

Executive Summary Backgrounder

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Nicaragua's President Ortega: The Balancing Act After One Year

James M. Roberts

Marketing himself as a completely redesigned 2007 model, with sleek new lines and reassuring sound bites, Sandinista leader Daniel Ortega persuaded 38 percent of Nicaraguan voters to elect him president in November 2006 on his third try since leaving office in 1990. Ortega, now 62, assumed the presidency for the second time in January 2007. As he approaches the first anniversary of his inauguration, however, many design flaws in the clunky 1979 model Ortega are beginning to manifest themselves again.

Across South America, a number of countries are backsliding into a variety of long-discredited socialist models. In some cases, countries are being ruled by despotic hard-leftist and populist *caudillos* (strongmen). The leaders of this resurgent Latin leftist wave generally fall into two camps: “vegetarian” democratic socialists, who see the many benefits of capitalism and are willing to work within the market-based economic system to create good and sustainable private-sector jobs, and “carnivorous” hard-left socialists (e.g., Fidel Castro and Hugo Chávez), who oppose and appear determined to tear apart market-based democratic capitalism and replace it with a form of “neo-communism.”

Daniel Ortega certainly has a carnivorous pedigree. He led the Sandinistas when they seized power in 1979 after a long, bitter, and violent guerrilla war against the Somoza dictatorship. Yet Ortega's performance since taking office in January 2007 does not indicate a clear preference between

the vegetarian and carnivorous socialist camps. The former *Comandante* is walking a tightrope, appearing to support capitalism and the U.S.–Central America–Dominican Republic Free Trade Agreement (CAFTA–DR) and maintaining relations with the U.S. while seeking close relations with and cash from world troublemakers such as Iranian President Mahmoud Ahmadinejad, Chávez, and Colonel Muammar Qadhafi of Libya.

What the U.S. Should Do. The U.S. should carefully monitor the situation in Nicaragua and give Ortega every encouragement to continue down the path of democratic governance and neoliberal market reform. If he chooses to follow the *Chavista* path instead, the U.S. should take every opportunity to counter Ortega's influence and steer Nicaragua back onto the right track.

Specifically, the Bush Administration should:

- **Conduct a review of the U.S. Millennium Challenge Corporation's \$175 million, five-year compact with Nicaragua** to determine whether or not the Ortega government is complying with its terms and then report its findings to Con-

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gress. If needed, the MCC compact should be renegotiated to keep the Nicaraguan government and economy headed in the direction of market-based democratic institution-building.

- **Review all U.S. Agency for International Development programs in Nicaragua.** USAID programs should be revised if the review determines that USAID funds are not producing the market-based democratic institutions and policies that Nicaragua needs.
- **Seek additional funding from Congress for more democracy and governance programs to encourage the development of strong, transparent, and pro-democracy political parties and institutions in Nicaragua.** The Administration should request this additional funding regardless of the results of the review of existing USAID programs.
- **Request that the Office of the U.S. Trade Representative and the U.S. Department of Commerce conduct a study of Nicaragua's participation in and benefits from CAFTA-DR and then report those findings to Congress.** If, as is expected, Nicaragua is found to be benefiting from CAFTA-DR, the U.S. embassy in Managua should launch an aggressive public diplomacy campaign to inform all Nicaraguans of the proven benefits of free trade and CAFTA-DR.
- **Ask the Inter-American Development Bank, World Bank, and International Monetary Fund to conduct detailed studies on the effectiveness of their programs in Nicaragua.** The Administration should request that they change any program that is failing to achieve goals that are consistent with U.S. policy.

- **Increase and enhance the State Department's public diplomacy efforts in Nicaragua to encourage the development of strong, transparent, market-based, and pro-democracy political parties, economic policies, and institutions.** New programs should take advantage of the success that nearby countries, especially El Salvador, have experienced in making the transition to stronger market-based democratic systems.

For its part, Congress should:

- **Increase funding for public diplomacy efforts in Nicaragua** and
- **Hold hearings to assess the situation in Nicaragua** and to determine whether or not the Ortega government's actions constitute any threat to U.S. national security.

Conclusion. Ortega has walked a tightrope since taking office in January 2007, appearing to support capitalism and DR-CAFTA and maintaining relations with the U.S. while seeking close relations with and cash from world troublemakers from Ahmadinejad to Chávez to Qadhafi.

U.S. officials should carefully monitor Ortega's high-wire balancing act while still working to maintain and expand democratic and free-market institutions in Nicaragua. The U.S. needs to be prepared to act promptly if Ortega jumps (or is pushed) off the tightrope and moves closer to Venezuela and Iran.

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Background

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Across South America, a number of countries are backsliding into a variety of long-discredited socialist models. In some cases, countries are being ruled by despotic hard-leftist and populist *caudillos* (strongmen). The leaders of this resurgent Latin leftist wave generally fall into two camps: “vegetarian” democratic socialists, who see the many benefits of capitalism and are willing to work within the market-based economic system to create good and sustainable private-sector jobs, and “carnivorous” hard-left socialists (e.g., Fidel Castro and Hugo Chávez), who oppose the U.S. and appear determined to tear apart market-based democratic capitalism¹ and replace it with a form of “neo-communism.”

Daniel Ortega certainly has a carnivorous pedigree.² He led the Sandinistas when they seized power in 1979 after a long, bitter, and violent guerilla war against the Somoza dictatorship. Yet Ortega's performance since taking office in January 2007 does not indicate a clear preference between the vegetarian and carnivorous socialist camps. The former *Comandante* is

Talking Points

- “Born-again” Roman Catholic and democrat Daniel Ortega regained Nicaragua's presidency in January 2007 with only 38 percent of voters in cahoots with a corrupt center-right politician.
- Ortega has walked a tightrope, stressing his pragmatic business relationship with the United States while spewing the populist-socialist-leftist rhetoric of his Venezuelan counterpart Hugo Chávez and seeking close relations and cash from world troublemakers from Ahmadinejad to Chávez to Qadhafi.
- The “citizens councils” established by Ortega will soon be constituted as venues of “participatory democracy,” allowing Ortega to bypass constitutionally established municipal government agencies and reward his supporters directly.
- U.S. officials should monitor Ortega carefully and work to expand democratic and free-market institutions in Nicaragua. The U.S. must act promptly if Ortega jumps (or is pushed) off the tightrope and moves closer to Venezuela and Iran.

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U.S. officials should carefully monitor Ortega's high-wire balancing act while still working to maintain and expand democratic and free-market institutions in Nicaragua. The U.S. needs to be prepared to act promptly if Ortega jumps (or is pushed) off the tightrope and moves closer to Venezuela and Iran.

The Comeback Comandante

In their amusing but deadly serious recent book *El Regreso del Idiota*, Plinio Apuleyo Mendoza, Carlos Alberto Montaner, and Álvaro Vargas Llosa analyze the unmistakable slide of a number of South America countries back into socialism. In some cases, these countries are led by despotic hard-leftist and populist *caudillos*, and the authors capture the ridiculous and sobering results. They divide the new wave of Latin leftists into two camps: the “vegetarian” democratic socialists and the “neo-communist” carnivores.

The vegetarians include President Michele Bachelet of Chile, President Luiz Inacio Lula da Silva (“Lula”) of Brazil, and President Álvaro Colom of Guatemala. These leftists see the many benefits of capitalism and are willing to work within the market-based economic system to create good and sustainable private-sector jobs. Although they tend to favor overregulation, rigid labor markets, and bloated bureaucracies, they do not pose a threat either to market-based democracy or to the United States.

On the other hand, totalitarian dictator Fidel Castro has spawned younger “carnivores,” including Presidents Hugo Chávez of Venezuela, Rafael Correa of Ecuador, Evo Morales of Bolivia, and Nestor Kirchner (and most recently his wife, Cristina Fernandez) of Argentina. All of them are, to varying degrees, “21st century” socialist populists who oppose the U.S. and are determined to tear apart market-based democratic capitalism and anyone who stands in their way. In place of the “neoliberalism” that they despise, the carnivores would substitute “neo-communism.”³

Unlike his friends Hugo Chávez, dictator and would-be President for Life of Venezuela, and the socialist presidents of Bolivia, Argentina, and Ecuador, former *Comandante* Ortega did not return to office on a wave of populism. During his long run in power in Nicaragua (1979–1990), he and his Sandinista National Liberation Front (FSLN) party commandeered so much private property and pocketed so much taxpayer money that they literally became the landed gentry.⁴

Although Ortega left office in 1990, he and the FSLN have remained a powerful force in Nicaraguan politics. Nicaragua's impoverished masses have remained faithful to the *Comandante*, and he exerted influence on the democratic governments that followed his by threatening to call for strikes and violence in the streets.

Lacking a populist base, Ortega patiently finagled his victory by scheming with former President Arnoldo Alemán, who was sentenced to a 20-year prison term in 2003 for embezzling \$100 million while in office (1997–2002).⁵ He and Ortega negotiated “El Pacto,” in which the two former enemies shared power by changing the constitution to give the Sandinistas “almost an equal number of seats on

1. Plinio Apuleyo Mendoza, Carlos Alberto Montaner, and Álvaro Vargas Llosa, *El Regreso del Idiota* (The return of the idiot) (Buenos Aires: Grijalbo, 2007).
2. U.S. Department of State, Bureau of Western Hemisphere Affairs, “Background Note: Nicaragua,” August 2007, at www.state.gov/r/pa/ei/bgn/1850.htm (November 5, 2007).
3. Mendoza et al., *El Regreso del Idiota*.
4. Mark A. Uhlig, “Chamorro Takes Nicaragua Helm; Hails a New Era,” *The New York Times*, April 26, 1990, at <http://query.nytimes.com/gst/fullpage.html?res=9C0CE4DD123EF935A15757C0A966958260> (December 31, 2007).
5. Associated Press, “Nicaragua: 20-Year Sentence for Ex-President,” *The New York Times*, December 9, 2003, at <http://query.nytimes.com/gst/fullpage.html?res=9907E1DD1E3DF93AA35751C1A9659C8B63> (December 31, 2007).

the Supreme Court, the Comptroller's Office and in the Federal Electoral Council." Consequently, when Alemán was sentenced to prison, "Ortega used his influence over the country's courts to get the obese and ailing Mr. Alemán released from prison to serve his sentence at home." A senior State Department official explained that the Sandinistas have remained powerful "because they got to keep what they stole, they got to keep their guns, and they use democratic processes and their corruption of Nicaragua's judiciary, in cahoots with Arnaldo Alemán, to extort the country."⁶ El Pacto has also permitted Alemán to keep what he stole and move about freely, out of jail.

With support from legislators and judges in Alemán's Liberal Constitutional Party (PLC), the Federal Electoral Council changed the election rules in 2005 in a way that favored Ortega and the FSLN. Under the new election rules, a candidate can win in the first round of voting with only 40 percent of the vote (down from 45 percent) or 35 percent with at least a 5 percentage point margin over the closest opponent. Not coincidentally, the "courts released Alemán from house arrest" in 2005.⁷ In 2006, the rule change, coupled with a split in the center-right opposition between the Nicaraguan Liberal Alliance (ALN) and the PLC, opened the way for Ortega to win in the first round with just 38 percent of the vote.⁸

Venezuelan President Chávez is rumored to have sent the Sandinistas as much as \$50 million during the campaign to secure Ortega's victory. It is a matter of public record that "Mr. Chavez gave the Ortega campaign significant support by sending subsidized oil to Nicaragua and distributing it through Sandinista politicians."⁹

Ortega's Somewhat Promising Start

In the first days and months after his victory, Ortega seemed ready to "give peace a chance," as his campaign theme song promised. He proclaimed himself a born-again Roman Catholic who opposed abortion.¹⁰ At his inauguration, he claimed to be committed to a capitalist Nicaragua but warned against the "neoliberal" economic model that the United States has promoted in the region.

Ortega painted a hopeful picture of the prosperity he would bring to Nicaragua, emphasizing access to education and loans for youths. Despite his disparaging of American-style capitalism, Ortega pledged that his government would continue to participate in CAFTA-DR and to maintain good relations with the U.S.¹¹ At the beginning of his term at least, Ortega paid lip service to market-based reforms as the best way to stimulate economic development in Nicaragua, the second poorest country in the Western Hemisphere after Haiti.

Since taking office in January 2007, Ortega has walked a tightrope. He has stressed his maintenance of a pragmatic business relationship with the United States while spewing the populist-socialist-leftist rhetoric of his Venezuelan counterpart Hugo Chávez. However, in the year since his election, Ortega's actions suggest that he yearns to return to his old *caudillo* ways, consolidate power, and sign onto Chávez's 21st century socialist vision for Latin America, which would include an anti-American at the helm in every Latin American country.¹²

The Sandinista Debacle. The 1979 insurrection by the Sandinistas ended 40 years of dictatorial, feudal, and increasingly corrupt rule by

6. Ginger Thompson, "Old Foe of U.S. Trying for a Comeback in Nicaragua," *The New York Times*, April 5, 2005, p. A3, at www.nytimes.com/2005/04/05/international/americas/05nicaragua.html (December 31, 2007).
7. Joel Brinkley, "U.S. Envoy Goes to Nicaragua to Back Embattled Leader," *The New York Times*, October 5, 2005, p. A6, at www.nytimes.com/2005/10/05/international/americas/05nicaragua.html (December 31, 2007).
8. Marifeli Perez-Stable, "The President of Some Nicaraguans," *The Miami Herald*, June 21, 2007, p. A25, and Economist Intelligence Unit, "Nicaragua: Country Profile," 2007, at www.eiu.com/report_dl.asp?issue_id=972220482&mode=pdf (November 5, 2007; subscription required).
9. James C. McKinley Jr. and Jill Replogle, "Leftist Headed Toward Victory in Nicaragua," *The New York Times*, November 7, 2006, p. A1, at www.nytimes.com/2006/11/07/world/americas/07nicaragua.html (December 31, 2007).
10. BBC News, "Nicaragua Brings in Abortion Ban," November 18, 2006, at <http://news.bbc.co.uk/2/hi/americas/6161396.stm> (November 5, 2007).
11. Nancy San Martin, "Ortega Pledges to Keep Nicaragua on Capitalist Path," *The Miami Herald*, January 11, 2007, p. A14.

Anastasio Somoza, who liked to say that “Nicaragua is my farm.”¹³ At first Ortega ruled Nicaragua as one of three FSLN members in a Government of National Reconstruction, with the rest of the FSLN’s nine-member directorate filling the cabinet posts. He was later elected president and served from 1985 to 1990.

Regrettably, once in power, the Sandinistas proceeded to behave in a manner much like that of the corrupt dictator that they replaced. Backing from the Soviet Union helped them to maintain power. Just before leaving office in 1990, Ortega and his closest commanders carried out the famous *piñata* property grab in which the FSLN looted the government and the private sector before handing over power to President-elect Violetta Chamorro.¹⁴ The FSLN expropriated private property worth millions of dollars on the slimmest of pretexts, including more than 100,000 businesses, homes, and farms.¹⁵

During the Contra War in the early 1980s, the Sandinistas lived large and ostentatiously while Nicaraguan hospitals ran short of aspirin. Once, on their way to the U.N., Ortega and his wife Rosario Murillo stopped their 17-car motorcade at a Manhattan boutique, where they spent \$3,500 on sunglasses.¹⁶ Meanwhile, the Sandinistas under Ortega drove the country into the ground. By 1986, the average lower-income family of six had to work more than twice as many hours each month to maintain its 1979 standard of living. Between 1981 and the end of the Contra War in 1992, gross domestic product (GDP) per capita decreased by roughly half, dropping to a dismal \$425.¹⁷

Post-Sandinista Democracy and Economic Growth. After Ortega left office in 1990, Nicaragua’s economy rebounded. A recent State Department report summarized:

For the 16 years between Ortega administrations (1991–2006), three successive Liberal Party administrations focused on free market reform as [the] path to recovery from 12 years of economic free-fall under the Sandinista regime and civil war. During this 16-year period, characterized by steady GDP growth, the government made dramatic economic progress. It privatized more than 350 state enterprises, reduced inflation from 33,500% in 1988 to 9.45% in 2006, and cut the foreign debt by more than half. In 2006, the economy expanded by 3.7% as GDP reached \$5.3 billion.¹⁸

Nicaraguans Demanding Results, Not Promises. Ortega won the presidential election in 2006, but he did not win a mandate. Unlike his Andean friends, he is constrained both by that reality and by the success that post-Sandinista, pro-democracy governments had in developing a broad base of support and an economic recovery. Even with help from the disgraced Alemán, the Sandinistas can no longer dominate politics in Nicaragua.

This reality has come as something of a surprise to the aging Ortega. He has to be more careful. As one observer put it, Ortega is “a master caudillo but a stranger to statesmanship.”¹⁹ In the future, Ortega’s failure to engage all of the people of Nicaragua might strengthen his democratic opposition.

12. James M. Roberts, “If the Real Simón Bolívar Met Hugo Chávez, He’d See Red,” Heritage Foundation *Backgrounder* No. 2062, August 20, 2007, at www.heritage.org/Research/LatinAmerica/bg2062.cfm.

13. Raymond Frost, *The Backward Society* (New York: St. Martin’s Press, 1961), p. 121.

14. Mary Anastasia O’Grady, “Ortega’s New Friends,” *The Wall Street Journal*, June 18, 2007, p. A16.

15. U.S. Department of State, “Background Note: Nicaragua,” and Larry Rohter, “A Tug-of-War in Nicaragua over Seized Property,” *The New York Times*, March 2, 1997, at <http://query.nytimes.com/gst/fullpage.html?res=9803E4DD1E31F931A35750C0A961958260> (November 7, 2007).

16. “Upward Mobility Appearances,” *The New York Times*, October 29, 1985, at <http://query.nytimes.com/gst/fullpage.html?res=9D04E0DB1738F93AA15753C1A963948260> (January 1, 2008).

17. Tim Merrill, ed., *Nicaragua: A Country Study* (Washington: U.S. Government Printing Office, 1993), at <http://countrystudies.us/nicaragua/25.htm> (November 7, 2007).

18. U.S. Department of State, “Background Note: Nicaragua.”

19. Perez-Stable, “The President of Some Nicaraguans.”

The state of the economy is another reality confronting Ortega, and it is forcing him to operate—at least to some degree—within the democratic system of post-Sandinista Nicaragua. Since Ortega took office, the economy has slowed, and his approval rating has dropped. In the June 2007 CID-Gallup poll, only 26 percent of those surveyed approved of Ortega's performance, a sharp drop from his 61 percent approval rating in February.²⁰

According to the Nicaraguan Central Bank, Nicaragua's economy grew at an annualized rate of 5.5 percent in September 2007, up from 3.1 percent in September 2006. This good news reflected in part the worldwide rise in commodity prices, but it was offset by flat or deteriorating performances in the all-important agriculture and construction sectors, which account for most job creation. The agricultural sector grew at a slower rate of 3.9 percent in September 2007, although better than its 2.7 percent growth rate in September 2006. However, the construction sector declined by 11.0 percentage points, from 2.3 percent in September 2006 to -8.7 percent in September 2007.²¹ This steep drop reflects a lack of investor confidence in Ortega.

Ortega has met often with COSEP, the leading private business group in Nicaragua (similar to the U.S. Chamber of Commerce). During the campaign, Ortega promised to respect private property and meet Nicaragua's foreign and domestic public debt obligations. Leading businessmen in Nicaragua report that in his meetings with them, Ortega

has been a model social democrat—very professional and straightforward—and has worked with them on steps that the government can take to create more private-sector jobs, such as creating free trade zones, negotiating additional free trade agreements with other South American countries, improving public infrastructure, and establishing private-sector investment banks.

Ortega reportedly has also been scrupulous to ensure Nicaraguan government compliance with the CAFTA-DR agreement.²² From April 2006, when CAFTA was implemented, to December 2006, total trade with the U.S. was up nearly 20 percent over the same period in 2005.²³

However, in March 2007, Ortega asked the United States and the European Union to create “compensation funds” to counteract the “negative consequences” of free trade and globalization on poorer nations like Nicaragua. He also threatened to end Nicaraguan participation in CAFTA-DR without such a fund,²⁴ even though Nicaragua has fared well thus far under the agreement.²⁵

To address the challenges presented by CAFTA-DR, the World Bank approved a \$17 million zero-interest loan to Nicaragua in August 2006.²⁶ Six months later, the World Bank declared Nicaragua eligible for additional debt relief under its Multilateral Debt Relief Initiative, which would provide \$1.148 billion in additional funding.²⁷ The United States has given Nicaragua millions in foreign aid

20. CID-Gallup, “The Honeymoon Is Over: Ortega's Job Approval Crashes,” *Public Opinion Survey: Nicaragua*, No. 56, June 2007, at www.cidgallup.com/docs/boletines/English%20Bulletin%20OP56%20Nic.swf (November 5, 2007), and “Positive Start for Ortega in Nicaragua,” *Angus Reid Global Monitor*, February 24, 2007, at www.cidgallup.com/docs/noticias/Positive%20Start%20for%20Ortega.swf (November 5, 2007).
21. Banco Central de Nicaragua, “Indicadores Económicos y Financieros” (Economic and financial indicators), October 2007, at www.bcn.gob.ni/publicaciones/prensa/coyuntura_macro_oct_2007.pdf (November 26, 2007).
22. Erwin Kruger, speech before the Fifth International Economics Convention, University of the Applied Sciences, Lima, Peru, October 13, 2007.
23. U.S. Department of State, “Background Note: Nicaragua.”
24. Associated Press, “Nicaragua's Ortega Asks U.S., EU to Start Free Trade ‘Compensation Funds,’” *bilaterals.org*, February 28, 2007, at www.bilaterals.org/article.php3?id_article=7299 (November 9, 2007).
25. Embassy of the United States, Managua, Nicaragua, “Nicaraguan Exports to the United States Grew 17.4% During CAFTA-DR's First Year,” 2007, at http://nicaragua.usembassy.gov/uploads/images/2UuQe7tAQzZWVD9MJ8VewQ/cafta_eng.pdf (January 1, 2008).
26. Press release, “Nicaragua: World Bank Approves US\$17 Million for Competitiveness,” World Bank, August 24, 2006, at <http://go.worldbank.org/P9YCANBUC0> (January 1, 2008).

and may send more over the next five years if the Ortega government is willing to work constructively with the U.S.

The U.S. Millennium Challenge Corporation (MCC) signed a \$175 million, five-year compact with Nicaragua in 2005. Although more than \$60 million was scheduled to be disbursed during 2006 and 2007, less than \$10 million had been disbursed as of October 2007.²⁸ According to the MCC, this delay was due largely due to Nicaraguan officials not adequately calculating the time demands and burden of starting such a large program from scratch in difficult operating environments.

The U.S. Agency for International Development (USAID) has allocated more than \$165 million since 2004 to programs to increase the stability of Nicaragua's democratic institutions and to develop its impoverished economy.²⁹ In addition, the International Monetary Fund (IMF) reactivated its economic program with Nicaragua in January 2006 and extended IMF-sponsored poverty reduction and growth facility until the end of that year.³⁰

Notwithstanding Ortega's seemingly pro-business efforts, observers attribute the recent economic sluggishness to an overall lack of confidence in Ortega among the business sector elite. Nicaraguan economist Sergio Santamaria told *La Prensa* that the economic slowdown is due in part to the uncertainty of Ortega's economic policies: "The problem in Nicaragua is a problem of management, not of resources."³¹ As recently as October 2007, rising yields on Nicaraguan debt have been signaling out-

side investors' lack of confidence that the debt will ever be repaid.³²

Pulled in Opposite Directions. President Ortega is caught between conflicting priorities: a mix of economic policies that would boost investor confidence and be good for Nicaraguans versus his goals of consolidating power and building a socialist state. Some Sandinista backers want more radical change from Ortega, not just his eloquent and provocative speeches. While working with private capitalists and foreign investors in the background, he has been condemning "savage capitalism" and has kicked off a traditional campaign to buy votes among the poor with handouts promising "a cow, a pig, poultry and seeds to 75,000 rural families."³³

Ortega demonstrated his Sandinista roots during the campaign by promising Nicaraguans suffering from extensive poverty and illiteracy a return to the "free education, health care and medicine" that he claimed existed under the Sandinistas in the 1980s.³⁴ Of course, Ortega did not mention that such free services were never actually delivered, nor did he explain how he would pay for his new initiative. Ortega's 2008 budget, announced in October 2007, did dramatically increase funding for education and health care, but it also projects a large deficit. The government has not yet explained how it will cover the deficit and could be tempted to suspend debt service and default on Nicaragua's external debt.³⁵

Keeping people dependent on the state is the oldest trick in the *caudillo's* bag of tricks. In the short

27. Economist Intelligence Unit, *Country Commerce: Costa Rica, Panama, Nicaragua*, November 2006, at www.eiu.com/report_dl.asp?issue_id=1901559175&mode=pdf (November 7, 2007; subscription required).

28. Millennium Challenge Corporation, "Nicaragua," October 2007, at www.mcc.gov/documents/csr-nicaragua.pdf (November 9, 2007).

29. U.S. Agency for International Development, "Nicaragua: USAID Program Profile," May 1, 2006, at www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/nicaraguaprofile.html (November 14, 2007).

30. Economist Intelligence Unit, "Nicaragua: Country Profile," 2007.

31. O'Grady, "Ortega's New Friends."

32. Lester Pimentel, "Bond Investors Take Dim View of Ortega Nicaragua," Bloomberg News, October 8, 2007.

33. O'Grady, "Ortega's New Friends."

34. Connie Watson, "Washington's Old Foe Takes Power in Nicaragua," CBC News, November 16, 2006, at www.cbc.ca/news/reportsfromabroad/watson/20061114.html (November 27, 2007).

35. Ary Pantoja, "Presupuesto de 2008: 32 mil 632 millones," *El Nuevo Diario* (Managua, Nicaragua), October 16, 2007, at <http://impreso.elnuevodiario.com.ni/2007/10/16/nacionales/61566> (November 27, 2007).

run, it might give Ortega enough popular support to change the constitution so he can run for reelection, but it will not happen without resources.³⁶ Ortega also needs domestic political support and is said to be in trouble on that front. The FSLN party holds only 38 of 92 seats in the National Assembly,³⁷ and a number of his former FSLN comrades-in-arms resent that he has delegated responsibilities to his wife Rosario, who is rumored to be even more power-hungry than he is. There are allegations that Rosario is blackmailing Ortega to gain power by threatening to go public with details of his sexual abuse of her daughter Narvaez, which Narvaez says began in 1979 when she was only 11 years old.³⁸

As soon as Ortega assumed office, and pushed by his ambitious wife, he took another page from the Castro/Chávez political playbook and established new political and social entities called Consejos de Poder Ciudadano (“citizen power” councils, or CPCs). The CPCs are essentially Ortega’s version of Chávez’s Bolivarian Circles in Venezuela; similar entities are being created in the Chávez satellite states of Ecuador and Bolivia. The Ortegas claimed in July 2007 that “more than 6,000 such [CPCs] had been formed,” that “around 500,000 people participated in CPCs,” and that “this number would double by late 2007.”³⁹

The CPCs were created not to “lobby local governments,” as the Ortegas insist, but to short-circuit them and concentrate all executive power in Managua with the Sandinistas.

The existence of the councils can be expected to be a constant source of tension with the opposition and to generate substantial suspicion about the Ortega administration’s political intentions.

[C]ritics in the opposition parties and civil society argue that the CPCs are incorporating mainly members of the ruling Frente Sandinista de Liberación Nacional (FSLN) while excluding other members of the population. In addition, they argue that the CPCs have been designed both to supplant other bodies for citizen input enshrined in existing legislation and to dictate policy to local mayors, transmitting orders from the president.⁴⁰

Given the difficulties with his FSLN cronies and Nicaraguans’ general unhappiness with his government’s performance, Ortega appears to be having problems staying balanced on his political tightrope.

Chávez and Ahmadinejad to the Rescue?

Ortega has been counting on Venezuelan financing to solve some of his problems. Venezuela has already agreed to forgive more than \$30 million in Nicaraguan debt and to open an office of Venezuela’s development bank in Managua to offer low-interest loans to small businesses. Chávez also pledged to build a pipeline across Nicaragua to the Pacific to carry Venezuelan crude oil for shipment to refineries in China and Japan,⁴¹ but to date this has been just another empty Chávez promise, similar to the much-discussed idea of a transoceanic canal across Nicaragua. Building a canal would be difficult, given that Nicaragua has no ports along its swampy Caribbean Mosquito Coast and very few potential ports along its rocky 150-mile Pacific coastline.

While promises of aid from Chávez have been predictably grandiose, actual payments and deliveries have been haphazard. In 2006, Chávez made much of his “gift” of two dozen diesel-powered electric generators. It turns out, however, that they were

36. O’Grady, “Ortega’s New Friends.”

37. U.S. Department of State, “Background Note: Nicaragua.”

38. Mirta Ojito, “Stepdaughter Accuses Sandinista Chief of Sex Abuse,” *The New York Times*, March 11, 1998, p. A3, at <http://query.nytimes.com/gst/fullpage.html?res=9F0CE1D61330F932A25750C0A96E958260> (January 1, 2008).

39. Economist Intelligence Unit, “Nicaragua Politics: Citizen Councils Spark Opposition,” October 15, 2007, at www.eiu.com/index.asp?layout=displayVw&article_id=1352669520 (subscription required).

40. *Ibid.*

41. Simon Romero, “Chavez Ends Busy Week Aiding Venezuela’s Latin Neighbors,” *The New York Times*, February 24, 2007, at www.nytimes.com/2007/02/24/world/americas/24venez.html (January 1, 2008).

not gifts after all. When they finally arrived, they came with a bill from Caracas for \$100 million. Chávez is said to enjoy belittling the Sandinista hero in private, and Nicaraguans are reportedly resentful of the obnoxious Venezuelan “advisers” sent by Chávez.⁴² This is similar to the hatred that many Venezuelans, in turn, feel toward Chavez’s insufferable Cuban advisers.

In a budding relationship that has alarmed the Bush Administration,⁴³ Iran has promised to help finance a new \$350 million ocean port and build 10,000 houses for the leftist Nicaraguan government. Ortega met recently with Iranian Deputy Energy Minister Hamid Chitchian to urge Iran to help build several hydroelectric plants in Nicaragua to help end the power crisis. Iran has committed to just one plant for now. Chitchian pledged to select a site for a \$120 million hydroelectric project. Nicaraguans have to cope with blackouts nearly every day.⁴⁴ According to some reports, Iran is constructing one of its largest embassies in the world in Managua—much larger than Nicaragua’s size would dictate. Some observers suspect that Iran intends to use its big new embassy as a base for intelligence operations against the United States.

An Iranian-funded deepwater port on the Caribbean coast would be a first for Nicaragua. In return, Nicaragua hopes to increase its farm exports (mainly coffee, meat, and bananas) to Iran. Venezuela would also provide money for the Caribbean port, Ortega told reporters.⁴⁵ According to Ortega, the Venezuelan president promised that Nicaragua “can count on me” to co-finance infrastructure projects that a visiting Iranian delegation is inter-

ested in developing in Nicaragua.⁴⁶ “Nicaragua can forget about fuel problems,” Chávez said during a recent visit to Managua.⁴⁷

Ortega said that he had also sought Brazil’s aid to end the energy crisis. Brazilian President Luiz Inacio Lula de Silva will visit Nicaragua in the near future.⁴⁸

Adjusting to the New Reality. Times have clearly changed. In a single week in July, Ortega appeared with Chávez in Managua, while Nicaragua’s vice president welcomed a U.S. Navy hospital ship to nearby Corinto to provide free medical care to Nicaraguan citizens.

So far, Ortega has maintained this delicate balancing act between the Cold War firebrand and his alter ego, the pragmatist who campaigned in 2006 on a platform of reconciliation. Yet both his allies and skeptics say that the diplomatic juggling act can go only so far. U.S. officials and business leaders are saying that Ortega’s coziness with Venezuela and Iran could scare off foreign investors and hurt the economy, and the country needs foreign investment. Much of the infrastructure was damaged during the civil war of the 1970s and 1980s and still must be rebuilt. Nearly half of the residents must subsist on less than \$1 a day.⁴⁹

Back to Old Habits. Since recapturing the presidency, Ortega and his wife Rosario Murillo, who many say is acting as co-president behind the scenes, have cloaked their policymaking in secrecy. Venezuela’s aid, including subsidized oil, is off-budget, which allows the Ortegas to dole out millions to their FSLN inner circle from the shadows.

42. O’Grady, “Ortega’s New Friends.”

43. Michael Chertoff, remarks at the 2007 B’Nai B’Rith International Policy Conference, U.S. Department of Homeland Security, October 30, 2007, at www.dhs.gov/xnews/speeches/sp_1193786316049.shtm (November 13, 2007), and Fox News, “Michael Chertoff Calls Iran, Venezuela Relationship ‘Troubling,’” October 30, 2007, at www.foxnews.com/story/0,2933,306418,00.html (January 1, 2008).

44. Reuters, “Iran Offers Aid to Nicaragua, in a Sign of Deepening Ties,” *The New York Times*, August 6, 2007, at www.nytimes.com/2007/08/06/world/americas/06nicaragua.html (November 7, 2007).

45. *Ibid.*

46. “Venezuela Pays for Iran in Nicaragua,” *LatinNews Daily*, August 6, 2007.

47. Romero, “Chavez Ends Busy Week.”

48. Reuters, “Iran Offers Aid to Nicaragua, in a Sign of Deepening Ties.”

49. Oscar Avila, “For Nicaragua’s Ortega, Leading Is Balancing Act,” *Chicago Tribune*, August 13, 2007, p. C8.

The CPCs will soon be constituted as venues of “participatory democracy,” allowing Ortega to bypass constitutionally established municipal government agencies and reward his supporters directly. In fact, the citizen councils are nothing but FSLN fronts. They are not needed. In the post-Sandinista years, Nicaragua enacted laws on citizen participation and encouraged civil society programs that are succeeding.⁵⁰

The Ortega–Alemán pact stirred the wrath of human rights organizations. The president controls the national prison system. Since taking office, Ortega has continued to grant Alemán freedom to move about Nicaragua, effectively commuting his prison sentence. In exchange, the PLC is cooperating with the FSLN on Supreme Court nominees and a proposed constitutional reform that would allow Ortega to run for reelection in 2011—a seeming *quid pro quo* for the rumored forthcoming annulment of Alemán’s sentence. The FSLN would like to see Alemán’s sentence legally expunged so that he can again run against Eduardo Montealegre’s ALN and thus replicate the center–right vote split of 2006 and ensure Ortega’s reelection in 2011.⁵¹

Ortega’s attempt at a constitutional reform mirrors one of the first steps that Chávez took in subverting democracy in Venezuela. That Ortega has been stymied suggests that the carnivores are not yet completely free to feed at the public trough.

CENIDH, a prominent Nicaraguan human rights organization, released a report that harshly criticized Ortega’s first 100 days in office and expressed concern that the government had not explained to the people how much time its planned reforms would need before starting to function properly.

The report characterized Ortega’s government as “authoritarian, centralist, and nepotistic.”⁵² The paper described a blurring of the lines between party, state, and family that has occurred since Ortega took power, epitomized by his refusal to occupy the presidential palace and his preference for running the government from FSLN headquarters while he is still FSLN secretary-general.

Ortega’s delegation of so much power to his wife Rosario, who holds the newly created position of communications and citizenship coordinator, further blurs those lines. Rosario has shuttered the press communications offices of all other government ministries, claiming that they are no longer necessary because all government communication with the press will go through her office. When the closures were protested, she explained that her new post made all other governmental press offices irrelevant and that the government preferred to spend that money on health care and education.⁵³ Furthermore, Ortega has refused to name a defense minister, and the army acts as his personal security detail, feeding speculation that he wants to keep the army under his direct control.⁵⁴

Critics on both the left and the right are criticizing the secretive nature of the Ortega administration and its tendency to favor only media on the left while withholding information from center–right media outlets.⁵⁵ On February 22, 2007, the centrist newspaper *La Prensa* reported that the government’s communications strategy involves communicating the government’s actions only to outlets that are sympathetic to the FSLN. The Ortega administration often does not share public information with “hostile” media outlets, the newspaper reported.⁵⁶

50. Oscar Avila, “Foes Say Ortega Trying to Give Authoritarianism a Chance,” *Chicago Tribune*, August 17, 2007.

51. Economist Intelligence Unit, “Nicaragua: Country Profile,” 2007.

52. Centro Nicaraguense de Derechos Humanos, “Informe sobre los primeros cien días de Gobierno del Presidente Daniel Ortega Saavedra,” (The first 100 days of President Daniel Ortega’s government), February 17, 2007, at www.cenidh.org/files/CIEN%20DIAS%20DE%20GOBIERNO.pdf (November 8, 2007).

53. Tim Rogers, “The Silence of ‘Government Sources,’” *Time*, October 23, 2007, at www.time.com/time/world/article/0,8599,1674778,00.html (November 7, 2007).

54. Indo-Asian News Service, “Ortega Completes Uneventful First 100 Days As President,” April 20, 2007.

55. Jose Adan Silva, “Nicaragua: Critics Decry Ortega’s Press Policy As ‘Secretive,’” Interpress Service/Global Information Network, April 27, 2007.

56. *Ibid.*

Stirring Up Trouble for the U.S.

Although Ortega is constrained by domestic politics and economic realities, he has not restrained himself when fashioning an assertive, far-left foreign policy for Nicaragua. To a large degree, Ortega's foreign policy comes down to money. Chávez and Ahmadinejad are benefiting from the windfall resulting from oil prices near \$100 per barrel and are tempting him with cash to follow their lead.

Not surprisingly, Ortega has flitted about the Middle East, stopping in Tehran and Tripoli, aboard a presidential jet lent by Colonel Qadhafi.⁵⁷ In Tehran, Ortega pledged solidarity with Grand Ayatollah Ali Khamenei and the Iranian revolution. Exactly what Iran promised in exchange for that pledge matters not only to Nicaraguans, but also to the U.S.⁵⁸ The renewed Nicaragua–Iran relationship has revived memories of the 1980s Iran–Contra affair.

Ortega visited Cuba on his way home to pay homage to the Castro brothers, the intellectual authors of the “Bolivarian 21st century socialism” that Ortega surely would like to extend to Nicaragua. For his part, Chávez has encouraged his Latin American allies to strengthen ties with authoritarian Middle Eastern governments such as Iran and Libya. Ortega has also signed a partnership agreement with Algerian President Abdelaziz Bouteflika.

Ortega reportedly told Qadhafi that, emulating Libya's system of “direct peoples' democracy,” he wants to return to a system similar to what existed under the Sandinistas in the 1980s with the creation of the CPCs. During Ortega's first presidency, pro-FSLN organizations such as the Committee for Sandinista Defense exercised authority in both urban and rural areas, similar to Hugo Chávez's Bolivarian Circles of the present day.⁵⁹

The State Department refers to the Caribbean as the U.S.'s “third border. In July 2007, Ortega accused the U.S. embassy in Managua of meeting secretly with opposition groups, manipulating the media, and paying people to demonstrate in order to subvert his government. He alleged that the American embassy's conspiracy included “some media outlets, print and television... which supposedly are told what issues to use to discredit the Sandinista Front.” U.S. Ambassador to Nicaragua Paul Trivelli denied the accusations and insisted that the U.S. was committed only to the Nicaraguan people and to promoting democracy, social investment, and regional security.⁶⁰

ALBA: COMECON for the Western Hemisphere. Fulfilling another campaign pledge, Ortega signed an agreement bringing Nicaragua into the Alternativa Bolivariana para las Américas (ALBA), Chávez's socialist trading bloc, which includes Cuba and Bolivia. He has also pledged to end Nicaragua's affiliation with the IMF within five years.⁶¹

Chávez and Castro created ALBA (which means “dawn” in Spanish) as Latin America's answer to the U.S.-inspired efforts toward a Free Trade Area of the Americas (FTAA). The ALBA ploy is of a piece with Chávez's broader effort to harm the United States and increase his own political power in the region. In reality ALBA, which Chávez has billed as a socialist trade scheme, is merely a Latin American echo of the Soviet Union's Council for Mutual Economic Assistance (COMECON), which the Soviet Union used to control its Eastern European satellites.⁶²

The anti-trade and anti-free market rhetoric was intense at an April 2007 ALBA meeting in Venezuela attended by representatives from Cuba, Nicaragua, Bolivia, and Haiti. At the summit, Chávez announced an ALBA financial cooperation fund of \$250 million. Nicaragua's Ortega claimed,

57. Martin Arostegui, “Ortega Cultivates Middle East Ties; Iran, Libya Are Stops on 10-Day Trip,” *The Washington Times*, June 6, 2007, p. A11.

58. O'Grady, “Ortega's New Friends.”

59. Arostegui, “Ortega Cultivates Middle East Ties.”

60. Agence France-Presse, “U.S. Embassy Is Subverting Nicaragua: Daniel Ortega,” July 22, 2007.

61. Reuters, “Nicaragua Wants ‘Freedom’ from IMF in 5 yrs—Ortega,” April 21, 2007, at www.reuters.com/article/latestCrisis/idUSN21455798 (November 7, 2007).

62. Ben Goldby, “The Rise and Rise of Russian Energy Giant,” *Birmingham Post* (U.K.), May 2, 2006.

“The enemy is still the same: capitalism. Only the form of struggle has changed.”⁶³ Not coincidentally, ALBA includes the poorest nations in the Western Hemisphere. It is unlikely to change their status.

ALBA members are to receive petroleum-funded benefits even more generous than those in the PetroCaribe program. Chávez’s hidden agenda is to use ALBA to coordinate common defense, economic, and foreign policies and to control the education and health ministries in every ALBA country. At the heart of ALBA is a rejection of capitalist values, which the member countries would replace with “solidarity” and “complementary” trade.

An Ongoing Challenge for U.S. Policymakers

Emulating his role model Chávez, who has boasted of plans to rule Venezuela for the next 20 years,⁶⁴ Ortega dreams of a long run as president of Nicaragua. His renewed anti-American rhetoric, destabilizing economic policies, and friendship with Chávez and Ahmadinejad bode ill for both Nicaraguans and Americans.

The U.S. should monitor the situation in Nicaragua carefully and give Ortega every encouragement to continue down the path of democratic governance and neoliberal market reform. If he chooses to follow the *Chavista* path instead, the U.S. should take every opportunity to counter Ortega’s influence and steer Nicaragua back onto the right track.

Specifically, the Bush Administration should:

- **Conduct a review of the U.S. Millennium Challenge Corporation’s \$175 million, five-year compact with Nicaragua** to determine whether or not the Ortega government is complying with its terms and then report its findings to Congress. The Nicaraguan government should be informed that the MCC compact will be renegotiated if the review determines that MCC funds are not producing the needed changes and policies in the Nicaraguan government and economy that will help to keep it headed in the direction of market-based democratic institution-building.

- **Review all USAID programs in Nicaragua.** The Nicaraguan government should be notified that USAID programs will be revised if the review determines that USAID funds are not producing the needed changes and policies in the Nicaraguan government and economy that will help to build democratic and free-market institutions.
- **Seek additional funding from Congress for more democracy and governance programs to encourage the development of strong, transparent, and pro-democracy political parties and institutions in Nicaragua.** The Administration should request this additional funding regardless of the results of the review of existing USAID programs. The USAID should periodically report progress toward strategic goals in democracy and governance to Congress, and the programs should be revised as needed to achieve these goals.
- **Request that the Office of the U.S. Trade Representative and the U.S. Department of Commerce conduct a study of Nicaragua’s participation in and benefits from CAFTA–DR and then report those findings to Congress.** If, as is expected, Nicaragua is benefiting from CAFTA–DR, the U.S. embassy in Managua should launch an aggressive public diplomacy campaign to inform all Nicaraguans of the proven benefits of free trade and CAFTA–DR.
- **Ask the Inter-American Development Bank, World Bank, and International Monetary Fund to conduct detailed studies on the effectiveness of their programs in Nicaragua.** The Administration should request that they change any program that is failing to achieve goals that are consistent with U.S. policy.
- **Increase and enhance the State Department’s public diplomacy efforts in Nicaragua to encourage the development of strong, transparent, market-based, and pro-democracy political parties, economic policies, and institutions.** New programs should take advantage of the success that nearby countries, especially El Salvador,

63. Steven Dudley, “Chávez in Search of Leverage,” *The Miami Herald*, April 28, 2007, p. A9.

64. Roberts, “If the Real Simón Bolívar Met Hugo Chávez, He’d See Red.”

have experienced in making the transition to stronger market-based democratic systems. Public diplomacy programs should include numerous citizen-to-citizen exchanges between El Salvador and Nicaragua involving students, educators, civil servants, politicians, and business people. These programs should also increase exposure to U.S. best practices in all these areas.

For its part, Congress should:

- **Increase funding for public diplomacy efforts in Nicaragua** and
- **Hold hearings to assess the situation in Nicaragua** and to determine whether or not the Ortega government's actions constitute any threat to U.S. national security.

Conclusion

The Sandinistas remained powerful during Daniel Ortega's years out of office and, through corruption and intimidation, were able to retake the

presidency for Ortega. The former *Comandante* has walked a tightrope since taking office in January 2007, appearing to support capitalism and DR-CAFTA and maintenance of good relations with the U.S. while seeking close relations with and cash from world troublemakers from Ahmadinejad to Chávez to Qadhafi.

U.S. officials should carefully monitor Ortega's high-wire balancing act, while still working to maintain and expand democratic and free-market institutions in Nicaragua. The U.S. needs to be prepared to act promptly if Ortega jumps (or is pushed) off the tightrope and moves closer to Venezuela and Iran.

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