

Latin America as the Possible Detonator of the World Terrorism

*Martina Topić**

Original paper
UDC 327.8(8)
Received in July 2003

Latin America could be potential place of a new terrorist attack. Argentina's economy is vulnerable in world process of globalising. The high rate of unemployment has caused a level of social unrest in Argentina. The major political challenge is to improve the employment situation. Official policy is encouraging insiders and outsiders to bring investments into the country. One-third of all foreign investment – especially in privatised state industries has come from debt-equity conversions. Argentina's foreign debt of 132 USD billion represents about one of seventh of all developing countries debt. Economy crisis in Argentina, situation in Brazil, Uruguay and other Latin American countries could lead to the terrorism similar to the one that is coming from Islamic East.

Key words: Latin America, Terrorism, Economic crisis

1. Introduction

In this era of the world terrorism, the important question, in order to prevent it, is where and why the terrorist could strike again. My thesis is that Latin America could be potential place of a new terrorist attack. The reason for this is the big economic crisis that struck the states of Latin America, particularly Argentina. However, there is a theoretical possibility that the USA could be attacked again, but this time not by Al-Qaeda or some other terrorist organisation, but by its own citizens; Latin Americans living in the USA because of American economic prosperity. Because of the bankruptcy and probably the hardest crisis any Latin American state has ever been through, in this article I am going to explain the main characteristics of the Argentinean economy along with the recent events such as bankruptcy.

2. History of the Argentinean Economy

The Early Period Most pre-Hispanic settling in the country later to be called Argentina was by groups engaged in agriculture or following nomadic lifestyles. The main reason for relatively slow development of Argentina as a colony was lack of precious metals sought by the Spanish, including silver (lat. *argentum*) the country was named for. Although the Río de la Plata (or the River Plate) was discovered in 1516, hostile Indian activity kept Europeans out of Argentina until the final establishment of Buenos Aires in 1580. Although Buenos Aires rebelled against Spain in 1810, the "estancieros" (landed gentry) and merchants who held official trading licenses largely opposed it.

Institutional Organisation and Growth After decades of the civil war, around 1860, the nation began to reach its modern extent. Basic institutions and infrastructure were established. In 1880 the dec-

* Journalist

laration of Buenos Aires as a federal district stopped the traditional rivalry between that city and the rest of the country. Massive European immigration mixed the population, foreign investment brought new technologies and helped develop the infrastructure, commercial activity expanded, and Argentina entered a period of great prosperity and progress.

In the early 1900s Argentina continued to grow and generally prosper. Encouraged by legal reforms, in 1916, the traditional, more conservative leadership was replaced by a Radical Civil Union reformist president. The Radicals held the presidency until 1930, when President Yrigoyen was ousted by a military coup, inaugurating an era of military intervention.

Perón and the Era of Nationalism In 1946, 15 years of military influence or direct military government, resulted in the election of Juan Domingo Perón as president.

Under Perón, labour took on a significant role in society. Many industries were nationalised, and foreign investment and participation in the economy was restricted in an effort to allow Argentina to develop as a self-sufficient entity. However, development was inefficient and incomplete, and the country incurred massive debts to support its various projects.

By 1955 economic conditions led to a backlash among the middle class, students, and elements of the clergy, business, and military. Perón fled the country following a military coup. If Perón had erred by meeting too much the demands of labour, the military pushed the pendulum too far in the opposite direction, offending not only leftists but also students, business interests, and Argentina's large middle class. More intensified public discontent gave rise to armed guerrilla opposition movements during the late 1960s.

Perón returned from exile in the midst of growing anarchy, assumed the presidency in 1973, but died suddenly in 1974. The military took over again in 1976 by worsening economic and social conditions. In contrast with most previous military interventions, the 1976 coup was designed to allow consultation and power sharing among all service branches. The "junta" ruled from 1976 to 1983 during a period known as the "Proceso." Rightist official and unofficial organisations sought to wipe out the existing and potential subversive opposition, the definition of which was extremely broad. This resulted in the death or disappearance of thousands of Argentines (the "desaparecidos" in Spanish). This domestic trauma was compounded by a worsening economy. Production foundered and the country racked up foreign debts of USD 36 billion at the end of 1981 as inflation soared.

In 1982 the "junta" occupied The Falkland Islands (Argentinean name: Las Islas Malvinas) - which were taken over by Britain in 1833. This sovereignty issue was popular at home, but the "junta" badly miscalculated international response, particularly from Britain, which sent elite troops to retake the islands. After a short, sharp conflict, known as the South Atlantic War, the British ejected Argentinean forces.

Return to Civilian Rule Despite the general expectation that the Peronists would take power; the more moderate Radicals won both the presidency and the majority in the legislature in the 1983 general elections. President Raul Alfonsín put former "junta" members on trial, and several high-ranking officials were convicted and jailed. Military protests occurred when individuals were charged; the government backed down and peace was restored. Meanwhile, the Argentinean society reopened, but the hard economic issues remained. The Alfonsín administration began the reconstruction of Argentinean social and political life, but it was able to make relatively little progress against the country's economic problems.

The Peronist party won the 1989 elections, putting Carlos Menem, a former provincial governor into the presidency. Menem instituted measures and began the privatisation of state enterprises. He quickly set free both convicted and untried military persons and opened heavily protected Argentinean economy to trade and investment. Since 1989 when inflation reached nearly 5,000 percent, the once stagnant Argentinean economy has turned around and showed remarkable growth, but also a very low rate of inflation. In October 1999 a coalition formed by opposition parties won the presidential elections, and Dr. Fernando de la Rúa became the president. Under the Minister of Economy, Jose Luis Machinea, his government continued the economic policy oriented towards reducing country risk and strengthening macroeconomics fundamentals. Faced with the persistence of the recession that started in October 1998, in March 2001, the President appointed Domingo Cavallo as the new Minister of Economy, and a more proactive programme was launched to spur economic growth.

However, during the late 1880s and early 1890s, Argentina developed as a country whose economy was based on the exchange of agricultural commodities for foreign capital and manufactures. This economy was dependent on the countries buying Argentina's low-value products and in return selling value-added manufactures to the Argentines. The political power based on the sup-

port of labour in the mid-20th century resulted in the provision of expensive employment benefits. This policy raised production costs, without a corresponding plan to increase productivity. The government "closed" the economy with protectionist rules, keeping the competitors out during that period. Many Argentinean goods became uncompetitive in world markets. During the past decade, Argentina's administration implemented fundamental reforms designed to return Argentina to an "open" economy. Restrictive trade and investment barriers fell and non-productive state companies were privatised. Financial accounts were placed on a current basis by linking the Argentinean peso to the US dollar under the Convertibility Law. In other words, old Argentinean system of 15 years ago was replaced by a largely open regime.

3. Size of the Economy

According to the information's given by the Argentinean Institute for Statistics, in 2000 the Argentinean GDP reached USD 285 billion, with USD 60.4 billion corresponding to manufacturing; USD 19.9 billion to the primary sector; USD 23.8 billion to health and education; and the remaining to other goods and services. GDP per capita was USD 7,650, and it was the highest GDP in Latin America.

>From 1990 through 1997 Argentina's economy grew by almost 51 percent. This shows a major change from the previous decade: during the period 1980 - 1990 GDP figures calculated using real (constant in 1986) pesos showing a largely stagnant economy, with negative growth (from 10.3 billion constant pesos in 1980 to 9.2 billion pesos in 1990). In five of those ten years, Argentina's GDP fell, the largest drops being about 7 percent both in 1985 and 1989. Alternately, rates of growth in constant terms were very high in 1991 (10.5 percent), 1992 (10.3 percent), 1993 (5.7 percent), and 1994 (8.0 percent), and in 1997 (8.1 percent). In US dollar terms, Argentina's economy has grown, by a combined annual growth rate of 15 percent since 1980, from roughly USD 20.1 billion to USD 285 billion in 2000.

After the dramatic growth registered during the period 1990-1994, the "Tequila crisis" in 1995 led to a decline in real GDP of 2.8 percent in 1995. However, by the second half of 1996 the economy had recovered and begun to resume a fairly high level of growth. Numbers for 1996 place Argentina's GDP at USD 272 billion, up 5.5 percent in real terms from the prior year. The strongest component of demand was gross fixed investment, which was 8.9 percent higher in 1996 than in 1995. Growth in industrial production was 6.5 percent for the year 1996.

In 1997, GDP ran at a very positive 8.1 percent in real terms, to USD 277 billion. Growth in the economy was led by investment and exports, with consumption expenditures falling behind. During the first three quarters of 1998 GDP ran at very high rates, and for the whole year the economy grew 3.9 percent, to USD 288 billion. Later, in the last quarter of 1998 the Brazilian crisis had a negative impact on Argentina's exports. During 1999 the impact was more severe, resulting in a 2.9 percent decline in GDP. In 2000 the recession continued, with a GDP decline of 0.5 percent

Another measure of the size of Argentina's economy is found in per capita GDP, which in 2000 was calculated as USD 7,650. Per capita GDP has grown 12.5 percent since 1980, when the figure was USD 712. Argentina's per capita GDP is a little lower than that of South Korea, but ahead of Malaysia, Brazil, Chile and Greece.

4. Inflation

In recent years Argentina has experienced practically no inflation, as a result of the convertibility monetary regime that pegs the Peso to the US dollar. In 1999 and 2000 Argentina experienced even a little deflation (-1.2 and -0.9% respectively in consumer prices), basically due to the weakness in domestic demand. Deflation has been most pronounced in tradable goods, while some service prices have experienced a little increase. Few countries have had a worse experience with inflation than Argentina, and because of this, few countries are more sensitive to the issue. Between 1980 and 1988 consumer price rises were in the triple digit range every year except 1986, when they fell to 86 percent. Argentinean inflation reached a high of 4,924 percent in 1989, dropped to 1,344 percent in 1990, and then fell to 8 percent in 1991, 7.58 in 1992, 7.48 in 1993, and finally to 3.9 percent in 1994. Despite all the financial turmoil in early 1995, Argentina showed very little inflation for the year (1.6 percent). In 1996, Argentina had one of the lowest rates of inflation in the world (just 0.1 percent); in 1997 inflation was only 0.3 percent and in 1998 it reached 0.7 percent. During 1999 it registered a deflation (- 1.8 percent in consumer prices), as a result of the domestic recession.

5. Labour

Labour has been one of the most important elements in Argentina's economy in recent decades, and it is obvious that the element has paid the high-

est cost in the restructuring of the economy. In 2000 Argentina had a potential workforce of about 27.5 million. Near 15 million of them were considered to be economically active. More than 60 percent of the active workforce consists of men, although women's participation in the workforce is increasing.

In 1991, before the privatisation, 8.1 million (61 percent) were employed in the private sector and 5.1 million (39 percent) in the public sector. Within the public sector one-third of workers were employed at the national level and about half at the provincial level. Within the private sector, 29 percent of people were employed in operations with five or fewer employees, while 56 percent worked in operations employing more than five people.

In 1997 only 6.9 percent were employed in the public sector and 93.1 percent worked in the private sector. About 7.3 percent worked in agriculture, 23.4 percent in manufacturing and construction, and 69.1 percent in services.

Argentinean workers have traditionally been able to achieve a higher standard of living and have been accorded somewhat higher status than those in many other countries. But while the average Argentinean worker may be above the average worker in some other countries, there is a shortage of skilled labour in many specialised functional areas, especially outside Buenos Aires and a few other larger centres. However, pockets of extremely sophisticated production operated by well-trained personnel have also been developed in specific areas.

Nevertheless, Argentina keeps comprehensive statistics on employment, unemployment, and under-employment only for urban areas. During the early years of the Convertibility Plan, urban employment increased (up 4.3 percent in 1991, 2.5 percent in 1992, and 1.6 percent in 1993). In those years official unemployment ranged between 6.9 percent and 9.9 percent. In 1995 unemployment grew dramatically to 18.4 percent (in May 1995), due largely to the financial crisis and resulting recession. In 1996, 1997 and 1998 the situation improved, and by October 1998 unemployment declined to 12.4 percent. Later the situation worsened with the recession, and in October 2000 unemployment raised to 14.3 %.

In October 1999 urban population officially totalled 33.2 million people, while urban unemployment officially accounted for 1.8 million people. Between October 1990 and October 1999 urban population grew 19.6 percent and urban employment,

the number of jobs, had grown by 19.5 percent; however, the economically active population grew by 29 percent resulting in the increase in unemployment mentioned above. The high rate of unemployment has caused a level of social unrest in Argentina. The situation aggravated in 1998, 1999 and 2000 as a result of the recession. One of the major political challenges for the new administration was to improve the employment situation. That was identified as the main concern of the population at the last elections.

6. Foreign Participation in the Economy

Argentina has a long history of foreign investment. Its present approach, one that is expected to continue indefinitely, given the growing climate of internationalism, is designed to attract foreign investment through the openness of its economy and the removal of disincentives to outside capital. Argentina's official policy is geared toward encouraging both insiders and outsiders to bring investment funds into the country to support growth and development. This extends to the privatisation of Argentina's huge and crucial state-run industries and the opening of its financial markets, which was closed to many Argentineans and foreigners as well. After years of regulatory and procedural roadblocks that protected national and nationalised industries from outside participation and competition, foreigners are now eligible to invest in any economic sector in Argentina. They can do so without obtaining prior approval, without fear of discriminatory treatment, and without worry over the sanctity and availability of their earnings or assets.

Some usually relatively minor restrictions persist in specific areas. Even in areas where limits continue to exist, regulators may pragmatically allow foreign take-over of existing firms that need help, even when they will not authorise the creation of new competing firms by foreign interests.

One-third of all foreign investment-especially in privatised state industries has come from debt-equity conversions, in which outside interests buy sovereign debt at a market discount and cancel it for a greater amount of equity value in a state industry. Such swaps are not officially available for private debt-equity conversions; however, depending on the specific circumstances, the authorities may authorise particular transactions.

The 1993 decree on foreign investment resulted in transparency and the repeal of procedural

requirements that had served to limit foreign participation under pre-existing law. Registration of investment is not compulsory, although Argentina asks investors to register for statistical purposes (some intra-company transfers of technology do require registration for tax purposes).

Because they are granted national treatment, foreigners are eligible for any incentives; however, the scarcity of funds is causing the government to phase out most incentives. Nevertheless, some incentives designed to direct new investment into undeveloped industrial and geographical areas—particularly mining, petroleum exploration, utility concessions, and tourism development still exist.

Argentina has historically been closely involved with British investors, and that country provided the majority of investment capital during the second half of the last century. In the early 1990s, the USA has become the dominant outside investor in the country, followed by investors from Europe, with which Argentina has maintained a long-term relationship, and increasing investment from neighbouring Chile and Brazil. In terms of total investment registered for the period 1994-2000, the US ranks first accounting for 36 percent of all foreign investment followed by Spain (11.9%), France (11.0%), Chile (9.8%), Italy (7.1%) and UK (6.2%).

7. Bankruptcy

However, despite its achievements and economic prosperity Argentina bankrupts. The ornate buildings and wide boulevards of Buenos Aires are testament of Argentina's booming economy, which has now joined the history with all other important events that happened in that country. Poor economic decisions led to the Argentina's decline from the 10th richest country in 1913 to the 36th in 1998. Argentina's USD 132 billion debt represents about one seventh of all debt held by all developing countries. The IMF has extended loans nine times since 1983. The latest crisis came from overspending on national level during an economic slowdown. Much of the money has been spent on the welfare state and wages, but the state corruption has also been partly responsible for the crisis. Economic crisis took its place in all sectors. The national debt is USD132 billion, unemployment increased to 18 %, spending has cut for USD 8 billion, state pensions and wages have cut for 13 %, private sector wages fall by 20 %, and the budget deficit is approximately USD 7.8 billion.

8. Latest Events

The whole economic situation leads to the conclusion that Brazil and Uruguay could also be struck by the crisis and that they will not be the only ones. Last year's events led to political crisis in Brazil while the presidential crisis almost caused an economic one. More than 50 per cent of Argentinean citizens live below the level of poverty. It seems as if nobody cares, except the journalists and political scientists. The countries of Latin America came out of misery. The USA made Brads stocks, which became a synonym for economic recovery. There is no country that is now going through serious financial crisis, and lacks the resources at the same time. Nevertheless, we have a thousand of such examples in Latin America. However, it was impossible to control the debts and spending. The new economic crisis is possible. The value of Argentinean peso rapidly falls, and the new crisis could strike that country again. American investors, familiar with the crisis that occurred in the history of the USA, have become increasingly suspicious, stopping their investments in Argentinean economy. Brazil has economic problems because of its changes in global financial market, and its impossibility to sell stocks. Brazil also has problems with its financial liquidity. Foreign investors might withdraw their capital out of the country, which could lead to the big crisis as well. This year's market is extremely unfriendly to the developing markets and foreign investors being increasingly suspicious so they keep their capital in their own country. That can lead to the total withdrawn of capital and the investments that are important for keeping the Brazilian balance of payments on the same level. Foreign investments in Latin American states fall in percentages, from USD 105 billion in 1999 to USD 80 billion in 2001. After Argentinean bankruptcy, the most dramatic events happened in Uruguay. Only a year ago, Uruguay had the biggest investment rating in the entire Latin America. Uruguayan banks were safe place to hide capital for the Argentinean middle class who was taking their capital out of country. More than 60 percent of deposits in Uruguayan banks were Argentinean, or in other words, Uruguayan banks were surviving mostly from their Argentinean clients. After Argentinean bankruptcy, Argentineans who had capital in Uruguayan banks took it out, and that almost led to the bank crisis in Uruguay, because the 50 percent of money in the bank sector left the country. At the beginning of August, the Bank of Uruguay froze all deposits in Uruguayan banks in order to prevent the big crisis that was most likely to happen. However, Brazil is still the biggest concern

in region, because that country gives 40 per cent of total production in whole Latin America. The line when certain country gets the name of potentially risking country has already been crossed in both Brazil and Uruguay. That line has been crossed just before the Argentines broke down in December. In only two days the value of peso, fell for 15 per cent. Political instability in Brazil has increased economic problems in the entire region, which has been followed by the suspiciousness of the international community. Instructed by the Argentinean experience, international community is very careful when it comes to the credit expiration dates. The whole financial market has been upset by the recent events in Latin America, and that affects Brazil in paying its debts and Argentina in its recovery. The hardest card that Brazil has is the fiscal policy that helped Brazil to escape Argentinean destiny and its remarkable relations with the IMF, which approved Brazil USD 10 billion of allowance. Another Brazilian plus is the flexibility of its international course that helped him to avoid the economic crisis. Depreciation of peso allowed Brazil to keep exports on a sufficient level and it increased the market surplus, which keeps the crisis pressure off.

9. Conclusion

Regarding Argentina, which is the main topic of this article, recent figures reveal that tax receipts had fallen by 17 % in the first half of November (l.y.) compared with the same period of the year 2002. Argentina's competitors have also taken advantage of the country's monetary inflexibility, capturing export markets previously held by Argentinean companies. Lenders are demanding a bigger risk premium for lending money to developing countries, and private lending is running at far lower levels than it was in the early 1990s. Many analysts believe that USA's intervention is the only key for the final solution of Argentinean economic problems. However, one of the important issues that must be considered is terrorism. The real question is: is there a possibility that the economic crisis in Latin America could lead to the world terrorism similar to the one that is coming from the East, powered by the Islam terrorist organisations such as Al-Qaeda for example? If the USA intervene in Latin Americas economy, the question is, would that give any solution of problems, or would it cause an even bigger crisis in Latin America? However, there is a possibility that, if the USA intervene Latin Americans could see it as interference in their national politics and internal issues. In that case that could lead to crisis that Latin America has never been through. Moreover, the aim

of this article was not to discuss those possibilities; however, the intention was to present the economic situation which could lead to that, by giving detailed explanation of past and present Argentinean economic situation and brief review of the economic situation in some other countries. ■