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Analytical Document on the effects of the

**ANDEAN TRADE PROMOTION AND
DRUG ERADICATION ACT
(ATPDEA)**

Bolivia, July 2008

ANALYSIS OF THE EFFECTS OF THE ANDEAN TRADE PROMOTION AND DRUG ERADICATION ACT (ATPDEA)

I. INTRODUCTION

International trade can play a major role in promoting economic development and alleviating poverty in many countries. In this regard, the "Andean Trade Promotion and Drug Eradication Act" (ATPDEA), being a recognition of the actions that are being developed in the anti-drug fight, allows Bolivia to take advantage of trade opportunities and allows for higher national economic growth through increasing exports.

Although having a history of unfavorable trade balance, Bolivia has nevertheless since 2003 recorded a positive balance of (US\$ 84 Million in 2007). This change in trend has been especially due to a takeoff in the jewelry, textile, and mining sectors under the ATPDEA framework.

The trade relationship with the USA through the ATPDEA has allowed for steady growth for Bolivian exports (42% within the last five years) and also a considerable increase in the number of companies (528 companies in 2007).

The ATPDEA has enabled the strengthening of productive linkages and articulation among the large, medium, small and micro enterprises because of its high value-added content. Additionally it has generated a significant amount of stable and quality employment.

The commercial relationship under this modality has allowed substantial increases in the exports, expressed in such value as follows: mining industry (US\$ 98.8 Million), jewelry (US\$ 73.5 Million), hydrocarbons (US\$ 69,1 Million), wood and timber-manufacturing (US\$ 54.13 Million), food and beverages (US\$ 10.7 Million) and textiles and textile-confections (US\$ 21.1 Million).

The importance of ATPDEA is reflected clearly in key variables of the economy such as exports and employment

The Bolivian exports to the USA had a growing behavior during the period of 2002 - 2007 (23.19%). USA is Bolivia's main export market (13.53%). Exports to the USA are characterized by a high value-added content. Bolivia's imports from the USA are growing and diversifying, mostly by capital goods. Bolivian exports represent only 0.02% of the total imports of the United States.

Exports under ATPDEA grew on average 42% in the past five years. 528 companies have made their exports under ATPDEA in 2007. The main export sectors are: mining (U.S. \$ 98.8 MM), jewelry (U.S. \$ 73.5 MM), hydrocarbons (U.S. \$ 69.1 MM), timber and manufacturing (54.13 MM), food and beverages (10.7%) and textiles and garments (U.S. \$ 21.1 MM).

An estimated 25,074 workers would be linked to exports within the scheme of ATPDEA promotion.

Due to the aspects mentioned above and because the USA is our main export market, it is important to maintain, to consolidate and to extend the preferences granted to Bolivia, benefiting sectors which constitute a priority for the country in a context of diversification of production such as: Textiles, jewelry, wood and articles, among others.

Taking into account the importance of tariff preferences, Bolivia will seek to maintain the ATPDEA and the General System of Preferences (GSP), and pursue its expansion and consolidation through the start of negotiations aimed at consolidating a long-lasting Trade Agreement between the two states with a view of deepening their trade relations.

In this regard, the following figures and economic indicators are presented in detail, to show the importance of the ATPDEA for the Bolivian economy and its impact.

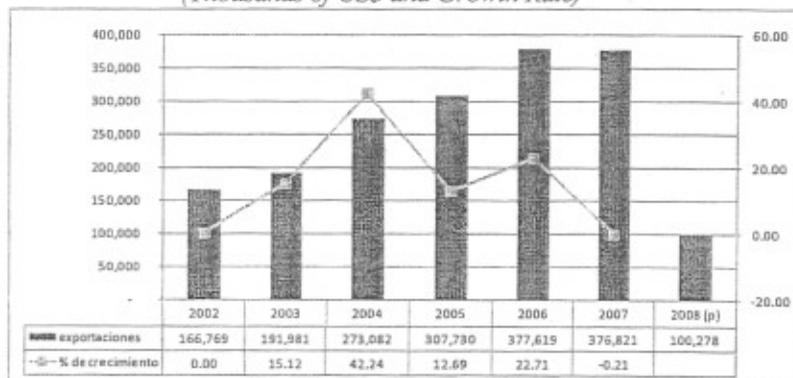
II. TRADE BOLIVIA - UNITED STATES

2.1 Total exports to the U.S.

The Bolivian exports to the United States had a growing behavior between 2002 and 2007. The year 2007 registered an export value of US\$ 376.0 million. This is equivalent to an average growth of 23.19% in the period 2002 - 2007¹.

Last year, the U.S. market represented 8.60% in total exports from Bolivia to occupy the second largest destine market of our exports after Brazil.

BOLIVIA: TOTAL EXPORTS TO THE USA
(Thousands of US\$ and Growth Rate)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

If we exclude the LNG exports to the world, the USA presents itself as our main export market with a share of 13.53% compared to other countries by the year 2007.

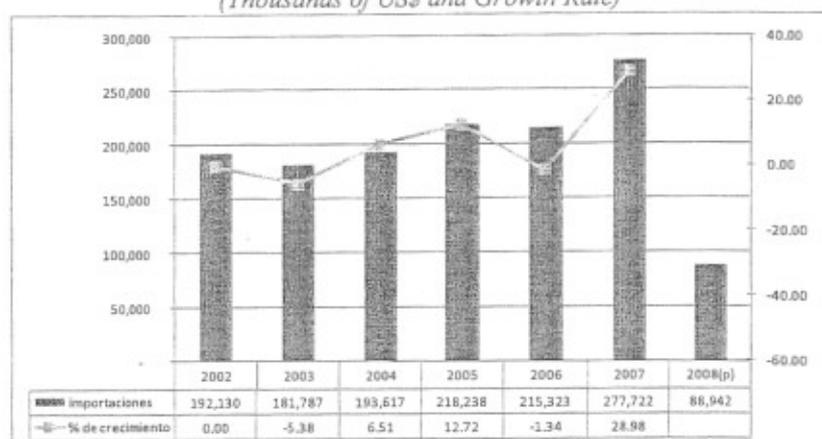
¹ All the used data for this commercial and sector analysis paper are from the USITC

Also, the exports to the United States are characterized by a high content of added value in export products, resulting in jobs increasing, employment generation and a direct contribution to the country's development.

2.2 Total imports from U.S.

Imports of Bolivia from the United States, -in the analysis period 2002-2007- have an oscillating tendency. In the year 2007 they had a value of US\$ 277 million, with a growth rate over the previous year of 28.98%.

BOLIVIA: TOTAL IMPORTS FROM USA
(Thousands of US\$ and Growth Rate)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

The share of the main products imported by Bolivia from the United States by the year 2007; in relation to the total value imported from the United States is minimal due to the diversification of imported products that are almost entirely capital goods.

2.3 Share of Bolivian Exports in Imports from USA.

The following table shows that the Bolivian share in the total imported by the United States, accounts for only 0.02%, this percentage has remained relatively constant despite the increase in exports in recent years; if we consider the first quarter of 2008 compared with the first quarter last year.

BOLIVIA: BOLIVIAN EXPORTS ON THE TOTAL OF IMPORTS FROM USA
(Thousands of US\$ and percentage share)

Balanza Comercial	2005	2006	2007	1 Q 2007	1 Q 2008(p)
Total of Bolivian Exports to USA	308	377,619	376,821	98,323	100,278
Total of Bolivian Imports by USA	1,732,532,715	1,919,279,400	2,017,391,803	466,139,223	518,262,048
Share %	0.000%	0.020%	0.019%	0.021%	0.019%

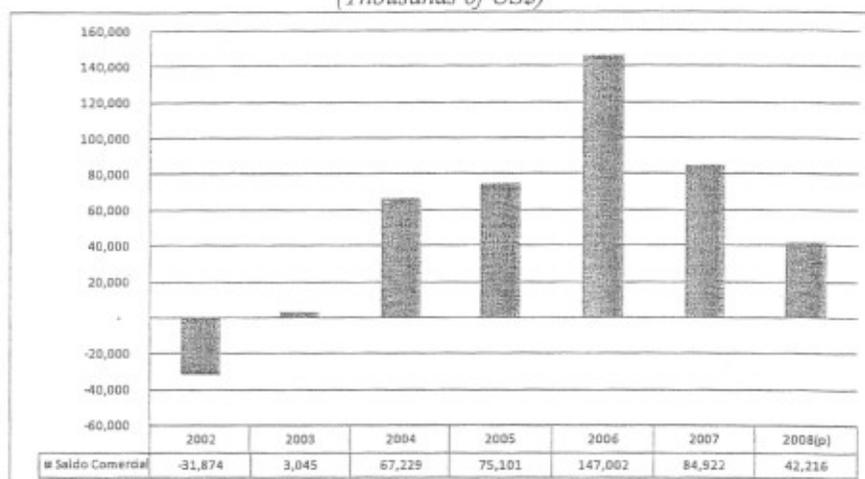
Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

2.4 Trade Balance

While during the year 2002 the trade balance was negative for Bolivia, as of the year 2003 there has been a positive increase; it should be noted that this was the first time that exports to the U.S. grew at a rate higher than imports from this country. This increase is mainly due to the takeoff of the textile sector.

It is worth noting that the largest increase in the trade balance was recorded in the year 2006, due in particular to export growth of the jewelry and mining industry. Although since the year 2007 the trade balance continues to be favorable for Bolivia, the growth rate has declined.

TRADE BALANCE: BOLIVIA – USA
(Thousands of US\$)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

The evolution of the trade balance Bolivia - USA should continue, analyzing together the progress of the ATPDEA program and its high incidence in generating employment and thus, in direct contribution to Bolivia's development.

III. EXPORTS BY PROGRAM

Within the following table one can see the share by program of the grand total of Bolivian exports to the U.S. market during the period of 2002 to 2007.

BOLIVIA: TOTAL EXPORTS TO USA BY PROGRAM
(In Thousands of US\$)

Program	2002	2003	2004	2005	2006	2007	1 Q_2007	1 Q_2008(p)
ATPDEA	38,100	96,973	123,609	165,484	151,853	153,304	44,201	18,100
SGP	32,160	9,211	17,513	28,411	23,449	43,389	11,580	11,963
Without Program	96,511	85,801	131,964	113,836	202,323	180,128	42,546	70,215
Grand Total	166,771	191,985	273,086	307,731	377,625	376,821	98,327	100,278

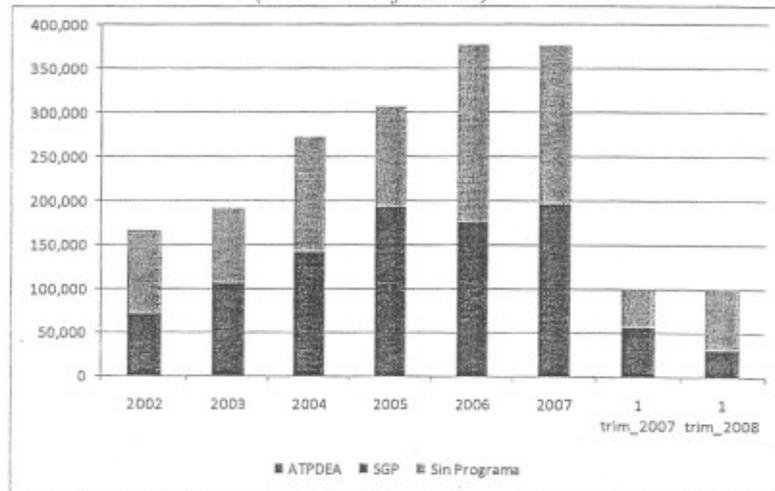
Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

In year 2007, US\$ 153.3 million were exported within the ATPDEA, US\$ 43.4 million under the SGP and US\$ 180.1 million entered into the US without a program.

The exports under ATPDEA grew on an average of 42% in the past five years. On the other hand, exports under SGP grew by an average of 30%; and exports to the United States without a program only grew by 19%.

It is important to note the Bolivian export growth within the ATPDEA, taking into account the fact that the products exported under this program are generating employment and income for a significant portion of the Bolivian population that operates formally and that has been incorporating technologies and making investments to take better advantage of the granted preferences.

BOLIVIA: TOTAL EXPORTS TO USA ACCORDING TO PROGRAM
(Thousands of dollars)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

Taking into account the percentage share of Bolivian exports to the USA, classified by program, we see that within the past five years Bolivia exported an average of 46% of the total within the ATPDEA, 8% under the Generalized System of Preferences (GSP) and the remaining 46% without entering a specific program of preferences.

These figures reflect the importance of Bolivia's use of the preferences granted by the United States under the ATPDEA.

In the year 2007, the exports -under ATPDEA- represented the 40.7% of the total, and under the GSP the 11.5%.

BOLIVIA: TOTAL EXPORTS TO THE US ACCORDING TO ATPDEA PROGRAM

(Share percentage)

Program	2002	2003	2004	2005	2006	2007	1 Q. 2007	1 Q. 2008(p)
ATPDEA	22.8%	50.5%	45.3%	53.8%	40.2%	40.7%	45.0%	18.0%
GSP	19.3%	4.8%	6.4%	9.2%	6.2%	11.5%	11.8%	11.9%
Without Program	57.9%	44.7%	48.3%	37.0%	53.6%	47.8%	43.3%	70.0%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: USIT, elaborated by VCE

(p) Preliminary first quarter 2008

Of the total exports to the United States, 53.7% were beneficiaries of either the ATPDEA preferences or the GSP. The rest of the exports entered the USA with a treatment of the Most Favored Nation (MFN)²

IV. EXPORTS BY SECTOR

4.1. Exporting Companies by Sector

The number of exporting companies working under ATPDEA during 2007 was 528, and the sector distribution is shown in the following table:

BOLIVIA: NUMBER OF EXPORT COMPANIES UNDER ATPDEA

Sector	Nr. of Companies	(%)
Leader and Leader-manufactures	34	6.4
Jewelry	8	1.5
Hydrocarbons	2	0.4
Wood and Wood-manufactures	138	26.1
Mining	32	6.1
Textiles and Confections	94	17.8
Other	220	41.7
TOTAL	528	100

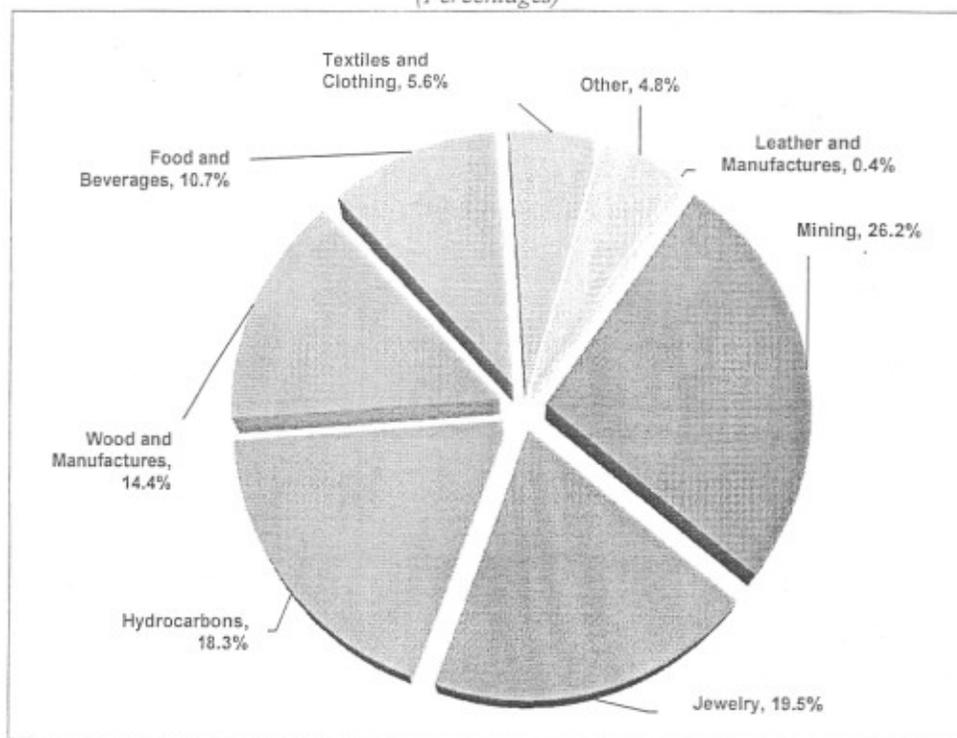
Source: Center for Promotion Bolivia - CEPROBOL

² It is to mention that a lot of products linked to the MFN, enter into the US with a 0 tariff. About 620 products were benefited by the MFN treatment.

4.2. Principal export sectors

Of the total exports in the year 2007, US\$ 98.8 million was exported globally in the mining sector which represents 26.2% of total exports to the US; furthermore, US\$ 73.5 million was exported in jewelry, representing a 19.5%; There was also US\$ 69.1 million exported in hydrocarbons, which means 18.3% of the total; 54,13 million in wood exports and wood-manufacturing (14.4%); US\$ 40.25 million for the export of food and beverages (10.7%); US\$ 21.1 million in textiles and clothing (5.6%); U.S. \$ 1.6 million in leathers and manufactured goods, representing 0.4% of the total, and finally US\$ 18.26 million in other products, representing 4.8% of the total exported by Bolivia in this market.

BOLIVIA: SECTOR PARTICIPATION BY EXPORTS TO THE USA
(Percentages)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

Within the first Quarter of 2008, there have been exports of US\$ 100,28 Million, 2% more than what was exported during the same time period in the year 2007, at 2%.

BOLIVIA: TOTAL EXPORTS TO THE USA BY SECTORS
(Thousand of US\$)

SECTOR	2002	2003	2004	2005	2006	2007	1 Q 2007	1 Q 2008(p)
Mining	31,791.00	33,663.00	47,904.00	61,352.00	101,496.00	98,849.00	31,582.00	29,301.00
Jewelry	50,383.00	53,104.00	64,561.00	68,612.00	76,344.00	73,474.00	14,001.00	11,806.00
Hydrocarbons	0.00	1,270.00	29,833.00	48,134.00	56,829.00	69,107.00	18,105.00	26,881.00
Wood and Manufactures	29,470.00	34,067.00	40,782.00	45,363.00	52,710.00	54,125.00	15,713.00	13,328.00
Food and Beverages	22,515.00	22,555.00	32,551.00	33,944.00	35,159.00	40,254.00	8,423.00	9,018.00
Textiles and Clothes	20,235.00	36,098.00	42,471.00	39,204.00	34,413.00	21,106.00	4,561.00	4,538.00
Leather and Manufactures	913.00	850.00	945.00	1,293.00	2,212.00	1,644.00	330.00	316.00
Other	11,464.00	10,378.00	14,039.00	9,829.00	18,462.00	18,262.00	5,612.00	5,088.00
GRAND TOTAL	166,771.00	191,985.00	273,086.00	307,731.00	377,625.00	376,821.00	98,327.00	100,278.00

Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

The most dynamic sectors in between the years 2003 - 2007 were Mining and Hydrocarbons, whose exports were affected positively by the behavior of international prices of products from such sectors.

Sectors of interest for Bolivia in terms of employment, and which were not subjected to this behavior, are those of jewelry, wood and manufacturing, food and beverage, textiles and clothing, leather and manufacturing, among others.

The sectors that showed bigger dynamism between the years 2003 - 2007 were leather and manufacturing, with a growth rate of 17.3%; the food and beverage sectors, with a growth rate of 13.4% and the wood and manufacturing sector with 13.1%. It is not negligible to highlight the positive performance of the jewelry sector with a rate of 8.2%, and textiles and clothing with a growth rate of 7.5%.

BOLIVIA: TOTAL EXPORTS TO THE USA BY SECTORS
(Percentage sharing)

SECTOR	2002	2003	2004	2005	2006	2007	1 Q 2007	1 Q 2008(p)
Mining	19.1%	17.5%	17.5%	19.9%	26.9%	26.2%	32.1%	29.2%
Jewelry	30.2%	27.7%	23.6%	22.3%	20.2%	19.5%	14.2%	11.8%
Hydrocarbons	0.0%	0.7%	10.9%	15.6%	15.0%	18.3%	18.4%	26.8%
Wood and Manufactures	17.7%	17.7%	14.9%	14.7%	14.0%	14.4%	16.0%	13.3%
Food and Beverages	13.5%	11.7%	11.9%	11.0%	9.3%	10.7%	8.6%	9.0%
Textiles and Clothes	12.1%	18.8%	15.6%	12.7%	9.1%	5.6%	4.6%	4.5%
Leather and Clothes	0.5%	0.4%	0.3%	0.4%	0.6%	0.4%	0.3%	0.3%
Other	6.9%	5.4%	5.1%	3.2%	4.9%	4.8%	5.7%	5.1%
GRAND TOTAL	100.0%							

Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

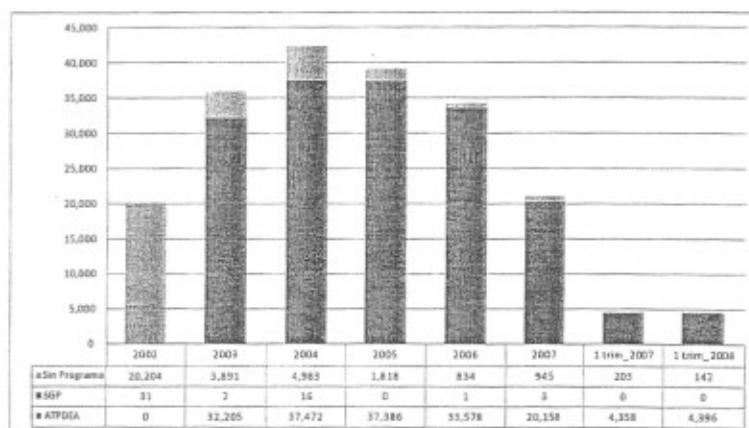
4.3. Exports by Sectors

Textiles and clothing

The US market constitutes the main destination for exports from the textiles and clothing sector, which mainly exports cotton clothing accessories, knitted or crocheted, representing about 90% of the total exports of Bolivian textiles and clothing to the USA.

As can be seen in the following graph, the ATPDEA program is crucial for Bolivian exports in this sector because they cannot enter into the US market under an alternative program such as the GSP. In recent years, the exports under GSP have fallen almost entirely and they have been concentrated under the program ATPDEA.

**BOLIVIA: EXPORTS OF TEXTILES AND CLOTHING TO THE USA
ACCORDING TO PROGRAM**
(Thousands of dollars)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

Since 2002, as an effect of the ATPDEA preferences for this sector one is able to verify a substantial increase in the exports to the US, that have declined during the years 2007 and 2008 due to uncertainty about the continuity of the ATPDEA program, and furthermore, then reduced the deadlines, granted in the life of every enlargement. Aspects that would affect an effort by companies that are under this program to diversify their export destinations.

Exports of textiles and clothing to the USA are concentrated in about 39 tariff items; activity in which 94 exporting companies are involved.

It should be noted that this sector is working strongly in the form of outsourcing, in which the large companies outsource micro and small firms located mainly in the city of El Alto; generating employment and income opportunities for a poor strata of the population. Another part of the export-oriented production comes from medium-sized enterprises also established mainly in the city of El Alto.

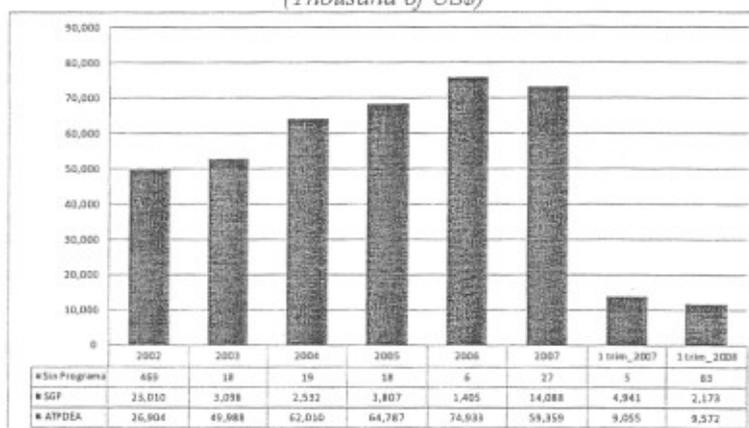
Most exporting companies described above that carry out their activities are formally established, which benefits the workers, generating dignified employment conditions, with salaries and compensations that are above the average of the manufacturing industry, and over other exporting companies with more advantageous long and short term social security conditions.

Jewelry

Exports from the jewelry sector to the USA have had a growing behavior over recent years; rising from US\$ 50.3 million in year 2002, to US\$ 73.5 million in 2007.

As shown in the following graph, the jewelry exports that have been taking place primarily within the program ATPDEA in 2006 represented 98% of jewelry exports to the USA. In year 2007, US\$ 59.36 million was exported under ATPDEA; the amount represents 80.8% of jewelry exports to the USA.

BOLIVIA: JEWELRY EXPORTS TO USA BY PROGRAM
(Thousand of US\$)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

Jewelry Exports to the USA grew at an average rate of 21% over the past five years.

During the year 2007, there were seven companies that exported jewelry products to the USA. Such companies mostly employ skilled hand craftsmen under working conditions that are above the average of the manufacturing industry.

The USA represents the natural market for Bolivian natural jewelry exports. During recent years over 95% of all Bolivian jewelry exports went to this market.

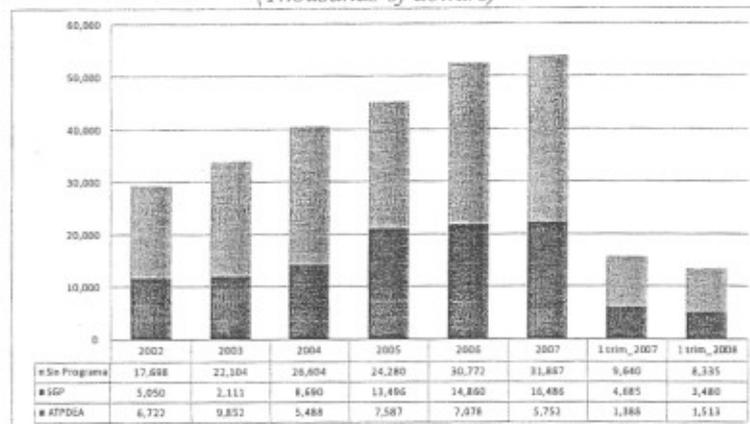
Wood

The sector of wood and wood made articles is another important sector for Bolivia in terms of income generation. In the year 2007 USA US\$ 54.1 million was exported to the USA, of which 11% were admitted through the program ATPDEA, furthermore 30% was admitted within the GSP, and the remaining 59% entered without program.

Exports of wood and wood made articles grew on an average of 3% over the past 5 years.

In the year 2007, the exports of wood and wood manufactured articles to the USA represented 14.4% of the total exported by Bolivia in this market. This sector represents the second largest sector³, placed below the jewelry sector.

**BOLIVIA: WOOD AND WOOD MANUFACTURING ARTICLES EXPORTS
TO THE USA BY PROGRAM**
(Thousands of dollars)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

The U.S. market represents the first destination for exports of manufactures of wood, over the past five years 51% of exports from this sector have been sent to the USA. In year 2007, 138 companies exported such products, given the distribution of forests at a national level, many of them certified, it is a very important sector for employment generation.

Bolivia has 53 million hectares of covered forest, of which 8.48 million are destined for sustainable exploitation. Of a total of these areas, 5.39 millions are granted under the forest right of the Forest Concession in National Lands through the validation of 85 concessions granted to the various Forest Enterprises.

The country lies in prime place, among the tropical countries, in terms of extension of certified natural forests, it currently has 2 million hectares certified, which are being exploited under sustainable and responsible forest management. Altogether there are 12 certified operations, of which 11 are concessions and one private property.

In addition, the potential Bolivian export in the midterm is US\$ 400 million and its contribution could easily reach US\$ 1,000 million annually, thus allowing the generation of more than 250,000 jobs.

³ There are not taking into account the exports of minerals and hydrocarbons

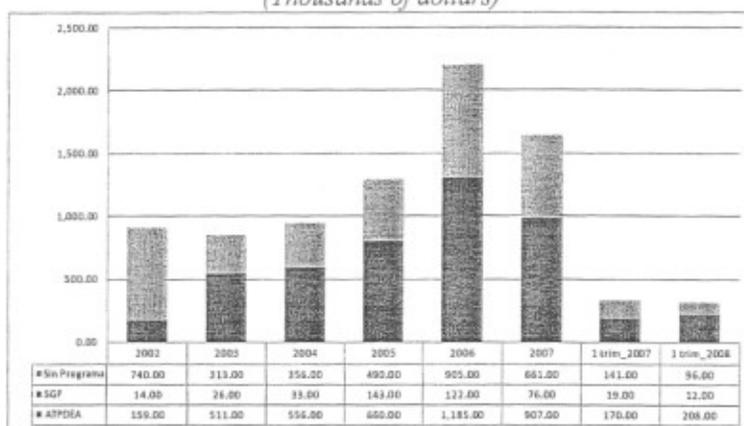
Leather

In the year 2007, US\$ 1.66 millions in leather products and manufactures were exported to the USA. 55.2% of these exports entered into the US market under the ATPDEA; with 4.6% under the GSP and 40.2% under the Most Favored Nation (MFN).

Exports of leather and leather articles to the USA have contributed with a value of US\$ 1.8 million in 2006. This sector had a growth of 114% over the period of 2002 to 2006. While this sector is not one that generates a high commercial value, it currently has a big export potential that is being consolidated through the ATPDEA preferences mechanism.

Within the period 2003 – 2007, leather and leather manufacturing Bolivian exports grew at an average rate of 61%, showing growth mainly after 2002, when the ATPDEA became effective.

**BOLIVIA: EXPORT OF LEATHER AND MANUFACTURING
LEATHER TO THE USA BY PROGRAM**
(Thousands of dollars)



Source: USIT, elaborated by VCE
(p) Preliminary first quarter 2008

The USA represents 4.5% of the destination of the total exports in this sector. The vast majority of these exports being manufactures of leather. In the year 2007, 34 companies exported to the USA.

Other sectors

In year 2007 US\$ 40.254 million in food and beverages were exported to the USA. 78.4% of these exports in this sector entered into the U.S. market without any program preferences, 13.7% entered via GSP and only the 7.9% has been admitted through ATPDEA.

The same year, US\$ 98.85 million in minerals was exported to the USA; 69.7% of these exports were admitted without any export program to the USA, 5.4% was under the GSP and 16, 9% under the ATPDEA.

Regarding the hydrocarbon exports to the USA, in year 2007 US\$ 69.1 million were exported, 57.0% of these exports were admitted under ATPDEA and 43.0% without any program preferences.

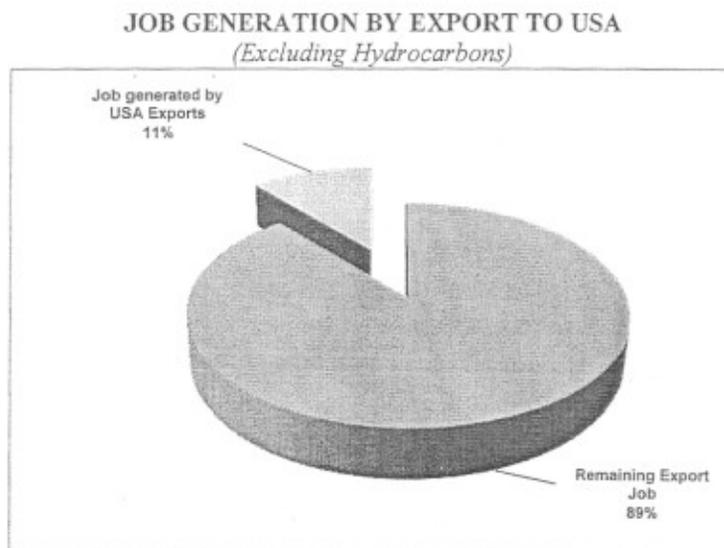
The remaining sectors in the USA, exported US\$ 18.26 million of which the 90.2% were admitted without any program preferences, 4.5% under the GSP and the last 5.3% under ATPDEA.

V. EMPLOYMENT GENERATION

5.1. The ATPDEA and its contribution to job generation

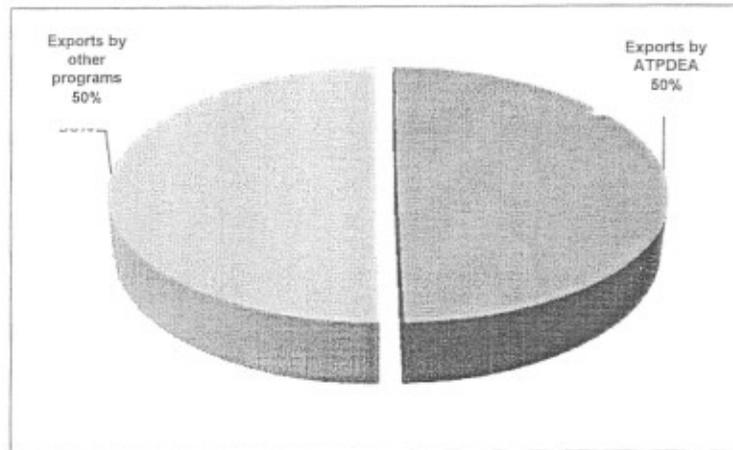
It is estimated that the Bolivian export sector employed around 452,000 workers during 2007, 51,500 were direct jobs and 400,500 have been indirect jobs.

The job generation linked to merchandise exports to the USA, - excluding hydrocarbons as a capital-intensive industry-, represents 11% of total exporter jobs. Trade with the USA allows the employment of approximately 50,350 workers (among direct and indirect jobs).



Of the total employment generated by the USA, it is important to note that 50% is related to exports entering under the ATPDEA Program. An estimated 25,074 workers would be linked to exports within the ATPDEA preferential scheme.

JOB DEMANDED ACCORDING TO US EXPORT VIA ATPDEA
(Excluding Hydrocarbons)



Between the years 2006 and 2007, the jobs generated by exports under ATPDEA would have decreased by around 7,000 jobs. This reduction would be attributed to the instability seen in recent years with respect to the expansion of these preferences.

In the same form, it is important to consider that within the structure of employment associated with this market, the ATPDEA has an important weight, representing 50% of jobs generated by exports to the USA; jobs basically concentrated in the manufacturing sector.

VI. Conclusions

Due to all mentioned above, it is clear that the ATPDEA is a program that generates significant benefits for Bolivia, therefore we express our interest in maintaining, consolidating and expanding the trade preferences granted by the USA to Bolivia because they are helping to change the national exportation pattern, generating a production with a higher added value, and enabling the development and diversification of national products.

Exports entering into the USA under ATPDEA come from sectors that produce with quality standards, systems friendly with the environment, and that are incorporating better and better technologies for their processes to generate greater added values.

These sectors are labor-intensive, such as clothing, jewelry articles, wood manufacturers, leather manufactures, among others. The contribution of ATPDEA to the increase of job sources and to the generation of higher export earnings has a direct effect on the economic and social development of Bolivia.

The interest of Bolivia, initially expresses a request for an extension of tariff preferences, but with the final objective of being able to consolidate a long lasting trade relationship through the negotiation of a long-term Trade Agreement with the USA.