

UPDATE

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EIGHT STEPS FOR HELPING NICARAGUA

(Updating *Backgrounder* No. 558, "Nicaragua: A Blueprint for Democracy," January 20, 1987.)

Now that Violeta Barrios de Chamorro has won the presidency of Nicaragua, she and her backers must consolidate their victory and bring democracy to their country. They must also prepare the way for economic reform to bring new prosperity to a country ravaged by the Sandinistas' war against the Contra Freedom Fighters and the regime's failed economic policies.

To do this, Chamorro will need America's help. To promote democracy and free markets in Nicaragua, the Bush Administration should withhold financial aid until the Sandinistas submit to Chamorro's authority. Once this is done, however, the U.S. should provide emergency assistance and economic aid with the aim of fostering free market reforms.

Washington should take eight steps to foster democracy and promote economic development in Nicaragua:

Step #1: Withhold U.S. aid from Nicaragua until Sandinista Defense Minister Humberto Ortega and his 70,000 troops submit to President-elect Chamorro's political authority. In place of this army, Chamorro should form an apolitical National Defense Force (NDF) of no more than 10,000. The use of Managua as a command center by communist terrorists in El Salvador must be ended. An Organization of American States (OAS) peacekeeping force should be deployed in Nicaragua to maintain stability and deter external subversion while Contra forces are repatriated and the new NDF is organized. Sandinista Neighborhood Watch Committees and political prisons run by Sandinista secret police should be disbanded.

Step #2: Allow the 8,000 anti-Sandinista Contra Freedom Fighters encamped in Honduras to remain there until the Sandinistas yield military power in Nicaragua.

Step #3: Provide emergency assistance to relieve social and political pressures on the new United National Opposition (UNO) government. Food, clothing, and medical supplies are high priorities. Pentagon and U.S. National Guard personnel could transport non-perishable foods and supplies donated by private individuals and groups. An even higher priority is satisfying Nicaragua's need for farm machinery, herbicides, and fertilizers. Nicaragua's bean, cotton, corn, and other crops must be planted in May. State-owned farmland — roughly 40 percent of all arable land in Nicaragua — is largely idle. Tractors and farm machinery parts are scarce. Poor crop harvests in the fall season would make cash-starved farmers more hostile toward UNO-sponsored measures to cut the national budget and combat inflation.

Step #4: Cover the transition costs to a free market. Such costs include: replacement of the inflated currency (*cordobas*) issued by the Sandinista government with a new, stable currency; unemployment compensation for displaced government bureaucrats and soldiers; and hard currency to pay Nicaragua's short-term credit obligations and purchase oil, new machinery, spare parts, and

basic consumer goods to revive the economy. Nicaragua's cash shortage is acute. Export earnings fell from \$680 million in 1978 (the last full year before the Sandinista reign) to \$210 million last year.

Step #5: Press for Western debt relief, especially debt cancellation or write-downs by Western European governments and debt-equity swaps by commercial banks. The U.S. Congress should lead the way by waiving Nicaragua's outstanding obligation of roughly \$80 million to the U.S. Agency for International Development (AID). Western government creditors can encourage development of Nicaragua's private sector by trading their share of Managua's \$6.8 billion foreign debt for an equity stake in a newly created Nicaraguan Development Fund that would buy state-owned companies at a discount and sell them to workers in these enterprises or other domestic investors, accepting *cordobas*, which are over-abundant, as partial for the enterprises. Debt could be taken back by the Fund to pay for the remainder of the cost of the enterprises.

Step #6: Lift the trade embargo imposed on Nicaragua in 1985 and designate Nicaragua as a beneficiary nation of the U.S. Caribbean Basin Initiative, which suspends or liberalizes American import restrictions on goods imported from that region. Washington can help Nicaraguans help themselves by opening the vast U.S. market to Nicaraguan goods. The Bush Administration should urge Congress strongly to reduce current U.S. tariffs on imported textiles, clothing, leather goods, and shoes. U.S. sugar import quotas, which allow U.S. producers to corner roughly 90 percent of the U.S. sugar market, should be raised. U.S. sugar imports from Caribbean Basin countries in 1989 were 73 percent lower than average annual imports from 1975 to 1981.

Step# 7: Establish a joint U.S. AID-Nicaraguan team (including representatives from UNO and the Superior Council for Private Enterprise [COSEP]) to investigate how to promote grass-roots banking and capital markets through deregulation and economic reforms in Nicaragua. By diverting credit to inefficient state enterprises, Sandinista officials dried up credit for productive private producers. Credit is crucial for the recovery and expansion of small businesses in small manufacturing, food processing, carpentry, and other crafts.

Step #8: Establish criteria to determine if U.S. aid is building a Nicaraguan free market economy. The UNO government can attract desperately needed cash from abroad and demonstrate its long-term commitment to economic development by cutting taxes, guaranteeing security of private property and contract, deregulating the private sector, and lifting restrictions on foreign investment. If these reforms are enacted, subsequent U.S. aid could be dispersed through a private, non-profit Enterprise Fund for Nicaragua administered by UNO and COSEP representatives and American businessmen selected by Bush. With this fund the U.S. could loan capital to private businesses in Nicaragua. Congress has allocated roughly \$300 million to similar funds for Poland and Hungary.

Chamorro's victory not only may remove a longstanding security threat to the U.S. and Central America, but also may provide the anchor for a stable and prosperous Central America that fosters new trade and investment opportunities for U.S. businesses. But Washington must defend and nurture Nicaragua's democratic renaissance with sound aid policies and strong political backing, so that Chamorro is not denied the opportunity to promote private initiative and peace in Nicaragua.

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