The Private is Global

A Study on Globalization, Development, and Equity on the Case of Bolivia's Water Sector Privatization

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Abstract

The last two decades witness that water is a politicized issue. The process of globalization has brought into existence a hierarchal structure in which the World Bank and the International Monterey Fund work in accordance to neoliberal theory. Development is, as a component in this process, placed high on the agendas of these multilateral institutions, and has become a global concern. The case of Bolivia's water sector privatization has problematized the global consensus on neoliberal theory and its attempts to ensure development. The international system is a set of structures that shape the process of globalization, thus these have to be explored in order to understand the relation between neoliberalism, development, and equity. By placing Bolivia's water sector privatization in the center of the research, concepts become researchable, while the neoliberal theory on development is tested. The policies of privatization did not succeed in targeting the poorest groups and equity was overseen. The study finds that the opposing views on whether privatization is a mean to achieve development are based in a clash on what development is. Dependency and power relations cannot be overseen. The clash is, in turn, translated into the relation between the global and the local, which is also shaped by contradiction in the context of globalization. Globalization is a process with a severe problem: there is no room for equity.

Key words: Bolivia, equity, globalization, neoliberalism, water sector privatization

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List of Abbreviations

DWSL	Drinking Water and Sanitation Law
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICESCR	The United Nations International Covenant on Economic, Social, and Political Rights
IMF	International Monetary Fund
LDCs	Less Developed Countries
MDG	Millennium Development Goal
NEP	New Economic Policy
SAP	Structural Adjustment Programs
UN	United Nations
WSP	Water Sector Privatization

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Chapter 1
INTRODUCTION

1.1 Globalization, Neoliberalism, and Equity

Water is often defined as a good to which people have a right, regardless of the ability to pay and, at the same time, a commodity of an industry. The United Nations International Covenant on Economic, Social, and Political Rights (ICESCR) stated that water should not be a politicized issue (Budds & McGranahan, 2003: 94). The last two decades show the opposite.

In 1995, the vice president of the World Bank, Ismail Serageldin, made a much quoted prediction about the future of war: "If the wars of this century were fought over oil, the wars of the next century will be fought over water" (quoted in Shiva, 2002: v). Six years later, the water market was estimated at USD 1 trillion by the World Bank, and its worldwide investments in the market were about USD 4.8 billion (Shiva, 2002: 88). Freshwater has become a highly valued economic good, though it is also an essential human need recognized as a human right by the United Nations [1] as well as the 1992 Dublin Principles (UN, 2012: 35; Robbins, 2003: 1074). The UN Water Development Report (2012: 205) states that although the Millennium Development Goal (MDG), target 7.c, to halve the proportion of people that lack access to safe water and sanitation by 2015 has been met, almost 40 million people still lack access to improved water and nearly 120 million to proper sanitation facilities. The majority of those without access to services are poor and live in rural areas. We are facing a global water crisis.

In contrast to Serageldin, others predicted (e.g Fukuyama in Chase Dunn & Podobnik, 1999: 40) that the next big war will be of an economic character, an

[1]The Human Rights Council adopted, in September 2010, Resolution 7, stating that, 'the human right to safe drinking water and sanitation is derived from the right to an adequate standard of living and inextricably related to the right to the highest attainable standard of physical and mental health, as well as the right to life and human dignity" (UN, 2012: 35).

argument posed in the context of globalization. This prediction entailed that the global gap between the rich and the poor increase tensions both within and between states. Inequalities have become a central concern in the debate on development.

The process of globalization has brought into existence a hierarchical structure in which the World Bank and the International Monterey Fund (IMF) work in accordance to neoliberal theory. One of the greatest challenges the two multilateral institutions have taken upon themselves is development. As a part of the aim to reduce poverty, privatization is argued to increase economic growth and in turn stabilize states. The neoliberal policies have been successfully promoted and multinational corporations invest in the water sector all over the world. Investors in the private sector have taken over the role of the state in providing people essential needs, while globalization also poses challenges on the traditional idea of the state.

Development has become a global concern shaped by the neoliberal theory. The policing of the neoliberal ideology is therefore global while the experience is national, regional, and local. Nevertheless, there is a problem. Within the neoliberal theory, equity is not a concern, and consequentially not incorporated in the debate on development. This study comes from the understanding that globalization, development, and equity are all dependent on each other to exist, while the relation enhances the meanings even further.

An example of this is the case of Bolivia's water sector privatization (here after referred to as WSP). The story of the Cochabamba and El Alto Water Wars may be some of the most known incidents of privatization failure and have become an icon in the anti-neoliberal and anti-globalization movements. The policies of privatization did not succeed in targeting the poorest groups and equity was overseen. The IMF refers to this period as golden, while this study claims that the one-size fits all approach on development is flawed in the case of Bolivia.

By approaching privatization from the case of the Bolivian WSP, the attempt is to test the validity the neoliberal theory and the three hypotheses generated: a) globalization is characterized by neoliberalism, b.) the international system is founded on unequal structures and finally, c.) privatization cannot achieve equity. The study finds that the opposing views on whether privatization is a satisfactory mean to achieve development are based on a disagreement on what development is. This clash is translated into the relation between the global and the local, which is also shaped by contradiction on development. Globalization is a process were its components result in a severe problem: there is no room for equity.

1.2 Purpose and Aim

There is a gap in the literature on what the role of the World Bank and the IMF, as the agenda setters in the development debate, means on a larger scale. Globalization is a highly debated concept, often perceived as a process with inevitable outcomes. This implies that structures may be unequal but accepted. However, if we acknowledge that within the context of globalization, several actors interplay according to power relations, these shape the framework in which they act. To critically reflect upon a globalization allows for an assessment of these structures and measures preventing the possible consequences of those can be taken. The aim has been to understand how neoliberalism characterizes globalization, shapes the debate on development, and ignores equity, and more importantly, why this is problematic.

1.3 Research Question

Considering the above, there is a problem within the neoliberal theory that has driven the study based on the research question: what can Bolivia's water sector privatization reveal about the relation between globalization, development, and equity?

1.4 Delimitations

Elements as well as a part of the debate that is currently taking place on these issues have been left aside to limit the scope of the inquiry. First it has to be stated that water is used in its broader sense possible, referring to freshwater and its management extracted from surface resources. Sanitation is closely related to water management but the sector has not been privatized in the same extent and manner, thus not included in the water management discussed here. In addition, the environmental aspects of water management and in the promotion of development are excluded. While water management, and long term development is indeed an environmental question, this study revolves around the socioeconomic elements of development.

There has also been necessary restrictions made throughout the material selection. Bolivia struggles with great differences between the urban and rural areas and regional disparities reinforce poverty. Nevertheless, the Bolivian water industry, which underwent policies of privatization, was limited to the urban areas of the country, in particular the cities of La Paz, El Alto, and Cochabamba, therefore these are the focus of the study. In addition, statistics on the public water management in Santa Cruz have been included when a comparison is relevant between privatized areas and the public water management. Furthermore, rather than offering technical commentary on different measurements of development, the focus has been on the underlying conceptual discussion. Nevertheless, measurements have been included, attempting to make the concepts researchable and provide a foundation for a valid conclusion.

1.5 Disposition

The rest of the paper is structured as follows. The literature review in chapter 2 maps the current debate on water management and highlights the two opposing views on development. In chapter 3, the theoretical framework defines the concepts of globalization, development, and equity, followed by a discussion of the neoliberal approach on development with the aim to create a theoretical foundation upon which the hypotheses of the study are either supported or rejected. Chapter 4 addresses the

methodological approach and its limits, along with a discussion of the case-study method and operationalization. Why Bolivia's WSP is important to study and how that is carried out is presented here. The following chapter 5 presents the material and data on the case. In chapter 6, the material is analyzed through the theoretical framework, closing the study with concluding remarks and raise those questions important for future research on the issue.

Chapter 2
THE CURRENT DEBATE

Stories of water shortages and crisis are reported from all over the world. Tigris, the Nile River, and the Jordan River have long been the cause of international conflict along with other examples in Egypt, Ethiopia, India, Kenya, Mexico, Palestine, and Yemen, just to mention some[2]. Clean and accessible water is one of the most important objectives of development. The following chapter will introduce important contributions in the debate on fresh water management that led to the initiative of this study.

2.1 Water is Scarce

The UN comes from the understanding that conflict over water is the result of scarcity and can in turn be explained as an inevitable consequence of population growth (Cosgrove & Rijsberman, 1998). Water scarcity, as the root for conflict over the resource, unites several authors in a larger school of thought (see Stahl, 2005; Kemp-Benedict, 2011; Cook, 2011; Shiva, 2002; Goldman, 2007). There is no way to deny that water is scarce, however, the approach provides only a simplified understanding to the problem, ignoring the most powerful actors involved in the water industry, namely the World Bank and the IMF.

These two multilateral institutions have come to play a crucial role in the promotion of development and have approached the problem of water from a neoliberal understanding, promoting privatization of water under the logic that privatization

[2]See for instance "Hunger in Yemen: Disaster Approaching" in The Economist (http://www.economist.com/node/21553086); "Thirsty Giant" in New York Times (http://topics.nytimes.com/top/news/international/series/thirstygiant/index.html); "Can Israel Find the Water It Needs?" in New York Times (http://www.nytimes.com/2008/08/http://topics.nytimes.com/top/news/international/series/thirstygiant/index.html 10/business/worldbusiness/10feed.html?_r=1); "Ripples of Dispute Surround Tiny Island in East Africa" in New York Times (http://www.nytimes.com/2009/08/17/world/africa/17victoria.html); "Water under the bridge over the Nile" in *Al Jazeera* (http://www.aljazeera.com/programmes/insidestory/2011/09/2011919932323299.html); "The 'Age of Thirst' in the American West" in *Al Jazeera* (http://www.aljazeera.com/indepth/opinion/2011/12/2011127125429770306.html).

increases economic growth and in turn reduces poverty[3] (see for instance Kohl, 2002: 455; Castro, 2008: 63). As a consequence of this, water management has become a complex industry were socioeconomic and political conditions as well as different interests interplay (Stahl, 2005).

2.1.1 Sates in Need of Assistance

Within the neoliberal theory, many argue that the water crisis is a consequence of state failure. The World Water Forum in Hague in 2000 and the Johannesburg Summit on Sustainable Development in 2002 both reached the conclusion that the water sector is a question of management, perhaps more specific a question of governance (Mollinga, 2008; Cosgrove & Rijsberman, 2000). The countries that benefit most from privatization are those with the weakest institutions and the worst public sectors (Nellis 2003: 21). Failed governance is a consequence of a variety of reasons, including inadequate financial resources to undertake the investments needed for provision of essential services, political interference, mismanagement and poor institutional arrangements (Budds & McGranahan, 2003: 97: Castro 2008: 67; Robbins 2003: 1074; Lyla Mehta & Birgit la Cour Madsen, 2005: 155). All of these flaws call for privatizing the water sector. Jennifer Bremer (cited in Robbins, 2003: 1075) argues that,

> "If water access is a right, as recently declared by the United Nations, then it is government's responsibility to make water available as efficiently as possible [...]. If mobilization of private investment is the only way that water systems can be put in place to meet community needs, then governments have a duty to do precisely that. The question is not whether this option makes sense - it is the only option [...]."

2.1.2 The Modified Role of the State

As a part of this process, the role of the state shifts from the provider of essential services to a new one set by the context of globalization. Roderick McKenzie (in Kentor, 2001: 436) was probably the first to suggest a possible linkage between

[3]Poverty is, by the UN, the World Bank, and the IMF defined as living on less than USD 1/day.

globalization and national processes. David Smith (in Kentor, 2001: 436) elaborates on McKenzie's findings and states that population growth, and other dynamics of development are embedded within a larger, global context. Charles Tilly (1978) argued that the high rates of population growth in less developed countries (LDC) would turn out to be less due to consequences of their own peculiar internal organizations, than due to the effects of their economic relationships with the wealthier North. By trying to exclude politics from the debate of development, both states and different institutions involved reproduce power and legitimacy (Harris *et al.* in Mollinga, 2008: 9). Water management is founded on a broader sociopolitical structure, parallel to economic interests.

It is not particularly controversial to claim that the modern economy is dependent on economic growth for its stability (e.g. Jackson, 2009:14). Nor is it an explanation of the current system in which development is shaped by neoliberalism. In addition, it is not satisfactory to address the water crisis solely as a consequence of scarcity. It becomes clear in these scholarly contributions that management of water is related poverty and power relations. Nevertheless, the relation between multilateral institutions, the policies they implement, and development has not been properly discussed. The neoliberal theory, its ideology, and finally the policies, have defined the concept of development.

Nevertheless, none of these contributions raise the problems related to privatizing an essential need. The most remarkable gap in the literature is the exclusion of equity, which this study aims to fill by approaching the problem of water from a different angle - testing neoliberal theory through the case of Bolivia's WSP. In addition, there is a division between those who favor privatization as an efficient way to achieve development and those who claim that the policies neither achieve the scale, nor the benefits anticipated. These opposing views reveal a clash in how development should to be accomplished and calls for a critical analysis on what that clash means which will be elaborated further.

Chapter 3
THEORETICAL FRAMEWORK

3.1 The Debate on Globalization

Globalization has become a widely debated concept approached from a variety of different settings - historical, economic, technological, cultural, political and social. We have, for the last two decades, witnessed a "new" globalization that compressed time and place. The process of globalization has accelerated and it is characterized by increasing multidimensional international networks and intra-national processes affected by global dynamics (Kentor, 2001: 436). The "new" wave of globalization coincided with the redrawing of the geopolitical map of the Cold War period and created trading blocs and political superstructures (Laurie & Marvin, 1999: 1401).

Simultaneously, the neoliberal economic ideology was globally adopted. Globalization rests on a hegemony of international institutions, rather than on nation-states, that are united by a liberal, market centered ideology (McMichael in Kohl 2002: 453). The two phenomena cannot be equalized, however, globalization plays an important role in the spread of neoliberalism and in the creation of the global economy (Wade, 2004: 567; Laurie & Marvin, 1999: 1402).

3.1.2 Global Answers to Global Problems

States have encountered globalization with different advantages and disadvantages and one of the challenges is development. Globalization has not only made development a global concern, but also a debate of global interest in which the neoliberal ideology is evident. Globalization is driven by powerful actors striving towards an increased economic integration manifested by neoliberal policies (Shiva, 2002: 87). Two of these actors are the World Bank and the IMF (Kohl 2002: 450). As a result of this, economic development is a part of a system nested within a multidimensional global network of economic, social, and political relations (Kentor, 2001: 438). The argument goes, that as more and more countries liberalize their markets, the North/South, core/periphery, or rich/poor hierarchy will erode (Wade,

2004: 567). Globalization has not only facilitated the neoliberal expansion but also created an international system in which these institutions act.

3.2 Modernization or Dependency?

The debate on the impact of globalization, in relation to development, is based on two opposing theoretical perspectives of modernization and dependency (Kentor, 2001; Babb, 2005).

Modernization theory is based on the understanding that development is a process all countries go through, roughly the same way, and that international assistance will speed up the process. For modernization theorists, all good things go hand in hand: capitalist development, democratization, industrialization, urbanization, and increased well-being are all parts of a single process (Babb, 2005: 199). Even if modernization has some negative consequences for developing countries, these are seen as an inevitable part of the process.

Dependency theorists on the other hand, assert that development is an invariant process. Domination of the rich over the poorer countries meant that development looks quite different in the periphery (Babb, 2005: 199). The current economic, political, military, and social environment is very different from the one experienced by developed countries, and it prevents these to grow (Kentor, 2001: 436). The countries become dependent upon the developed for manufactured goods and capital. Immanuel Wallerstein (1979) argues that the "core" countries are enabled to benefit from the system and obtain favorable trade relations. This "world-system" perspective suggests that there are structural characteristics that generate and maintain a global hierarchy.

3.2.1 Money Makes the World go Round

The World Bank and the IMF aim to ensure a steady growth rate and prevent the consequences of a possible recession in a global economy dependent on economic growth for its stability (Jackson, 2009:14). As a part of this, the debate on development has traditionally focused on economic means to ensure the preferred growth and in turn national development. The neoliberal argument states that macroeconomic instability, low growth rates, and income inequalities are all factors that contribute to high rates of poverty (IMF, 2000: 12; IMF, 2000: 3). The absolute poverty line tends to fall as the growth rate increases. However, policies promoting growth often have distributional implications and equity is overseen (Ravallion, 2003: 752).

3.3 The Spread of Neoliberalism and the Advancement of Privatization

The trend towards WSP reflects a change in the global development debate. From the 1950s to the 1970s, focus was placed on nationalization of natural-resource-based sectors (Goldman, 2007: 787). In the 1970s the neoliberal agenda was adapted by North-dominated institutions, primary the World Bank and the IMF (see for instance, Budds & McGranahan, 2003: 91; Kohl, 2002: 455; Castro, 2008: 63; Shiva, 2002: 87). The new, core solution to achieve development was to promote economic growth in regions that had been less successful through freer domestic and international trade and more open financial markets. The world economy became more deeply integrated (Wade, 2004: 567).

The rise of the global debt crisis in the 1980s forced the World Bank to reinvent itself and the result was an increased deepening of the bank and the IMF's power (Robbins 2003: 789). Through the Structural Adjustment Programs (SAP) and the New Economic Policy (NEP) leverage was used as creditors to indebted governments (Budds & McGranahan, 2003: 91; Kohl, 2002: 455). The debt crisis, in a combination with the newly implemented economic policies, pushed several countries in the global South to sell off public enterprises. Education, health care, electricity,

transportation, telecommunications, water, sanitation, oil, and gas were all privatized under the logic of neoliberalism (Goldman, 2007: 787).

However, the increase in capital loans in the late 1980s allowed for a new neoliberal policy to be promoted - privatization. The privatization policies came from an attempt to allow the global South to reach the same level of development as the North, established in a period where neoliberalism shaped the politics of a global market (Budds & McGranahan, 2003: 91; Robbins 2003: 1080; Castro, 2008: 63; Shiva 2002: 87). The World Bank stated at the 1992 World Summit on Sustainable Development that their mission was to,

> "Asses the accomplishments and failures of the past and ten years to agree upon a program for the future [...] water privatization is the best policy to tackle the global South's poverty and water-delivery problems" (Goldman, 2007: 787). "Efficiency in water management must be improved through the greater use of pricing and [...] through privatization." (Robbins, 2003: 1077).

From the early 1980s and onward, most Latin American countries abandoned public sector ownership and the import substitution industrialization that advocated a replacement of foreign imports with domestic production. Instead, neoliberal policies and a private sector ownership of natural resources were adopted (Robbins 2003: 789: Gasparini, et al. 2009: 14). During the 1990s, when several countries in the on the Latin American continent suffered severe macroeconomic problems (Gasparini, et al. 2009: 14), private sector participation was promoted in the water and sanitation sectors throughout the global South in an attempt to achieve greater efficiency and an expansion (Budds & McGranahan, 2003: 87; IMF, 2000: 3).

Key to this change was recognizing water as an economic good, as opposed to a human right (Robbins, 2003: 1074; Shiva, 2002: 19). The main argument that supported the new reforms was that governments carry the responsibility to distribute essential services but a neoliberal expansion would help in relieving pressure on public budgets (Castro, 2008: 65, 68). The policies aimed at stabilizing LDCs' economies, liberalize domestic markets, privatize state companies, and reduce the

role of the state in the economy. The way to a liberalization of international trade and foreign direct investment (FDI) was paved with the aim to restore the conditions of growth (Cornia, 2012: 3). The World Bank and the IMF suggested that it was only through a liberated market that poor countries could grow and catch up with the developed world (Babb, 2005: 200).

Privatization became particularly attractive in comparison to SAP because it both satisfied multilateral lenders and provided much needed revenues. Trapped in debts and stagnating economies, governments were increasingly courting foreign investors, who in turn were more likely to be attracted to governments that provided strong guarantees to property rights and did not interfere in markets. The neoliberal wisdom of the 1980s and onwards demanded a dramatic downsizing of government interventions. Governments would receive loans if they agreed to implement specific economic reforms and encourage free market and foreign investment (*Ibid*: 200-201).

Neoliberalism and the policies of privatization have become a normative instrument to achieve development, in the sense the concept is understood by the World Bank and the IMF. There is a general understanding that financial planning for urban water services should be based on cost recovery (Nickson & Vargas, 2002: 102). Multilateral institutions took on the role to develop the world in accordance to the promises of globalization. The less developed South adapted the new, and in turn, the global mainstream idea on how to benefit from participation. As discussed in this section, markets all over the world were liberalized and structural adjustment programs and later privatization became the instrument for development (Shiva 2002: 87).

3.4 The Characteristics of Privatization

Policies for promoting private sector participation through privatization has been driven by the wider neoliberal strategy led by the World Bank and the IMF[4] (Castro, 2008: 63; Shiva, 2002: 87). In the most pure sense, privatization refers to "the transfer of majority ownership of state-owned enterprises to the private sector by the sale of ongoing concerns or of assets following liquidation" (Mehta & la Cour Madsen, 2005: 156). The private sector covers a wide range of arrangements between a government agency and nonpublic institution through FDI, often through contractual agreements involving a public agency and a formal (often multinational) private company (Budds & McGranahan, 2003: 88)[5]. In a broader sense, privatization is one part of a wider set of market oriented reforms such as trade liberalization and changes in the regulatory institutions (McKenzie & Mookherjee, 2003: 164).

Despite its prominence in current and recent debates within the water sector, somewhere between five and ten percent of the world's population was served by the private sector in 2003 (Budds & McGranahan, 2003: 111; Castro, 2008: 63; Goldman, 2007: 790). Nevertheless, that is about 500 million people dependent on a few water companies for their supply. Globally, WSP has been decreasing since the beginning of the twenty-first century due to a combination of underestimated risks, overestimated profits, and problems with contracts. (Budds & McGranahan 2003: 111).

[4]The World Trade Organization also instituted WSP through free trade rules embodied in GATS (Shiva 2002: 93). These policies are also a part of the neoliberal doctrine but differ from the once carried out by World Bank and IMF thus they will not be discussed here.

[5]In the water sector, the most popular form is concession contracts. Governments maintain ownership of the infrastructure and, through a public bidding process, transfer to the private sector the responsibility for management, service provision and investment during a concession period. When the contracts expire, the responsibilities of provision return to the public sector, ideally with improved management and infrastructure (Hailu, *et al.* 2009: 3; Mehta & la Cour Madsen, 2005: 156).

3.4.1 How can Privatization Promote Development?

Most water concessions have followed a similar model (Komives & Brook Cowen, 1998: 1). FDI is believed to compensate for labor shedding in inefficient sectors by creating jobs in more efficient, productive firms. Throughout the global South, there are evidences that suggests that foreign-owned firms are indeed more efficient and productive than the domestic ones they are replacing (Taylor in Babb, 2005: 213).

Most arguments in favor of neoliberalism are rooted in neoclassical economics. FDI is seen to increase the stock of capital within the host country (Robbins 2003: 1074). Social functions and economic development should be undertaken by business within free markets, with the state playing a facilitating and regulatory role without direct engagement (Budds & McGranahan 2003:91). Expanding services through privatization means an expansion to low-income households while prices are held back due to increased efficiency (Komives & Brook Cowen, 1998: 1). Shortage of capital has often been seen as a major obstacle to development, and FDI is as an attractive way of breaking the cycles of poverty (Robbins 2003: 1074). In short, foreign resources supplement domestic resources when there is no local equivalent. There is a perfect competition suggesting that profits are not excessive and multinational corporations assist LDCs in extracting resources efficiently (Robbins 2003: 1075). Profitability, labor productivity, firm growth, and market valuation makes privatization an attractive policy for development (Megginson & Netter 2001).

3.4.2 Pro-Poor Policies

The World Bank and the IMF have stated that their policies are modified to a pro-poor approach which attempts to achieve a greater increase in income for the poor than the non-poor (Ravallion, 2003: 751). For WSP this means that assets are transferred from rich to poor households, or that provisions are increased to the poor more than proportionally (Hailu, *et al.* 2009: 10). The World Bank and the IMF require the most impoverished borrowers, such as Bolivia, to set aside a fixed percentage of their expenditures for pro-poor spending. However, because these lenders simultaneously require reductions in government spending, deflationary

monetary policy, and repayment of external debt, the effects of these new policies may be cancelled out (Babb, 2005: 205; Robbins 2003: 1078). Making privatization pro-poor is based on the notion that it can benefit low-income groups as well as facilitating access to private services. Critics claim that such measurements cannot address the fundamental reason for which poor groups in low LDCs lack access to basic water services (Budds & McGranahan, 2003: 112). Distributional changes can be pro-poor but without any absolute gain for the poor, with the risk of a decreased living standard (Ravallion, 2003: 752).

3.4.3 Is Privatization the Right Way to Go?

While some argue that privatization has become the scapegoat of the failures of neoliberalism as a whole (e.g. Nellis, 2003: 19), dependency and uneven development cannot be overseen.

Theorists who focus on the oligopolistic nature of multinational corporations provide a contrasting view to that of the neoclassical economists'. The global spread of neoliberalism is a component of globalization and FDI is a strategy of globalized firms, hence not only a resource flow (Robbins 2003: 1075; Korten 2001: 90; Bello 2004: 83). Multinational corporations have an oligopolistic advantage in terms of access to capital, technology, marketing, and raw material. These corporations are global institutions that actively and intentionally produce markets to maximize profit (Robbins 2003: 1075). Critics on privatization raise the concern that investments of multinational corporations reflect a power hierarchy rather than policies of efficiency. Multilateral institutions are perceived as means of pursuing the interests of the donor countries' own private sector rather than those of the recipients (Shulpen & Gibbon, 2002; Budds & McGranahan, 2003). These corporations are in some aspects taking over the role of the government, shifting the provision of essential needs to profit run firms.

FDI and privatization have five possible negative consequences on the host country. First, privatization in developing countries has often been tainted by long-standing

collusions between big businesses and governments, which led to the consolidation of monopolies rather than the establishment of competitive markets (Ramirez & Schamis in Babb, 2005: 204). Labor markets are being strained by bankruptcy of domestic firms that cannot compete with the flood of cheap imports from open trade (Babb, 2005: 212). Second, the structure of the host country is distorted by generating a small, highly paid class of elites to manage the new investments and expanding the tertiary and informal sectors of the economy. In addition, most of the employment generated is in low-wage jobs (Evans and Timberlake in Kentor, 2001: 438). Third, profits from the investments are repatriated rather than invested in the host country (Bornschier in Kentor, 2001: 438). Fourth, foreign capital penetration tends to concentrate on land ownership (Furtado in Kentor, 2001: 438). Finally, host countries are likely to create political and economic climates favorable to foreign capital investors rather than domestic investments (London & Robinson in Kentor, 2001: 438; Babb, 2005: 207).

In addition, it is impossible for LDCs to borrow capital from the World Bank or the IMF without a domestic WSP policy as a precondition (Goldman 2007: 790). The structure, which is upheld by neoliberal policies, maintains the power hierarchy. As emphasized by dependency theorist, domination of the rich over the poorer countries meant that development looked quite different in the periphery (Babb, 2005: 199) and the current debate on development might be counterproductive - preventing LDCs to grow (Kentor, 2001: 436).

The two opposing views on development reveal contradiction within the concept of globalization. The globalization process has made national development a global concern shaped by neoliberalism. Development is placed on the agendas of multilateral institutions but the results are not always as predicted in theory.

This brings in the last of the three key concepts and the problem driving the study - equity. In the current debate, where the neoliberal policies of privatization of essential human needs have become the main instrument to foster development,

there is no room for equity in the current understanding of globalization and within the debate on development.

3.5 The Importance of Equity

Equity, in this study, is defined as secure access to basic human needs within a country, but also equally beneficial relations between states. The definition incorporates all levels of analysis meaning that it is impossible to achieve equity on a local level without an international counterpart, and *vice versa*. In this integrated system, the state is the link between the local and global. Notably, privatization of essential services raises a discussion of the role of the government. Water resource management stretches beyond the physical boundaries of states, but also across different fields of research (Mollinga, 2008: 8). This is particularly evident in the current understanding of globalization.

3.5.1 Global Equity

As the geopolitical map was redrawn and a "new" wave of globalization gained force, the world was divided into the developed North and the less developed South. Although individual countries succeed and become new members of the North, there is a power imbalance. Ideas on inequalities and fairness have been highly debated within the neoliberal school of thought, especially among its critics (see for instance Castro, 2008: 67; Babb, 2005: 209). While the benefits of globalization are many, the gap between the rich and poor is continuously intensified (e.g. Alvaredo in Cornia 2012: 1; Babb 2005: 210; Ravallion & Chen, 2006; Chase Dunn & Podobnik, 1999: 49; Ravallion, 2003: 752). On the other hand, the World Bank and the IMF claim the opposite (Dollar, & Kraay, 2002: 120; Goldman, 2007: 787; Nellis, 2003; IMF, 1998; Kentor, 2001; Komives & Brook Cowen, 1998).

Claims to rising equity between countries are often based on the indisputable fact that India and China have been growing at a tremendous pace over the past two decades. However, the measurements are population-weighted, accordingly the most populated nations tend to contribute to the decrease of inequalities between countries

(Ravallion, 2003: 743). In addition, these two countries are not representative of free market reforms and privatization of resources[6]. Simultaneously as these two successful examples were embraced, the Latin American economies, in which neoliberal reforms were implemented, suffered from stagnant levels of economic growth (Babb 2005: 210).

There is a disconnect between the idea of globalization as a process reducing time and space and the socioeconomic exclusion that constitute the experience in a large part of the world. As already touched upon, heavily indebted, capital-poor countries with high levels of unemployment are desperate for foreign investment. Governments have to promote their markets to investors by offering lower levels of taxation, selling low-wage labor, etc. This may in turn lead to an even greater polarization between developing and developed countries, where the former are forced to converge on a low regulatory standard and levels of social protection (Babb, 2005: 207). Globalization maintains the hierarchical structure, that to a great extent is facilitated by the neoliberal theory (Alvaredo in Cornia, 2012: 1).

3.5.2 Local Equity

Markets are embedded in social relations that are unequal by their nature and molded by existing power relations (Mehta & la Cour Madsen 2005: 156). Because of this, markets are often unable to guarantee equity and affordability of access of the commodity in question, especially since the focus is on the collective benefits of firn efficiency which can, in turn, have high social costs (Donnelly in Mehta & la Cour Madsen 2005: 156). This has been evident in the water sector which is characterized by high levels of natural monopoly (Mehta & la Cour Madsen 2005: 156). Obviously, to a large extent the access to water is naturally set, though the problem is evident in states' responsibility to ensure their citizens' universal and affordable access to the service.

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[6]Although development in India and China used trade and foreign investment to their advantage, India's growth begum a decade before it implemented its privatization reforms and China has an enormous state-owned sector and an inconvertible national currency (Rodrik & Subramanian in Babb 2005: 210).

Equity, approached from a neoliberal perspective, might not necessarily be a negative component of the economy. Inequalities provide incentives for effort and risk-taking, and thereby raise efficiency. Only if the situation of the poorer worsens, there is a problem (Wade, 2004: 582). In addition, the argument empathizes that inequalities between countries are not in the power of the economic theory, rather just promoting national economic growth within national borders (*Ibid.*). In other words, there is no room for equity in the neoliberal theory, it is not a concern of privatization policies, and consequently, not evident in the current debate on development.

3.5.3 Unequal Structures?

How equity is understood and achieved is rather problematic. The effects of inequalities within and between countries can be seen as dependent on prevailing norms. While power hierarchy may be understood as a natural condition, the effects can be expected to be lighter than when prevailing norms affirm equality (Wade, 2004: 583). Norms of equity are institutionalized by the North and are in turn influencing the debate on development. From this understanding, promoting equity is also a mean to maintain power imbalances. The critics takes us back to the level of analysis and the unsolved question on how to study international relations in the best way. This will be addressed and further discussed in the following chapter of methodology.

To conclude what has been said so far, it should be pointed out that globalization plays an important role in the spread of neoliberalism and in the creation of the global economy. The World Bank and the IMF are acting according to the neoliberal theory, while they work under the assumption that higher growth rates in turn promote national development. Privatization is encouraged from a supranational level implemented by the state, and in turn experienced at a local level. The problem is that the opposing views on development reveal a clash within the context of globalization, that is in turn translated into the national implementation of such development.

The theoretical discussion held in this chapter can be summarized in the term *water management industry*, referring to the policies and affect of global institutions in privatizing water services. How we view water management is to a large extent founded in whether water is an economic or a public good and goes back to the essential human need of fresh water. While giving importance to how economic, social, and demographic forces shape the management of fresh water, this study states that these are components of the neoliberal ideology that spread through the globalization process. The hypotheses generated by the theory is that a.) globalization is characterized by neoliberalism, b.) the international system is founded on unequal structures and finally, c.) privatization cannot achieve equity. There is a relation between globalization, neoliberalism, and development which is problematic because of the lack of equity.

Chapter 4
METHODOLOGY

This chapter addresses the philosophy of knowledge that gave rise to the question and what the answer is striving at. How objectives of the study are perceived shapes the whole research design, from the formulation of the question to the final analysis. The method guiding the research will be introduced and its limitations addressed.

4.1 A Positivistic Approach on Knowledge

The methodology of this study emanates from a critical realist approach that is of a normative character arguing for a stronger sense of objectivism in the social scientific method (Delanty, 1997: 112). Critical realism runs through the hermeneutical tradition but differs from constructivism on the view on objective truth, stating that knowledge is mediated by the discourse of science (*Ibid*: 39). In addition, the epistemology assumes that the study of the world should focus on different structures to counteract inequalities and injustices (Mikkelsen, 2005: 135). In this study, equity is a major concern and an identified problem in the neoliberal theory (see chapter 3). The structures in which globalization exists may not be the absolute truth but allows for a different understanding than currently given by different contributions on development. Empirical evidences are important to reveal structures on a scientific ground and assist the research in testing the theory and hypotheses (*Ibid*: 135).

Globalization is, in this study, approached from a holistic top-down level of analysis. The first debate on the relation between the international system and the nation state provides an understanding of those structures referred to as global (Hollis & Smith, 1990: 7). The international system is a set of values and norms that shape the process of globalization, thus the structure in which the system is shaped has to be explored to understand the relation between globalization, development, and equity. The importance to study international relations from a bottom-up perspective is not overseen. Nevertheless, since the assumption is that what is experienced on a local

level in dictated at the supranational level, this becomes the starting point of the research.

Science is supposed to penetrate the generative mechanisms operating in the real world. The aim is to reach generalities and knowledge of an objective social reality as it really exists (Delanty, 1997: 112, 130). Applied on the bigger picture, the aim of this study is to critically discuss globalization as a process and as a perceived reality taken for granted. This study is of a critical character because of the hypothesis of the existing global structures. The main critique is posed towards the gap in the theory of neoliberalism, however, it is assumed that the issue is evident in the neoliberal policies carried out by the World Bank and the IMF, therefor the concept of globalization is key in the research.

4.1.1 The use of Theory and the Logic of the Hypotheses

Considering this, the methodology of the study goes hand in hand with the hypotheses. The international system is built on hierarchical structures and the current process of globalization, together with the global neoliberal economy, maintain these structures. The research is characterized by an interpretive theory with the understanding of social phenomena as being historically constructed and strongly defined by power asymmetries and conflicting interests (Mikkelsen, 2005: 135-136).

By the use of theory in a deductive logic, additional concepts and variables become evident, while the analysis is carried out in a systematic manner (Moses & Knutsen, 2007: 22). The case of Bolivia tests the neoliberal theory and the hypotheses as it allows for a conceptual validity and a contextual discussion (George & Bennet, 2005: 9, 19). A theory development reveals, in turn, what can be concluded as generalities and what are particular circumstances for the individual case.

4.1.2 Methodological Constraints

There is a limitation with the methodology discussed here - research can, according to this approach, never be finished. The world exists in different sets of statements that are believed to be the truth and knowledge. When concepts enhance each other, their perceived meaning is reestablished *as* knowledge, confirming the meaning even further. If research reveals global structures upon which the world is functioning, that is not satisfactory in itself. By reaching an agreement through research on a certain injustice in society it becomes the objective truth. The risk is that is also becomes accepted simply as a natural structure that the real world is built upon.

The central issue lies in the question of to what extent reality is constructed by social science (Delanty, 1997: 111). This becomes evident in the hypothesis. The assumption formulating the hypothesis cannot be overseen as simply a statement, but shapes the research. Critical realism is designed to produce knowledge of something perceived as a natural phenomenon, but is confined to the limits of its own methodology (*Ibid*: 112). To approach a phenomenon of a global scope and asses the major components contributing to its existence require a methodology that allows a smaller part of the bigger picture to be addressed individually. This is where the case of Bolivia and its WSP contributes to the understanding of globalization.

4.2 Method

A case study is a delimitation though it serves the purpose of this particular study. To place a case in the center of the research allows for a greater inclusivity of variables and the concepts become researchable. It is crucial to identify variables of importance that were initially left out in order to reach a deeper understanding of the object studied. A case study can assist in the understanding of theoretical interconnections of variables and concepts (Moses & Knutsen, 2007: 139). A statistical method the other hand, does not have this possibility while a single case study allows for heuristic identifications to be brought in to the research as the study is carried out, which is necessary when looking at variables and the causal connection to concepts (George & Bennet, 2005: 20-21). The key concepts can, together with the

variables (see 4.2.4 for a discussion of the indicators), assist in the identification of the linkage and outcome of these. Single case studies may be at risk of indeterminacy, though a suitable method to allow for a operationalization of the concepts within a researchable limit (Moses & Knutsen, 2007: 32).

By focusing on one specific case, generalities are probably invalid (*Ibid*: 25) though the aim is to approach one case within a greater issue to allow for a comprehensive analysis and test the neoliberal theory and critically discuss globalization as a process and a phenomenon taken for granted.

4.2.1 Why is Privatization of the Water Sector Important to Study?

Within this field of studies, the World Bank and the IMF are key actors as they set the international development agenda while also providing financing in times when other finances are not available (Wade, 2004: 583). As already discussed, privatization of resources have been adopted as a mainstream global policy to achieve development. Water in particular is important since it an essential human need, in many aspects recognized as a human right. If there is no access to safe fresh water, other areas of development, such as health and education, will have an unfortunate outcome.

The two most debated issues on neoliberal reforms, and privatization in particular, are whether they have promoted development and whether they have promoted equity (Babb, 2005: 209). Privatization of water services has taken place on a much larger scale in developing countries than in industrialized ones, suggesting a power imbalance between the investors and the assisted. By the end of 2000, at least 93 countries had partially privatized water or wastewater services and more than 65% were developing countries (Mehta & la Cour Madsen, 2005: 156). The use of water management conveys the sense that the management of water is a significant factor and force in societal and economic development (Mollinga, 2008: 11). Considering this, water management becomes an important objet to study within the field of international relations.

4.2.2 The Case of Bolivia

Latin America is a given case to study neoliberal policies since it has awarded more privatization contracts in the water and sanitation sector than any other region. It is also argued to be the most unequal region in the world (Cornia, 2012: 1) which raises the question on a possible relation between the two. Besides the great extent of neoliberal policies encouraged by international financial institutions, the scope of privatization on the continent can also be explained by two additional factors. Many cities have large populations, but also a large middle class that attracts private investors. Beyond this, poor conditions for water and sanitation services in relation to indebted governments justify means of change (Budds & McGranahan, 2003:107).

As one of the poorest countries in the world with more than half of the population living below the poverty line (IMF, 2000: 6; Castro, 2008: 75), Bolivia is a case were multilateral institutions are involved in the development of the country meaning that the state has a limited power to design the contracts of private investors, but also maneuver the policies promoted by multilateral institutions. In addition, Bolivia is a case were the neoliberal reforms were opposed by the civil society, suggesting a clash between theory and its outcomes. Many governments throughout Latin America accepted neoliberal policies during this period[7], but as the country with the lowest Gross Domestic Product per capita (GDP/capita) the case allows for a critical evaluation of development.

4.2.3 The Study of the Material

All studies are prone to a "selection basis" regarding what material is analyzed and how the design of the research is carried out (George & Bennet, 2005: 22). It may be even more visible in a case were contrasting views are competing and different interpretations of the outcomes are inevitable. However, to provide a wide range of

[7]Private sector contracts have been implemented in Argentina, Bolivia, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Honduras, Mexico, Puerto Rico, Uruguay, and Venezuela (Budds & McGranahan, 2003: 108).

material and a reliable process while gathering it, the research has strived towards triangulation (Halperin & Heath, 2012: 177).

This case study is a qualitative content analysis aiming at a conceptual discussion. Access to research and statistics that has already been carried out, in combination with the theoretical framework, provides an understanding of the greater picture of the case, compared to what direct observations or interviews could, and beyond a scope of the data that could have been gathered for this study in particular (Halperin & Heath, 2012: 177). Content analysis of the material allows theory, attitudes, and the determined variable to be discussed in detailed. It is also an efficient method to explore ideological differences (*Ibid.),* that in turn have shaped the neoliberal theory on globalization and the debate on development.

Both sides of the globalization debate support their arguments with "real data" which raises a problem of measurement and how those are interpreted (Ravallion, 2003: 739). Relative and absolute measurements are used depending on the preferred outcome. Those who say that globalization is good for the world's poor base their argument on absolute measurements, while relative measurements tend to show the consequences of globalization for the poor (*Ibid:* 741). Conflicting claims on inequalities are also evident. The explanation for this is given in the definition of the concept and whether measurements concern inequalities between or within countries (*Ibid:* 742). This calls for clarity on the concepts and the measurements used. Those commentators not showing awareness of the problem have been excluded from this study.

Data is generated through an analysis of reports, scholarly articles, statistics, and publications by the World Bank and the IMF. As the first step, these assisted in the mapping of the spread of neoliberalism. The second step was, guided by the theoretical framework, to sort out the material necessary to answer the research

question. The theoretical framework, together with previous research on WSP in Bolivia determined the variables upon which this study is systematized[8].

4.2.4 Opinion, Access, and Price as Variables

The first variable is opinions on privatization policies which aims at exploring how policies on WSP have been perceived. This indicator provides a more comprehensive understanding of the potential problems experienced because of privatization and possibly an insight on the clash between the local and the global levels discussed in chapter 3.

The second variable is access to water since increased access is one of the main arguments favoring privatization. For poor people, access to clean and affordable water is a prerequisite for achieving a minimum standard of health and to undertake productive activities. As far as equity is concerned, access to water refers to providing all households with the same level of utilities despite their income status (Hailu, *et al.* 2009: 10).

International concerns about access to water have long been acknowledged and is one of the strongest argument in favor of WSP (see for instance Hailu, *et al.* 2009: 10). Improved access means water in enough quantity, of reasonable quality, and as close to the dwelling as possible[9].

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[8]Income inequalities are a common measurement to reveal the distribution of resources (see for instance Milanovic, 2006). During the 1980s and 1990s there was an increase in income inequality in Latin America, with a consistent concentration of wealth in the top decile of the population (Portes & Hoffman in Babb 2005: 211). However, this cannot only be traced back to the implementation of neoliberal reforms but also the debt crisis of the 1980s and the peso devaluation in the 1990s. In addition, different methods to map inequalities are not comparable and require a detailed discussion of the multiple means of measuring (Wade, 2004: 575). Considering this, is income inequalities within or between countries is not a variable of the study.

Also, unemployment is a commonly used variable to measure equality. Although privatization as a whole is argued to have resulted in employee layoffs (McKenzie & Mookherjee, 2003: 162; Kohl, 2002: 456; Spronk, 2007: 11), no data is available on the employee effects because of the WSP.

[9]Households with water delivered through one tap on a household plot (or within 100 meters) typically use about 50 liters of water a day, rising to 100 liters or more for households with multiple taps (UN, 2006: 83).

The final variable is price changes of water. While the private management of water systems can, in principle, reduce the water prices paid by consumers, it is often claimed that privatization tends to drive up the prices for consumers. Essential utilities have been provided but shut off when the poorest could not afford to pay for them (Goldman 2007: 786). Affordability is assessed through households' per capita monthly expenditure and income, thus taking income and inflation into account. By just looking at the price of water, the actual effects of a price change would not be evident. If households spend more than three percent of their per capita income on water, then water is considered non-affordable to them (Hailu, *et al.* 2009: 11).

In addition, since prices on water can differ between areas, water expenditure is looked upon to reveal how much water is used in relation to income. The key word in discussing equity is affordability and who is able to pay for an essential need. The variable assumes that water is an inelastic good, meaning that the demand does not change in relation to income. If households' water expenditure (within a given city and already connected to the utility) increases more than proportionally to their increase in income, then the relative prices may have risen (*Idid*: 18).

Chapter 5
MATERIAL

5.1 The Bolivian Water Sector Privatization

Bolivia privatized the principal, and five most strategic utilities - electricity, telecommunications, oil and gas, airlines and railway, sanitation and water in the 1990s to a value of USD 2 billion - 30 percent of the countries' GDP (Kohl, 2002: 456; McKenzie & Mookherjee, 2003: 167). Privatization of the water sector was initiated in La Paz, El Alto and Cochabamba, three large Bolivian cities (Hailu, *et.al.* 2009: 6). To both the government and the investors' surprise, it was shown to be more difficult to privatize water than other principal utilities, resulting in the cancellation of the concessions in both Cochabamba and El Alto.

In the World Bank's 1997 Development Report (1997: 140), Bolivia is listed among one of the countries that achieved a good policy environment, and it is emphasized that the national government was the major stakeholder in the privatization process. The policies were exclusively a government initiative, and the government negotiated the contracts (*Ibid*: 154). The IMF also perceived the process from this perspective, claiming portraying the Bolivian state as the main actor implementing the policies, "pushing a medium-term strategy to accelerate economic growth and reduce poverty" (IMF, 1998:1). According to the IMF Poverty Reduction Strategy (2000:2), a "fully participatory" dialogue with the Bolivian government and the donor community resulted in neoliberal reforms.

The Bolivian government developed the necessary legal framework in the water sector, and the required legislation was approved in 2000. Concession contracts were signed between the government and a number of private investors, including a number of stipulations for expansions, internal efficiency, and quality goals. A tariff regulation was established under a rate-of-return mechanism with a five-year regulatory lag, designed to permit the firms to comply with contractual obligations (McKenzie & Mookherjee, 2003: 168). However, the aftermath of the Water Wars

concluded that the contracts suffered several disadvantages affecting productivity and allocative efficiency (Nickson & Vargas, 2002: 100). The World Bank concluded that the case of Bolivia shows how poorly designed privatization programs backfire economic efficiency and political feasibility (1997: 154).

In terms of annual growth rate during the period of privatization, the Bolivian economy grew between the years 1997 and 1998, during the time of the El Alto and La Paz concessions, from 4.8 percent to 6.8 percent by mid 1998. However, by the end of the year until the end of 2000, during the time of the Cochabamba privatization, the economy down spiraled drastically with a negative growth of 0.9 percent (Trading Economics, 2012).

5.2 Why Did Bolivia Privatize Its Water Sector?

The answer to the question has several, though interlinked, answers. As already mentioned, private and foreign investment had become a mainstream policy, adapted even by left of the center politicians (Castro, 2008: 64). Another answer, discussed by dependency theorist (see section 3.2), is that heavily indebted countries, especially LDCs, do not have the power to oppose neither globalization, nor multilateral institutions such as the World Bank and the IMF (Babb, 2005: 207; Budds & McGranahan, 2003: 97).

In addition to these two, a third explanation is given in a historical context. The government, that came in to power after the national-popular revolution of 1952, embarked on a plan to develop the economy along state-capitalist lines. The tin mines of Bolivia were placed under national control and FDI was limited. After a post revolutionary period of military rule that began in 1964, a leftist coalition government was elected in 1982 (Spronk, 2007: 9-10).

The new government inherited an unmanageable debt-load, largely accrued by an elite who transferred earnings overseas rather than invest in Bolivia. In an attempt to redistribute the social wealth after decades of hardship and repression, the

government adopted a wage policy. The Bolivian economic situation quickly spiraled in the 1980s - a time and place where the whole Latin American region faced hyperinflation and crashed prices of commodities (*Ibid:* 10). The World Bank and the IMF responded to the crisis by the implementation of the NEP and SAP in 1985. This meant that a new ideological framework, that went beyond macroeconomic stabilization to include fiscal reforms, trade liberalization, and privatization, came to shape Bolivia's future economic, social, and political choices (IMF, 2000: 4; Kohl, 2002: 454).

One of the architects of the NEP, Gonzalo Sanchez de Lozada was elected president in 1993 and pushed, together with a coalition, a privatization program through congress (Spronk, 2007: 10). The following step towards neoliberalization came to be called the Law of Capitalization and meant that half of the shares in public companies in the major sectors of the economy - energy, transportation, and public services - were sold to foreign companies and the other half to private companies in Bolivia (Kohl, 2002: 450). The unpredicted result was that more than half of the shares were transferred to foreign companies and Bolivia was placed under the control of multinational corporations, including the municipal water utilities of La Paz, El Alto, and Cochabamba (Spronk, 2007: 11).

Finally, the fourth reason concerns the political structure in which the Bolivian government and the private investors performed. In a 1996 study, Transparency International rated Bolivia as one of the most corrupt countries in the world (Kohl, 2002: 455). Personal abuses of political power may be favored by privatization of state-owned firms that are run by a corrupted system. By the privatization process, corruption was moved from the public sector to the private (*Ibid.*).

Considering this, corruption cannot be excluded from the environment in which the privatization policies were implemented. In 1997 the government agreed on objectives and state policies together with representatives of the business community, the church, labor and civil society organizations, universities, NGOs, and opposition

parties in the parliament to reduce poverty and boost the economy (IMF, 2000: 4). Although the IMF acknowledged that in terms of poverty reduction and expected economic growth, privatization did not succeed in achieving the expectations (IMF, 1998: 1), all remaining public enterprises were to be privatized the coming years (*Ibid*: 4). In 2000, privatization was still encouraged by the World Bank and the IMF (IMF, 2000: 3). In other words, the consensus on the policies was still evident after the Cochabamba and El Alto Water Wars.

5.3 The Cochabamba Water War

The story of Cochabamba may be one of the most known incidents of privatization failure and has become an icon in the anti-neoliberal and anti-globalization movements. The city is located in a dry valley were the competition over water between domestic and productive users has made the resource a political issue for everyone in the valley. The water services had been provided by a municipal company but only 63 percent of households in the lowest quintile had access to water in 1996 (Hailu, *et al.* 2009).

In September 1999, government authorities granted a private forty-year concession to Aguas del Tunari, a company formed by a consortium in which International Water Limited (a subsidiary of US-based multinational Bechtel) held the majority share (Castro 2008: 71). The concession included operation of the existing water supply system and the use of the water resources of the River Misicuni (Nickson & Vargas, 2002: 100). In October of the same year, the Drinking Water and Sanitation Law (DWSL) passed allowing for privatization (Shiva, 2002: 102; Spronk, 2007: 14; Nickson & Vargas, 2002: 102).

The contract committed Aguas del Tunari to expand the water network through the construction of the Misicuni dam project, and was guaranteed an average return on capital of 16 percent for forty years. The World Bank dedicated that no public funds could be channeled in to the project but the capital had to come from the users (Spronk, 2007: 8). This was the spark of a mobilization against the private firm and

the increased prices that followed. The social and political affect was catastrophic and resulted in the Cochabamba Water War.

Only three months after the privatization of the water sector, a rural-urban, multi class alliance called La Coordinadora de Defensa del Agua y de la Vida was formed opposing increased water tariffs (*Ibid;* Nickson & Vargas, 2002: 100). In March 2000, the alliance shut down the city for four days and within a month, millions of Bolivians marched to Cochabamba, held a general strike, stopped all transportations, and called for a protection of human rights. The government responded by the promise to lower the prices of water but did not carry out the changes. Instead, La Coordinadora demanded a repeal of the DWSL, an annulment of the ordinances allowing privatization, a termination of the water contract, and citizens' participation in the drafting of a new water resource law. The government tried to silence the protests by censoring the media, killings, and arrests but the government was in the end forced to revoke its privatization legislation and end the contract between the government and Aguas del Tunari (Shiva, 2002: 102-103). Although the concession contract was the immediate cause of the protest, the social conflict cannot be detached from the wider macro-economic context in which it erupted (Nickson & Vargas, 2002: 108).

The cancellation placed a new economic burden on Bolivia given that within the legal framework adopted, the private companies were entitled to seek compensation for the potential revenues lost over the remaining concession period (Castro 2008: 75). In February 2002, Bechtel filed a USD 25 million lawsuit against Bolivia for the loss of future profits. Bechtel's annual revenues were USD 14 billion - that is double Bolivia's gross national product. The International Centre for Settlement of Investment Disputes was the official judge of the case, under the auspices of the World Bank (Goldman, 2007: 796-797). The water retuned to public ownership but access remained low (Franz, 2006).

5.4 Bolivia's Second Water War in El Alto

The Cochabamba Water War started a wider movement against privatization that spread to El Alto, Bolivia's poorest metropolitan are located on the edge on one of the canyon that cradles the capital city of La Paz. The public utility pre-privatization provided the majority of center city residents in La Paz within house-water connections but failed serve residents in low-income areas (Komives & Brook Cowen, 1998: 1). Only 55 percent in the lowest quintile in El Alto had access to water in 1996. (Hailu, *et al.* 2009).

In 1997, a consortium controlled by French-based multinational Suez Lyonnaise des Eaux, named Aguas del Illimani, was granted a 25 year private concession to run the local water supply in La Paz and El Alto (Komives & Brook Cowen, 1998: 1). The contract was one of those that were considered to be of a pro-poor character because it focused on an expansion of access of the number of connections to achieve 100 percent coverage, rather than reducing tariffs (Spronk, 2007: 18; Komives & Brook Cowen, 1998: 1; McKenzie & Mookherjee, 2003: 171).

However, the concession was opposed by the citizens of El Alto, leading to the cancellation of the contract between the state and Aguas del Illimani after the intended results were not achieved. The World Bank stated (in Komives & Brook Cowen, 1998: 1) that the problem lied in the formulation of the contract rather than in the polices of privatization *per se*. The main difference between the mobilization in Cochabamba and the movement in El Alto was the ground on which the concessions were opposed. The El Alto movement, The Federación di Juntas di Vecinales de el Alto had a much broader political agenda to restore Bolivia's economic sovereignty (Spronk, 2007: 19).

In short, for many Bolivians, the WSP symbolized all the problems of the neoliberal reforms and the development strategy. It failed to incorporate equity, it rejected the role of the state, and it was implemented in a country that traditionally rejected foreign capital over the national interest (Nickson & Vargas, 2002: 110).

5.4 The Variables

5.4.1 Opinion

Opinion polls carried out in 1998 and 2000 show that a clear majority disapproved of the privatization process[10] (Hall, *et al.* 2005: 287; McKenzie & Mookherjee, 2003: 215). As seen in table 1, the results are uniform across age, gender, and socioeconomic class[11]. The opinions appear to be increasingly adverse over time, with disapproval rates higher in 2001 than in 2000, and higher in 2000 than 1998 (Hall, *et al.* 2005: 292).

Table 1. *Citizens who disagree that privatization has been beneficial, (in percent).*

		Gender		Age in 2000			Education			Socioeconomic Class*		
Year	Total	Male	Female	20-24	40-44	60-64	Illiterate	Primary	Tertiary	Upper	Middle	Lower
1998	40	38	42	43	31	44a	36	46	30	26	44	n.d.
2000	59	58	59	50	59	59	53	54	52	67a	57	50a

* Socioeconomic class was self-reported.

a. Fewer than thirty observations available.

Source: McKenzie & Mookherjee (2003: 215).

Opposition against privatization is mainly based on economic issues - prices, profits, jobs, and development. However, there is also an opposition on a political ground against privatization, arguing that the water sector should be subject to local decision making, taking into account public interest rather than global commercial interest and market forces (Hall, *et al.* 2005: 292). These experiences were also evident in the movements that opposed privatization in Cochabamba and El Alto, as discussed above.

[10]Note that privatization of several utilities such as telephone communications, electricity, water, and sanitation are included in this statistics.

[11]Considering that, this study does not approach Bolivia as a peculiar case because of the high proportion indigenous peoples in comparison to other Latin American countries.

5.4.2 Access to Water

When comparing the rates on water coverage just before privatization in El Alto and Cochabamba, the national access was 76 percent, though La Paz and Santa Cruz had better coverage rates. In all three cases was delivery especially deficient among the poor. The lowest quintile in La Paz also had poorer access than the lowest in Santa Cruz, which remained in public control (Hailu, *et al.* 2009: 13; Spronk, 2007:15).

Data from 1997 reveal that in urban areas, 12 percent of households in Bolivia lack running water (IMF, 2009: 6). At the national level 35 percent of all dwellings did not have running water, while the number was 45 percent for poor households. According to the IMF are these coverage rates were a result of poor management of the services which neglected infrastructure maintenance (IMF, 2009: 9).

Table 2 illustrates that the expansion of water connections benefitted the lowest income groups the most. Note that expansion in access heavily depended on the initial levels of access and coverage of the richer deciles were already higher.

Table 2. *Percentage of households with access to water in Bolivia.*

	Household expenditure per capita decile, 1-10										
Year	1	2	3	4	5	6	7	8	9	10	Total
1992	64.5	68.1	74.7	73.2	76.4	83.0	85.1	91.1	91.5	95.5	80.6
1998	89.1	82.5	89.1	89.0	87.9	95.7	98.7	97.7	95.7	97.8	92.1

Source: McKenzie & Mookherjee (2003: 172).

Between 1998-2007, access to water increased only slightly. In 1997 the national average for running water[12] 82.6 percent, compared to 86 percent in 2007 (Weisbrot, 2009:16).

[12]Piped or well water inside or outside the home, individually or community based.

A comparison of changes in access to water in La Paz and El Alto, where the sector was privatized in 1997, and between Santa Cruz and Cochabamba, by the time the latter was still public, reveal that access in both areas increased between 1992 and 1994, and again between 1994 and 1999. Access was growing faster in Santa Cruz and Cochabamba, but was still increasing after privatization. Considering this, it is hard to tell how much the access of water increased as a result of privatization or other trends in the society. Looking at Bolivia as a whole, privatization of the water sector increased access to water, both relative to the existing trend and to non-privatized areas (McKenzie & Mookherjee, 2003: 174).

The post-privatization period is characterized by an expansion of access to piped water for all quintiles in both La Paz and El Alto, benefiting the poor in particular. Table 3 illustrates that in 1996, the coverage rate difference between the poorest 20 percent and the richest 20 percent was about 30 percentage points in El Alto. In 2005 this difference was reduced to about 5 percentage points, similar to the gap in La Paz.

Table 3. *Water coverage rate (lower and upper quintiles).*

	1996			2001			2005		
	Total	QI	QV	Total	QI	QV	Total	QI	QV
La Paz	87.9	83.4	97.0	88.6	79.2	98.2	96.6	96.2	100.0
El Alto	76.2	55.6	85.6	69.4	78.1	87.4	87.8	86.0	90.8
Cochabamba	76.5	63.3	84.7	78.6	58.5	93.1	61.8	25.9	74.2
Santa Cruz	94.5	90.2	96.6	95.6	92.2	100.0	95.6	90.1	100.0

Source: Hailu, *et al.* (2009: 13).

Between 1996 and 2001, access to water in El Alto increased significantly in the lowest quintile. The coverage rate fell in La Paz and Cochabamba, and increased slightly in Santa Cruz. In the period of 2001 to 2005, coverage continued to expand in the cities where water had been privatized, while it fell in the other cities. The deterioration in access was most striking in Cochabamba, mainly because the

concession contract ran counter to the interests of the poor and the tariffs became exorbitant (Hailu, *et al.* 2009: 14-15).

The targets posed on Aguas del Illimani was to install 71,752 new water connections in La Paz and El Alto by December 2001, with 25 percent of the target being reached annually. This goal entailed universal coverage in La Paz and 82 percent coverage in El Alto. The contract was close to be fully implemented (Hailu, *et al.* 2009: 2).

However, the statistics referred to a small area within the concession region. The service had been provided to profitable consumers and the obligation to extend the connections to most marginal settlements had been removed (Spronk, 2007: 19). Around 200,000 people did not have access to Illimani's water because they lived outside the served area. An additional 70,000 people lived in the area but could not afford the USD 45 fees that was equivalent to nine monthly salaries (*Ibid:* 20). Inequality in access to basic services is not only explained by the fact that poorest households have fewer resources to pay for the service, but also because in many cases it is virtually impossible since they are not provided in the areas where these households live (Gasparini, et al. 2009: 27).

Water service companies have been redefining the language of the contracts between the firms and the government. In Suez's contract with the city of La Paz, were the low-income area of El Alto was to be connected to the water system, Suez stated that, connection would no longer mean a piped connection but an access to a standpipe tanker. The definition on what was needed to improve access were modified and the conditions before privatization, that were called deplorable when it was under public regime, were accepted (Goldman, 2007: 796).

5.4.3 The Price of Water

A tariff increase of 35 percent was agreed on in the Cochabamba concession but the actual increase varied between consumers (Nickson & Vargas, 2002: 111). The

intention was to charge the wealthier more but the increase hit the lowest income group the hardest (Crespo *et al.* in Castro 2008: 71). According to the real price index relative to consumer index[13] tariffs in Cochabamba increased by an average of 43 percent. However, the poorest consumers experienced a greater increase more than doubling their water bills (McKenzie & Mookherjee, 2003: 179). For some groups, the price of water increased by more than 200 percent (Laurie & Marvin in Goldman, 2007: 797; Nickson & Vargas, 2002: 111).

La Paz and El Alto experienced the opposite. Price of water decreased by 10.5 percent (McKenzie & Mookherjee, 2003: 177). Although the poorest experienced a greater increase in the price of water in relation to income, the increase as a percentage was lower than in the other income groups. All income groups experienced a loss of welfare (McKenzie & Mookherjee, 2003: 191). The poor benefited from an increase in access and in some cases reduction in prices. In Cochabamba, on the other hand, poverty increased (*Ibid*:192).

In accordance to the DWSL, Aguas de Tunari charged the communities in Cochabamba for people's own handmade rain-catchment systems and charged the people for rain water (Goldman, 2007: 797). Also, in accordance to the firms property right on water, people living in the regions surrounding the concession area, the poorest areas of the city, were also charged for water (Spronk, 2007: 15).

Table 4 illustrates that water expenditure has been persistently higher over time in Santa Cruz and Cochabamba among both the richest and poorest households. Though the poorest in Santa Cruz had an average lower income than those in La Paz (USD 89.5 against USD 101.8 in 2001), the former spent more on water than the latter. The burden of water expenditure seems to fall hardest on the poor households of Santa Cruz, which spent on average 8.8 percent of their income on water in 2001, and 5.9 percent in 2005. The poor in La Paz and Cochabamba respectively spent an

[13] The prices did not only increase because of new tariffs but also increased consumption that can be explained by greater availability (Nickson & Vargas, 2002: 111).

average of 4.7 and 4.6 percent of their income on water in 2001, higher than the accepted affordability measure of 3 percent of income (Hailu, *et al.* 2009: 18). Household per capita spending on water in El Alto has grown by an average of about 80 percent for the poorest, whereas their income has risen by only about 26 percent (*Ibid*: 19).

Table 4. *Average Per Capita Water Expenditure of Households Connected to the Utility (lower and upper Quintiles).*

		Water expenditure Y per capita				Share of income (%)			
		2001	2005	2001	2005	2001	2005	Change in expenditure (%)	Change in Y/capita (%(
La Paz	QI	2.8	3.4	101.8	127.2	4.7	6.2	23.2	25.0
	QV	12.0	13.6	1621.1	2437.1	0.9	0.7	14.1	50.3
El Alto	QI	1.4	2.6	83.4	104.7	1.9	2.6	79.5	25.5
	QV	2.5	4.8	609.0	833.8	0.5	0.6	93.1	36.9
Cochabamba	QI	4.7	5.3	123.2	129.9	4.6	4.0	12.6	5.4
	QV	22.8	18.7	2215.9	1827.8	1.3	1.5	-18.2	-17.5
Santa Cruz	QI	6.7	9.4	89.3	150.0	8.8	5.9	39.6	68.0
	QV	19.9	23.0	1395.5	2295.3	1.5	1.4	15.5	64.5

Source: Hailu, *et al.* (2009: 18).

To summarize the findings; the Bolivian political economy went through a neoliberal structural change in two decades that changed the role of the state which was no longer the main employer or the provider of essential needs. The response to this was two mobilized movements that opposed the privatizations and municipal control over water was reinforced.

The opposition against privatization increased between 1998 and 2000 and the negative experience was evident independent of income, gender, or education in all three cities of privatization. Besides this, the movements opposing the concessions were also united across income and geographical areas. In terms of access to water

did the different measures result in the same conclusion; it did increase although the rates differed between the cities and the neighborhoods. In general did privatization benefit the poorest consumers, though the city of La Paz benefitted the most, while the situation in Cochabamba worsened dramatically.

When looking at price changes of water, the experiences differed between the cities. The price increased in Cochabamba but decreased in El Alto and La Paz, by different relative rates according to income. Finally, water expenditure was shown to be persistently higher over time among Cochabamba's both the highest and lowest quintile households. Household per capita spending on water in El Alto increased drastically for the poorest consumers, while the top quintile on La Paz spend the highest percent of their income on water, followed by the same group in Cochabamba.

Chapter 6
ANALYSIS

Bolivia is one of the few cases of water crises and water management that is not of an international character. Nevertheless, the World Bank and the IMF are important actors within the region driven by the aim to ensure development, while it is also a case were the state failed to provide essential services. This chapter elaborates further on what that entails.

6.1 Equity

The case of Bolivia has problematized the assumption that neoliberal theory and the policies of privatization ensure development. By looking at the three cities of privatization as a whole, access increased and prices decreased. If this is development, why did the people oppose the privatization process?

Both the fact that the La Coordinadora was a movement were socioeconomic class did not matter, and that opinions on privatization crossed identities, shows that equity is not simply a concern of the poor. Equity is of a social dimension and not the opposite of being poor or not able to consume. In addition to defining inequalities in terms of demand and consumption, it is crucial to address equity in the context of the impacts and benefits derived from globalization. An integrated global economy risks to ignore that the benefits of globalization reach only a privileged group.

6.1.1 Anti-globalization and Anti-neoliberalism

The anti-privatization activists in Bolivia have come to symbolize the movements targeting neoliberal policies on the ground that national values should not be overtaken by private investors seeking profit. In Cochabamba the people united in protest against the massive increase of water tariffs and the movement in El Alto demanded restoration of Bolivia's economic sovereignty, and became two of the most known incidents of privatization failure.

Nonetheless, this is a rather simplified explanation that excludes that the resistance can be seen as a strive for equity. The opposition towards decreased sovereignty sparked from the understanding that the government, together with the multilateral institutions privileged the private corporations. Anti-globalization movements are indeed a globalized phenomenon. It seems though that the driving force is not globalization but the deprivations of the intended wealth that globalization and neoliberalism generates. For many Bolivians, the water privatization symbolized those problems of the neoliberal reforms and the development strategy. It failed to incorporate equity, it rejected the role of the state, and it was implemented in a country that traditionally rejected foreign capital over the national interest.

The Water Wars in Bolivia can be understood as struggles for democracy. A rule were the civil society is key in the decision making process is more likely to succeed in the creation of a long-term development based on equity. Economic growth has failed to deal with social exclusion which is a threat towards democracies while the state is undermined in the process of privatization.

6.1.2 A Human Right

The UN acknowledge that it has failed to consider essential aspects of service provision, such as access and affordability. Water is a human right but a complex need to ensure due to its economic value. To ensure its value as a right the water sector should, based on the understanding of the Bolivian WSP, be subject to local decision making, taking account public interest rather than global commercial interest and market forces.

Development, defined by its measurements, is a problem. The 7.c MDG target is an achievement but the formulation allows a type development that is measurable in relative numbers, while the population increase distribution is uneven. It was evident in the Aguas del Illimani concession in El Alto were only high income neighborhoods were included in the statistic of areas with expanded access. It was also shown in the contract between Aguas del Tunari and the state, were the company had the right to

impose tariffs on the poorest people for their own handmade rain-catchment systems and charged for rain water.

There is a fundamental problem when placing the means to achieve development in the hands of investors seeking profit: the poor are not a profitable consumer group because they simply cannot afford to pay for connections, or to consume enough water to cover operating costs. The question is how you price the poor for an essential human need. It is rather unsurprising that user dissatisfaction is related to price. On a larger scale, this becomes the inevitable problem when the debate on development is shaped by neoliberal theory and its policies. It is a paradox since development is the aim of the World Bank and the IMF while these two institutions are the major actors in promoting privatization. The role of privatization in meeting the global challenge to ensure that people have adequate access to affordable water services is limited, especially in those areas were water provision is most deficient.

6.2 Who Bears the Burden of Development?

The IMF declared that the state is the main actor and the implementor of the concessions, which raises the question on the role of the state. From an institutional level, it has been important to show that the policies have not been imposed, but are supported and implemented solely by the state and the civil society. As long as the state is portrayed as the main actor implementing neoliberal policies it will also be the responsible actor if policies fail. A stable state is supposed to provide its citizens with security. Once this is not accomplished, international assistance is justified. In other words, neoliberalism has been accepted as the global mean to achieve development, promoted by the World Bank and the IMF. The state serves as the link between the neoliberal theory and the policy. This reveals a contradiction in the understanding of the actors in the neoliberal process.

It is an easy way out to claim full state sovereignty and independence but the case of Bolivia shows that multilateral institutions have an important role. Whether it is perceived in terms of influence or policing is another question, but it has to be

acknowledged that the state is not a single actor but a part of the international system acting in between the supranational and the local level.

The neoliberal theory aims to assist inefficient, indebted, and weak states in need of support. These three "characteristics" of LDCs are also the targets for privatization. Foreign investment, the logic goes, will ease the burden of these states and is the strongest argument provided in favor of privatization. If these institutions are seen as actors, they also bear responsibility.

There is however a problem in this argument. If responsibility is placed on institutions such as the World Bank and the IMF, states do no longer need to provide its citizens security. If no demands are placed on LDCs, because they are defined as such and by definition weak or failed, high developed countries can continue to invest in different lucrative market and the imbalance of distribution between the North and South remains. Equity is in this context missing in the context of development, globalization, and in the framework of multilateral institutions.

By emphasizing the global and the national consensus on privatization, multilateral institutions disclaim their role as linkage between the neoliberal theory and the policies. The World Bank stated that the problems experienced in Bolivia lies in the formulation of the contract and the government's slow creation of the necessary regulations, rather than in the polices of privatization *per se*. Neoliberalism is enforced by globalization and the ideological ground upon which the World Bank and the IMF stand. This study raises the question on what the consequences are when institutions are ideological. Despite the failures seen in Bolivia, privatization was still encouraged as it was argued to be the one and only mean to successes.

The WSP in Bolivia can be seen as a component in an elite run economy. There is no deny in the clash between the state and its citizens, but it was also revealed that personal abuses of political power may be favored by privatization of state-owned firms that are run by a corrupted system. In 2000, right after the two Bolivian water

wars, privatization was still encouraged by the World Bank and the IMF. This was *after* the failure was acknowledged. In addition, once problems with increased access was encountered in El Alto the contracts were redefined. It is rather unlikely that this could have happened without the involvement of the state. The ambition to achieve a measurable development is evident again, while the intentions do not correlate to the outcomes.

6.3 Problems of Dependency

As addressed above, Bolivia is a case that reveals power imbalances. Heavily indebted countries do not have the power to oppose neither globalization, nor multilateral institutions such as the World Bank and the IMF. The states that are better off, as modernization theory emphasize, have the correct knowledge that they ought to contribute with. This imbalance, on the other hand, enhances the international system in which several states have limited capabilities and opportunities to improve their situation.

The modernization theory is in the case of Bolivia not satisfactory. From this perspective is the legality and sovereignty of the state is determined by its economic growth and financial stability. If these do not match international standards, set by the World Bank and the IMF, the so-called international community intervenes. This assistance increases the gap between the global and the local, and between the North and South, as the message given is that a nation is incapable of ensuring its own needs and act within the frame of international relations. Equity is undermined and inequalities between nations and between humans are maintained.

There is also a power imbalance between LDCs and multilateral institutions when negotiating the policies of development. The governments are in need of financial support, while the World Bank and the IMF have privatization as a prerequisite for loans. Development is not a local or even national concern, it is truly global. The government was the implementer of the contracts throughout the whole process of

WSP. However, it did not act by itself, but according to the IMF, supported by the whole Bolivian society in the agreements.

In addition to these problem, once Bechtel filed a law suit against the government, the World Bank was in direct control of the outcome of the trail. There was no transparency, nor equity. The La Coordinadora movement opposed the concession contracts and succeeded in the exclusion of the firm from the water sector, but the price was high, both in terms of expenditure for the law suit, but worse in terms of development because the water situation did not improve in the post-privatization period.

6.3.1 The Consensus

Private and foreign investment has become a mainstream policy, adapted by both right and left of the center politicians. Neoliberalism shapes the global economy as if it was an inevitable process. In addition, globalization is often seen as natural phenomena. The one size fits all approach failed and the modernization theory is insufficient in the understanding of development. The top-down approach assumes that states are units acting according to the parameters set by the international system. The problem in the case of privatization is that multilateral institutions do not acknowledge their power but act in a context of consensus.

A several level layered governance is the core of the system, but in which the most powerful disclaim the hegemony and encourage state sovereignty. It is not to exclude that the institutions are created by states, and states are key actors in the globalization process, but the institutions themselves illustrate what intentional relations consist of - power relations. The mainstream understanding of the process of globalization hinders development and equity. The issue is bigger than the case of Bolivia and lies within the structures the World Bank and the IMF act upon.

6.4 Globalization and Development

This study has shown that national development of LDCs has to be looked upon through a global context, while globalization cannot be studied as uniformed isolated phenomenon. The effects of globalization are experienced on all levels in the international system, and all of these levels have to be incorporated in studies on the topic. Just like equity is not a problem of the South, nor is the water crisis. It is an issue creating clashes in societies all over the world. Globalization facilitated development, nevertheless, it also caused its effects. One the one hand there are people on the edge to not have their water demand satisfied, and on the other, a handful of multinational corporations have taken control over the distribution, assisted by the World Bank and IMF, but also by the wealthiest seven states of today that make up the institutions. The core controls the periphery which is the paradigm of globalization.

It is a contradiction that institutions that were set in place as a part of the Bretton Wood system have become a mean to maintain North dominance in world politics and economics. The institutions are promoting and ensuring development, but if an economy is too successful the power balance is in danger. The neoliberal argument goes that equity between nations is not a concern, consequentially the current system build on power imbalances is not an issue. However, can these be maintained? We are holding on to institutions that dictate socio-economic policies of different kinds but tend to forget that the nation state still exists. The first level of analysis, concerning the international sphere is affecting the third local level. Nevertheless, the middle level is still a key entity in international relations. Development has in many way been achieved although it is a process and the final stage is not set. The structures, in which development is defined, there is no space for equity.

Closely related to the understanding of globalization as a phenomena driven by itself, comes the perception of the lack of equity as an inevitable outcome of development. If people are lifted out of poverty and that is positive, irrespectively whether the wealthier groups incases their standard of living as well. The problem with this logic

is that unequal structures are accepted as natural (which is also the problem of critical realism and the attempts to reveal hidden structures). In addition, if the demands for equity and social inclusion in democracies are to be taken seriously, both the national and the international system is in need of revision to alleviate the issue.

The idea of the diminishing role of the state in the process of globalization is well established among globalization theorists. What happened in Bolivia during the era of WSP provides an elaboration of that understanding. Perhaps is the idea of statehood redefined, rather than the state as the key actor. Along with the responsibility to provide its citizens with security the state has to ensure its interest against outside perpetrators of different kind. Let's assume that the outside threats towards the state are the World Bank and the IMF. If these institutions, however, have an agenda that is to benefit states in need, there is no need to be protective. On the other hand, the acceptance of assistance is reflected in a loss of sovereignty. The structures of international system do not allow for equity.

To summarize the discussion held here, Bolivia is a case were the importance (or lack) of equity is seen in all the aspects of the case brought up for discussion in this study. The state implemented policies imposed by multilateral institutions revealing a power hierarchy from above, both experienced on a state and local level. The global consensus on how to best achieve development, gave rise to two movements opposing neoliberalism and globalization. The global consensus established a debate on development, on globalization, and on water management founded on compelling "facts" that the world's poor were suffering from water scarcity and that flawed governments were the reason behind the disaster. The debate on scarcity set a price of water which in turn interested private investors. It becomes clear through the case of Bolivia, that all these aspects are components in a circular system. There is no way to deny that water is scarce but this study attempted to provide a different understanding of the problem. The actors involved in the water management industry reveal that the problem is greater than the provision of water itself. Although the physical distribution of water across the earth, through the hydrological cycle, is

by its nature uneven, the way in which the water sector industry has been managed revels that there is something at stake.

6.5 Conclusion

The simple answer on what went wrong in Bolivia's WSP process is that the private investors failed to meet the targets stipulated in the concession contracts. The tariff increases eventually led to public outrage that forced the government to terminate the contracts. The answer given here is that there is a clash between the local and the global, thus there is a problem within the context of globalization. How states ought to proceed with development is dictated from above, but not necessarily accepted as development on local level.

The case of Bolivia's WSP revealed that globalization runs hand in hand with neoliberalism, enhancing one another's benefits and meanings. Globalization is shaped and reproduced within a perception that is beneficial for the multilateral institutions that adopted the theory. Approached from this understanding, power hierarchies is a part of that system. The process is not distributing its results evenly and development is not always achieving the aims. The structure is founded on dependency, which is in turn even more enhanced through globalization.

It has to be acknowledged that the state is not a single actor but a part of the international system acting in between the supranational and the local level. Such a spread of the neoliberal agenda that is evident in the current process of "new globalization" would not had been possible without active participation and contribution from different non-state actors, but most importantly, the nation state. Based on this, globalization cannot be studied as uniformed isolated phenomenon. The effects of globalization are experienced on all levels in the international system and it has become clear that the local is global.

This study concludes that globalization is characterized by neoliberalism. As a consequence of this, the international system is founded on unequal structures that

have shaped the debate on development. The relation between globalization, development and equity enhances the current meaning of the concepts even further since they are dependent on each other to exist in the way we currently understand them.

6.5.1 Further Research

This study approached the discussed concepts from a top-bottom perspective which is in turn reflected in the conclusion that the supranational level has the means to shape the local level, while the local experience ought to guide multilateral institutions Nevertheless, to further explore the concept of development, a bottom-up perspective will provide an additional understanding of how to establish an inclusive development incorporating equity.

Latin America imposed alienated neoliberal policies. Domestic rules and regulations had to be modified to apply to the new reforms, though multilateral institutions failed in their "global expertise". The problem could be understood differently through a constructivist approach. Many question whether the process of globalization is indeed new or simply a reshaped system of domination. To view Bolivia's neoliberalization period as a postcolonial process would be appropriate to expand on the findings presented here, especially concerning the questions why Bolivia implemented neoliberalism and how an economic theory became a normative consensus.

The case of Bolivia is one the most known failures of privatization and supports therefore the argument that privatization is not a sufficient mean to achieve development. If a success story of privatization was to be studied instead, naturally, a different conclusion on the benefits with privatization could be obtained. However, the conceptual discussion held here goes beyond the case of Bolivia concluding that the problem that guided the research, equity, exists in the international system and in turn manifested through globalization and neoliberalism. To prove the validity of this conclusion, it should however tested on other cases.

Chapter 7
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