

## **Bolivia's mining sector regulations at risk no matter who wins polls**

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No matter who wins the 18<sup>th</sup> October general elections in Bolivia, the country's critical mining sector is at risk of significant regulatory upheaval. Bolivia is a major producer of antimony, bismuth, lead, silver, tin, tungsten, zinc, barite, bentonite, boric acid, cement, copper, gypsum, crude petroleum, rock salt, tantalum, and ulexite. While market participants have discounted the risk of regulatory upheaval if the rightist candidate won. Both candidates are highly likely to launch a review of the mining sector.,

Bolivia is advancing towards a polarized electoral outcome following the October 18 poll between the leftist MAS candidate Luis Arce, (right-hand man of Evo Morales), and former president Carlos Mesa. Bolivia's current president, Jeanine Añez, withdrew her candidacy to unite a voting block and prevent MAS from winning the election.

Áñez assumed the presidency in November 2019, after Evo Morales' was pushed out following the social upheaval prompted by a questionable election. Elections have been delayed four times since November 2019. The leadership of the police, the military and the Catholic Church have been key brokers to power before in Bolivia.

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## **Bolivia's economy**

The government of Evo Morales consolidated an economic model based on the nationalization of companies and the expansion of public spending driven by the export of raw materials, especially hydrocarbons. The high growth of the Bolivian economy has been led by natural resources, following the super cycle of several key products that it exports, such as natural gas, silver, gold, tin, and soybeans. This growth can, in part, be attributed to external long-term factors, such as the growth of China and the expansionary monetary policy of the US, as well as the direction dictated by the Bolivian government.

Low diversification, which was the strength of the Bolivian economy during this commodities cycle, is now its main weakness. Recently there were pressures to replace oil revenues with other streams, such as through the expansion of the agricultural frontier or through concessions to foreign companies for other extractives, such as lithium mining.

Bolivia's economy remains undiversified and highly concentrated in primary sectors with low added value. The conditions for doing business in Bolivia remain difficult, despite recent efforts, due to excessive bureaucracy, a lack of legal certainty, exorbitant taxes, inflexible labor laws, and a low-skilled workforce. Hydrocarbon reserves continue to be depleted and questions remain over how projected government revenue shortfalls will be fulfilled.

## **Interim government**

More recently, Interim President Jeanine Añez approved three measures to boost business activity: the liberalization of exports, the reduction of electricity rates and tariff changes for electric vehicles. The process for setting up new companies and the tax relief system were also simplified. The new government also: withdrew the country from several region blocs, such as UNASUR and ALBA, attenuated Bolivia's ties with Russia and China, cancelled contacts with Iran, re-established ties with the US (including the entry of cooperation agencies such as USAID), and has been more hostile diplomatically with center left and leftist governments in the region. The rekindling of ties with the US remains significant. The countries had not exchanged ambassadors since 2008 when Morales expelled the US representative in Bolivia over alleged support for a coup.

Bolivia's changing political dynamics can also be seen in the appointment of officials with conservative ideas in the economy, businesspeople in strategic public companies, such as Boliviana de Aviación, and the formation of a cabinet with a large proportion of members linked to the powerful agro-livestock complex in the Santa Cruz region.

## Two different scenarios with different business climates

Evo Morales' MAS represents a nationalist and indigenous ideology, a statist economic model and a corporate democracy. MAS carries an anti-capitalist and statist rhetoric, but in practice Morales has exercised a much more contained interventionism than that of his Chavista-oriented allies. MAS' electoral base remains the indigenous sectors of the population.

In contrast, centrist-oriented Carlos Mesa wants change but not in the extreme. Mesa intends to partially privatize the economy and promotes a diversified private economy, similar to the efforts made in the last 11 months. On October 18, a government is set to be elected. This will accelerate, attenuate or stop the political change that was unleashed in October and November 2019. This change has been driven by the urban middle classes, with the anti-MAS concern still the key dynamic at this election. Carlos Mesa confirmed that if he wins the elections, he will form a government coalition to obtain a parliamentary majority, as well as making an agreement with MAS to confront the challenges facing the country to avoid a ballotage, MAS' Luis Arce needs at least 40% of the votes and a 10-point advantage over the closest competitor. The vote of the undecided reportedly represents more than 20% of the electorate in Bolivia and will be decisive in defining the winner of the October elections.

The popularity of both Mesa and Arce has been rising with Arce ahead of his closest rival but not by enough to claim the reigns of power in Bolivia in a first round. The probability of a second round to separate the candidates is purported to be high, with tactical voting to prevent a return to power for MAS highly likely.

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