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United States had important foreign policy interests in stabilizing democracy in the country, since Bolivia borders most of the large countries of South America and has often been feared as a focal point of unrest (Che Guevara died in the Bolivian jungles in 1967). Moreover, the United States was interested in pursuing an anti-cocaine policy in the region, which could only be accomplished with a friendly, stable government.

10. In 1988, Bolivia signed a three-year Enhanced Structural Adjustment Facility with the IMF, based on a program of balance of payments that presumes that Bolivia's remaining debt will be settled on terms similar to the buyback.

11. The financial "costs" to Bolivia of the debt strategy have been minimal. If we judge the net cash costs of the buyback to Bolivia at \$20 million, the country has paid in total over three years less than 1 percent of one year's GNP (\$20 million/\$3 billion) to its commercial bank creditors. At the same time, Bolivia has received large net resource inflows from the official creditor community. Thus, in contrast to Bolivia's net resource inflow, all of the other countries in the region have been making large net resource transfers to the foreign creditors (as Bolivia did during 1982–84).

## Chapter 9

1. Bolivia has already experienced the disaster of governance in conjunction with the coca mafia under the dictatorship of General Luís García Meza. García Meza's brutal role led to the worldwide diplomatic isolation of Bolivia, which in turn contributed importantly to Bolivia's financial rupture with the rest of the world.

2. In other words, the export of coca paste has caused a secular appreciation of the Bolivian real exchange rate, thereby squeezing the profitability of legal export sectors.

3. Taxation of coca production and exports is virtually impossible from an administrative point of view and is strenuously opposed by the international community. It is judged that normal taxation of the sector would effectively lead to its legalization.

4. In 1986, for example, the Bolivian government undertook joint military operations with the U.S. government to interdict coca paste exports and to drive down the internal price of coca leaf. The President faced impeachment proceedings for his actions at the hands of nationalist elements in the Bolivian Congress. The action provoked a run on the peso and a nationwide banking crisis, as individuals sought to remove local deposits in anticipation of a currency devaluation. In the end, the peso was successfully defended.

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