Plurinational State of Bolivia Trade Brief

Trade Policy

The Plurinational State of Bolivia's MFN Tariff Trade Restrictiveness Index (TTRI)[1] for overall trade has risen slightly in the past two years to reach 8.4 percent in 2007. Judged by this, Bolivia's trade regime is slightly less open than the average Latin America and Caribbean (LAC) country (with a TTRI of 7.8 percent) but as open as the average lower-middle-income country. The country ranks 86th among 125 countries (where 1st is least restrictive). Agricultural protection (with a TTRI of 10 percent) is slightly higher than protection for non-agricultural goods (with a TTRI of 8.2 percent). Up to April 2008, Bolivia had a three-tier import tariff structure with capital goods taxed at 0 and 5 percent and other imports taxed at 10 percent. The simple average of the MFN applied tariff rate has remained relatively stable in the past several years at 8.3 percent, slightly lower than the LAC region average. Following a decree in November 2007,[2] the tariff structure was revised to a five-tier structure, allowing goods to be taxed at 15 percent and 20 percent as well. Thus, the maximum tariff (excluding alcohol and tobacco), which Bolivia had maintained at a very low 10 percent, rose to 20 percent. The trade policy space as measured by the distance between bound and applied tariffs (the overhang) was 31.6 percent in 2008, slightly higher than the average for its regional neighbors. Regarding the extent of its commitment to trade liberalization in services, Bolivia ranked 98th out of 148 countries according to the GATS Commitment Index. The government has been significantly increasing its role in the economy, as reflected by the nationalization of the telecommunications (May 2008) and hydrocarbon industries (ongoing since May 2006), among others. Other than the hydrocarbon and mining industries, foreign investment faces few legal restraints.[3] However, the new Constitution (approved by referendum in January 2009) includes additional restrictions to investment, particularly foreign investment, in strategic sectors (public services, extractives industries).

In response to rising food prices, in February 2008, Bolivia temporary suspended import tariffs on rice, wheat, wheat flour, maize, vegetable oils, beef, chicken and live animals, meat, and sugar. It also increased the implicit subsidies for bread and wheat flour production. To secure domestic supplies, the government prohibited exports of cereals, soybean, sunflower oils, and meat products, and put in place restrictions on vegetable oil exports.[4] As world trade slowed in the second half of 2008 and international food prices declined, since October 2008, the Bolivian government has progressively lifted these bans. In May 2009, it increased import tariffs for products to 35 percent for 324 tariff lines, including clothing, textiles, and furniture.[5]

External Environment

According to the latest Market Access TTRI[6] (including preferential tariffs), on which it is ranked 11th (out of 125 countries), Bolivia's exports face extremely low tariffs (0.7 percent) when compared to its LAC and lower-middle-income country comparators (2.0 percent and 2.3 percent, respectively). The weighted average of the rest of the world tariff faced by Bolivia's exports was 0.4 percent in 2008.

Bolivia is part of the free trade area with Colombia, Ecuador, and Peru under the Andean Community of Nations (CAN), and is also a member of the Latin American Integration Association (ALADI). The Andean Trade Partnership and Drug Eradication Agreement (ATPDEA), which granted some preferential access to the U.S. market, expired in December 2008 and was not renewed in June 2009 due to Bolivia's failure to cooperate with the United States in its fight against drug trafficking.[7] As a member of the CAN, Bolivia was originally engaged in the negotiation of an economic association agreement

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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with the EU, but in mid-2008 Bolivia withdrew from free trade talks with the EU.[8] A similar situation arose with previous attempts to negotiate a CAN-U.S. FTA and a CAN-Canada FTA. Instead since 2006, Bolivia is part of the Bolivarian Alternative for the Americas (ALBA), an alternative regional integration initiative launched by República Bolivariana de Venezuela. During 2008, the real effective exchange rate of the boliviano appreciated by 12.6 percent, reducing the competitiveness of exporters.

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Bolivia ranked 161st out of 183 countries in the 2010 Ease of Doing Business index, reflecting a cumbersome business environment. A landlocked country reliant on transit transport, Bolivia scores below average on the Logistics Performance Index, a measure of the ease of trade facilitation, which rates Bolivia at 2.31 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.47 for countries in the lower-middle-income group. It ranked 70th in the world and 9th in the LAC region (with Chile leading the regional group). The area in which it performed the best was timeliness of shipments and it needs most improvement in customs procedures.

Trade Outcomes

Bolivia's real growth (in constant 2000 U.S. dollars) in total trade of goods and services reached a high 15.3 percent in 2008, from 4.1 percent in 2007. Total exports expanded by 15.6 percent in 2008, while imports of goods and services grew by 15 percent. In 2009, real exports and imports are expected to shrink.

Natural gas represents over 50 percent of Bolivia's total exports, mostly sold to Brazil and Argentina. Mineral exports are sent to the Republic of Korea, Japan, and Peru.[9] In nominal terms, goods exports grew by an estimated 22.7 percent in 2008. This is despite a 20.3 percent decline in the fourth quarter of 2008 year-on-year in U.S. dollar terms.[10] Exports of tin and zinc, two of the largest mineral exports—which combined comprised just over 10 percent of all exports—declined by 39.4 and 36.3 percent in this last quarter, respectively. Soybeans are another top export that is sent to Argentina, República Bolivariana de Venezuela, Colombia, and Peru. Nominal import growth was an estimated 22.5 percent in 2008. In the first half of 2009, both exports and imports contracted by 28.7 and 10.1 percent respectively. Total foreign direct investment inflows increased marginally to 3.1 percent of GDP in 2008, compared to 2.8 percent of GDP in 2007.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. Evo Morales Ayma, Constitutional President of the Republic, November 21, 2007.
3. United States Trade Representative, 2009.
4. FAO, 2009.
5. WTO, July 2009; and Evo Morales Ayma, Constitutional President of the Republic. May 13, 2009.
6. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
7. *Puentes Quincenal*, July 2009.
8. SICE, 2009.
9. National Statistics Institute, 2008.
10. All quarterly data is from IMF, 2009.

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