

# foreign policy *in focus*



Interhemispheric Resource Center  
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## Nicaragua

By Lisa Haugaard, Legislative Coordinator, Latin America Working Group

The election of conservative Arnoldo Alemán, former mayor of Managua, as president of Nicaragua is unlikely to cause any decisive change in U.S.-Nicaraguan relations. U.S. embassy officials took care not to openly support one party over another in the October 1996 elections—in contrast to the 1990 elections, when the U.S. invested several million dollars in Violeta Chamorro's campaign. But U.S. policymakers surely breathed a collective sigh of relief when Alemán defeat-

ed FSLN (Sandinista National Liberation Front) candidate and former president Daniel Ortega.

Alemán, while officially receiving 50% of the vote, must overcome serious allegations of electoral fraud implicating members of his Liberal Alliance. For Nicaraguans, Alemán's election poses a serious question: Will the combative Alemán reach out to all sides in this still-divided country, or will he govern along the lines of his vehemently anti-Sandinista rhetoric?

U.S.-Nicaraguan relations have been rocky ever since the end of the U.S.-sponsored war against the Sandinista government. When the U.S.-backed candidate Violeta Chamorro scored an upset victory in the 1990 Nicaraguan elections,

her administration had cause to believe that bilateral relations with Washington would be smooth sailing. After years of divisive political battles over U.S. support for efforts to overthrow the leftist, nationalist Sandinistas, members of Congress on both sides of the aisle welcomed her victory and quickly approved a \$300 million aid package.

Chamorro's honeymoon was short, however, both within Nicaragua and with Washington. The multiparty UNO coalition that elected her fractured over two major issues: Chamorro's pragmatic agreement with former Sandinista army leaders and her refusal to immediately return properties confiscated through the

Sandinistas' land reform. Unwilling to throw some 120,000 peasant families off confiscated lands, the Chamorro government searched for a compromise.

Echoing the concerns of Nicaraguan conservatives, conflicts immediately arose between the Chamorro administration and certain congressional Republicans in Washington, led by Senator Jesse Helms (NC), who demanded the immediate return of confiscated property to U.S. citizens. Many of these U.S. citizens, holding some 1500 claims, are naturalized Nicaraguan-Americans who took U.S. citizenship after their property was confiscated. Helms and his supporters viewed Nicaraguan property issues as a precedent for property rights worldwide, particularly in a post-Castro Cuba. U.S.-Nicaraguan conflicts over property resulted in temporary aid freezes during both the Bush and Clinton administrations.

The Bush administration correctly deplored human rights violations against ex-contras and the Chamorro government's frustrating lack of progress in investigating and prosecuting these cases. Yet they ignored the equally deplorable killings of Sandinista-affiliated farmers and ex-soldiers, sending a message that the United States only supported the human rights of one side.

The Bush administration also used U.S. leverage to hastily return Nicaragua to the free-market path. U.S. aid, which totalled some \$440 million in the first two years, was tied directly to meeting the conditions of an unusually strict structural adjustment plan. The U.S. Agency for International Development (AID) worked closely with the IMF and World Bank in prodding the Nicaraguan government to downsize the public sector, restrict rural credit, privatize public-sector industries, and change laws to favor foreign investment. U.S. aid for development projects was channeled solely to anti-Sandinista organizations, with the explicit purpose of undermining what U.S. officials termed "Sandinista control" over the populace.

Recognizing the unhealthy historical dynamic of U.S. entanglement in Nicaraguan internal affairs, Clinton's officials set a tone of greater disengagement from Nicaraguan political debates and divisions.

### Key Points

- U.S.-Nicaraguan relations have been rocky ever since the end of the U.S.-sponsored war against the Sandinista government.
- The U.S. Agency for International Development worked closely with the IMF and World Bank in prodding the Nicaraguan government to downsize the public sector, restrict rural credit, privatize public-sector industries, and change laws to favor foreign investment.
- Recognizing the unhealthy historical dynamic of U.S. entanglement in Nicaraguan internal affairs, Clinton officials set a tone of greater disengagement from Nicaraguan political debates and divisions.

The Clinton administration's approach to Nicaragua represents an improvement over Washington's historically divisive role in that nation. In particular, attempts to distance the United States from internal Nicaraguan divisions, the embassy's willingness to talk to representatives from all sides, and AID's efforts to diversify its funding portfolio to include a wider range of organizations (such as the Sandinista-linked farmers union, UNAG), represent a welcome departure from traditional U.S. policy.

But Clinton's policy deviation has only been partial. The administration's neutral posture slipped on the eve of the 1996 presidential election as the FSLN appeared to be gaining in the polls. In remarks widely circulated in Nicaragua, a State Department spokesman declared that Ortega was not a democrat, and U.S. officials demanded that the FSLN withdraw a television ad showing Ortega standing with a U.S. congressman.

In addition, most U.S. diplomatic and funding contacts were formed during the Bush administration, and the majority of nongovernmental organizations chosen as aid recipients are still drawn from conservative circles. Certain AID-funded subcontractors still promote a polarizing message, despite AID's efforts to initiate a change of direction.

Following a sorry U.S. tradition of abandoning proxy forces once U.S. interest wanes, neither Bush nor Clinton seriously addressed the postwar plight of Washington's contra allies. Instead, U.S. assistance to Nicaragua fell steeply, from \$147 million in 1993 to \$25.7 million in 1997.

Like its predecessor, the Clinton administration offers entrance into NAFTA as the panacea for Nicaragua's problems. In the meantime, however, no major rethinking of the harsh structural adjustment pursued in postwar Nicaragua has occurred. Additionally, while AID no longer plays a strong role in imposing economic adjustment in Nicaragua, Clinton appointees to the IMF and World Bank continue to support a strict adjustment plan.

The intensity of the structural adjustment program (pursued with U.S. support) has been particularly inappropriate for postwar recovery. While some public sector downsizing and some privatization was necessary to control inflation and stabilize the economy, the pace and extent of these efforts were ideologically driven. Sharp cutbacks in rural credit slowed the economy's recovery and contributed to greater inequality. Rapid lifting of trade barriers undermined Nicaragua's small and medium-size producers. Under/unemployment hovered at above 50%; real GDP growth was negative from 1991-93, rising to 3.2% in 1994. The percentage of the population in poverty increased, while some sectors—including certain government officials—prospered.

Along with the harsh and unequal economic impact, structural adjustment has affected the progress of national reconciliation. IMF demands limited the government's options for reaching compromises with all factions and at times escalated tensions to the boiling

point. Cutbacks in rural credit and ongoing property conflicts affected a volatile group: ex-contra fighters and discharged army troops. Lacking the secure land titles, credit, and technical assistance needed to make the difficult transition back to civilian life, members of both sides took up arms again. These bands—now primarily nonpolitical "delinquents" led mainly by former contra fighters—continue to disrupt the countryside.

Politically, the Clinton administration has had to wage a defensive battle regarding its Nicaragua policy in response to Republican critics. Senator Helms and his allies have hounded the administration to vigorously pursue property compensation for U.S. citizens, at times attaching language to legislation governing aid, multilateral loans, and debt relief. Despite a near consensus by Nicaraguans to allow small farmers and the urban poor to keep their properties, to require individuals who received large properties either to return them or pay for them, and to offer bonds as compensation to those who had their property confiscated, Senator Helms' resistance to any compromise on the property issue has inhibited resolution of these highly divisive conflicts. The property issue has also preempted the Clinton administration's attention to human rights and other important matters.

Other problems with U.S. policy include the emphasis on free trade and the continuing focus on the divisive property issue. Like Bush, President Clinton holds out entrance to a hemispheric free trade bloc as a panacea for Nicaragua's severe economic problems. And under pressure from Senator Helms, the Clinton Administration focuses on property cases to the detriment of other priorities. Following a sorry U.S. tradition of abandoning proxy forces once U.S. interest wanes, neither the Bush nor Clinton administration has taken measures to help the postwar plight of the contra troops.

U.S. policy has done little to resolve the unmanageable burden of Nicaragua's debt, one of the highest per capita debts in the world. Never very large, Nicaragua's debt with the U.S. is now negligible, all but \$100 million having been forgiven by the Bush administration when Chamorro took power. But U.S. officials could have more actively advocated pardoning more of Nicaragua's debt. They could also have funded Nicaraguan efforts to buy back commercial debt and urged the international financial institutions to grant multilateral debt relief.

Nicaraguan President Alemán may pose new problems for the United States. If, in an attempt to push a conservative agenda, Alemán abandons any pretense of building a broad consensus, he could stir up tensions dangerously. U.S. policymakers will then have the choice of backing him or taking the more principled approach of stressing to his government the importance of adhering to democratic rules and fostering national unity.

### Key Problems

- The intensity of the structural adjustment program (pursued with U.S. support) was particularly inappropriate for postwar recovery.
- Nicaragua policy has been held hostage to Senator Helms' obsession with confiscated property.
- Like its predecessor, the Clinton administration offers entrance into NAFTA as a panacea for Nicaragua's problems.

U.S. policy should support Nicaraguan efforts to build workable, fair compromises that allow formerly polarized factions to live together in harmony, and should urge all Nicaraguans to adhere to democratic processes.

## Key Recommendations

- The U.S. should support the emerging consensus among Nicaraguans on a compromise solution over the divisive property issue.
- Representatives to the international financial institutions should thoroughly review all structural adjustment and sectoral loans to ensure that they will stimulate broad-based economic reactivation.
- Trade policy should recognize Nicaragua's lack of competitiveness, ensure protections for national production, and respect for internationally recognized labor rights.

The U.S. should supply assistance and support international loans, programs, and debt relief to help the poorest Nicaraguans, thereby contributing to a sound, equitable, and sustainable economy.

Specific recommendations include the following:

- U.S. policy should support democratic processes and institutions in Nicaragua rather than championing particular factions. The U.S. should encourage Nicaraguans to resolve their disputes among themselves and not seek U.S. endorsement for particular candidates or parties.
- U.S. policy should emphasize the importance of consensus-building efforts in Nicaragua. U.S. aid should include support for unifying activities and joint projects among former antagonists.
- Washington should support the emerging consensus among Nicaraguans on a compromise solution over the divisive property issue, whereby small farmers and the urban poor would be able to keep their properties, while bonds would be offered to compensate those who lost property. Disproportionate pressure to return or compensate U.S. property owners, including Nicaraguan-Americans who received U.S. citizenship after their properties were expropriated, does not contribute to the development of democracy and consensus in Nicaragua.
- U.S. policy should emphasize human rights by supporting and funding a human rights ombuds-

man's office. Washington's human rights policy towards Nicaragua needs to continue its departure from the partisan perspectives of the past.

- The U.S. aid program in Nicaragua should increase its support for small farmers and microenterprises, including cooperatives, through technical assistance, revolving credit programs, and the establishment of savings and loans institutions. AID still needs to make progress in funding a more diverse range of nongovernmental organizations and in encouraging Nicaraguan organizations to work together. Health and environmental programs should be continued. Washington has cut its economic aid too rapidly, especially given its moral obligation to help rebuild postwar Nicaragua.
- Washington should support Nicaragua's efforts to reduce its crippling debt by forgiving the minimal amount of bilateral debt Nicaragua owes to the United States. Additionally, the U.S. government should recognize—and urge other governments and financial institutions to recognize—that Nicaragua has an unsustainable debt burden. The U.S. should then advocate generous repayment terms, including substantial debt stock reduction.
- U.S. representatives to the international financial institutions should thoroughly review all structural adjustment and sectoral loans to Nicaragua to ensure that these loans will stimulate broad-based economic reactivation. Loan conditions should not increase high levels of unemployment, harm poor people, restrict credit to small farmers, or contradict internationally recognized labor rights—all serious concerns regarding conditionality on recent loans.
- U.S. trade policy should recognize Nicaragua's lack of competitiveness, ensure protections for national production, and it should emphasize the importance of respect for internationally recognized labor rights.

*Foreign Policy in Focus* is a joint project of the Interhemispheric Resource Center (IRC) and the Institute for Policy Studies (IPS). It is supported by subscriptions, by financial support from the John D. and Catherine T. MacArthur Foundation, and by various church organizations. *In Focus* internships are available.

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## Publications

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## World Wide Web

### Nicaragua: Facts, Faces, Focus

[www.cnn.com/Interactive/Faces/nicaragua/index.html](http://www.cnn.com/Interactive/Faces/nicaragua/index.html)

### Washington Post: World References-Nicaragua

[www.washingtonpost.com/wp-srv/inatl/longterm/worldref/country/nicaragua.htm](http://www.washingtonpost.com/wp-srv/inatl/longterm/worldref/country/nicaragua.htm)

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