

March 17, 1993

RESTORING DEMOCRACY IN NICARAGUA: NO U.S. AID WITHOUT REFORM

INTRODUCTION

Three years ago last month, the Sandinista regime in Nicaragua was voted out of office and replaced by a broad-based coalition led by Violeta Barrios de Chamorro. Expectations were high that President Chamorro would quickly overturn the Sandinista legacies of dictatorship and communism. Three years later, however, Nicaragua continues to suffer from political violence, economic stagnation, corruption, and government gridlock. Late last year, Chamorro ordered police and military forces to occupy Nicaragua's National Assembly and to depose its elected leadership. Most of Nicaragua's political leaders, including her former supporters in the 14-party coalition known as the National Opposition Union (UNO), immediately condemned the actions as tantamount to a "military coup." They claim that by seizing control of the National Assembly and electing new legislative leaders on January 9, Chamorro has enabled the Sandinista National Liberation Front (FSLN) to regain control of Nicaragua's government and economy.

This latest event, combined with the preceding three years of corruption, human rights abuses, and political turmoil in Nicaragua, has strained ties between Washington and Managua. The United States has accused the Chamorro government of entering into a "secret governing agreement" with the Sandinistas. U.S. officials repeatedly have urged the Chamorro Administration to accelerate democratic and free market reforms and remove Sandinistas from key government, military, judicial, and police positions. Because there has been so little progress in these areas, the U.S. Congress in June 1992 suspended the remaining \$104 million of a \$731 million two-year U.S. aid package for Nicaragua. Although \$54 million of the remaining aid package was released last December 3 to "sustain Nicaragua's economic stabilization program," Managua's continuing eligibility remains in doubt.

Bill Clinton has a choice. He can allow Nicaragua to slip back into the control of the Marxist Sandinistas, or he can use America's remaining leverage over the Chamorro government to push Managua back onto a path of economic and political reform. The

choice should be clear: American interests and the welfare of the Nicaraguan people demand further reform.

To help Nicaragua complete the transition to democracy and a free market economy, the Clinton Administration and Congress should terminate the existing aid program and establish conditions for renewed aid. The old approach of giving Nicaragua foreign aid without enforceable conditions has failed. The Chamorro government has taken U.S. aid while slowing reforms and moving closer to the Sandinistas. If Chamorro wants more U.S. aid, certain conditions will have to be met.

Condition #1: Speed the reform of the Nicaraguan armed forces. Priorities should include the retiring of General Humberto Ortega and other senior officers who are Sandinista holdovers, separating the army from the Sandinista Party and cutting its size, and accelerating the destruction of weapons.

Condition #2: Reform the police. Managua should appoint a new police chief; the current one—Fernando Caldera Azmita—is a Sandinista accused of human rights abuses. Chamorro also should include more former members of the Democratic Resistance—the “Contras”—in the police forces. Once this is done, the U.S. should develop a training program to professionalize Nicaragua’s police force.

Condition #3: Investigate and prosecute individuals or groups guilty of the torture and murder of former Contra leaders and other innocent Nicaraguans. The U.S. should increase the pressure on Managua concerning the continued investigation and prosecution of individuals or groups guilty of the torture and murder of former Contra leaders like Enrique Bermudez and other innocent Nicaraguans.

Condition #4: Accelerate the return of confiscated properties. Managua must make significant progress in resolving the dispute over private property that was seized by the Sandinistas after the 1979 revolution. It is estimated that some 3,000 properties were owned by U.S. citizens.

Condition #5: Overturn the judicial system. The Chamorro government needs to appoint new judges to guarantee that the Sandinistas no longer control Nicaragua’s court system.

Condition #6: Rewrite the Nicaraguan constitution. The current Nicaraguan constitution was written by the Sandinistas in 1987 and is an obstacle to free market and democratic reforms.

Condition #7: Accelerate free market reforms. While progress has been made in Nicaragua’s macro-economic reform program, Washington should urge the Chamorro government to accelerate the pace of its privatization program, further deregulate the economy, and guarantee property rights.

Washington can assist the process of reform by doing more than providing aid with preconditions. In addition, the Clinton Administration should:

- ✓ **Encourage the international community to pressure Nicaragua on its reform program.** Washington should encourage such countries as Argentina, Mexico, and Spain, as well as international institutions like the Organization of American States (OAS) and the International Monetary Fund (IMF), to make

their support of the Nicaraguan government contingent on its continued economic and political reform.

- ✓ **Schedule a Clinton-Chamorro meeting in Washington this year.** The President should use this opportunity not only to express U.S. displeasure with the pace of economic, political, and human rights reform in Nicaragua, but to make Chamorro aware of U.S. conditions for continued support.
- ✓ **Assist the Chamorro government in combatting Nicaragua's mounting drug trafficking problems.** Nicaragua increasingly is being used as a transit point for drugs entering the U.S. Once genuine steps have been taken to reform Nicaragua's police and the Popular Sandinista Army (EPS), the U.S. should step up its counternarcotics program in Nicaragua.
- ✓ **Promise a free trade agreement once reforms are well underway.** Once reforms have progressed sufficiently, Washington should seek to link Nicaragua, and other Central American nations, to the North American Free Trade Agreement (NAFTA).

NICARAGUA'S TWO REVOLUTIONS

The Sandinista National Liberation Front (FSLN) was founded in July of 1961 by Carlos Fonseca, Tomas Borge, and Silvio Mayorga. Their goal was the overthrow of the regime of the Somoza family, which had ruled Nicaragua since the 1930s, and the creation of a communist state in Nicaragua. Cuban dictator Fidel Castro was immediately sympathetic to the revolutionary movement and provided military assistance and training to the Sandinistas from the start. It was not until 1977, however, that the Sandinistas began extensive military operations against the Somoza regime.

The final stage of the Sandinista revolution began in January 1978, following the murder of government critic Pedro Joaquin Chamorro, a newspaper publisher and husband of Violeta Chamorro. As a result of this and other human rights abuses, the Carter Administration suspended U.S. military and economic assistance to Nicaragua in September 1978, thereby hastening the collapse of the Somoza regime. By 1979 almost all segments of Nicaraguan society, except for the National Guard, had abandoned Somoza and supported some form of democratic change. Pro-democracy and private sector groups, however, agreed to work with the FSLN only after the Sandinista leaders promised to preserve political pluralism, build a mixed economy, and hold elections once Somoza was toppled. Under the guidance of Cuban advisors, the Sandinista forces launched a final military offensive against the dictatorship in June 1979.

After seizing power on July 19, 1979, the Sandinista *commandantes* immediately began to establish a Cuban-style communist state. To legitimize their rule, communist FSLN leaders invited such democrats as Chamorro and Alfonso Robelo, a successful Nicaraguan entrepreneur, to join their junta. As the Sandinistas themselves revealed in a secret document outlining their Marxist-Leninist strategy, a "facade of pluralism" was

created and an "alliance of convenience" made with moderates in "the expectation of financial help from the Western bloc."¹

The Carter Administration and other Western governments welcomed the Sandinista Revolution, which had left approximately 10,000 Nicaraguans dead. Washington quickly granted aid to the Sandinista regime, hoping thereby to prevent the hard-line Marxist leaders in the anti-Somoza coalition from gaining control. Between 1979 and 1980, the U.S. sent Managua some \$118 million worth of economic assistance, including 100,000 tons of surplus food.² Washington's generosity and unreasonable optimism soon proved to be a major mistake.

Pledge of Democracy Broken. On July 12, 1979, five days before the collapse of the Somoza regime, the Sandinista-dominated junta sent a letter to the Secretary General of the OAS formally pledging to establish democracy in Nicaragua and to respect human rights. This facade of democracy, however, began to crumble within months. By April 1980, Robelo and Chamorro had resigned from the junta, denouncing the Sandinistas' "totalitarian scheme." In a May 11 speech, Robelo criticized the growing Soviet presence in Nicaragua and warned that Nicaragua was in danger of falling to "Soviet imperialism."³ One by one, the Sandinistas violated their promises, forcing the Nicaraguan people once again to take up arms to fight for political and economic liberty.⁴

Ronald Reagan entered office in January 1981 determined to stop the spread of communism in Latin America. In what became known as the Reagan Doctrine, the President promised economic and military assistance to anti-communist resistance forces. This new policy immediately was put to the test in Nicaragua. Reagan suspended U.S. aid to Nicaragua on April 1, 1981, and imposed U.S. economic sanctions on the Sandinistas. That month, Reagan also ordered Central Intelligence Agency Director William Casey to give assistance to the anti-Sandinista Contra forces in Nicaragua and Honduras. On November 16, 1981, Reagan approved the first proposal to fund the Contras with \$19.9 million in assistance.

U.S. intelligence reports and Nicaraguan defectors revealed that the FSLN, with Cuban and Soviet assistance, was undertaking one of the largest military build-ups in Latin American history. The Sandinistas had overthrown Somoza's 15,000-man National Guard with only 5,000 guerrillas. By 1988, however, they had built the largest army in Central America, with 119,000 soldiers. According to Major Roger Miranda, a defector who had headed the Sandinista Defense Ministry's Secretariat, the FSLN was planning to increase the size of its military to 600,000 troops under a secret accord with Moscow. The army would be heavily equipped with such Soviet-supplied equipment as T-55

-
- 1 James R. Whelan and Franklin A. Jaeckle, *The Soviet Assault on America's Southern Flank* (Washington, D.C.: Regnery Gateway, Inc. 1988), pp. 117-123.
 - 2 Howard J. Wiarda and Mark Falcoff, *The Communist Challenge in the Caribbean Basin and Central America* (Washington, D.C.: The American Enterprise Institute, 1987), p. 41.
 - 3 Timothy Ashby, "Nicaragua: A Blueprint for Democracy," *Heritage Foundation Backgrounder* No. 558, January 20, 1987.
 - 4 For more information on the Sandinista agenda see: Jorge Salaverry, "A Grim Reality Behind Sandinista Promises," *Heritage Foundation Backgrounder* No. 671, September 13, 1988.

tanks, SA-7 and SA-14 surface-to-air missiles, AK-47 assault rifles, Mi-24 *Hind* helicopter gunships, and MiG-21 jet fighters.⁵

Of course, the debate over U.S. policy in Nicaragua was highly partisan. Conservative and liberal lawmakers clashed over whether to grant military and economic assistance for the freedom fighters. The supporters of the Contras, however, won an important victory on June 25, 1986, when the U.S. House of Representatives approved \$100 million aid package to the Contras.⁶ Yet, two years later, Congress terminated military assistance to the Contras. During the entire civil war, Congress approved only \$132 million in military aid to the Contras, compared to \$3.1 billion in Soviet aid to the Sandinistas.⁷ However, the \$271 million in economic, humanitarian, and military assistance given to the Contras by the Reagan and Bush Administrations was instrumental in forcing Ortega and the other Sandinista leaders to hold democratic elections, paving the way for Chamorro's historic victory in 1990.⁸

Nicaragua's Democratic Revolution. Chamorro and her UNO coalition defeated the FSLN on February 25, 1990, in the first free and fair elections in Nicaragua since 1924. Their margin of victory was 54.7 percent to the Sandinistas' 40.8 percent. Chamorro and her Vice President, the conservative Virgilio Godoy, took office on April 25. This election ended the armed struggle between the Nicaraguan Resistance and the Soviet-supported Sandinista government, a war which is estimated to have caused Nicaragua between 20,000 and 40,000 total deaths. By supporting Chamorro's democratic coalition against the communist Sandinistas, the Nicaraguan people had voted for free and democratic society.

Problems began, however, almost immediately after the elections. Prior to the elections, Chamorro had appointed her son-in-law, Antonio Lacayo, to represent the UNO coalition in transition negotiations with General Humberto Ortega and other Sandinista leaders. Following a month of negotiations, an agreement was reached on March 27, 1990, known as the "Protocol of Transition." In this, Lacayo repudiated much of the UNO campaign platform by making key concessions to the Sandinistas. The most disturbing of these was to reaffirm the Sandinista Constitution of 1986 and to recognize the so-called "achievements and transformations" implemented during the Sandinista dictatorship. The Protocol also called for:

- ✓ **A pledge by the new government not to disband the Sandinista Popular Army;**
- ✓ **An agreement to uphold the authority of the Sandinista National Police, headed by Rene Vivas, a documented human rights violator;**

5 Whelan and Jaeckle, *op. cit.*, pp. 103-147.

6 For more information on the Nicaraguan Democratic Resistance, or Contras, see R. Pardo-Maurer, *The Contras, 1980-1989: A Special Kind of Politics* (New York: Praeger, 1990).

7 Lawrence L. Tracy, "Gorbachev and Central America: Who's Doing What to Whom," *The National Security Report*, December 1989.

8 For more information on the Nicaraguan peace process, see Georges A. Fauriol, "America and the World 1989/90," *Foreign Affairs* (1990), pp. 124-128.

- ✓ The maintenance of the ranks, hierarchy, promotion roster, and command structure of the Sandinista army and police;
- ✓ The retention of confiscated private property by Sandinista loyalists;
- ✓ A monopoly on all weapons and combat equipment by the Sandinista armed forces;
- ✓ A guarantee of job security for all Sandinista employees in the government bureaucracy.⁹

After their loss at the polls, but before Chamorro's inauguration, the Sandinista-controlled National Assembly passed a series of bills legalizing their claim to confiscated properties. This encouraged Sandinista leaders and their friends to confiscate even more property before they left power. These laws, collectively known as "La Pinata," handed over more than one million acres of Nicaragua's best farmland and over 10,000 homes to the Sandinista officials and their followers.

During the transition period, the government also negotiated the so-called Toncontin Agreement with the Contras, signed on March 23, 1990, which spelled out the terms under which the Contras were to demobilize and disarm. Less than a month later, on April 18, Contra leaders signed three accords in Managua with General Humberto Ortega establishing a cease-fire and creating five security zones from which Sandinista troops would withdraw and into which Contra troops could move. The Contra leaders agreed to begin disarming on April 25 and to demobilize completely by June 10.¹⁰ By the end of 1990, the Contras turned in around 20,000 weapons.

Chamorro in Power. The Chamorro government took office with two primary tasks: to bring an end to the civil war and political violence, and to reactivate a moribund economy ruined by a decade of socialism. The government enjoyed generous international support, as the U.S. and many other nations immediately came to Managua's aid with financial assistance and technical advice on rebuilding the economy. The Bush Administration lifted the five-year U.S. trade embargo on Nicaragua on March 13, 1990, and pledged \$300 million in aid.

Nicaragua needed help desperately. In the ten years since the Sandinista revolution, Nicaragua's economy had shrunk by more than half, per capita income in Nicaragua was at 1950 levels, wages had fallen to less than 10 percent of their 1979 value, private consumption was down 70 percent, and the public sector deficit was 17 percent of the gross domestic product. In 1988 alone, the inflation rate in Nicaragua stood at 36,000 percent.¹¹ By the end of the first 100 days in office, the Nicaraguan government also was confronted with several costly general strikes organized by Sandinista militants and their unions, threats by the Sandinista police and army, and the assassination of UNO supporters. Nevertheless, to avoid a return to open warfare, according to Chamorro, the

9 "Nicaragua Today," A Republican Staff Report to the Committee on Foreign Relations, U.S. Senate, August 1992, p. 2.

10 Jennifer L. McCoy, "Nicaragua in Transition," *Current History*, March 1991, p. 118.

11 David Asman, "Nicaragua's Through-the-Looking Glass Election," *The Wall Street Journal*, February 22, 1990.

new democratic government set out to run the country with Sandinista help. To buy time and peace, Chamorro allowed Lacayo to give her old enemies an important stake in Nicaragua's military, police, judiciary, and banks.

SQUANDERED OPPORTUNITIES AND BROKEN PROMISES: CHAMORRO'S RECORD

According to Nicaraguan Foreign Minister Ernesto Leal, the Chamorro government has established a clear set of goals for political and economic reform.¹² However, as the record shows, many of these goals have not been met. They are:

GOAL #1: Democracy. Foreign Minister Leal says that a major goal of the government is to establish a lasting democracy in Nicaragua. But the record shows that Chamorro has failed to take advantage of her democratic mandate. She is only the nominal head of state, while Nicaragua's politics are largely controlled by Lacayo and Ortega through the FSLN and its various party organs. Moreover, the National Assembly is in constant deadlock, UNO legislators have been bribed to side with pro-Sandinista legislation, political crimes go unpunished, and such key government institutions as the courts, police, and intelligence service, remain in the hands of the Sandinistas. For example, Nicaragua's Comptroller General, Guillermo Potoy, was fired by Chamorro in January after accusing Lacayo of using U.S. aid money to bribe eight members of the National Assembly (known as the "Grupo de Centro"). In a published report of the investigations, Potoy declared that there is "criminal liability" against senior government officials in the case.

Consequently, Chamorro and Lacayo have isolated themselves from the UNO coalition that brought them to power. Their only strong base of political support comes from the Sandinista party. Nicaragua has taken the first important step in building a democracy by holding elections, but the democratic forces have been losing ground, as the Sandinistas have reestablished control over much of the country.

GOAL #2: Peace and National Reconciliation. Another Chamorro Administration goal after the elections was to end the eight-year civil war and to promote reconciliation between the pro-democracy forces and the Sandinistas. On April 18, 1990, Contra leaders signed a cease-fire agreement with General Ortega and the EPS. As a result, some 22,000 freedom fighters and their supporters disarmed voluntarily and rejoined Nicaraguan society. During the first three months of the Chamorro government, the Contras turned in an estimated 20,000 weapons to the new government. As a part of the demobilization program, agreements were reached with the Contras in May 1990 to give them tracts of land, housing, schools, and hospital facilities. The government also granted amnesty to all political prisoners and freed all individuals jailed for so-called political, ideological, and religious crimes. Nicaragua's highly unpopular, but compulsory, military draft—one of the key factors in the Sandinistas' electoral defeat—also was abolished when Chamorro took office.

12 Based on conversations with Minister Lacayo in Managua, Nicaragua, on August 13, 1992.

While the demobilization was initially peaceful, problems arose with the resettlement of the Contras. They and their families were harassed by Sandinistas who retained control of the local government and security agencies. As a result, demobilized members of the Contras, known as "Recontras," have taken up arms once again to confront the Sandinistas. Their numbers are today estimated at some 700 combatants. According to recently ousted National Assembly President Alfredo Cesar, "There is a very real possibility of the reinitiation of the war." Skirmishes have broken out over the past several months near the Honduran border between the Sandinista army and the Recontras. On September 18, 1992, EPS Spokesman Captain Eduardo Medina told the pro-Sandinista newspaper *Barricada* that "a vast military operation in northern Nicaragua [would start that day] to neutralize the Recontra groups."¹³ According to Lt. Colonel Ricardo Wheelock, Nicaragua's chief military spokesman, there were 34 clashes between the EPS and the new Contra groups between December 22 and January 28.

Ortega Remains Commander. To be sure, the size of the Sandinista army has been reduced from approximately 100,000 soldiers in 1989 to an estimated 18,500 today. And the Chamorro government has asked Moscow to take back such Soviet-supplied weapons and equipment as tanks, helicopters, assault rifles, and surface-to-air missiles. But Chamorro and Lacayo have allowed the Sandinistas to maintain firm control over the EPS, police forces, and the intelligence services. The biggest complaint by Chamorro's critics, both inside Nicaragua and in the U.S., is aimed at her decision to allow General Ortega to remain as commander of the Nicaraguan armed forces. During an October 27, 1992, news conference in Managua, Ortega declared that he planned to remain as head of the army until 1997 when a so-called "professionalization" campaign would be completed. He also stated that the military would not be further reduced. Chamorro, however, reacted angrily, accusing Ortega of "overstepping his authority" and saying that he could be removed from his job "tomorrow, the day after tomorrow, or at any moment."

The retention of General Ortega as head of the army has resulted in a continued clandestine war against the Contras. Over the past two years, some 225 Contra fighters, including such top commanders as Enrique Bermudez, have been murdered.¹⁴ According to the Organization of American States, none of these cases has been fully resolved and at least ten have been fully linked to the Army or other pro-Sandinista groups.

According to former Nicaraguan Central Bank President Silvio de Franco, the Nicaraguan army still serves as a partisan military force for the FSLN and "acts like a state within a state." He also claims that a minimum of \$12 million in U.S. aid has been diverted by EPS leaders over the last two years. Furthermore, the army has sold Soviet-supplied helicopter gunships, planes, and armored personnel carriers to the Peruvian armed forces and pocketed the estimated \$100 million in profit for their own personal use. An August 1992 report by the U.S. Senate Foreign Relations Committee claims that there is a secret Sandinista army plan for a further military build-up over

13 "EPS Operation Will Neutralize Recontras," FBIS, September 21, 1992, p. 11.

14 "Governing with the Sandinistas," *U.S. News and World Report*, September 21, 1992, p. 60.

the next several years. Nicaraguan sources which wish to remain anonymous claim that General Ortega currently maintains a so-called "active-retired" military contingent of 5,000 troops. This private militia consists of nominally retired officers who are still armed, paid, and carry military credentials. The militia often is used to harass Sandinista opponents and seize property.

The record is clear: While the Chamorro government indeed ended the war, its plan of "National Reconciliation" has not succeeded. Nicaragua has not been demilitarized, the Sandinista "state within a state" has not been dismantled, and reconciliation with the Contras has not been achieved. The Sandinistas continue to "rule from below" as they pledged that they would following their electoral defeat.

GOAL #3: Economic stabilization. Another Chamorro goal was economic stabilization. This is one area where there has been some modest progress. According to the U.S. Chamber of Commerce's Center for International Private Enterprise (CIPE), Managua's economic stabilization program "has yielded demonstrable results, including: a stable currency, the elimination of inflation, and compliance with its International Monetary Fund (IMF) agreement."

In 1990, the economy shrank for the seventh straight year and inflation soared to 13,500 percent. In 1991, however, steps were taken to turn the economy around. In March 1991 the government sharply devalued the *cordoba oro* [Nicaragua's currency], cut government spending, and restrained Central Bank credit. As a result, in 1992 the decline of the Nicaraguan economy was halted, and inflation was reduced to 2 percent.¹⁵

The government also began licensing private banks. Last July, the Chamorro government licensed the first private bank in Nicaragua in over a decade. Today, there are six private banks in Nicaragua, with only three state banks remaining to be restructured or sold. Approximately 30 percent of all deposits in Nicaragua today are in the private banking system.

The Chamorro government already has privatized all of Nicaragua's major agricultural export sectors, including coffee and bananas, most of the sugar industry, and the cattle sector. It now is in the process of privatizing such other state-owned industries as communications, energy, mining, and textiles. According to the Nicaraguan Embassy in Washington, some 165 of the country's 351 state companies have been sold, liquidated, or returned to their original owners since 1990. According to senior Nicaraguan officials, no sector of the Nicaraguan economy will be considered "strategic" and immune to privatization. Moreover, the National Assembly approved a new, more attractive foreign investment law that grants the foreign investors the right to repatriate all earnings and capital.¹⁶ However, there also are disturbing signs that many of the privatized companies are going into the hands of Sandinista leaders and their cohorts as the FSLN attempts to gain control over the nation's productive capabilities and wealth.

15 David Clark Scott, "Behind Nicaragua's Cycle of Crisis," *The Christian Science Monitor*, December 3, 1992, p. 6.

16 For more information, see: "1992 Foreign Economic Trends," U.S. Embassy, Managua, Nicaragua, June 1992.

Despite these reforms and the stabilization of the economy, foreign investment is scarce because law and order is lacking and property rights are not adequately protected. For example, only 2 percent of all property confiscated from U.S. citizens by the Sandinistas has been returned. According to Ramiro Gurdian, the President of The Superior Council of Private Enterprise (COSEP), "The problem with Nicaragua's current economic program is that it is almost entirely based on foreign aid, not property rights and investment."¹⁷

The consequence: Nicaragua's economy was indeed stabilized, but a lack of market reforms is delaying economic recovery.

GOAL #4: Establish the Rule of Law. According to senior Nicaraguan officials, 1992 was supposed to be the year for the "rule of law," the Chamorro government's next goal. However, the National Police Force is still largely controlled by the Sandinista party, personal property rights are not protected, the government has failed to return thousands of confiscated properties to their rightful owners, and the Nicaraguan judicial system is still dominated by the FSLN. The result: lawlessness and violence prevail and foreign and domestic investors refuse to put their money in Nicaragua. Foreign investment consultants place Nicaragua near the bottom of the list of countries where they would advise their clients to invest.

The principal threat to the rule of law in Nicaragua is the 11,000-man National Police. This force is theoretically under the control of the Ministry of Government, but it actually remains firmly in the hands of the FSLN. Following the suspension of U.S. economic assistance and pressure by the Bush Administration and congressional leaders, Chamorro restructured the police force on September 5, 1992, by dismissing its police chief, Rene Vivas, as well as several of his top commanders.¹⁸ Vivas was trained by the Palestine Liberation Organization (PLO) and the Cubans, and has been accused of personally torturing Contra leaders. Unfortunately, Vivas was replaced by Fernando Caldera Azmita, another Sandinista accused of human rights violations, and eleven other Sandinistas were given senior positions in the police ranks as well.

Another obstacle to establishing the rule of law is the refusal of the government to return confiscated property to its rightful owners. According to Alfredo Cesar, there are some 4,600 Nicaraguan families claiming an estimated 20,000 properties that were confiscated during the Sandinista years. An estimated 6,500 of these properties belong to the families of Contra members. According to the Senate Foreign Relations Committee report, the Chamorro government also has been slow in returning an estimated 3,000 properties to their 580 American owners.¹⁹ However, on October 16, 1992, the Chamorro government created a compensation system which will issue

-
- 17 COSEP's headquarters in Managua were bombed early this year, allegedly by Sandinista militants. The objective was to send a signal that further free market reforms are not welcome by the more radical sectors of the FSLN.
 - 18 Sources in Nicaragua have noted that the police chief, Rene Vivas, was not part of General Ortega's faction in the Sandinista party and may have been replaced so that Ortega could consolidate his own hold over the National police force.
 - 19 The Nicaraguan government maintains that there are 700 claims by approximately 300 U.S. citizens. It is unclear exactly who is correct because of poor record-keeping, destruction of documents, and refugee flight.

government bonds to individuals whose property cannot be returned. In what Finance Minister Emilio Pereira labeled "a permanent and definitive solution," these bonds can be used to acquire ownership of state-owned companies that are privatized by the government.²⁰ In all other cases, the properties will be returned to their former owners.

Nicaragua's court system is yet another obstacle to the rule of law. The nine-person Supreme Court is dominated by the Sandinistas. They enjoy a 5-to-4 majority that is frequently used to block reforms. Moreover, the appellate court system is controlled by Sandinistas judges who were appointed by the Sandinista dictatorship. Nicaragua's judiciary is particularly ineffective in resolving disputes over property rights and human rights abuses, and it sides most of the time with the Sandinistas. According to Jaime Bengoechea, a Nicaraguan private sector leader and President of Nicaragua's Chamber of Industry, "We see a great weakness in the legal area because the judicial system is still based on the influence of the party that lost the elections. The judicial system is very weak because the government's decisions can't be implemented; there is no authority for law and order to prevail. There is a lack of security regarding property. Property law and its application are still not clarified."

GOAL #5: Free Market Development and Prosperity. After the election, the Chamorro government promised the creation of a free market system in Nicaragua. Despite the many other setbacks, some progress has indeed been made in Nicaragua's economic policies. To its credit, the Chamorro government has slashed inflation from an estimated 15,000 percent in 1990 to about 2 percent for 1992, privatized almost 50 percent of the state-owned companies, and cut the number of state employees by 12 percent. Managua also boasts that it has shrunk by one-fifth its \$10.8 billion foreign debt,²¹ the highest per capita debt in the world, and registered a 2 percent official economic growth rate for 1992.²²

Although the economy has stabilized, much more needs to be done to achieve the promised "economic take-off." A prerequisite for encouraging private investment is the establishment of the rule of law by reforming the court system, the police, and the armed forces. According to Alfredo Cesar and other senior opposition leaders, "No significant foreign investment has flowed into Nicaragua since the elections," and without investment, the goal of economic growth will not materialize. Economic development also requires free trade. Fortunately, there has been some progress in this area. Nicaragua signed a free trade area framework agreement with Washington in July 1991, and signed a similar pact with Costa Rica, El Salvador, Guatemala, Honduras, and Mexico in August of last year.²³

However, the Chamorro government has still fallen short in its efforts to spur economic growth, privatize its state-controlled industries, and increase domestic and foreign investment. Managua, moreover, continues to rely on foreign aid for balance

20 "Official on Confiscated Property Compensation," FBIS, October 19, 1992, p. 15.

21 Approximately \$3 billion of Nicaragua's debt today is still owed to the former Soviet Union for military and economic assistance provided during the Sandinista regime.

22 Press Release, Embassy of Nicaragua, Washington, D.C., June 8, 1992.

23 "Mexico: On the Record," Press Office of the President of Mexico, August/September, 1992, p. 5.

of payments purposes, and much of the assistance given to the Chamorro government by Washington is used to either keep state-owned industries afloat, to upgrade them so that they are more attractive to potential buyers, or for severance payments to laid-off state employees. Because investment is scarce in Nicaragua and the economy is stagnant, unemployment today is estimated at approximately 60 percent and the country's limited transportation and industrial infrastructure is in a state of near ruin. With the Sandinistas controlling 48 of the 92 legislative seats, support for market-oriented economic reforms likely will continue to meet considerable opposition.

AMERICA'S RESPONSE TO THE NICARAGUAN CRISIS

The Reagan and Bush Administrations played key roles in defeating the Sandinista dictatorship in Nicaragua and promoting democratic elections. The Bush Administration tried to strengthen the victorious democratic forces by supporting Chamorro's national reconciliation and economic reform programs. Over the past two years, the U.S. has provided more economic assistance to Managua than to any other country in Central America. Realizing that the Chamorro government is facing a difficult struggle, the U.S. has been patient and understanding despite the continuation of violence, political gridlock, and corruption in Nicaragua.

The Chamorro Administration's inability or unwillingness to move forward with badly needed reforms, however, once again has strained relations between the two countries. The most disturbing problem has been the Chamorro government's continuing deference toward the Sandinistas, who have slowed or halted key political and economic reforms. As a result Chamorro's old backers in the UNO coalition are now officially opposed to the government. Chamorro and Lacayo have, in effect, thrown in their lot with the Sandinistas.

In response to Nicaragua's devastated economy and pleas for help, the U.S. Agency for International Development (AID) has provided the Chamorro government with one of the largest economic assistance packages for any country in the Third World. The Nicaragua aid program had one of the fastest start-ups of any U.S. assistance program in history. Out of the \$777.8 million in economic aid given to Nicaragua, approximately \$542 million has already been spent on projects in Nicaragua.

The largest portion of the U.S. economic assistance program promotes economic stabilization, free market reforms, and the expansion of the private sector. Emergency jobs programs also are financed to help reduce unemployment. According to an August 1992 AID report: "A total of \$441.5 million is being provided to meet the critical foreign exchange needs, stop hyperinflation and stabilize the economy, as well avoid severe economic contraction." For example, \$290.5 million in foreign exchange was used to assure supplies of critical petroleum imports. These funds are supposed to be used to reduce inflation, eliminate state-run monopolies, legalize private financial institutions, and to reduce the budget deficit. Nearly 28,000 former government employees have taken advantage of a program that provides them with severance payments to leave government service and that assists them in locating jobs in the private sector.²⁴ The

U.S. also has forgiven approximately \$285 million of Nicaragua's official debt, 88 percent of the total debt owed to the U.S. government.

Even though the Nicaragua program is the most heavily audited and scrutinized of all AID programs, U.S. officials are frustrated that large amounts of American assistance have been squandered or stolen. According to Alfredo Cesar, Silvio de Franco, and other critics of the Chamorro government, of the \$225 million in U.S. economic assistance to Nicaragua last year, between \$100 million and \$180 million cannot be accounted for. The money was lost through bad loans to state-run enterprises or to inefficient private companies. Cesar estimates that last year up to 80 percent of the loans went to public enterprises, many of which could not repay their debts. For example, last year Nicaragua's sugar mills lost as much as \$65 million. Today, however, the problem is slowly being remedied with the private sector receiving over 60 percent of the aid.

In the past, up to 90 percent of the U.S.-backed loans was channeled through the Central Bank and the state-owned banking system. Once the money entered their coffers, the U.S. could not possibly have monitored how it was spent. Corrupt officials either funneled the aid to money-losing industries, important interest groups, or friends, or they simply stole it. For example, a report by the U.S. Senate Foreign Relations Committee states that General Humberto Ortega has diverted at least \$17 million from the Nicaragua Central Bank to a secret bank account in Canada.

Congressional Action. As a result of these and other problems—particularly the slowness in resolving property disputes involving Americans, the U.S. Congress last June withheld the remaining \$104 million of the \$225 million of U.S. assistance for fiscal 1992. Senators Jesse Helms, the North Carolina Republican, and Christopher Dodd, the Connecticut Democrat, led the bipartisan effort to pressure Managua to speed up its reform program. This congressional action was supported by the State Department on September 2 when it voiced its sharpest-ever public criticism of the Chamorro government. Richard Boucher, the State Department spokesman, condemned Managua for “failing to prosecute those responsible for the reported killings of former members of the Contra Army.”

The State Department action came in response to the Senate Foreign Relations Report, titled “Nicaragua Today,” that appeared on August 31, 1992. The report charges that Chamorro is a figurehead leader, and that real power is shared between Lacayo and General Ortega. It also describes human rights abuses, and the slow progress being made in resolving property disputes and reforming the police, the EPS, and the courts.

In a follow-up to the Senate report, an October 6 letter was sent to Chamorro by 24 Republican Senators who have been strong supporters of her government and of freedom in Nicaragua. Among these were John McCain of Arizona and Bob Dole of Kansas. The Senators called upon Chamorro and “all factions of the democratic forces [to] set aside parochial differences and immediately resume a candid, good faith dialogue aimed at revitalizing the democratic, free market revolution before it is too late.” They also

24 "USAID Program in Nicaragua: A Brief Description and Current Status," U.S. Agency for International Development Report, August, 1992.

expressed deep concern that the FSLN “continues to hold on to important power bases, both in government and in society, and to exploit for its own purposes the growing split between the [National] Assembly and the Chamorro Administration.”

In an October 9 letter, Chamorro answered the Senators by stressing that her Administration is “stepping up the pace of reform” and that actions have recently been taken to: “hasten the return to U.S. citizens of property confiscated by the Sandinistas, or provide adequate compensation; investigate violent deaths of ex-Resistance members; address human rights concerns and complaints; continue privatizing state-owned enterprises; and continue to ensure that U.S. aid is spent correctly.” She also asked the Senators to understand that “other nations have taken many years to recover from a civil war,” and that “Nicaragua needs time to recover fully.”

In a sudden reversal of its support for the aid freeze, the Bush Administration and Congress released \$54 million on December 3 to “sustain Nicaragua’s economic stabilization program and preserve the gains made in controlling inflation and normalizing Nicaragua’s relations with the international financial institutions.” Some of the assistance also will be used to “support human rights organizations and to promote democratic reforms.”

Just 26 days later, however, tired of an ongoing confrontation with her former supporters in the National Assembly, Chamorro ordered the police to occupy the legislature and dismiss its leadership. Chamorro’s actions, taken in concert with the Sandinistas, have now given the latter effective control of the National Assembly. Not only are further democratic and economic reforms likely to be blocked, there is the real possibility that the limited progress to date will be reversed.

RESTORING HOPE IN NICARAGUA: THE U.S. AGENDA FOR PROMOTING REFORM

The Clinton Administration must now decide whether to press Chamorro to complete the country’s transition to a stable and prosperous democracy, or to allow Nicaragua to slip back into the control of the Sandinistas. Although the responsibility for advancing political and economic freedom in Nicaragua must rest with the Nicaraguans themselves, the U.S. can encourage democratic and economic reforms there. Washington’s principal leverage comes from the conditions it can apply to its economic assistance, and the influence it can exercise in the international financial and diplomatic communities to put pressure on Nicaragua. These should be used to provide a carrot and stick to the Nicaraguan government.

To help Nicaragua complete the transition to democracy and a free market economy, the Clinton Administration and Congress should terminate the existing aid program and establish conditions for renewed aid.

Aid to the Chamorro government cannot be justified under the current circumstances. The U.S. has provided approximately \$1 billion in economic assistance and debt relief to Managua since 1990, which is the second largest per capita U.S. aid package in the world. Yet, much of this assistance has been squandered. U.S. aid to Nicaragua has even been used to keep inefficient state-run industries in operation. The aid, however, is intended in part to be used to clean and modernize factories in preparation for their

privatization. There also is evidence that much of Washington's assistance has been stolen by Sandinista and government officials or wasted in money-losing projects. Nicaraguan Central Bank officials admit that as much as 90 percent of the commercial loans made possible by U.S. aid are controlled by the Sandinistas or Sandinista supporters, and half of these loans are lost or not repaid.²⁵

The Clinton Administration should keep U.S. assistance on temporary hold. This aid should only be released once a new program of reforms has been implemented. Unfortunately, the Nicaraguan government seems to respond only to U.S. pressure, and past reforms have often been implemented following the threat or cut-off of U.S. aid. The White House should not bow to pressure by liberal Democrats in Congress who are urging a prompt release of aid with almost no strings attached.

Clinton should dispatch immediately a team of officials to negotiate a new economic and political reform timetable to be met by the Chamorro government. Once certain conditions are met, partial installments of the U.S. aid should be released to help support Nicaragua's reform program. These conditions are:

Condition #1: Reform the Nicaraguan armed forces. Nicaraguan opposition leaders call the Sandinista Popular Army (EPS) a "state within a state," arguing that the military "acts with total impunity" and is the "real force behind the government."²⁶ While Nicaragua's armed forces have been cut from approximately 100,000 soldiers in 1989 to 18,500 today, much more needs to be done to demilitarize Nicaragua. To achieve this goal the Clinton Administration should insist that the Chamorro government:

- 1) **Force General Ortega to retire immediately as Army Chief of Staff and end Sandinista control of the armed forces.** The military is still an armed branch of the Sandinista party, and only General Ortega holds real power in Nicaragua. Sandinista control of the armed forces is a major obstacle to genuine political, economic, and human rights reform. Ortega's position in the government has led a former senior Chamorro official, who wishes to remain anonymous, to conclude that "Nicaragua is on the brink of becoming a military dictatorship." Chamorro needs to professionalize and de-politicize Nicaragua's armed forces, especially its officer corps, primarily by removing Sandinista officers, and fully establishing civilian control.
- 2) **Create a commission to oversee the military reform program.** This commission should comprise key members of Nicaragua's various political parties, its private sector, human rights groups, and the church. Its purpose should be to oversee the drafting and implementation of Nicaragua's military reform program. The U.S., other regional democracies, and the OAS could play an advisory role in the process.

25 Information based upon conversations held with Nicaraguan Central Bank officials in August 1992.

26 As quoted by Alfredo Cesar during a January 21 presentation organized by the Puebla Institute in Washington.

- 3) **Identify and retire senior military officers guilty of past human rights abuses and corruption.** Many senior leaders of the EPS have been linked to human rights abuses and charged with corruption. As is now happening in neighboring El Salvador, Chamorro should launch a full-scale program to identify and retire these officers.
- 4) **Continue shrinking the armed forces and cut the military budget.** The size of the armed forces should continue to be reduced to a level of no more than 10,000 troops. In addition, the military budget should be cut from the current 9 percent of GDP by at least one-third over the next year, with deeper cuts to follow. Nicaragua's 9 percent compares unfavorably to 5 percent for the U.S., 3.5 percent for Peru, 3 percent for Chile, and 2.5 percent for El Salvador.²⁷
- 5) **Cooperate with Washington in establishing a training and education program between the U.S. and a new Nicaraguan Civilian Defense Force.** Once the previous five recommendations have been undertaken, the Pentagon should consider launching a program to help train and professionalize Nicaragua's military forces.

Condition #2: Reform the police. Nicaragua's 11,000-man police force remains under the control of the Sandinista Party and is used to threaten and intimidate political opponents. By replacing Rene Vivas with Fernando Caldera Azmita last September 5, the Chamorro government only substituted one human rights violator with another. The objective of reform should be to create a professional, non-partisan force that can uphold the law. Washington thus should encourage Managua to appoint a new police chief, as well as to include more former Contra members in the police forces. A thorough restructuring of the officer corps also should be launched to weed out human rights violators. Once this is done, a U.S. training program to professionalize Nicaragua's police units also should be developed. Representatives from U.S. police departments and the Federal Bureau of Investigation (FBI) could be sent to Nicaragua to help build a new police force.

Condition #3: Investigate and prosecute individuals or groups guilty of the torture and murder of former Contra leaders and other innocent Nicaraguans. The 1991 report on the human rights in Nicaragua by the OAS singled out the Nicaraguan security and military forces for criticism. According to the Nicaraguan Association for Human Rights (ANPDH), one of Nicaragua's main human rights groups, the Chamorro government has often appeared indifferent to complaints about human rights abuses. Nicaraguan human rights monitors also contend that Nicaraguan authorities often fail to complete investigations into human rights abuses. Witnesses and investigators sometimes end up dead or missing, and prosecutions are infrequent.²⁸

Two of the most infamous human rights cases include the February 1991 assassination of former Contra leader Enrique Bermudez and the October 1990 murder of the unarmed sixteen-year-old Jean Paul Genie. Both acts of violence have been

²⁷ "Convergence and Community: The Americas in 1993," A Report by The Inter-American Dialogue, 1992, p. 26.

²⁸ For more information see "Nicaraguan Rights Groups Cite Problems Plaguing the Chamorro Government," *The First Freedom* (The Puebla Institute), January-February, 1992.

linked to the Sandinistas, but no one has yet been charged with either of the crimes. The OAS also should consider sending human rights monitors into Nicaragua as they currently are doing in Haiti.

Condition #4: Accelerate the return of confiscated properties. Washington must stress that no further assistance will be forthcoming unless significant progress can be made on returning confiscated properties to their original owners, or that proper compensation has been provided for. There are approximately 4,600 Nicaraguan families claiming an estimated 20,000 properties that were seized during the Sandinista years. Moreover, some 3,000 properties were confiscated from an estimated 580 American citizens. While the Nicaraguan government claims that it has returned 78 U.S. citizens' properties, this represents only 2 percent of the seized properties belonging to Americans. Moreover, the Chamorro government has legalized previous confiscations, permitted further seizures, and even allows government officials to live and work in properties taken from U.S. citizens.

An independent commission of non-Sandinistas should be established to review the property cases and adjudicate claims for those properties that have either been reduced in value or cannot be returned. All properties, however, that are deemed returnable should be immediately handed over to the original owners. All other owners should receive fair and just compensation that is agreed upon by the former owners and the independent property commission. The U.S. should also insist that property claims by Nicaraguan citizens be handled under the same processes as those of American citizens.

Condition #5: Overhaul the judicial system. The Sandinistas control much of Nicaragua's judicial system. In the Supreme Court, for example, they have a 5-to-4 majority and often block political and economic reform packages. In recent months, Sandinista-controlled courts overturned legislation to return confiscated property to its original owners. They also stopped a military reform package, and upheld the takeover of the National Assembly by the Chamorro-Sandinista coalition. The judicial system is especially partisan and inefficient in resolving land disputes and adjudicating crimes in which Sandinistas are involved. This jeopardizes the prospects for long-term peace between the Sandinistas and the former Contra forces.

Condition #6: Rewrite the Nicaraguan constitution. The current Nicaraguan constitution was written by the Sandinistas in 1987 and is an obstacle to free market and democratic reforms. The constitution gives the state the right to seize private property and intervene in the economy, calls for a Socialist state, does not defend individual liberties, and makes the Army an official organ of the Sandinista party. The Clinton Administration should urge Chamorro to call for the election of a new constituent assembly to meet as soon as this year. Its task should be to draft a new constitution. A multiparty commission, made up of UNO representatives, Sandinistas, and other political and private groups, should be created to lay the groundwork for new elections and to draft a new constitution.

Condition #7: Accelerate free market reforms. The Clinton Administration should encourage the Chamorro government to build upon the economic progress it already has achieved, as well as launch an even more thorough economic reform program. While economic development will be difficult at best without a resolution of the problems surrounding Nicaraguan politics, the security forces, and the rule of law, it will be impossible without a full-scale free market revolution. In order to help make 1993 the year for "Economic Take Off" in Nicaragua, Washington should encourage Managua to:

- ◆ **Guarantee private property rights ;**
- ◆ **Privatize or restructure the remainder of the state-owned industries;**
- ◆ **Further reduce government spending;**
- ◆ **Encourage private banking;**
- ◆ **Broaden Nicaragua's tax base by lowering taxes and improving tax collection capabilities;**
- ◆ **Continue lowering trade barriers; and**
- ◆ **Diversify its exports.**
- ◆ **Create a private sector business corporation or fund through which AID money can be loaned to small and medium-size entrepreneurs.** These should be low-interest, short-term loans to help spur local private investment in the Nicaraguan economy.
- ◆ **Channel more aid to local communities and non-governmental organizations.**

Such measures, combined with a thorough reform of Nicaragua's police forces, Army, and court system, will build a solid foundation upon which the Chamorro government can sustain economic growth and provide jobs for its citizens.

Washington can further assist the process of reform by:

- ✓ **Encouraging the international community to pressure Nicaragua to hasten its reform program.** Washington should encourage such regional democracies as Argentina, El Salvador, and Mexico; European donor countries like Germany and Spain; as well as international institution like the OAS and the IMF, to link their support of the Nicaraguan government with continued economic and political reform. "The Santiago Commitment to Democracy" and accompanying resolutions adopted by the General Assembly of the OAS in June 1991 in Chile should guide OAS policy toward Nicaragua. The OAS has established guidelines for economic, diplomatic, and possibly even military pressure on countries where democratic governments are undermined or overthrown by the armed forces. Far too many times in the past, the inter-American community has ignored political abuses by leftist groups, and moreover, it has ignored economic rights, as an indispensable part of freedom. Nicaragua, like Haiti and Peru, offers an opportunity to test this new commitment to regional democracy and economic freedom.

- ✓ **Scheduling a Clinton-Chamorro meeting in Washington during the next year.** Clinton and his foreign policy advisors should use this opportunity to outline U.S. objectives in Nicaragua. Clinton must clearly state the guidelines for U.S. aid and emphasize that no additional aid will be forthcoming until sufficient progress on economic, political, and human rights reforms are made. Chamorro should be explicitly warned that her grace period is over and that U.S. assistance will require evidence of her good faith in the form of immediate and concrete action.
- ✓ **Assisting the Chamorro government in combatting Nicaragua's mounting drug trafficking problems.** Nicaragua is increasingly used as a transit point for drugs entering the U.S. Under the Sandinistas, the Colombian drug cartels were allowed to use Nicaragua as a staging ground for their illicit smuggling activities. The Chamorro government, with some U.S. assistance, has cracked down on narcotics trafficking through Nicaragua, but the country's long and desolate coastlines, limited anti-narcotics capabilities, and corruption in the police and armed forces have made it an attractive transshipment point for the drug cartels.

As part of the reform of Nicaragua's police and the EPS, the U.S. should increase assistance for the counternarcotics program once other police reforms are in place. Washington could provide Nicaragua with anti-narcotics equipment and hardware such as jeeps, coastal and river patrol boats, helicopters, surveillance planes, and small arms. It could also help Managua better detect unscheduled aircraft entering or flying over Nicaragua. The State Department's Office of International Narcotics Matters and the U.S. Drug Enforcement Administration also could help Nicaraguan anti-drug units with training and intelligence cooperations.

- ✓ **Promising a free trade agreement once reforms are well underway.** For Nicaragua to develop and grow economically, it will have to promote free trade policies and become integrated in the emerging inter-American free market system. Fortunately, there has been some progress in this area. Nicaragua signed a free trade area framework agreement with Washington in July 1991, and signed a similar pact with Costa Rica, El Salvador, Guatemala, Honduras, and Mexico in August. Once Nicaragua's economic reforms have progressed sufficiently, Washington should link Nicaragua and other Central American nations to the North American Free Trade Agreement (NAFTA).

CONCLUSION

Nicaragua is at an important turning point in its turbulent history. The Chamorro government has failed to take advantage of the mandate for democracy and free market reform it received in its victory over the Sandinistas in the February 1990 elections. Since then, the Sandinistas have made good on their pledge to "rule from below" and are reestablishing control over the Nicaraguan government and economy. The UNO democratic coalition that brought Chamorro to power and which captured the votes of over 60 percent of the Nicaraguan people has gone from being the ruling coalition into

open opposition. Chamorro has governed by rewarding her enemies and punishing her allies.

To be sure, the transition from communist dictatorship to a free market democracy is no easy and quick task. A decade of Sandinista rule left the country politically divided and desperately poor. Nicaragua today is surpassed only by Haiti as the poorest nation in the Western Hemisphere. While the Chamorro government succeeded in ending the eight-year civil war between the Democratic Resistance and the FSLN, and has made some significant progress in stabilizing the economy, the country is still racked by corruption, political gridlock, limited rule of law, and violence. Unfortunately, these problems are being compounded by the Chamorro Administration's "secret governing arrangement" with the Sandinista leaders.

The U.S. was quick to come to Chamorro's support following her historic election. American aid was rapidly channeled to her government to help build the foundations for economic growth and democratic development. Much of this assistance, however, has been misused, and corruption abounds in Nicaragua. Moreover, the Sandinistas have now seized control of Nicaragua's National Assembly, and control almost every important institution in Nicaragua. Instead of reaching out for the support of her fourteen-party UNO coalition that brought her to power, Chamorro has allowed her key government ministers to side with factions in the Sandinista Party. Consequently, Chamorro has alienated her democratic coalition, and the U.S. government has suspended American assistance to Nicaragua.

Chamorro is waging a difficult battle and deserves U.S. support if she adopts true democratic and market reforms. Before this support can once again be forthcoming, however, she has to form a new democratic alliance with UNO and build a government of national unity that includes all of the democratic parties. The Chamorro government also must press ahead with fundamental policies to reform the military, police, court system, and banks and rid these of Sandinista control. If such measures are not taken, then U.S. aid to Nicaragua should be terminated.

U.S. interests in Nicaragua, although greatly reduced with the end of the Cold War, are still significant. Instability in Nicaragua could spill over into neighboring democracies and launch a new wave of violence and poverty in the region. By helping promote economic freedom and democratic stability in Nicaragua, the Clinton Administration can help usher in a new era of U.S.-Latin American relations based upon free trade, security cooperation, and democratic reform. If not, Central America could sink back into the abyss of war and economic stagnation.

Michael G. Wilson
Senior Policy Analyst

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNS library.