

**CONFEDERACION DE EMPRESARIOS
PRIVADOS DE BOLIVIA**



The Importance of
ATPDEA
for Bolivia

OCTOBER 2008

THE IMPORTANCE OF ATPDEA

The Bolivian economy is going through a major crisis due to permanent socialist public laws that have weakened the development of free trade values in the country. Among these inconveniences are other barriers that are attempting against the national exports of our national industry.

The economy is far behind in competitiveness, and requires support of the international community to develop non traditional exports. These exports are the most relevant in terms of employment and income for a growing portion of the population. The Global Competitiveness Index sets Bolivia in the position 118 out of 134 countries. ATPDEA exports to US have become increasingly important for Bolivia. At the end of 2007, ATPDEA exports represent 14% of the non traditional exports. The potential loss for Bolivian producers amounts to US\$ 155 million and some 12.000 direct employment positions in textiles. The indirect impact could rise to 85.000 jobs. The Confederación de Empresarios Privados de Bolivia believes that no substitution of US market is possible in the short and medium terms; less likely considering the potential global recession. Thus, we strongly support every effort of the Bolivian government to persuade U.S. authorities about reconsidering his decision in this critical matter.

Non traditional exports are the most relevant in terms of employment generation, income and poverty reduction. Politically they are also critical, since they contribute with decent jobs, thus preventing social conflicts.

Exhibit 1 reflects the position of Bolivia at the latest Global Competitive Index published recently by the World Economic Forum. Our economy has been ranked in position 118 out of 134 countries and lies far behind our neighboring partners in the region. In fact, this position looks closer to those levels achieved by some Central American countries and others from the African continent.

Among other aspects explaining this type of result, the lack of stability in terms of public policy and particularly the one affecting economic performance is at the top of the list. The cancellation of ATPDEA becomes part of the uncertainty since a number of important investments have been made expecting the consolidation of the USA market. We are aware about the unilateral character of ATPDEA and we strongly support every single action to prevent drug traffic and the damaging impacts in the young population of our country and others around the world. However, we have also reasons to believe that the cancellation of ATPDEA is a penalty that will not have a positive impact in terms of the core objective; that is, reduce the production of drugs.

On the contrary, we have strong reasons to believe that unemployment will drive a number of people towards short term and high return illegal activities. In fact, the structural adjustment carried in the late 80`s and the unemployment of those days has derived in migration to the Chapare region which is today one of the most affected zones by the drug

problem. Producers of manufactures and several alternative products, promoted during these years of continuous support from USAID, will fall in the risk if being attracted by the coca economy.

Exhibit 1

World Economic Forum © 2008

Global Competitiveness Index rankings and 2007-2008 comparisons

Country/Economy	GCI 2008-2009 rank	GCI 2008-2009 score	GCI 2008-2009 rank (among 2007 countries)*	GCI 2007-2008 rank
United States	1	5,74	1	1
Switzerland	2	5,61	2	2
Denmark	3	5,58	3	3
Chile	28	4,72	28	26
Puerto Rico	41	4,51	40	36
Panama	58	4,24	57	59
Costa Rica	59	4,23	58	63
Mexico	60	4,23	59	52
Brazil	64	4,13	63	72
Colombia	74	4,05	73	69
Uruguay	75	4,04	74	75
El Salvador	79	3,99	78	67
Honduras	82	3,98	81	83
Peru	83	3,95	82	86
Guatemala	84	3,94	83	87
Argentina	88	3,87	87	85
Dominican Republic	98	3,72	97	96
Ecuador	104	3,58	102	103
Venezuela	105	3,56	103	98
Bolivia	118	3,42	115	105
Nicaragua	120	3,41	116	111
Paraguay	124	3,40	120	121
Madagascar	125	3,38	121	118
Nepal	126	3,37	122	114
Burkina Faso	127	3,36	123	112
Chad	134	2,85	130	131

This explains why the lowest rank in this column is 130, rather than 131.

Exhibit 2 presents export figures for year 2007. Total exports have reached US\$ 4.8 billion and they are mainly explained by the performance of natural gas exports to Brazil and Argentina. Those exports represent 48% of the total value exported to the world and the fact is that this value depends on international prices of oil. Gas exports are not labor intensive, they have little articulation with other sectors of the economy and thus, they do not spread benefits for medium size and small businesses.

As result of high mineral prices, the mining sector has achieved a transitory boom; its important to point out that the upswing is highly correlated with one single project named San Cristobal. During the past few weeks, with the fall in international prices in zinc, tin and other minerals, both production and volume of exports are beginning to fall. All in all, no traditional exports remain the most important in terms of future developments and impact in the standard of living for a growing number of Bolivians.

Exhibit 2

EXPORT FIGURES 2007

	Año	
	2007	Part.
	US\$ MM	
	Valor FOB	%
TOTAL	4.793	100%
1Minerales	1.385	29%
2Hidrocarburos	2.289	48%
3 No Tradicionales	1.119	23%
4. ATPDEA (2007)	155	3%
5. (4) EN % DE NO TRADICIONALES	14%	

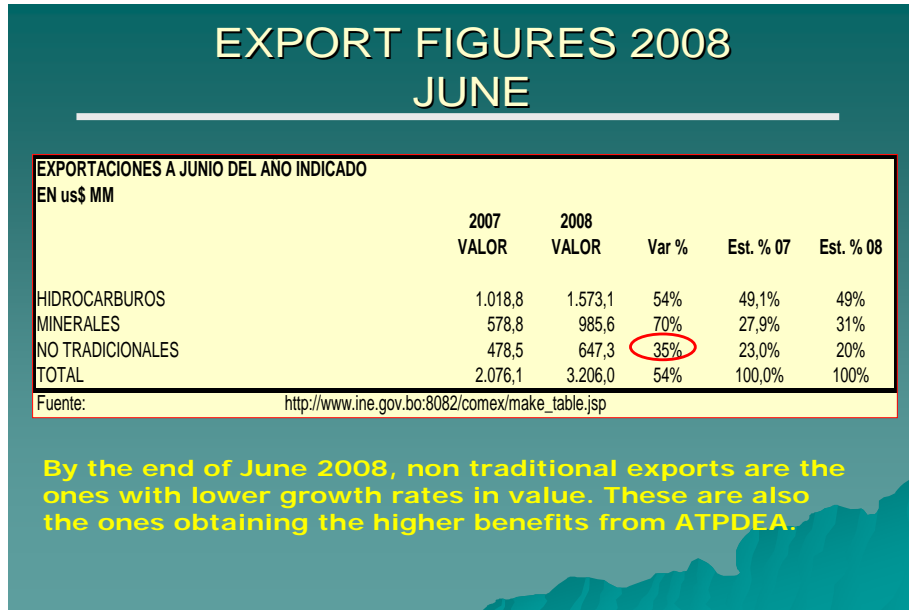
ATPDEA REPRESENT 14% OF NON TRADITIONAL EXPORTS

ATPDEA exports represent 14% of non traditional exports for 2007 and they explain almost one fourth of the total exported to the world. Beyond any doubt, exports to the USA under this important agreement are critical for macroeconomic and social reasons. In a prospective view, gas export values are expected to decline shortly because a new trend in the international price of crude oil. Mineral export values will also decrease since the slow down in the growth rate of the globe will affect prices further down. In consequence, macro balances might become fragile since revenues and international reserves will have to adjust to these new scenario.

Export results during the first half of the current year are showing an expansion in comparison to June 2007. Exhibit 3 reflects an increase of 54% in value for the totaling line. In the gas sector, the growth has been 54% also whereas the number for minerals is 70%. These two figures look quite impressive, however we will be able to show that they are explained by a favorable international context prevailing until the financial crisis has turn upside down the scenario.

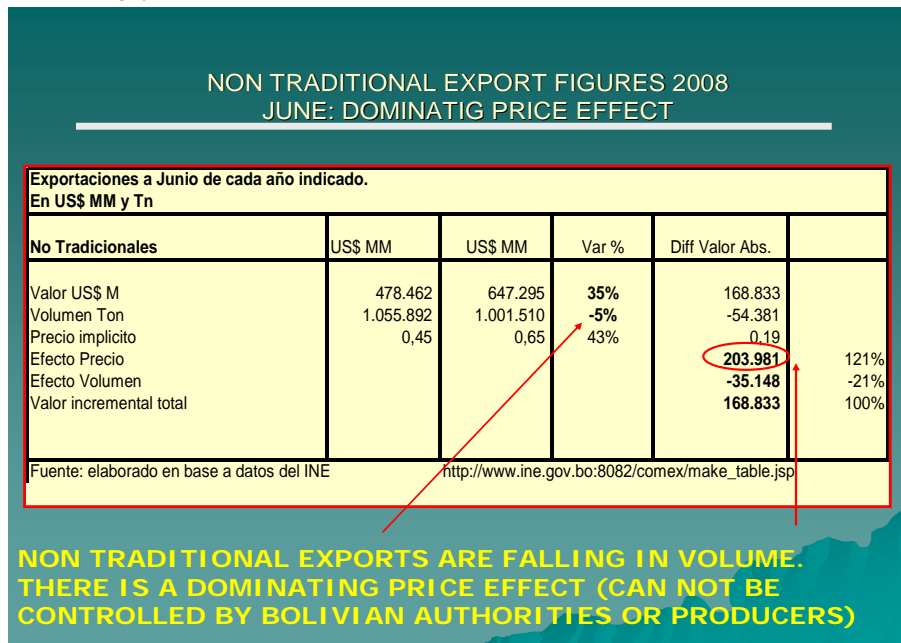
Non traditional export value has expanded at 35% during the first semester, a number below those of the other two sectors. Thus, non traditional exports are the ones with lower growth rates in value and they also are the ones obtaining the higher benefits from ATPDEA.

Exhibit 3



The following chart reflects the decomposition of the value of non traditional exports in its two components; that is price and volume effects. Non traditional exports are falling in volume. There is a dominating price effect that can not be controlled by Bolivian authorities or producers. Volumes have fall already and considering price reductions, the value will certainly fall in the next few months. If we add the ATPDEA cancellation effect, the final result is not difficult to predict.

Exhibit 4



The total absolute value increase during the period of analysis has been US\$ 168.8 million; while the price effect has been positive in US\$ 203.9 million, the negative volume effect amounts to US\$ 35.1 million. In relative terms, the volume effect has been negative in 21% and the price effect has compensated this initial pitfall with a positive impact of US\$ 203.9 million.

When analyzing exports to USA, out of the total value of Bolivian manufacture exports to the world, 55% are directed to the American market. That is, half of the value of manufacture sales rely on this market and much of that portion depend, in turn, on the ATPDEA agreement. We have no doubt about the commitment and generosity of the American people and its government with poverty reduction in the world. Because of this, we believe our economy needs the ATPDEA or other type of agreement to reach American consumers.

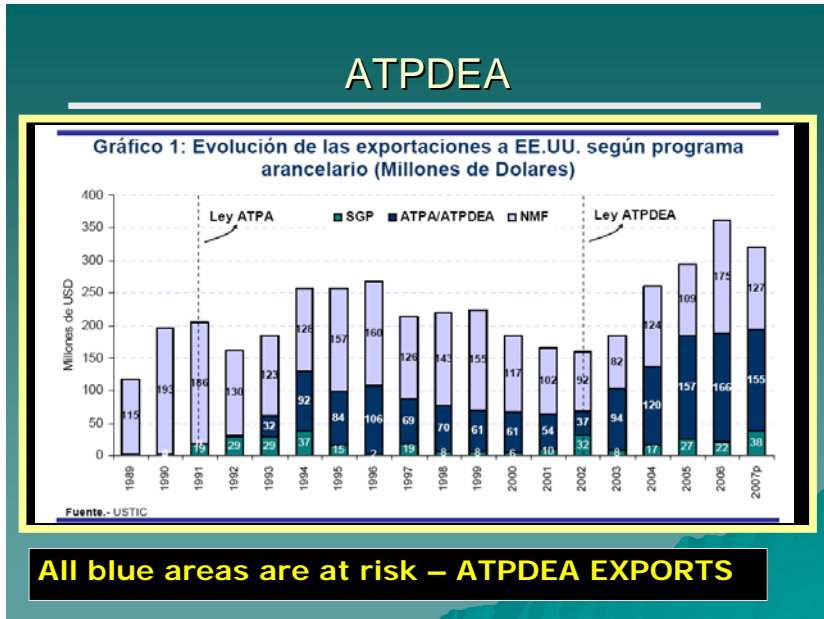
Almost 46% of total exports to USA have benefited with the ATPDEA. This represents an annual average of US\$ 138 Million for the period 2003 - 2007. On the other hand, Generalized System of Preferences (SGP) represents 9% of exports to USA markets and an annual average value of US\$20 million. Finally, the Most Favorable Nation Program explains some 45% of exports to USA markets. The accumulated value has reached US\$580 million in five years. This figures bring to surface the importance of the American market and this programs for Bolivian producers, handicraft and manufacture workers.

With the ATPDEA program, exports to USA (under this preference), have grown from US\$ 37 million in 2002 to a significant value of US\$ 155 Million in 2007 (319% rate of growth). Thus, annual losses for ATPDEA cancellation are estimated in US\$ 155 million. This number could be lower if some ATPDEA products are able to get benefits of the other two programs.

In terms of employment, the cancellation of ATPDEA could eliminate 12.000 direct jobs in the textile sector. The impact can arise to 85.000 positions considering other sectors as well as informal suppliers in those value chains.

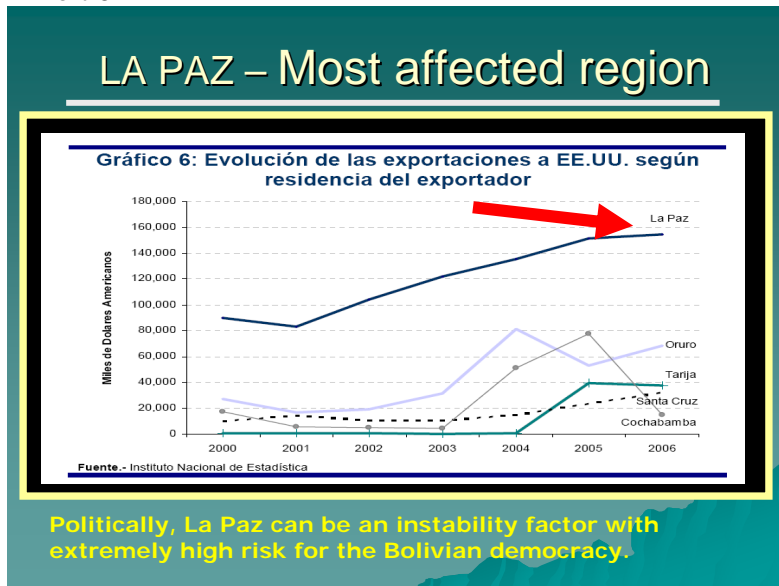
Exhibit 5 shows the evolution of exports to the USA market for the period 1989 until 2007. Export values in blue correspond to the ATPDEA agreement, those in light blue are the ones generated under the Most Favorable Nation program and the green values are those for the Generalized System of Preferences. The chart is eloquent and clearly demonstrates the fact that ATPDEA represent, for practical purposes, half of the value currently exported to the American market. This is the broad amount at risk if the ATPDEA is definitely cancelled for the Bolivian producers.

Exhibit 5



Looking at the internal effects in social and political terms, the impact will be greater for the La Paz region. Exhibit 6 shows the evolution of exports to USA according to the origin of the product. In fact, manufactures at El Alto poor sub urban area of the city will be the core of the negative effect of the cancellation of this commercial agreement.

Exhibit 6



Politically, La Paz can be an instability factor with extremely high risk for the Bolivian democracy.

Exhibit 7

More than 12.000 direct jobs in the textile sector

Cuadro 6: Empleo directo e indirecto que estarían afectados por la no renovación del ATPDEA por empresas exportadoras

	Empleo directo	Empleo indirecto	Total
AMETEX S.A.	3,000	1,500	4,500
MITSUBA	150	345	495
REY WEAR	140	322	462
ALTIFIBERS	150	345	495
MAKITESA	240	552	792
ASARBOLSEM	305	702	1,007
NOVARA SRL	250	575	825
CIAPEC LTDA.	80	184	264
ASOC. DE ARTESANOS QANTATI	160	368	528
"ACB" ASOC. DEL SEC. CAMELIDO BOLIVIANO	250	575	825
ASOC. ART. BOL. SR. DE MAYO ASARBOLSEM	305	702	1,007
FOLTRAMA	600	n.d.	600
MANHATTAN SHIRT BOLIVIA S.A.	100	230	330
MILLMA S.A.	164	377	541
TOTAL	5,894	6,776	12,670

Fuente.- Elaboración propia en base a entrevistas a ejecutivos de las empresas

Nota 1.- El dato de empleo indirecto generado por AMETEX S.A. fue proporcionado por ejecutivos de esa empresa

Nota 2.- El empleo indirecto para todas las empresas excepto AMETEX S.A. fue ponderado por el coeficiente de empleo indirecto de 2.3 calculado por Content First del Perú.

To conclude, we will like to remark the impact on employment. Exhibit 7 details the number of jobs at large and mid size companies. The total impact exceeds 12.000 Bolivians that will find themselves without employer and employment.

We, the Bolivian private sector and the Confederación de Empresarios Privados de Bolivia, believe our countries have developed a history of partnership and collaboration throughout most of our republican life. It is our believe that Bolivian politics and politicians should not use our economy to get short term skinny benefits. Thus, we support the current actions of our government to persuade the USA authorities to extend the duration of the ATPDEA agreement for Bolivia.