
macroeconomía del desarrollo

Political violence and economic development in Latin America: issues and evidence

Andrés Solimano



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Abstract

Historians and anthropologists oft-en see political violence as related to movements of social protest against established powers and political scientists stress the often-violent response of the state to these challenges. Economists working in this subject highlight the monopoly of coercion and force by the state and see political violence as related to failures of the state to maintain that monopoly. Latin America has a long history of political violence with domestic conflicts of different intensity, ideological origins, players and dynamics. In the second half of the XX century, political violence has included civil wars, guerrilla movements, military intervention, *coups d'état*, terrorism and others form of violent confrontation. The socio-economic structure of Latin America is characterized by large inequalities of income and wealth, poverty and volatile growth.

This paper discusses the main economic and political determinants of conflict and terrorism as two main types of political violence. It also reviews recent literature on the relation between the process of economic development and conflict and terrorism and provides empirical evidence on the incidence and nature of these phenomena in the Latin American region in the second half of the 20th century and early 21st century. Finally, the paper discusses how to deal with political violence from an institutional and developmental perspective, including also the prevention of and insurance against conflict and terrorism.

I. Introduction

An observer of human affairs today will be appalled by the intensity and pervasiveness of violence in various parts of the world. Globalization and the new technologies of information make news about war, terrorism and other forms of political violence in different corners of the world available to everyone at a rate unprecedented in the past. The current surge of political violence is a very disturbing trend. It goes against what was expected to be a steady trend towards progress and prosperity. In fact, economic progress and development is about creating and distributing wealth, rising living standards and improving social indicators. In contrast, political violence, conflict and terrorism destroy human lives and physical assets and reduce social welfare. Political violence is like “development in regress”.

Historians and anthropologists often see political violence as related to movements of social protest against established powers and political scientists stress the often-violent response of the state to these challenges. Economists working in this subject highlight the monopoly of coercion and force by the state and see political violence as related to failures of the state to maintain that monopoly. Political violence is not a homogenous phenomenon and it may take various forms. Internal armed conflict, often between regular armies and rebel, ethnic or revolutionary groups are related to conflicting political agendas of competing groups that cannot be resolved by pacific means due to failures of conflict management institutions. The political determinants of armed conflict (internal thereof) follow a complex interplay of ideology, quest for power by competing groups, specific

country conditions and international conditions. The economic determinants of conflict, in turn, are often related to poverty, inequality and social exclusion. Another form of political violence is terrorism. This can be led by rebel organizations or revolutionary movements or by the state both as a response to “revolutionary violence” and also as a way for dominant elites to consolidate power.

Latin America has a long history of political violence with domestic conflicts of different intensity, ideological origins, players and dynamics. In the second half of the XX century, political violence has included civil wars, guerrilla movements, military intervention, *coups d'état*, terrorism and others form of violent confrontation. The socio-economic structure of Latin America is characterized by large inequalities of income and wealth, poverty and volatile growth. In addition, the region has been affected by recurrent external shocks and distributive conflict. In the 1990s reforms aimed at macro stabilization, external opening, liberalization and privatizations were undertaken with varying degrees of success. However, it is apparent that in spite of the reforms, the region's chronic problems of low and erratic growth, persistent poverty, inequality and social exclusion have not yet been solved. Moreover, in the last decade or so, active indigenous groups in Bolivia, Ecuador, and Mexico have been engaged in conflict in the region following demands for more rights and greater autonomy.

As conflict and terrorism produce losses of human lives and destroy assets and property there is a need for both prevention and insurance against this kind of risk. Conflict prevention requires early warnings of armed groups' development and, more importantly it requires addressing conflict's economic determinants such as poverty, inequality and social exclusion. In the case of terrorism, prevention includes also intelligence capabilities to detect the formation and operation of terrorist groups. In turn, state-led terror --often flourishing under authoritarian regimes and restricted democracies -- needs to be faced through a culture of respect of human rights and more effective democracy with effective mechanisms of transparency and accountability of police and security forces.

This paper discusses the determinants of conflict and terrorism as the main types of political violence. It also looks at the similarities, differences and linkages between the two phenomena. The paper also reviews recent literature on the relation between the process of economic development and conflict and terrorism and provides empirical evidence on the incidence and nature of these phenomena in the Latin American region in the second half of the 20th century and early 21st century. Finally, the paper discusses how to deal with political violence from an institutional and developmental perspective, including also the prevention of and insurance against conflict and terrorism.

II. The determinants of conflict and terrorism

Political violence, present in the history of humanity for ages, takes several forms: wars among countries, internal conflict, guerrilla warfare, military overthrow of civilian governments, terrorism, etc. These forms of violence often lead to serious “human destructiveness” in the words of Erich Fromm (1973). Thus, political violence generates clear welfare costs. The motivations, patterns and dynamics of conflict are multiple and, as we shall see in the next section, are different for conflict and for terrorism. Conflict involves regular armies and rebel groups and the scale of operations are much larger than terrorism. Yet conflict and terrorism may go together as the tactics of the belligerent sides in a conflict many times include some form or the other of terrorist activities such as kidnapping for political purposes, bombing, torture and the like. In the following subsection we will review the main determinants of conflict and subsequently those of terrorism.

1. Conflict

The motivation of internal conflict is related to grievances associated with a variety of factors: unequal patterns of distribution of wealth, lack of political rights, ideology, religion and social exclusion. International conditions such as influence and intervention of foreign powers can also affect the risk of internal conflict. The economic literature on the effects of inequality on economic growth stresses the

fact that inequality generates conflict and social polarization inviting greater taxation and discouraging capital formation and growth.¹ In the case of domestic armed conflict, the degree of social conflict is more acute as the conflicting parties pursue their objectives by armed means. Conflict seems to be the result of a combination of (1) inequality that leads to polarization and (2) the failure of formal and informal institutions in channeling conflict through the political system.

Historically, dictatorship, weak democracies and unequal societies have provided the background conditions for conflict to develop in Latin America.² In fact, the agenda of rebel groups, from the Cuban revolution of the late 1950s, the rural guerrilla movements of the 1960s in various Latin American countries, the Southern Cone urban guerrillas in the early 1970s, the Central American rebel groups in the 1980s and others, often included the redistribution of land and wealth in addition to specific political demands.³ These rebel movements usually had a political base in the peasantry and poor urban groups⁴ although typically their leaders often came from the middle class and many were radicalized intellectuals with a university education.

The relation between poverty, inequality, unemployment and the emergence and duration of armed conflict (civil wars) has been the subject of new studies done by economists and political scientists. Collier and Hoeffler (2002) investigated 52 armed conflicts around the world between 1960 and 1999 and identified three economic factors as having a significant effect on the probability (risk) of a country having a civil war: the level of GDP (the incidence of armed conflict in poor countries is much higher than in richer countries), the rate of growth of GDP and its composition (dependence on primary commodity exports)⁵. The level of per capita income was found to be a main determinant of the risk of armed conflict. Doubling per capita income reduces approximately by half the risk of conflict. Economic growth reduces the risk of conflict as it contributes to increase per capita income, thereby making society less risky to conflict. The World Bank, (2003) study indicates that armed conflict has developed and persisted the most “marginalized countries” that is countries where the average growth rate per capita has been negative in the last 20 years. As “marginalized countries” often combine poor economic performance, a weak state, social exclusion and in many cases illegal activities, conflict tends to flourish.

However, the existence of poverty, inequality and exclusion may not be sufficient for rebel and revolutionary groups to strive and for armed conflict to develop. Armed groups need to recruit people and obtain financing for their activities. The work of Collier and associates (see World Bank, 2003) shows that access to natural resources can be an important source of funding for rebel groups. This evidence may be more applicable to conflict in Africa where abundance of diamonds, oil and other resources has been associated with domestic strife. Also certain export crops such as coca and poppies are the raw material for illegal drugs over which insurgent groups can levy informal (or revolutionary) taxes. The cases of Colombia and Afghanistan are an example of this. Rebel groups also receive financial contributions from Diasporas of nationals living abroad that sustain the armed conflict and from supporters at home. Foreign governments may find it convenient to provide funding to rebel groups in other countries for their own geopolitical interests. The recourse to kidnapping, ransom, assaults to banks is another source of revenue for rebel groups. In general, the propagation of conflict and its duration depends on the capacity of the rebel groups to have a steady financial base supporting their struggle, the fighting capacity of the regular army, the support of the population and the international context.

¹ See Sachs (1989) for the relationship between social conflict and populism in the Latin American context and Solimano (1999) for a review of various models of income distribution and growth.

² See Solimano (2005) for an analysis along these lines for the Andean countries of Latin America.

³ See Anderson (1997).

⁴ Hobsbawm (1965) provides an early analysis of disperse forms of social protest that involve some level of violence by peasants, bandits, sects of illiterate workers and other marginalized individuals. Barandiaran (2003) analyses the threats to property by “stationary bandits”.

⁵ This relationship is non-linear and peaks when the ratio of commodity exports to GDP is around 30 percent.

2. Terrorism

Historically, actions to produce terror among the population or in certain target groups can be initiated by the state or by individuals and terrorist organizations. Terrorism led by the state can be identified, historically, with the French revolution and the “reign of terror” of the Jacobins in late 18th century. In the late 19th century, terrorism was associated with the actions of Russian and French anarchists who used terror against state authority. The existence of a dialectical relationship between state-led terror and anti-state terror is apparent. Once set in motion that spiral, cannot be easily stopped. Authors as Olson (2000) and Bates (2001) stress the rise of the state as a movement to secure the monopoly of force by the rulers with different effects on economic efficiency and prosperity. Terror by the state can then be seen as an extreme use of force by rulers to consolidate power and avert challenges from different groups on their monopoly of coercion.

In discussing the current rise in global political violence, George Soros (2004) notes the syndrome of victims turning into perpetrators as a common feature of waves of political violence involving terrorist activity.⁶ In the 20th century there were many examples of both state led terrorism and anti-state terrorism. Fascism and Nazism (that capitalized on the feeling of German victimization following the Versailles treaty after World War I) resorted to the use of terror mainly against the Jews and left –wing political groups. Later on this assumed a more massive scale through physical extermination in concentration camps.

After the Second World War, in the 1960s and 1970s, terrorism started to strike advanced economies. These were the cases of the Red Brigades in Italy, the Baader-Menhoff in Germany, the National Liberation of Corsica in France, the Irish Republican Army in Northern Ireland and Euzkadi ta Azkatzuzana (ETA) in Spain. Nowadays, a trend towards a “globalization of terror” is developing in which foreign countries are the targets of terrorist groups. The most prominent example is Al Qaeda, the Islamic terrorist organization that has committed major terrorist acts in the United States (i.e September 11th, 2001) and in some European countries (i.e the Madrid bombings of March 11th, 2004).⁷

A complex issue is how to define terrorism. A broad definition of terrorism is the undertaking of violent acts against non-combatants targets oriented to generate attention, paralysis or terror in an audience in order to attain certain political purposes.⁸ Recent literature has tried to explore the role of economic development factors such as poverty, the level of education, and unemployment in explaining terrorism. Krueger and Maleckova (2002) review the literature on the subject and perform their own statistical analysis trying to gauge the educational and occupational background of individuals that participate in terrorist acts. These authors focus on data available on the educational and occupational status of members of Hezbollah in the 1980s and early 1990s and found that education and poverty are statistically insignificant predictors of whether individuals become martyrs of Hezbollah. The authors find that the members of this group that committed terrorist acts, including some suicide bombers, were educated individuals with at least secondary education; and several of them in well-regarded occupations. Similarly, Israeli Jews who were involved in terrorist activities in the occupied territories in the early 1980s, were also well educated.

A recent study on the determinants of terrorism using a large database of over 1,000 incidents of terrorism across 179 countries from 1968 to 2001 is Brock Blomberg, Hess and Orphanides (2003). This study detects several important empirical findings worth summarizing here: (i) terrorism is reported more frequently in high income democracies than in lower income countries (or “marginalized countries”); (ii) terrorism is correlated with internal conflict but the determinants of those two phenomena are different. In fact, there is a strong positive correlation between

⁶ Soros (2004) cites Erich Fromm (1973) for popularizing this notion.

⁷ Other Islamic groups that use more localized terror against Israel are the Lebanese Hezbollah group and Hamas in Palestine.

⁸ See Krueger and Maleckova (2002) and U.S. State Department.

terrorism and per capita income, in contrast of findings in the studies of conflict. In this line, Brock Blomberg et. al (2003) find that income per capita and the growth rate of GDP have negative correlation with conflict but a positive correlation with terrorism for the panel data set of their study.

III. Empirical evidence on conflict and terrorism in Latin America conflict⁹

Table 1 shows the incidence of armed conflict in Latin America in the period 1946-2001, classified according different degree of intensity, internal versus external conflict and type of rebel and insurgent groups.¹⁰ The evidence portrayed in table 1 show that most internal conflicts were motivated by the interest of some of the groups in conflict to seize power, including the regular army through *coups de état* against elected governments. Large scale, sustained guerrilla warfare was observed in Cuba in the 1950s, in El Salvador in the 1980s, in Guatemala from the 1950s until the mid 1990s and in Colombia since the early 1960s until now.¹¹ Wars between countries have been often short lived in Latin America; examples of these include the conflict between Honduras and Nicaragua in 1957, between El Salvador and Honduras in 1969 and a short-lived war between Peru and Ecuador in 1995.¹² Up to the early 1990s, geopolitical elements common to these conflicts were the cold war, the influence of the Cuban revolution, the United States foreign policy towards Latin America and others. The economic background behind these conflicts were inadequate levels of per capita income, inequality, unstable growth and persistent poverty (see table 2).

⁹ This section partly draws on my paper "Prevention and insurance of conflict and terrorism: issues and evidence for Latin America (LC/L.2005-P), Serie Macroeconomía del desarrollo No. 27, 2003.

¹⁰ See table 1 and Gleditsch, et.al., 2002 for definitions.

¹¹ See Solimano, 2000 and Sanchez, Solimano and Formisano, 2003.

¹² See Castañeda (1994) and Anderson (1997) for analysis of revolutionary movements and guerrilla groups in Latin America.

Table 1
ARMED CONFLICTS IN LATIN AMERICA, 1946-2001

Country	Reason of conflict	Opposition Organization	Year	Intensity Level *
Argentina	Government	Military faction	1955	Minor
		Military faction	1963	Minor
		ERP (Revolutionary People's Army), Montoneros (left-wing armed branch of the Peronist Party)	1973-74	Minor
			1975	Internal War
			1976-77	Intermediate ^[1]
Argentina - UK	Territory	Malvinas/Falkland Islands	1982	External War
Bolivia	Government	Popular Revolutionary Movement	1946	Internal War
		MNR (Movimiento Nacionalista Revolucionario: National Revolutionary Movement)	1951	Minor
		ELN (Ejército de Liberación Nacional: National Liberation Army)	1967	Minor
Chile	Government	Military faction	1973	Minor
Colombia	Government	FARC (Fuerzas Armadas Revolucionarias Colombianas: Revolutionary Armed Forces of Colombia, ELN (Ejército de Liberación Nacional: National Liberation Army), EPL (Ejército Popular de Liberación: People's Liberation Army), M-19 (Movimiento 19 de Abril: 19 April Movement), Faction of FARC, Faction of ELN, MAO (Movimiento de Autodefensa Obrera: Workers' Self-Defence Movement), Quintin lame ^[2]	1965-79	Minor ^[3]
			1980-88	Intermediate ^[4]
			1989-90	Internal War
			1991	Intermediate
			1992-93	Internal War
			1994-97	Intermediate
			1998-01	Internal War
Costa Rica	Government	National Liberation Army	1948	Internal War
Cuba	Government	Military faction	1953	Minor
		Movimiento 26 de Julio: 26 July Movement	1957	Minor
			1958	Internal War
		National Revolutionary Council, USA	1961	Minor
Dominican Rep.	Government	Military faction	1965	Minor ^[5]
Ecuador-Peru	Territory		1995	Minor
El Salvador	Government	Military faction	1972	Minor
		ERP (Ejército Revolucionario del Pueblo: People's Revolutionary Army), FAL (Fuerzas Armadas de Liberación: Armed Liberation Forces), FARN (Fuerzas Armadas de Resistencia Nacional: Armed Forces of National Resistance), FMPL (Fuerzas Populares de Liberación Farabundo Martí: Farabundo Martí Popular Liberation Forces), PRTC (Partido Revolucionario de Trabajadores Centroamericanos: Revolutionary Party of Central American Workers) ^[6]	1979-80	Minor
			1981-90	Internal War
			1991	Intermediate
El Salvador - Honduras	Territory		1969	External War
Guatemala	Government	Military faction	1949	Minor
		Forces of Carlos Castillo Armas	1954	Minor
		MR-13 (Movimiento Revolucionario Trece de Noviembre: 13 November Revolutionary Movement), FAR (Fuerzas Armadas Rebeldes: Rebel Armed Forces), EGP (Ejército Guerrilleros de los Pobres: Guerilla Army of the Poor), PGT (Partido Guatemalteco del Trabajo: Guatemalan Worker's Party), ORPA (Organización del Pueblo en Armas: Organization of Armed People) ^[7]	1965-67	Minor
			1968	Intermediate
			1969-87	Internal War
			1988-91	Intermediate
			1992	Internal War
	1993-95	Intermediate		
Haiti	Government	Tonton Macoute, Military faction	1991	Minor

**Table 1
(continued)**

Honduras-Nicaragua	Territory		1957	Minor
Mexico	Government	EZLN (Ejército Zapatista de Liberación Nacional: Zapatista National Liberation Army)	1994	Minor
Nicaragua	Government	FSLN (Frente Sandinista de Liberación Nacional: Sandinista National Liberation Front) Contras ^[8]	1978-79 1981-82 1983-88 1989	Internal War Minor Internal War Intermediate
Panama	Government	Military faction	1989	Minor
Panama-USA	Government		1989	Minor
Paraguay	Government	Opposition coalition (Febreristas, Liberals and Communists) Military faction Military faction	1947 1954 1989	Internal War Minor Minor
Peru	Government	MIR (Movimiento de la Izquierda Revolucionaria: Movement of the Revolutionary Left), Túpac Amaru [Guillermo Lobatón], ELN (Ejército de la Liberación Nacional: the National Liberation Army) SL (Sendero Luminoso: Shining Path), Sendero Rojo (Red Path), MRTA (Movimiento Revolucionario Tupac Amaru Tupac Amaru Revolutionary Movement)	1965 1980 1981-85 1986-87 1988-92 1993-99	Minor Minor Internal War Intermediate Internal War Intermediate
Surinam	Government	SLA (Surinamese Liberation Army)/Jungle Commando	1986-88	Minor
Trinidad and Tobago	Government	Jama'at al-Muslimeen (Society of Muslims)	1990	Minor
Uruguay	Government	MLN (Movimiento de Liberación Nacional: Movement of National Liberation) or Tupamaros	1972	Minor
Puerto Rico	Territory	Puerto Rican Nationalist Party	1950	Minor
Venezuela	Government	Military faction Military faction (Revolutionary Bolivarian Movement for National Salvation)	1962 1992	Minor Minor

Source: Nils Petter Gleditsch, Peter Wallensteen, Mikael Eriksson, Margareta Sollenberg & Håvard Strand (2002). 'Armed Conflict 1946–2001: A New Dataset', *Journal of Peace Research* 39(5): 615–637. The latest version of this document <http://www.prio.no/cwp/armedconflict/>

Note: * Minor armed conflict: at least 25 battle-related deaths in that year and fewer than 1,000 battle-related deaths during the course of conflict. Intermediate armed conflict: at least 25, but fewer than 1,000 battle-related deaths in that year and an accumulated total of at least 1,000 deaths. War: at least 1,000 battle-related deaths in that year. Names of the opposition organizations are given in the local language, if available, and in English.

¹ Possibly war in 1976–77.

² Only FARC and ELN active in 1992–99.

³ It is unclear when the conflict changed from minor to intermediate.

⁴ Possibly war in several of the years.

⁵ Possibly war in 1965.

⁶ In 1980, FMLN (Frente Farabundo Martí para la liberación nacional: Farabundo Martí Front for National Liberation) was formed by ERP (Ejército Revolucionario del Pueblo: People's Revolutionary Army), FAL (Fuerzas Armadas de Liberación: Armed Liberation Forces), FARN (Fuerzas Armadas de Resistencia Nacional: Armed Forces of National Resistance), FPL (Fuerzas Populares de Liberación Farabundo Martí: Farabundo Martí Popular Liberation Forces) and PRTC (Partido Revolucionario de Trabajadores Centroamericanos: Revolutionary Party of Central American Workers).

⁷ In 1980, URNG (Unidad Revolucionaria Nacional Guatemalteca: Guatemalan National Revolutionary Unity) was formed by FAR (Fuerzas Armadas rebeldes: Rebel Armed Forces), EGP (Ejército Guerrilleros de los Pobres: Guerilla Army of the Poor), PGT (Partido Guatemalteco del Trabajo: Guatemalan Worker's Party) and ORPA (Organización del Pueblo en Armas: Organization of Armed People).

⁸ Various groups, mainly FDN (Fuerzas Democráticas Nicaraguenses: Nicaraguan Democratic Forces).

Table 2

ECONOMIC AND SOCIAL INDICATORS IN LATIN AMERICA

Period	Level of GDP per capita ⁽¹⁾	Rate of growth of GDP	Poverty ⁽²⁾	Inequality ⁽³⁾	Number of conflicts
1950-1960	2799.5	5.1	N.A.	N.A.	13 ⁽⁴⁾
1960-1970	3472.8	5.4	N.A.	0.532	11
1970-1980	4701.0	5.7	N.A.	0.491	10
1980-1990	5142.1	1.7	44.1	0.497	18
1990-2000	5482.0	2.9	45.3	0.493	14
2000-2003	5735.0	1.3	43.3	N.A.	1

Source: Maddison (2003), Social panorama of Latin America (2003) and Table 1.

Notes: ⁽¹⁾ 1990 international Geary-Khamis dollars. ⁽²⁾ Percentage Population below the poverty line. ⁽³⁾ Gini Coefficient. ⁽⁴⁾ 1946-1960 (see table 1). N.A.: Non available

As displayed in table 2 the higher number of conflicts (internal and external) in the period 1946-2001 is found in the 1980s. There were conflicts in the relatively lower per capita income countries of Central America and the Caribbean (Guatemala, El Salvador, Honduras, Nicaragua, Panama, Haiti, Dominican Republic, Trinidad Tobago, Puerto Rico, Cuba). At the same time, conflict also affected relatively higher per capita income countries such as Argentina and Venezuela. Until the early 1990s the cold war was very important in shaping the nature and duration of armed conflicts in Central America such as the wars in Nicaragua and El Salvador in the 1980s. When the cold war was over, those wars almost immediately stopped. In contrast, the Colombian conflict, fueled by illegal drugs incomes, outlived the end of the cold war.

1. Terrorist activity

The period under study saw the occurrence of both state-led terror and terrorist activity led by revolutionary organizations. The intensity and nature of terror varied across groups. During the right-wing military regimes of the 1970s in the Southern Cone of Latin America, state-sponsored terror operated through kidnappings, shootings and the disappearance of political opponents (included sometimes their relatives). Independent truth commissions set up after the end of those authoritarian regimes estimated that around 3,000 people disappeared in Chile and near 30,000 in Argentina during their respective military regimes of the 1970s and 1980s. Argentina also suffered from left-wing terrorist activity in the late 1960s and early 1970s associated with the activity of groups such as the *Montoneros* and the ERP (People's Revolutionary Army of Argentina). Uruguay, over a similar period, also suffered violent actions led by the *Tupamaros*. In the 1980s Peru was besieged by terrorist activity led by *Sendero Luminoso* (Shining Path), a Maoist group led by a university professor Abimail Guzman (see table 4 and 5). The intensity of violence and their targets varied considerably among these groups.

Table 3
NUMBER OF INTERNATIONAL TERRORIST ATTACKS BY REGION, 1991-2002*

Region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	1991-2002 Total	1991-2002 Annual Average
Africa	3	10	6	25	10	11	11	21	53	55	33	5	243	20.3
Asia	48	13	37	24	16	11	21	49	72	99	68	99	557	46.4
Eurasia	6	3	5	11	5	24	42	14	35	31	3	7	186	15.5
Latin America	229	143	97	58	92	84	128	111	122	192	201	50	1507	125.6
Middle East	78	79	100	116	45	45	37	31	26	20	29	29	635	52.9
North America	2	2	1	0	0	0	13	0	2	0	4	0	24	2.0
Western Europe	199	113	185	88	272	121	52	48	85	30	17	9	1219	101.6
Total	565	363	431	322	440	296	3.4	274	395	427	355	199	4371	364.3

Source: Patterns of Global Terrorism, U.S. Department of State.

Note: *The term "international terrorism" used by the U.S. State Department is the following "means terrorism involving citizens or territory of more than one country." This definition we assume includes foreigners as perpetrators or victims and assets of foreign companies and organizations as targets of terrorist attacks.

Table 4
NUMBER OF INTERNATIONAL TERRORIST ATTACKS BY COUNTRIES* LATIN AMERICA, 1994-2002

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002
Argentina	1			0	0	1	0	0	0
Bolivia	0	0	0	0	0	1	0	0	0
Chile	1	1	2	0	0	1	1	0	0
Colombia	41	76	66	107	108	112	186	191	49
Ecuador	1	0	0	0	0	4	1	0	0
Peru	3	3	2	15	1	0	0	0	1
Panama	1	0	0	0	0	0	0	0	0
Venezuela		0	0	0	0	3	1	0	0
Other countries	10	12	14	6	2	0	3	10	0
Total	58	92	84	128	111	122	192	201	50

Source: Patterns of Global Terrorism, U.S. Department of State.

Note: *The term "international terrorism" used by the U.S. State Department is the following "means terrorism involving citizens or territory of more than one country". This definition we assume includes foreigners as perpetrators or victims and assets of foreign companies and organizations as targets of terrorist attacks.

Table 3 shows that in 1991-2002, Latin America had the *highest* number of international terrorist attacks followed by Western Europe and Asia.¹³ However, those attacks were highly concentrated in one country: Colombia, that accounts for around 88 percent of the international terrorist attacks committed in Latin America, followed, a distant second, by Peru (see table 4). In the 1990s, there were other high profile terrorist attacks in the region: the bombing in 1992 of the Israeli Embassy in Buenos Aires and the 1994 bombing of the Argentina-Israeli Community Center (AMIA), see table 5.

Table 5
POLITICAL VIOLENCE IN LATIN AMERICA (SELECTED CASES)

Driven by revolutionary/rebel groups	State-driven	Externally driven
Montoneros (Argentina) late 1960s, early 1970s.	Argentina's Juntas (1976-82)	Bombing of Israeli Embassy 1992, Argentina
AAA (Alianza Anti-comunista Argentina, Argentina) 1973-74	Brazil, under the military regime (1960s)	Asociación de Mutuales Israelitas Argentina (AMIA) 1994
ERP (Revolutionary People's Army Argentina) 1973-74	Chilean Junta (1973-89)	
FARC (Revolutionary Armed Forces of Colombia) ELN (National Liberation Army, Colombia) 1960-until present	Paraguay's Junta (1954-1989)	
National Liberation Army (Costa Rica) 1948	Uruguay, civic-military regime (1972-76)	
FMPL (Farabundo Marti Popular Liberation Forces, El Salvador) 1980-91		
URNG (Guatemalan National Revolutionary Unity, Guatemala) 1965-91		
Zapatista National Liberation Army (Mexico), 1994		
Contras (Nicaragua), 1978-89		
MIR (Movement of the Revolutionary Left), Túpac Amaru, ELN (National Liberation Army), Perú, 1965.		
Shining Path, Red Path, MRTZ (Tupac Amaru Revolutionary Movement), Perú, 1980-99		
Tupamaros (Uruguay) late 1960s, early 1970s.		

Source: Table 1 and other sources.

¹³ International terrorism in that publication is defined as terrorist acts that involve nationals of more than one country and assets of international corporations besides national infrastructure. The data on international terrorism for Latin America and other regions of the world comes from the U.S. State Department's publication: "Patterns of Global Terrorism", various issues.

IV. Dealing with political violence: policies for peace and development

We have seen that the risk of conflict diminishes as a country increases its level of economic development. In fact, the countries with higher levels of per capita income in the world economy have a very low risk of internal armed conflict. This suggests that economic growth can be a route to reduce conflict and make societies more stable and peaceful. However, more rapid growth is unlikely to be the final solution to the complex problems of conflict and political violence. At the same time, growth needs to be complemented by social and institutional reform. We noted that inequality often breeds conflict, legitimizing the wealth redistribution and social reform quest by rebel groups. More rapid growth will need to be accompanied by lower inequality if we want to reduce the risk of conflict. Another factor that reduces the risk of conflict is effective political institutions and a more consolidated democracy. As mentioned before, the risk of internal armed conflict in consolidated democracies is very small. In contrast, weak or collapsed states in impoverished countries usually have a high incidence of conflict. Strengthening democracy, reducing social exclusion, empowering the institutions of conflict management and ensuring sustained growth can be powerful antidotes against conflict.

Various considerations are important in assessing the risk of internal conflict in Latin America. Although its average per capita

income level is in the middle-income range, it includes very poor countries with weak institutions (e.g. Haiti), which are prone to conflict. At the same time its growth record in recent years has been inadequate and volatile and inequalities of income and wealth remain (see ECLAC, 2003). In addition, traditionally excluded groups such as indigenous populations in several Andean countries have turned into important social movements with political clout and complex demands leading to political crises and violence (see Solimano, 2005). On the other hand, democracy has consolidated in most countries of the region; although it is still perceived by the population as fragile, see UNDP, 2004.

At a broader level, preventing conflict and terrorism is a complex task that involves economic, political and legal dimensions. A culture of negotiation and consensus can foster the peaceful resolution of conflict in societies. In contrast, inequality, poverty and weak institutions of conflict management combined with an easy access to arms and funding for rebel groups create an environment for conflict to flourish. Although terrorism is different from conflict, the existence of the latter tends to increase the incidence of the former. Colombia, for example, has a very high incidence of terrorist attacks and is the site of one of the most persistent conflicts in the western hemisphere. Tackling conflict therefore should help to deal with terrorism. In Latin America, groups that have used terrorist tactics in the past have had political agendas not very different from revolutionary movements that engaged in armed conflict. Addressing the causes of the rise of revolutionary groups should thus help to prevent other forms of political violence.

A “new” phenomenon is the link between illegal drug trade and rebel activity, which describes the current situation in Colombia. Here, political agendas tend to be blurred by a self-sustained conflict because of the abundance of funds available to rebel groups.

The other issue is state-led terror, often undertaken by intelligence services and security forces during military regimes. These waves of state-led political violence caused national traumas in several Latin American countries, particularly in the 1970s and 1980s. The arrival of democracy to the region was instrumental in reducing the incidence of state-led terrorism, as “security” groups were generally dismantled and the police and intelligence services were made more accountable to elected bodies and the press. The growing acceptance of human rights doctrine along with a freer flow of information also reduced the incidence of state-led terror. A topic that needs to be further researched is the dynamic of state-led violence that followed periods of rapid social change such as those lived in the early 1970s in the Southern Cone (Argentina, Uruguay, and Chile). Attempts of social change and income redistribution in those countries were followed by the overthrow of democratically elected leaders and the instauration of military regimes that resorted to widespread use of violence as a mechanism to consolidate their power, reverse redistributive policies, demobilize unions and social organizations and repress left-wing groups.

V. Insurance of political risk and social protection

As conflict and terrorism cause economic damages and destroy human lives, people are willing to invest resources to minimize those costs. There are several instances in which the direct provision of public insurance is needed. For humanitarian considerations after a civil war or a large-scale conflict the families of victims of conflict often need to be compensated. This may take the form, for example, of for-life pensions to disabled former combatants and their families. After the end of the civil wars in Guatemala and El Salvador schemes of compensations were put in place by their governments to help demobilized combatants and their families. In turn, in countries that have traditionally suffered from terrorist activity, such as Spain, South Africa, Israel and Northern Ireland, governments have created public insurance schemes against terrorism based on mandatory premiums and/or taxes on property.¹⁴ The development of private insurance against damages caused by terrorist activity is a developing field. For private insurance of these risks to succeed it requires an adequate management of complex pricing problems associated with the financial consequences of “extreme events” in which a major terrorist attack (e.g. the New York City’s Twin Towers collapse on September 11, 2001) creates very high losses that strain the financial capacity of private insurance and reinsurance companies and create a large bankruptcy risk. The problem of pricing risk of political violence may

¹⁴ The case of Great Britain is interesting. A special agency called Pool Re, basically a mutual insurance company has been set up with the purpose of providing reinsurance of losses on commercial property which are a result of a terrorist attack (as defined by an enabling statute). The British government acts a re-insurer to Pool Re, as an insurer of last resort, charging a premium to Pool Re only after the accumulated surplus reaches 1 billion pounds (see Jaffee and Russel, 2002).

be particularly serious in the gray area of terrorism and conflict, because of the lack of precise and well-verified knowledge of the determinants and dynamics of these phenomena. In turn, solvency risk can be handled, in principle, through suitable financial instruments that shift risk from insurance companies to investors short in risky assets. Well-structured insurance schemes have the property of partitioning the layers of risk with self-insurance and market insurance taking care of the initial layers of risk, leaving to international capital markets and public intervention to provide risk protection against “extreme events”. Moral hazard problems associated with too little mitigation and insufficient prevention is another dimension for the development of adequate insurance against terrorism and conflict risk. In any case, the social benefits of having adequate prevention and insurance mechanisms for these large contingencies are bound to be very large in historically conflicting Latin American societies.¹⁵

¹⁵ See Solimano (2003) for an analysis of these issues in the Latin American context. See also Jafee and Russel (2002), Lakdawalla and Zanjani (2002), Woo (2002), Kunreuther (2002), Auffret (2003).

VI. Final remarks

Political violence retards economic development as it destroys human lives and economic assets and penalizes the accumulation of capital and wealth creation. In turn, the “classical” problems of underdevelopment -poverty, inequality, and social exclusion along with institutions that have failed at conflict management- breed political violence. Latin America has not been absent from conflict and terrorism in recent decades. However, the causes of its nature and development may differ from those of other regions of the world. Latin America has high inequality, persistent poverty, and erratic growth. Religion has played a very small role in explaining conflict. Most social movements, left-wing political parties and rebel groups in the region have been motivated by an active social agenda that includes income and asset redistribution as a reaction to prevailing inequality and exclusion. A similar agenda is shared by active indigenous movements in the region. In the 1960s, 1970s and 1980s several rebel groups in Latin America were inspired by the Cuban revolution; the corresponding reaction was framed in the logic of the cold war. As the cold war disappeared, several prominent armed conflicts such as those in El Salvador, Nicaragua, and Guatemala ceased to exist. The Colombian conflict, however, proved resilient, fueled by ample resources linked to illegal drug trade. Politically motivated terror has also been present in Latin America for decades instigated both by rebel groups to advance their political causes and by the states challenged by these groups. Latin America has had a traumatic history of state-led violence following the instauration of military regimes in the 1970s.

Policies to reduce political violence call for institutional reforms, improved democracies and reduced poverty and inequality. Currently, in Latin America there is a clear lack of both public and private insurance mechanisms and social protection for facing the contingencies associated with

political violence, conflict and terrorism. For humanitarian reasons there is a need to structure public insurance and compensation schemes for victims and their families in countries that have suffered protracted and costly internal conflicts. At the same time, there is a potential scope for developing market insurance for terrorism and conflict related losses, provided there is proper management of incentives, risk and moral hazard issues.

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