

# The Sandinista Revolution and Post-Conflict Development--Key Issues

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**The Sandinista Revolution and  
Post-Conflict  
Development—Key Issues**

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**Abstract**

Following Daniel Ortega's victory in the presidential election held in November 2006, Nicaragua has been undergoing a transition from a democratic to authoritarian system. In the 1980s, Ortega served as President of the Sandinista government and implemented a Cuban-type socialist system, but the system failed and democracy was established during 1990-2007. Considering this failure, why did Ortega succeed in taking power again? This paper provides a brief history of modern Nicaragua and gives some insights into the twists of Latin American politics. The paper was prepared for the international seminar on Helping Failed States Recover: The Role of Business in Promoting Stability and Development, organized by the University of Kansas Center for International Business Education and Research (CIBER), held on April 4-6, 2007 in Lawrence.

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**Keywords:** Daniel Ortega, Violeta Chamorro, Enrique Bolaños, Hugo Chávez, Sandinista, Contra, post-conflict recovery, neo-liberal, caudillo, extreme poverty, illiteracy rate

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## **THE SANDINISTA REVOLUTION AND POST-CONFLICT DEVELOPMENT—KEY ISSUES**

### **INTRODUCTION**

During the past three decades Nicaragua has experienced a large transformation, from an authoritarian government to civil war, to state socialism to democracy, reconciliation and a market-oriented economy. The post-conflict process was painstaking and tough. Some issues remain unsolved. As far as the economy is concerned, free-market economy functioned well. Real GDP in terms of 1994 Córdoba prices increased by 62% between 1994 and 2006 and real per capita GDP at 1994 dollar price (6.72 Córdoba per US\$1.00) recovered by 18.6% from US\$693 to US\$822 during the same period. Social indicators such as illiteracy rate, extreme poverty and school attendance also showed improvements.

In the 2006 election, Daniel Ortega, who was President in 1985-1990, was reelected, with about 35% of the vote, to the Presidency. This is a dramatic and surprising result which has caused considerable uneasiness in many people in Nicaragua and raised the expectations of Sandinista supporters. In Latin America, the left has gained momentum because of Hugo Chávez in Venezuela and Evo Morales in Bolivia. In which direction will Nicaragua go?

The first section in this paper includes a brief description of the Sandinista revolution. The second section deals with the democracy process, especially, three issues, hyperinflation, demobilization of the army, and property issues. The third section explains the economic recovery, and the fourth describes some obstacles for investors. The fifth section analyzes the 2006 election and the Sandinista's return to power. In the sixth section, some lessons will be discussed, in particular, the notion that the gap between the rich and the poor has expanded under more free-market oriented policies is negated by the recent household survey.

### **1. THE SANDINISTA REVOLUTION 1979–1990**

In 1979, the Sandinista National Liberation Front (FSLN in Spanish) defeated the Somoza dictatorship and established its own government. The FSLN or Sandinista government introduced a state socialist, Cuban-style regime in Nicaragua. In the Somoza era “Less than 1 percent of the land

owners owned over 40 percent of all farmland. The Somoza family alone held approximately 20 percent of the total” (Field and Fisher III 2001, 212). Massive expropriation of agricultural land and nationalization of firms was imposed throughout the country. The Sandinista government seized private land including that owned by the Somozas and their allies and distributed it to landless peasants or cooperatives. In the 1979-1981 period, Sandinista government confiscated over two thousand properties (2.4 million acres of land) and 120 firms to state control (Ibid., 213). The agrarian reform extended over the country and the number of properties and area affected by the reform reached 1,518 properties with 1,558,702 acres from 1981 to 1988 (Luciak 1995, Table 4.1). As a result, State farms occupied 11.7% and Sandinista cooperatives 20.1% of all agricultural land (Jonakin 1997, Table 2).

Many business people, farmers and professionals, many of whom lost much of their wealth as a result of the Sandinista Revolution, fled the country to Costa Rica or the U.S. during the Sandinista Revolution; and as economic conditions deteriorated and internal strife intensified many poorer Nicaraguans also fled the country.

Although the Sandinista government did introduce a few successful policies such as greater access to education for illiterate people and an expansion of inexpensive or free medical services, their seizure of private property including factories as well as agricultural land, their huge expansion of government, state regulation of the economy and government spending, and the resultant hyper inflation and economic depression, generated widespread resistance against the Sandinista Revolution. The *contras*, backed by the U.S. government, fought against the Sandinista army and the country was beset by civil war. At the same time, the Soviet Union, the then East European socialist countries, and Cuba and Libya helped the Sandinista government with armaments, training and economic aid. A typical example was the construction of a 3000m-runway airport (Magazine 2006, 12-18) so as to bring Mig 21 jet-fighters to Nicaragua (it was never fully materialized and the airport was abandoned). Thus, it was, in a sense, a proxy war between the socialist and free/democratic countries but this should not obscure the fact that there was a civil war.

Extremely high government deficit spending, including war expenditure and economic mismanagement, exacerbated by U.S. economic sanctions from 1981 and a trade embargo in 1985, brought the Nicaraguan economy to its knees. Expenditures of the central government as percentage of GDP reached the record level of 58.6% in 1984 and the government deficit (excluding foreign donations) as against GDP recorded the highest point at -25.5% in 1988. Monetary base increased by 186% in 1985, 235% in 1986 and 610% in 1987 (see TABLE 1). All these led Nicaragua to hyper inflation and economic collapse. The civil war caused huge sacrifices to the country, too. Thirty thousand eight hundred sixty-five Nicaraguans died and twice that many were injured. Destruction of property and harm done to the economy was similarly astonishing. “The material damage and damage

to productive forces resulting from the war totaled US\$1,998 million; the financial blockade meant for Nicaragua a loss of US\$642 million, and the commercial embargo another US\$459 million; the added costs for defense and security (in excess of the average 1980-1982 defense expenditure) in the period 1983-1989 totalled US\$1,933 million, for a total of US\$5,032 million. The aggregate effect of these on the gross national product was US\$4,055 million, for a grand total of US\$9,087 million.” (cited by Close 1999, 28 from Oquist 1992).

During the 1979-1990 Sandinista Government, real GDP at 1980 Córdoba fell every year except 1980-81 and 1983 (see FIGURE 1). Real per capita GDP (estimated at 1980 U.S. dollar), therefore, suffered a severe decline, US\$703 to US\$474 during 1979-90. In the Somoza period, ironically, the same per capita GDP increased from US\$668 to US\$1,104 during 1960-77. Hyper inflation, as measured by the consumer price index, reaching a staggering 14,316% in 1988 (see FIGURE 2).

A widespread desire for peace and economic stability after years of civil conflict and economic depression resulted in peace talks mediated by President Oscar Arias of Costa Rica, leading to the Esquipulas Accord in 1987. Then President Daniel Ortega (1985-90) agreed to presidential and congressional elections. The elections were held on February 25, 1990 and Doña Violeta Barrios de Chamorro, of the National Opposition Union (UNO) was elected President. Before handing over the government to President-elect Chamorro, many of the leading members of the Sandinista government divided some nationalized companies, and extensive agricultural lands, and seized urban mansions and government properties among themselves, what was called ‘la piñata’.

## **2. INTRODUCTION OF DEMOCRACY 1990–2007**

The 1990-2007 period covers three presidents: Violeta Barrios de Chamorro (1990-1997), Arnaldo Alemán Lacayo (1997-2002), and Enrique Bolaños Geyer (2002-2007). During this sixteen year period a series of important reforms were undertaken.

- Democratic elections were instituted for selecting the president, vice president, deputies, mayors, members of city councils and representatives of autonomous territories (North Atlantic Autonomous Regions or RAAN in Spanish abbreviation and South Atlantic Autonomous Regions or RAAS).
- Four independent powers of government were consolidated: the Executive, Legislative, Judicial system and Supreme Election Council.
- Government intervention in the economy was substantially reduced giving greater scope for the market in allocating resources by (i) lifting price controls; (ii) liberalizing of trade and

capital flows (through lower trade taxes and controls on capital movements); (iii) privatization of nationalized and other state companies; and (iv) downsizing the huge government through spending and tax reductions and bringing spending roughly in line with income and external aid.

**Three Big Issues.** The post-conflict reconstruction and development of Nicaragua constituted a daunting task given the magnitude of the economic disaster the new government inherited. Many major challenges had to be faced, including the conquest of hyper inflation, the disarmament of combatants and reduction of the size of the armed forces, and the establishment of ownership of properties confiscated by the Sandinista Government.

Regarding hyper inflation, in May 1990 the Chamorro government introduced a new currency called “Córdoba Oro” (or Gold Cordoba) which was equivalent to US\$1.00 in order to replace the old monetary unit, (the Córdoba Nuevo). In March 1991, the government devalued its Gold Cordoba to C\$5.00 per US\$1.00, and called the new unit “Córdoba”. But the fundamental policies that enabled the government to root out hyper inflation were bringing fiscal expenditure in line with tax revenues and external aid. As a result of much sounder fiscal and monetary policies, supported by abundant foreign assistance, inflation was slashed from 7,485% in 1990, to 24% in 1992, and subsequently was cut to less than 10% in 1994 (see also FIGURE 2).<sup>1</sup>

The Chamorro government wisely decided to keep Humberto Ortega, brother of then outgoing Sandinista President Daniel Ortega, as Defense Minister. He was the key person in demobilizing more than 80,000 government soldiers, leaving a force of less than 15,000, and in disposing of the excess weaponry (Walker 2003, 61). The *contra* soldiers—those who fought against the Sandinistas, also demobilized (22,500 fighters). This success raised another problem: how to enable the demobilized government and *contra* soldiers to undertake new livelihoods. This was another formidable task given the devastation of the economy, but as economic activity began to recover these former soldiers were progressively reabsorbed into the labor force.

As regards property issues, this has been the most difficult obstacle for development. The thousands of people whose properties were confiscated during the Sandinista regime have been pressing for the return of these properties, and have filed huge numbers of claims in the courts. Confusion over property rights arose in part from ambiguity in land holdings because the Sandinista government did not issue title documents to the beneficiaries of the massive land confiscations. Almost half of the beneficiaries got only preliminary titles or no documents at all. Moreover, during the waning days of the Sandinista government, the Sandinistas seized many properties, both urban and rural, in what is known as the ‘piñata’ and these seizures were later protected by a series of laws (85, 86 and 88) (Lacayo 2006, 298). By the time the Chamorro government took power, up to 40% of the

land in Nicaragua was of disputed ownership with both current possessors and former owners claiming title to the same property (Field and Fisher III 2001, 211). Several measures were taken such as issuing government bonds to compensate the confiscated persons in 1992. To settle this issue, principally, two laws were promulgated, one in 1996 “Property Stability Law (209),” the other in 1997 “Law of Urban and Rural Reformed Property (278).”

The land tenure structure drastically changed according to the agrarian reform by the Sandinista Government and the reform by the Chamorro government. Naturally, the portion of the large-scale estates shrunk to 21.0% while the Sandinista Agrarian Reform (SAR) sector gained by 31.8% in 1988. On the other hand, after the Chamorro’s reform, the SAR sector almost disappeared while small- and medium-scale farms enormously increased to 71.0% in 1993 (see TABLE 2). It is said that SAR-related farmers were still obtaining around 20% of agricultural land in the 1990s.

In 2005, a grave struggle took place between the government and the National Assembly. The legislative body wanted to intervene in the government by taking over some of the executive power such as a nomination of chiefs of national entities (such as the Nicaraguan Institute of Telecommunications and Post Office and the Nicaraguan Institute of Energy). The National Assembly also modified the property law which included the establishment of the Institute of Urban and Rural Reformed Property (Instituto de la Propiedad Reformada Urbana y Rural, INPUR). The Sandinista congressional deputies wanted to nominate their people to the Property Institute. The dispute was finally mediated by the OAS--the Organization of American States--and such laws and intentions of the Sandinista deputies were postponed till January 2007 by the Framework Law in October 2005. (This was again prolonged one more year in January 2007.)

After assiduous efforts and complex negotiations for many years, the problem of land ownership has not been fully resolved. For example, U.S. citizens or Nicaraguans who have U.S. citizenship are still fighting in the Nicaraguan courts to settle their property claims, and these unresolved cases number more than 800.

### **3. ECONOMIC RECOVERY**

**Solid Recovery.** Three Presidents (Chamorro, Alemán and Bolaños) undertook so-called neo-liberal, free market-oriented economic policies and established democracy. They welcomed foreign direct investment, promoted privatization and liberalized capital markets. They also actively sought foreign aid. The Nicaraguan economy recovered in 1994, backing to a positive GDP growth at more than 3% and its positive trend continued till 2006. Particularly, 1995 (5.9%), 1996 (6.3%), 1999 (7.0%), 2004 (5.1%) were excellent years for Nicaragua although 2002 (0.8%) was a year of slow



growth due to a financial turmoil. Per capita real GDP measured at 1994 dollar increased by 15% from US\$712 in 1995 to US\$822 in 2006. Since 1999 inflation has remained below 10%. (see FIGURE 3 and TABLE 3).

Between 1995 and 2006 both exports and imports tripled, with exports reaching US\$1.3 billion and imports, US\$3 billion. Revenue of the central government gradually increased but its expenditure always exceeded revenue. As a result, fiscal deficits prevailed every year. The deficits were financed by abundant foreign aid, especially after the Hurricane Mitch devastated the country in 1998. Most of the country's external debt was cancelled in 2004 (approximately US\$4.5 billion) when Nicaragua was recognized as having reached the completion point of one of the HIPC's (Heavily Indebted Poor Countries).

The National Commission for Nicaraguan Free Trade Zones (CNZF) was created in 1991 and the first FDI from Taiwan came to a free trade zone in 1992. Such industrial zones helped promote FDI, mainly in light industries such as textiles and apparel, reaching US\$241 million in 2005. By 2005, the number of free trade zone industrial parks had increased to 25, and were located throughout Nicaragua. Active user enterprises reached 91 directly employing 75 thousand persons with added value (net exports) of US\$210 million (see TABLE 4). Top three investment countries are: South Korea (24 firms); USA (23 firms); and Taiwan (17 firms).

In addition, during the Bolaños administration, the Central American countries and the Dominican Republic negotiated a free trade agreement with the U.S. In the case of Nicaragua, the law was ratified and the agreement (DR-CAFTA) has been in effect since April 2006. Nicaragua's exports jumped 22% in 2006, compared to 14% growth in 2005.

**Role of the Private Sector.** The Nicaraguan private sector played a vital role in the country's economic renewal. Nicaraguan businessmen who had fled to Costa Rica and the U.S. during the Sandinista Regime in the 1980s came back to their homeland and started new businesses during the 1990s. Foreign investments also flowed in the country as the government implemented free-market economic policies backed by the World Bank and IMF. Advanced countries also supported Nicaragua by means of large amount of economic cooperation.

As explained above, many firms invested in the free trade zones. Textile and apparel industries had a largest share followed by tobacco and electronic parts industries. For example, one Mexican wire harness company employs about 3,500 persons.

The American Chamber of Commerce in Nicaragua now has 168 members include many well-known multinational corporations as well as Nicaraguan domestic companies. These foreign

enterprises include ESSO, Shell, Texaco, Siemens, Bayer, Nestle, British American Tobacco, CEMEX (Mexican cement Co.), Telefónica, Walmart, XEROX, DHL, UPS, American Airlines, Continental Airlines, Delta Airlines, Maersk Logistics, Hertz, and Pizza Hut. Domestic enterprises include banking and insurance (BANCENTRO, BDF, BANPRO, Seguros América, etc.), Petronic (distribution of oil derivatives), Casa Pellas (auto sales), Nicaragua Sugar Estates (sugar and rum production), Agri-Corp (trade of agricultural products, etc.), Casa Terán (sales of electronic products), TIP TOP (fried chicken), Eskimo (milk products), Seminole S.A.(hotels), and CANAL 2 (TV).

During the past sixteen years, the living standards of the Nicaraguan people have increased enormously. Per capita real GDP has approximately doubled during this period due to liberalization and free market economic policies together with abundant foreign assistance. In the last four years a construction boom has been taking place in Managua and sea resort areas. However, some critiques also point to negative factors. One big issue is income distribution. Although the poor strata are decreasing, the gap between the rich and the poor is said by critics to be expanding. I'll return to this issue below.

Another issue is energy. Electricity generation in Nicaragua heavily depends on thermal generation at 75%, while hydroelectric generation at 10%. (In neighboring Costa Rica, 80% of electricity is provided by hydroelectric generation as against 10% by thermal generation). Part of power generation was privatized. Distribution is done by only one private Spanish company (Unión Fenosa). The recent run-up in petroleum prices has caused difficulties for all electricity companies, resulting in frequent and long blackouts in Nicaragua. This also caused repeated suspensions in water supply because water is pumped up from ponds and wells by electricity. These problems also should be solved.

#### **4. NEGATIVE FACTORS FOR PRIVATE INVESTMENT**

During 1990-2006, private investment, which had collapsed while the Sandinistas were in power, expanded greatly but not as rapidly as was expected or hoped. Several negative factors help explain this situation.

**Political Uncertainty.** No party held a majority in the National Assembly (92 seats) except for the 1990 election. In the 1990 election UNO got 51 seats while the Sandinistas got 39. In the 1996 election PLC (Liberal Constitutionalist Party) got 42 seats while the Sandinistas obtained 36. In the 2001 election, the liberals got 53 seats (later PLC became 42) whilst FSLN secured 38. The liberal executive administration had to negotiate with the Sandinista to pass necessary regulations and laws. Sometimes the legislative body opposed against the government to form a coalition or 'pacto' between

PLC and FSLN, especially, in the Bolaños government (2002-2007) since Bolaños arrested former President Alemán for corruption charges. Bolaños himself had to be occasionally allied with FSLN to rescue his government. This political instability with a weak government functioned negatively for foreign investors' decisions.

**Politicized Powers.** Both the PLC and FSLN struggled to have positions in the Supreme Court, the Supreme Electoral Council, the Audit Board, and the Public Prosecutor's Office. For example, in 2006, the Supreme Court was composed of 8 PLC-related persons and 8 Sandinistas, while the Supreme Electoral Council was divided between 3 PLC-oriented judges as against 4 Sandinista judges. This made Nicaragua lose independent and transparent judgments. In particular, distorted judgments in court made investors blink their eyes in surprise.<sup>2</sup>

**Poor Infrastructure.** If a country does not have good highways, ports, airports, and telecommunications, foreign investment lags. If electricity blackouts and water supply cuts take place everyday, investment also is adversely affected. Only 12% of roads are paved in Nicaragua. In much of the country road transport is precarious during the rainy season.<sup>3</sup> Some runways in regional airports are not paved. It is urgent to improve the quality of infrastructure in Nicaragua.

**Corruption and Favoritism.** Both corruption and favoritism are common, especially, among politicians, high-ranking government officials, police officers and even judges. President Alemán (1997-2002) himself was later arrested on corruption charges and sentenced to a 20-year prison term. (In fact, he was placed under house arrest but was allowed to freely move about in the Department of Managua. In March 2007, he was authorized to freely move about in Nicaragua.) Institutional weakness and longstanding bad custom should be changed. In sum, transparency, fairness, justice and accountability are lacking and these factors constitute major obstacles to business expansion, economic growth and poverty reduction.

## 5. ORTEGA'S NEW GOVERNMENT

**Ortega's Return.** As a result of the 2006 elections, Daniel Ortega once again became president of Nicaragua, in January 2007, bringing back the Sandinistas to the pinnacle of power after a 16 year hiatus following their 1979-90 government. History repeats itself. This victory can be attributed to the following factors.

First, the Liberals were split between two candidates--José Rizo (PLC candidate) and the Eduardo Montealegre (Nicaraguan Liberal Alliance, ALN candidate). As a result, although Daniel Ortega received only 38% of the vote, the majority of the vote was divided between the two liberal

candidates (Montealegre 28.3% and Rizo 27.1%). If the liberals had been unified behind one candidate, Ortega would not have been elected since between them the two liberal candidates for president garnered more than 55% of the vote. It was a strategic failure.

Second, another factor that greatly aided Ortega's return to power is the 'pacto' or alliance between former President Alemán and Ortega. Together, these two politicians and their respective parties (PLC and FSLN) changed the Constitution in 2000 in such a way so as to make the election of a minority vote candidate far easier. In effect, the percentage of the vote required to win in the first round of presidential elections was lowered from 45% to 35% (provided that the candidate receiving the highest percentage of the vote has a 5 percentage point advantage over the second leading vote getter; otherwise the minimum vote required to triumph in the first round was lowered to 40%). Hence, despite the fact that 62% of Nicaraguans voted against Ortega, he was elected with 38% under the reformed constitution (as his vote exceeded that of the second place candidate by about 10 percentage points).

Third, the Sandinistas were strong at the local level. In the 2004 local elections the Sandinistas elected 86 city mayors of the 153 mayors elected nationwide. The Sandinista local election machines functioned well for while new comers such as Montealegre were unable to organize effectively at the local level.

Fourth, young voters (above 16 years old) did not know what the Sandinistas had done during the 1980s. These young voters favored Ortega, who ran a well-organized directed in part at capturing the youth vote. (For instance, his campaign used a popular Beatles song as its anthem.)

Fifth, Ortega argued that globalization and so-called neo-liberal policies did not work well and that poverty remains widespread in Nicaragua. In particular, he argued that the gap between the rich and the poor widened. These arguments resonated with a large enough minority of the population to help Ortega regain election even though his assertions are not supported by the facts in Nicaragua, as will be discussed below.

Sixth, Sandinistas were also divided by the emergence of Herty Lewites, former Managua Mayor and a mild Sandinista belonging to MRS (Sandinista Renovation Movement) for presidential candidate. Unfortunately, he died of heart attack in July, 2006 during the election campaign. Edmundo Jarquín substituted Lewites but he was not strong enough to divide the Sandinista votes.

With respect to the National Assembly, the Sandinistas won 38 of the 92 seats, while most of the rest were divided among the two liberal parties. (The PLC won 25, the ALN 22 and the MRS won 5 seats. Two seats were filled by ex-President, Bolaños and the second-place candidate in the latest

election, Montealegre).

**Policies of the New Ortega Government.** Presumably, the policies of this Sandinista government will differ from those of the Sandinista Government of the 1980s because those policies failed miserably and because the world has changed in the past quarter century. While much remains to be defined, the new Ortega government has announced a series of policy directions and priorities:

- Emphasizing poverty reduction measures (such as the ‘Zero Hunger Plan’, special credits for small farmers, fishermen and entrepreneurs and a large campaign against illiteracy).
- The need for urgent solutions (such as imports of petroleum from Venezuela at preferential conditions) for energy and water sectors in order to stop blackouts and cut off of drinking water interruptions.
- Maintaining US-Nicaragua relations while developing very close ties with Venezuela, Cuba, Bolivia, Ecuador and Iran.
- Maintaining DR-CAFTA (the new free trade agreement with the U.S.) while exploring entry into Hugo Chávez’ alternative economic integration scheme ALBA (Alternativa Bolivariana para Las Americas or Bolivar Alternative for the Americas).
- Welcoming foreign direct investment.
- Respecting private property.
- Formation of the Communication and Citizenship Council to govern from the bottom (“people are President”).

The development of close relations with Venezuelan President Hugo Chávez represents a major change with respect to the previous several governments. President Chávez attended Ortega’s inauguration ceremony in January 2007 with Evo Morales of Bolivia and Rafael Correa of Ecuador. President Chávez swiftly acted to aid Nicaragua, preparing a package of cooperation which included: (i) donation of 32 thermal generating plants; (ii) exporting 10 million barrels of petroleum per year to Nicaragua at preferential conditions; (iii) construction of an oil refinery (production capacity of 150,000 barrel per day); (iv) construction of a gas pipe line; (v) construction of an aluminum factory; (vi) credits for small farmers using Venezuelan BANDES (Economic and Social Development Bank) branch networks which will be newly opened in Nicaragua; (vii) building houses for low-income people; (viii) forgiveness of Nicaraguan debt to Venezuelan (US\$32 million).

Nicaragua will continue to rely on generous foreign assistance for some time so that heavy dependency on Venezuelan aid is one of its choices. However, whether this external aid will fully materialize or is sustainable remains to be seen. How such dependence on Venezuela assistance affects Nicaragua’s access to other sources of external assistance and foreign investment also remains to be seen.

Given Ortega's continuing strident critique of market-oriented policies, and his closeness to Hugo Chávez and the Cuban leadership, many Nicaraguans are greatly concerned about the future direction of the country, including in the area of economic policies and performance, as well as the security of their property and investments. After only three months in office, it is still too early to tell in what direction he plans to take the country. For now, people in Nicaragua are taking a wait and see attitude.

## **6. NICARAGUA'S PARADOX: STRONG POST-CONFLICT RECOVERY BUT SANDINISTAS RETURNED TO POWER**

President Ortega and the Sandinistas argue that so-called neo-liberal or market-oriented economic policies and globalization favor the wealthy at the expense of the poor, increasing poverty and the gap between rich and poor within and among countries. Such assertions are common on the political left in Latin America.<sup>4</sup> Nicaraguan statistics, however, show that during 1993-2005, when the socialist economic regime was gradually dismantled and market- and more private sector-oriented policies and institutions introduced, just the opposite occurred in Nicaragua. According to nationwide household surveys undertaken by the National Institute of Statistics and Census (INEC), the proportion of the Nicaraguan population living in poverty declined from 50.3% in 1993 to 45.8% in 2001, and was 46.2% in 2005. Moreover, the proportion of the population living in extreme poverty<sup>5</sup> decreased from 19.4% in 1993 to 14.9% in 2005 (see FIGURE 4).

Furthermore, contrary to the Sandinista critique, inequality also declined during this period, as measured by the Gini coefficient, where a higher Gini indicates greater inequality and a lower Gini indicates less inequality in the distribution of income. In 1993, the Gini Coefficient was 0.49, and thereafter decreased progressively, to 0.44 in 1998, 0.43 in 2001 and 0.40 in 2005, showing improvements (see TABLE 5). In addition, these data imply that Nicaragua has one of the least unequal distributions of income in Latin America (see De Ferranti, et. al., 2004, Table 1).

INEC also found that the illiteracy rate in Nicaragua decreased from 25.8% in 1995 to 22.0% in 2005 based on data from the 2005 Population Census and Household Survey (see TABLE 6). The illiteracy rates of males and females were virtually equal in 2005. In addition, the school attendance rate between the age of 6 and 29 increased from 34.3% in 1971, to 48.0% in 1995, and to 51.7% in 2005 (see TABLE 7).

These positive trends in poverty reduction, less income inequality and improved social indicators through market-oriented, business-led growth in the post-conflict period also have been facilitated by remittances from Nicaraguans living abroad and foreign aid. An estimated 800,000

Nicaraguans live in the U.S. and more than 100,000 reside in Costa Rica, compared to a total population of 5.1 million in 2005. Their remittances to Nicaragua are estimated at about US\$800 million per annum, substantially increasing the country's income and the purchasing power of families across Nicaragua, including both higher and lower income groups. In addition, many of these Nicaraguans have invested in the expansion of business activities in the country.

Official Development Assistance by advanced countries and international financial institutions (IFIs) also has helped spur the recovery of economic activity and improvement of social indicators in post-conflict Nicaragua. UN organizations such as UNDP, UNICEF, and WFP (World Food Program) are actively assisting health, food, nutrition, and education in remote, very low-income regions. Of course, advanced countries also are helping Nicaragua through such organizations as USAID, CIDA (Canada), DANIDA (Denmark), COSUDE (Switzerland), and JICA (Japan). IFIs such as the World Bank and Inter-American Development Bank also are active in supporting programs in education, health and infrastructure aimed at reducing poverty. Foreign aid to Nicaragua averaged more than US\$450 million per year during the period 1997-2005, having reached US\$601 million in 2004 (see FIGURE 5).

Nicaragua's fundamental challenge continues to be to sustain rapid economic growth so as to enable employment generation and a steady reduction in poverty. In order to increase employment and income, higher levels of local as well as foreign investment are needed. Investment requires sound infrastructure and impartial institutions as discussed above. These are mainly government tasks with good governance. Nicaragua has a huge potential for development. Nicaragua needs more investment for producing higher value added goods. In this respect, East Asian experiences will help this tropical country (Kagami 2006).

Social development policies such as education, health, and a social safety net focused on the lower-income groups also are important. However, growth is more important (Embajada del Japón 2006). If economic growth is not sufficiently rapid and sustained, employment and income will not progressively increase. The more important notion in the growth process is that growth creates working spirits and spontaneous efforts to work. If the government provides subsidies in many sectors, as happened during the 1980s, this discourages work and it also causes enormous fiscal deficits, resulting in, in the Nicaraguan case, in hyper inflation, and in the end, economic collapse and violent conflict.

## **CONCLUDING REMARKS**

Looking at the big picture, the successive post-conflict governments generally made the right

policy choices to promote economic recovery and reduce poverty in Nicaragua. The free market economy prevailed. The private sector grew through privatization and deregulation. The establishment of free trade zones and DR-CAFTA (the free trade agreement with the U.S.) contributed to increase trade and investment in the country. Income disparity declined considerably. The proportion of the population living in both poverty and extreme poverty also substantially decreased.

What is wrong in this country is conflicts in politics. Caudillo style politics continue to play a huge role. Although the Sandinistas are strong, the liberals are also formidable if they get together. ALN and PLC could achieve the majority in the National Assembly if they can unite or at least cooperate. It is a pity that the democratic parties did not cooperate in the recent election.

Social developments consideration can not be ignored; however, growth aspects are more important than social development if the country is at the initial stage of development.<sup>6</sup> Growth can be only generated by investment (see FIGURE 6). If there is no investment, there is no employment or income. Good infrastructure and impartial institutions are necessary to enable investment. And without secure property rights, people are naturally very reluctant to invest and the absence of secure property rights has been a major barrier to higher investment and growth in the country. If one has resources from income, one can afford to share other expenditures such as social welfare costs.<sup>7</sup>

One more important factor is the strategic vision. It is quite common in East Asia that the state of chief has a clear and strong vision on his or her country's future path. For example, industrialization is a universal target in China and India. To achieve industrialization, they both emphasized foreign investment and outward-oriented trade policies. They also put emphasis on high value-added products, such as electronics industries in China and software industries in India. Tropical East Asian countries such as Thailand and Vietnam, which are situated in the same latitude zone as Nicaragua, are following the same development path of industrialization and export-led growth.

Why not Nicaragua?



## NOTES

\* This paper was written when I served as Ambassador for Nicaragua (2003-2007). The views expressed here do not represent those of the organization to which I belonged.

1 The exchange rate policies were addressed at a pre-announced crawling rate in accordance with the advice of the IMF: depreciation of 12% against the U.S. dollar per annum during 1995-98, 10% in 1999, and 6% since 2000 to the present.

2 The Judicial Career Law was passed in the National Assembly in 2004 for judges to be more professional and independent. However its execution is slow.

3 Nicaragua has only two seasons: rainy season (from mid-May to mid-November) and dry season (from mid-November to mid-May).

4 In East Asia high economic growth brought about relatively well-balanced income distribution due to the government intervention in social and welfare development policies.

5 Extreme poverty is defined as minimum daily consumption of food per person at 2,187 calories on average. This requires annual food consumption expenditures of about US\$221 per person per year. Those who have less than this income are classified as extremely poor. The overall poverty line is defined as the extreme poverty line plus other consumption such as housing, clothing, transport, and education. Meeting these needs requires consumption expenditures of about US\$414 per capita per year. Those who have less than this income per year are classified as being below the overall poverty line and are classified as poor.

6 President Chávez's rhetoric is that the poor is always ignored and the gap between the poor and the rich expands so that Latin America needs, what he says, socialism or Bolivarian Revolution, seeking a more egalitarian society. President George Bush's recent trip to Latin America emphasized social justice and needs of U.S. aids to these fields, saying "Nearly one out of four people in Latin America lives on less than two dollars a day. Many children never finish grade school. Many mothers never see a doctor" (Speech at the 17<sup>th</sup> Annual Legislative Conference of the U.S. Hispanic Chamber of Commerce, March 5, 2007).

7 President Enrique Bolaños always said "Si no hay maiz, no hay tortilla, no hay pinol, ni pinolillo, ni rosquillas, ni yoltamal, ni nacatamal, ni güirilas, ni cientos de comidas y bebidas que gustan y demandan los nicaragüenses (If there is no corn, neither there is tortilla, nor pinol, nor pinolillo, nor rosquillas, nor yoltamal, nor nacatamal, nor güirilas, nor thousands of food and beverages which Nicaraguans are fond of and ask)."

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