quite *convenient* for all the main participants. The State completed its mediatory role in relation to the dominant private groups and the foreign participants by channelling the gains from the export boom to private groups (local and foreign). The transnational banks, in an epoch of surplus funds associated with the recycling of petrodollars, were happy to make loans to the major public enterprises on the basis of a guarantee from the central government. Furthermore, the rates of interest charged, not to mention the fat commissions, made for very good business. The local dominant private groups enjoyed unheard-of levels of internal credit and had plentiful foreign currency available to satisfy their desires to import. Last, but by no means least, the State enterprises were able to advance their infrastructural and sectoral roles, *in the short term*, on the basis of external financing. In the beginning, then, the new system of public investment for private profit associated with the clearly defined

national private orientation of development strategy applied in the period 1974-1978 seemed to work well in spite of the fact that it created a kind of voluntary dependence on the transnational banks.

Unfortunately, the new system was pushed to an extreme and the internal contradictions of the State laid the basis for its subsequent collapse. First, a significant element of the local dominant private groups took unfair advantage of the new focus of public policy. Increasingly, internal credit in the private sector was directed to non-productive ends and the accelerated importation came to reflect conspicuous consumption. Figure 4 shows that private investment in fixed assets declined

steeply after 1975. It was public investment which fuelled the economy thereafter. In this way, the private sector registered its lack of confidence in the prevailing economic scheme. Cases of misuse of public credit by the private sector, such as that of the loans of the Agricultural Bank to the cotton growers of the Santa Cruz region, became common. Furthermore, the flight of capital (reaching US\$ 33 million in 1977 in constant 1970 values) reflected the lack of faith of the private sector in this particular national private orientation of development strategy. In short, the private sector declined the opportunity of becoming the motor of Bolivian development. Second, the effect of the national economic policy on the dominant

Table 12

**BOLIVIA: NET INFLOW OF EXTERNAL FINANCING^a BY RECIPIENTS, 1974-1978;
OVERALL TOTAL AND TOTAL FROM TRANSNATIONAL BANKS**
(Millions of 1970 US dollars and percentages)^b

Recipient	1974	1975	1976	1977	1978	Total	Percentage
I. Overall total:							
all sources							
Central government	15.2	8.2	25.9	31.8	18.2	99.3	22.2
Local government	-	0.2	6.2	11.7	15.7	33.8	7.6
COMIBOL	6.0	4.9	13.6	14.0	-9.0	29.5	6.6
ENAF	3.7	2.0	9.0	15.0	1.9	31.6	7.1
YPFB	-14.3	-10.9	19.4	39.3	0.7	34.2	7.1
CBF	-0.8	8.6	-0.8	-2.1	17.9	22.8	5.1
Specialized banks	15.9	16.0	11.0	7.1	3.6	53.6	11.9
Subtotal PEPS ^c	(10.5)	(20.6)	(52.2)	(73.3)	(15.1)	(171.7)	(38.3)
All others	7.7	29.1	28.3	34.2	44.3	142.6	31.9
Total	33.2	57.4	112.5	151.0	93.5	447.6	100
II. Total: transnational banks							
Central government	0.2	4.9	1.4	6.4	-1.7	11.2	4.1
Local government	0.1	-0.4	-0.6	8.8	11.0	18.9	6.9
COMIBOL	4.0	2.0	12.7	12.9	-8.2	23.4	8.5
ENAF	1.5	...	5.6	5.2	-	12.3	4.5
YPFB	-1.1	2.2	22.7	47.0	7.5	78.3	28.5
CBF	1.7	2.2	0.3	0.6	19.1	23.9	8.7
Specialized banks	13.8	15.7	11.5	6.4	1.8	49.2	17.9
Subtotal PEPS ^c	(19.9)	(22.1)	(52.8)	(72.1)	(20.2)	(187.1)	(68.1)
All others	3.4	12.4	18.7	10.4	12.9	57.8	21.0
Total	23.7	38.9	72.3	97.7	42.3	274.9	100.0

Source: Calculated from official information provided by the Central Bank of Bolivia.

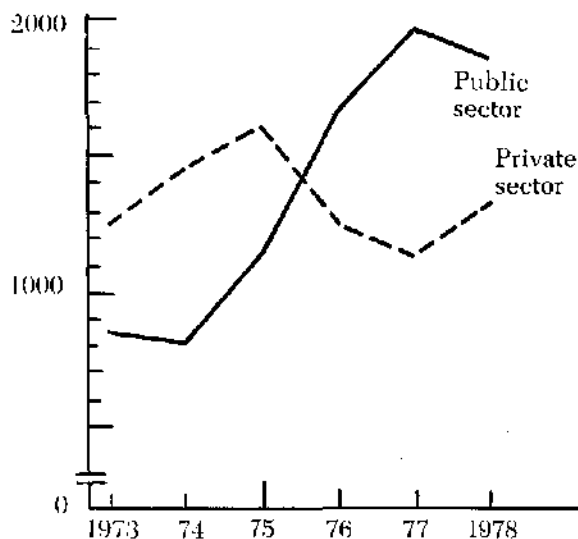
Note: These figures have been adjusted to distribute to the corresponding public enterprises the credits contracted on their part by the central government. Only the largest loans (US\$ 155.0, 37.0, 25.0, 13.5 and 10.0 millions), which add up to US\$ 240.5 millions, were distributed in this manner.

^aWith guarantee of State.

^bDeflated by wholesale price index of USA.

^cPEPS: Public enterprises of productive sector.

Figure 4
BOLIVIA: DOMESTIC INVESTMENT
IN FIXED ASSETS, BY SECTOR,
1973-1978
(Millions of 1970 pesos)



Source: Banco Central de Bolivia, *Cuentas Nacionales, 1970-1977*, La Paz, 1980.

public enterprises soon contributed significantly to the termination of the export boom as well as the decapitalization and consequent economic and financial crisis of those enterprises. In these unfavourable circumstances, the transnational banks soon decided not to continue financing the investment programme of those enterprises or refinance their existing external public debt. In this fashion, the internal contradictions of the State, in circumstances of voluntary dependence, resulted in a generalized crisis: one in which the foreign participants held the decision-making power to determine the extent of local suffering as a consequence of the terms and conditions that these transnational banks demanded as part of the necessary refinancing package.

This, then, is the general situation whereby the internal contradictions of the State produced crisis and the transnational banks acquired an awesome power of decision-making with regard to the intensity and duration of that crisis. Analysis of a particular example of the internal contradictions of the

State and the specific dependency situation of a dominant public enterprise will further illustrate this analysis of the general situation. We will therefore take the very well-known case of the State petroleum company, for the obvious reason that, more than other public enterprises, it would seem highly improbable that a State petroleum company of a petroleum exporting country could be brought close to bankruptcy precisely at the time of the OPEC initiatives.

2. The revealing case of the State petroleum company, YPF

One of the serious problems faced by the State petroleum company during the 1970s was the steep decline in crude petroleum reserves in the face of increasing local consumption. A significant portion of overall export earnings came from exports of natural gas to Argentina, but the growth in the value of these exports could not keep pace with the fall in the value of exports of crude petroleum. In spite of the fact that this depletion of natural resources put a constraint on the operations of the public enterprise, however, it was by no means the principal cause of the financial crisis which the enterprise experienced in the later 1970s.

The principal causes of that crisis are to be found in the national economic policy which affected in notably negative fashion the operation of the enterprise, whose financial drainage went far beyond the parameters of the export boom in crude petroleum and natural gas (see table 13). In the context of declining exports, payments of taxes and royalties as a proportion of the value of export sales increased from 57 to 70% between 1974 and 1978, while measured as a proportion of net profits they went from 149 to 1 015% over the same period. This accelerated financial drainage of the State petroleum enterprise soon surpassed its ability to pay that level of taxation and royalties, and it fell behind in its payments as of 1975. The reaction of the team of economic policy-makers of the central government was rather novel, if disastrous for YPF, for what happened was that the Central Bank contracted external credits (on very expensive terms), used the receipts to cancel YPF's overdue tax and royalty payments, and charged the debt to

Table 13

**BOLIVIA: FINANCIAL ASPECTS OF THE OPERATION OF THE STATE
PETROLEUM ENTERPRISE, YPFB, 1971-1978**
(Millions of 1970 pesos and percentages)

Item	Annual average 1971-1973	1974	1975	1976	1977	1978
1. Gross sales	858	1 633	1 336	1 325	1 206	1 004
Exports	503	1 249	930	936	730	565
Local sales	355	384	406	389	476	439
2. Total expenditure	647	1 155	1 120	1 011	1 082	965
Taxes and royalties	216	711	562	601	495	396
Exploration, etc.	n.d.	118	178	191	137	99
General administration	n.d.	20	29	35	35	36
Others	n.d.	306	351	184	415	434
3. Net profits	203	478	217	315	124	39
4. Total assets	2 490	2 296	2 600	2 961	3 751	3 684
Fixed assets	1 364	1 221	1 327	1 770	2 731	2 731
Inventories	304	346	669	622	498	473
Others	822	729	604	569	522	480
5. Total debt	1 723	1 105	1 263	1 407	1 707	1 879
Long term	1 391	808	787	1 124	1 301	1 224
Short term	332	297	476	283	406	655
6. Number of employees	4 885	4 380	4 252	4 411	4 347	4 590
<i>Memoranda (percentages)</i>						
1. Exports/ gross sales	59	76	70	71	61	56
2. Net profit/ gross sales	24	29	16	24	10	4
3. Taxes and royalties/ exports	43	57	60	64	68	70
4. Net profits/ taxes and royalties	94	67	39	52	25	10
5. Fixed assets/ total assets	54	53	51	60	73	74
6. Short term debt/ total	19	27	38	20	24	34
7. Total debt/ fixed assets and inventory	103	71	63	59	53	59

Source: YPFB, *Memoria anual*, various years.

the State petroleum company. Thus, a public enterprise which already could not meet the burden of the accelerated financial drainage in process was expected to generate additional resources for the payment of interest and amor-

tization on loans in the order of US\$ 17-26 million per annum (see table 14).

In this difficult financial situation, the State petroleum company had very little room for independent action. It was still paying

Table 14
BOLIVIA: CHARACTERISTICS OF THE EXTERNAL AND INTERNAL DEBT OF YPFB, 1978-1979
(Millions of current dollars)

Source of financing	Amount contracted	Year	Periods (years)		Interest rate (%)	Use
			Grace	Repayment		
1. External financing						
(a) Transnational banks	(240.5)					
(1) New York State C.R. Fund	14.0	1971	1.5	19.5	7.0	Gasduct Sta. Cruz-Yacuiba
(2) Bank of America ^a	35.0	1975	2.5	6.0	2.1 + Libor	Expansion of Cochabamba refinery
(3) Anthony Gibbs & Sons ^a	16.2	1976	2.0	7.5	7.5	SCZ and CCB refineries, lubricants
(4) Deltec Bank Corporation	3.0	1976	1.0	3.0	1.9 + Libor	Working capital
(5) Bank of America ^a	15.0	1977	3.0	4.5	1.6 + Libor	Pipeline Tita-Sta. Cruz
(6) Citicorp ^a	75.0	1977	3.0	4.5	1.6 + Libor	Refineries
(7) Texas Commerce Bank ^a	15.3	1978	3.0	4.0	1.5 + Libor	Expansion of gasduct Sta. Cruz-Yacuiba
(8) Arlabank ^a	47.0	1979	3.5	4.5	1.4 + Libor	Exploration and development fields
(9) Texas Commerce Bank	5.0	n.d.	5/12	-	1.5 + Libor	Rotating credit for materials
(10) BIB/Swiss Bank Corp.	5.0	n.d.	-	1.0	1.0 + Prime	Expansion of refineries
(11) Citibank	10.0	n.d.	1/2	-	1.5 + Libor	Rotating credit for materials
(b) Others	(180.8)					
(1) IDB-221/SF-BO	3.3	1970	6.0	19.0	6.0	Gasduct Monteagudo-Sucre
(2) Gulf Oil Corp.	78.6	1970	-	9.0	-	Compensation of Gulf Boliviana
(3) IBRD	23.3	1971	3.5	18.5	6.5	Gasduct Sta. Cruz-Yacuiba
(4) IDB-215/OC-50	21.8	1971	3.6	16.5	8.0	Gasduct Sta. Cruz-Yacuiba
(5) IDB-255/OC-BO	46.5	1975	4.0	14.0	8.0	Expansion of Cochabamba refinery
(6) IDB-418/SF-60	1.2	1975	3.0	7.5	6.0	Technical assistance
(7) Worthington Pump	1.4	1979	1.0	5.0	7.0	Pumps and panels
(8) Cie. Générales Géophysique	3.5	n.d.	1/3	7.0	7.5	Seismic surveys
(9) Sismograph Service	1.2	n.d.	1/6	7.0	6.5	Seismic surveys
2. Internal financing						
(a) Central Bank of Bolivia	(79.2)					
(1) BCB	17.0	1975	1.5	3.0	2.0 + Libor	For payment of overdue taxes
(2) BCB	16.0	1975	1.5	6.0	1.9 + Libor	Refineries
(3) BCB	15.0	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(4) BCB	5.9	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(5) BCB	5.0	1976	2.5	4.0	2.0 + Libor	For payment of overdue taxes
(6) BCB (IMF)	18.4	1978	-	4.5	5.9	For payment of overdue taxes
(7) BCB	1.9	1976	1.5	4.0	2.3 + Libor	Purchase of aircraft for President
(b) Others	(15.2)					
(1) Comité Obras Públicas Chuq.	1.3	1970	3.5	11.5	1.0 + Libor	Gasduct Monteagudo-Sucre
(2) US AID Bolivia	12.4	n.d.	5.0	15.0	4.0	Acquisition of materials
(3) Caja Petrolera	1.5	n.d.	1/2	12.0		Recognition of debt

Source: YPFB, *Estado de la deuda*, 1978 and 1979.

^aSyndicated loan.

the indemnization of Bolivian Gulf Co. which, according to the agreement of 1972, meant that the export earnings from the fields corresponding to the ex-Gulf operations (50-54% of total production during this period) were channelled into a fiduciary fund administered by the First National City Bank.¹² This had the effect of removing from YPF's control a major element of its operations. Another agreement in 1975, this time administered by the Bank of America Trust and Saving Association of San Francisco, removed from YPF's hands virtually the rest of its crude petroleum export earnings, which were held in trust for payment of external loans contracted for the purpose of building and expanding local refineries. Thus, until those projects were operating and generating returns, YPF was extremely short of funds. On top of this, YPF was expected to subsidize local consumption of petroleum and its derivatives. YPF has estimated that the cost of these subsidies reached a value equivalent to 786 million 1970 pesos, or 12% of total sales of the enterprise between 1974 and 1978.¹³ The accelerated financial drainage of the public enterprise via tax and royalty payments, the earmarked export earnings and the subsidization of local consumption were all aspects of national economic policy which forced the State petroleum company to undertake a rather pronounced mediatory role in its activities in the petroleum sector.

At the same time, indicative of the internal

contradictions of the State which derived from this public enterprise, it launched a large public investment programme for the construction and expansion of local refineries. This can be interpreted as an expression of the sectoral role of the State played by this public enterprise, a role which was in total contradiction with the mediatory one implanted in the operations of that enterprise. In order to undertake this rather large investment programme, YPF had to contract external credits guaranteed by the Central Bank, mainly with the transnational banks. As is made clear by table 14, as well as introducing further external dependency into the operations of YPF, the terms of the new loans completely changed the structure (and most of all, the cost) of that enterprise's existing debt, most of which had come from multilateral institutions on concessionary terms. Needless to say, in a short period of time this public enterprise was on the verge of bankruptcy and the transnational banks were reluctant to re-finance outstanding loans held in the Central Bank.

One might add that in the midst of the financial chaos which resulted from the internal contradictions of the roles of the State relating to the YPF operations, the infrastructural role of the State, which in this case would presumably relate to the exploration for and development of new petroleum reserves, seems to have been completely overlooked, to the detriment of the process of national development.

V

Conclusions: Lessons from the Bolivian experience

Obviously, this unfortunate experience for Bolivia offers some lessons for developing countries hoping to avoid a repetition of the dangers of the Bolivian crisis. Firstly, it is evi-

dent that the transnational banks are profit-making commercial institutions which have considerable power and influence available to achieve their goals. This power and influence considerably affects the results of their negotiations with their clients, especially in the developing countries, as regards: (i) the possibility of obtaining external credit from the transnational banks; and (ii) its cost to the recipient country.

¹²For details of this agreement and that of 1975, see YPF, *Memoria anual, 1978*, p. 49.

¹³See information presented in YPF, *Gestión, 1978*, p. 22.

A country without creditworthiness in the view of the transnational banks will simply not be able to obtain external credits, while a country with low creditworthiness will be able to obtain funds, but at a cost which does not perhaps reflect the real situation of the country. In the second place, it is obvious that a developing country must negotiate the conditions of its external public debt if it wants to avoid falling into new dependency situations which create greater external influence and consequent weakening of national decision-making power. In this sense, a government *must negotiate* with transnational banks in order to contract external financing on terms *appropriate* to its economy. In order to be able to carry out these negotiations, government negotiators must possess an explicit and concrete understanding of the relative dependency situations which affect their country and their bargaining position *vis-à-vis* the transnational banks. These considerations should govern not only the terms and conditions negotiated but the absolute level of external public indebtedness. For these purposes, a national system for co-ordinating negotiations, limiting the use of State guarantees and recording contractual obligations is a fundamental and essential prerequisite. Thirdly, the internal contradictions evident in

the State only serve to weaken its bargaining position compared with that of the foreign participants. The Bolivian experience clearly demonstrates that external financing on commercial terms, even in times of an export boom, cannot serve as a means of either overcoming or avoiding these internal contradictions. The more a given State makes use of this expensive form of external financing, the greater in general will be the external influence it creates. Sooner or later, depending on the extent of these internal contradictions, the negative repercussions of this kind of voluntary dependency will be felt in the economy and in society, especially in the relative bargaining position of the State during its negotiations with foreign participants such as transnational banks.

Fourthly, foreign loans on commercial terms should be contracted *only* for those public enterprises and those specific projects which are capable of meeting these terms. Or, conversely, if the economic policy does not enable the public enterprise to function according to commercial norms, as was the case with the Bolivian State petroleum company, YPF, external financing should be limited to that available on similar terms to those offered by multilateral institutions.