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Abstract: This policy paper will focus on the strategic importance of American developmental aid to Nicaragua. In recent years, U.S. aid has decreased alarmingly, despite Nicaragua's importance in maintaining American influence in Latin America. Although the recent election of leftist President Daniel Ortega worried American investors and threatened to undermine American economic clout, Ortega has shown some pro-American tendencies in the early stages of his presidency. However, he has also worked extensively with Venezuela's Hugo Chavez to strengthen political and economic ties between the two countries. With Chavez's anti-American message gaining traction throughout the region, the United States must capitalize on Ortega's pendulum-like politics to protect its Latin American economic and political interests.

The United States should increase its annual developmental aid to Nicaragua in order to strengthen long-term Nicaragua-U.S. ties. Additionally, such action would stabilize the country and catalyze economic growth through increased governmental transparency, infrastructure development, and human capital advancement. This proposal will analyze relevant economic data and academic articles as well as assess the current political state of affairs to demonstrate that increased aid will yield political and economic benefits for the United States, Nicaragua, and Latin America as a whole.

The Importance of American Developmental Aid in Nicaragua

One of the most pressing issues of contemporary American foreign policy is the effort to preserve American hegemony in Latin America. Inexplicably, however, this region is not given significant attention, particularly in the realm of foreign aid. Specifically, Nicaragua represents an opportunity to reverse the newly emerging balancing coalition against the United States. The United States would be well served to substantially augment its developmental aid package to Nicaragua that is administered through the United States Agency for International Development (USAID). Such action would enable the U.S. to could effectively pressure Nicaragua to withdraw from the Alternativa Bolivariana para la América (ALBA), its recently formed alliance with the anti-American governments of Bolivia, Cuba, and Venezuela. This policy implementation will not only develop the infrastructure, but also importantly enhance Nicaraguan governmental transparency and consequently provide a long-term solution for American economic interests in the nation. Finally, if for no other reason than altruism, this aid would effectively alleviate Nicaragua's poverty, by investing in education, healthcare, and human capital as a whole. The potential is for successful implementation is apparent, in terms of both political and commercial viability. All in all, such action would advance the American-Nicaraguan relationship, curb the staggering level of poverty, and catalyze the investment prospects, three tremendously valuable effects.

Background

Traditionally, America has established a fairly active relationship with Nicaragua and maintains a strong economic relationship even today. In fact, the United States is currently the country's largest trading partner, comprising almost two-thirds of its exports and one-third of imports. Moreover, the United States and Nicaragua entered into a free trade agreement when

both countries signed on to the US-Dominican Republic-Central American Free Trade Agreement (CAFTA-DR). This agreement has fostered growing trade of the two countries, increasing exports overall by 17.4% and imports by 21%.ⁱ More recently, CAFTA-DR has helped raise Nicaraguan exports to the U.S. by 40% in the second quarter of 2006, thanks in large part to increased traditional and non-traditional agricultural exports.ⁱⁱ Daniel S. Sullivan, the Assistance Secretary for Economic, Energy, and Business Affairs for the State Department recently reaffirmed the importance of the American-Nicaraguan relationship, saying “we are committed to working with the people of Nicaragua... and President Ortega. We are committed to work together to consolidate democracy, rule of law, property rights, and create economic opportunities for sustained economic growth and poverty reduction for Nicaragua.”ⁱⁱⁱ Such comments, in addition to such an increase in trade, are truly promising signs for the future of this relationship.

In addition to direct trade, the United States, through its influence in the World Bank, has worked to address the needs of Nicaragua’s sometimes-fragile economy. Additionally, the World Bank has aided Nicaragua’s sustainability in this venture by providing the country with a \$17 million no-interest loan to help make the private sector more competitive. The goals of this initiative, The Enhanced Competitiveness for International Market Integration Project, include removing bureaucratic hurdles, increasing efficiency, and adjusting to international financial standards.^{iv} Furthermore, the international donor consortium, led by the World Bank, forgave 80% of Nicaragua’s foreign debt in January of 2004, when the country officially became a Heavily Indebted Poor Country.^v These measures have helped stabilize Nicaragua’s economy, which, in turn, has led to increased American investment. Coupled with the passage of CAFTA-DR, America’s role has been dramatically increased, both directly and indirectly in Nicaragua’s

economy. Thus, this role can either be utilized as a catalyst for further cooperation in trade endeavors, or be exploited by the Chavez-led critics, who argue that America is simply acting in an imperialist fashion, benefiting it at the cost of lesser developed countries.

USAID has also traditionally been extremely helpful in strengthening governance and democracy in Nicaragua. Various criminal justice reforms, notably including increased transparency in the judicial system and fair democratic elections, have been successfully implemented. For example, a new criminal code, criminalizing money laundering, trafficking, and other such crimes, has been created that strongly enhances and stabilizes American commercial interests.^{vi}

Next, Nicaragua's public health has been inordinately advantaged through USAID's work. The organization helped decrease adolescent pneumonia deaths by 32% in five of the country's largest hospitals. As well, contraception use has improved to a 69% prevalence rate, thanks in large part to USAID, the supplier of 75% of the contraceptives used. Finally, USAID has successfully collaborated with Nicaraguan and international institutions to grossly improve quality of life in the country. For example, "Through NicaSalud, a federation of local and international NGOs, USAID extends health activities at the community and household level to improve maternal and child health for 19,900 families."^{vi} Also through NicaSalud, USAID is improving water quality through a Solar Water Disinfection program in over 300 communities. Finally, USAID has also worked with the Nicaraguan Ministry of Health on a HIV/AIDS program. Undeniably, USAID has benefited the human capital of Nicaragua by addressing many of Nicaragua's basic public health challenges.^{vi}

In education, USAID has predictably made similarly significant strides. The creation of a model-school program yielded results of 20% increase in school completion, as well as academic

achievement increases of 12% in Spanish and 12% in mathematics. Fortunately, this model program has been implemented for all Nicaraguan primary schools. Yet still, USAID has continued to be creative in obtaining funding for this successful program: since 2003, it has obtained \$6.2 million from the private sector.^{vi}

USAID has been a consistent presence in Nicaragua, providing the necessary funds for the country to continue developing. In 2004, the organization provided \$40.7 million in grants that financed goals such as democracy stabilization, economy growth, agricultural diversification, and increased access to healthcare and education. Inexplicably however, the funds allocated have decreased since peaking at almost \$48 million in 2005; 2006 included around \$43 million and 2007 budgetary requests are a mere \$35 million.^v This is ironic given the increased strategic role of Nicaragua in the U.S.'s fight to maintain serious influence in Latin America, as well as the financial rewards provided through USAID continue to be extremely valuable for Nicaraguans. In 2005, for instance, USAID catalyzed increased sales for local farmers by \$15.9 million, while also creating 24,082 full-time jobs in the agricultural sector, and even 9,258 part-time ones. Additionally, US AIDS's work to decrease the bureaucratic hurdles faced by Nicaraguan farmers resulted in a 50% time reduction of clearing agricultural customs through the Honduran border.^v

Also, U.S. foreign economic assistance (USFEA) has been a significant source of assistance for Nicaragua during times of crisis.^{vii} For instance, during Hurricane Felix the U.S. government, through aid augmentation, enabled USAID to provide Nicaragua with \$25,000 for preparedness, \$150,000 for disaster relief, and over twenty-three disaster response experts to the affected region.^{viii} Also, in response to the devastating Hurricane Mitch, President Clinton gave \$75,000 in immediate aid, while also allocating over \$6 million from a previously set-up fund

designated for Nicaraguan disaster relief. These efforts have consistently been effective, well received by Nicaraguans, and consequently propelled the political relationship as well as future aid disbursements.^{ix}

One of the more recent developments in this relationship is the \$175 million Millennium Challenge Corporation's (MCC) grant to Nicaragua. The MCC is the Bush administration's attempt to address the United Nations' Millennium Challenge Goals (MCG), set up formally in 2004 as a U.S. Government Corporation. The eligibility for such a grant stemmed predominantly from the increased governmental accountability, particularly in curbing corruption, a previously recurring issue. These grants, in other countries' experiences, have shown success in curtailing serious and ongoing concerns in sectors such as healthcare, education, and government accountability. In fact, R. Kristen Herring, Outreach Coordinator for the MCC, said "[t]here are noteworthy cases in which countries have significantly improved investment in education, health, gender equality, improved economic freedom and other sustainable investments as a result of pushing for MCA funding eligibility."^x Moreover, in Nicaragua, as is generally the case, the grant has vastly improved transportation infrastructure, thus aiding links between international and international markets.^{xi} The grant helped to raise revenues for farmers, as well as promote international investment via a strengthening of property rights.^{xii} Not only can the MCC grant be seen as a tremendous opportunity for Nicaragua in combating such issues, but also a significant step toward a long-term solution, as the grant also encourages domestic ownership of such programs.

Nevertheless, some critics doubt the authenticity of the grant, arguing that Washington is simply more interested in political sway than curbing actual corruption.^{xiii} To support this idea, critics point out the pre-election nature of the grant and the American friendly platform of former

President Enrique Bolaños, a strong advocate of the grant and the signing of CAFTA-DR trade agreement. However, President Ortega has eliminated the merit of these claims by maintained his sincerity in using the grant to the Americans' plans. Overall, this debate demonstrates the overarching potential for American influence, and the predictable counter-arguments from political opponents, like Chavez. All the same, this grant has demonstrated that the U.S. can accomplish its goals in governmental transparency and economic development by simply working cooperatively with the Nicaraguan government.

Nevertheless, Nicaragua is in precarious situation with poverty, particularly in regards to inequality of opportunity for its citizens. To quantify, the World Bank estimated Nicaragua's 2004 per capita GDP to be \$817, making it the second poorest nation in Latin America and the Caribbean, trailing only Haiti.^{xiv} Moreover, as of 2001, over fifteen percent of the nation was living in extreme poverty. Unsurprisingly, this has led to serious hardships for Nicaragua in a variety of sectors. First, the Nicaraguan educational system is, at best, challenged: the average Nicaraguan has less than five years of formal education and some 500,000 children are currently outside of the education system. Next, public health has suffered, with malnutrition being a chronic problem, particularly among the poorest populations.^v As well, only around twenty-four percent of the population has access to adequate reproductive health services, a serious public health issue for mothers and their offspring. Infrastructure issues are highlighted by only seventy percent of Nicaraguan having adequate access to water. Additionally, Nicaragua's poverty issues have resulted in a reliance on foreign aid, which comprises around thirty-six percent of the total government budget.^{xiv} Finally, CAFTA-DR ratification has led to a disproportionate increase in imports, around \$3 billion annually, resulting in a current-account deficit being thirty percent of GDP.^{xv} Nicaragua and its people are currently in a vulnerable situation that Chavez and his allies

could easily exploit to expand their influence through imposing drastic reforms by offering a new alternative. In order to prevent such a change, the United States would be well served to act preemptively by drastically increasing aid, the ultimate aim of this policy proposal.

Despite the outlook that the aforementioned trade numbers might suggest, the U.S. future economic influence in Nicaragua is becoming dangerously precarious, highlighted by recent developments in the latter's relationship with American influenced International Financial Institutions (IFIs). Nicaragua has made plans to withdraw from the World Bank's International Center for Settlement of Investment Disputes, which, according to Vince McElhinny of the Bank Information Center, is "a body that mediates disputes between governments and foreign investors with which Southern governments never seem to win their disputes against transnational companies."^{xvi} McElhinny seems to be indicating that Latin American governments have grown frustrated with the lack of true support from such IFIs. Such a blatant disregard for this American led IFI indicates Nicaragua's apparent sense of alienation from this traditional funding and loaning outlet and thus the urge to work more with alternative sources.

Venezuela has led a potential balancing coalition against American influence in the region; aggressively seeking pan-continental support for its "21st Century Socialism" by increased the flow of capital and substantially boosting its energy exports and aid to these new partners. The newfound economic and political interdependence between primarily Bolivia, Cuba, Nicaragua, and Venezuela seeks economic sustainability and virtual autonomy from the United States. This alliance was recently formalized with the creation of the aforementioned ALBA. This is a Chavez project for increased economic interdependence among leftist governments in Latin America and was signed by Nicaragua the day after Ortega's inauguration.

With specific regards to international finance, Chavez partnered with Morales, Castro, and Ortega to create a Bank of ALBA, primarily because Chavez was not able to convince his fellow Latin America leaders to include Nicaragua in the recently created Banco del Sur (membership is being limited to the South American Managua). This bank, like its broader relative, would work towards poverty reduction and economic sustainability in the member nations, while ending dependency on traditional IFIs. Unlike the Banco del Sur, however, the Bank of ALBA will be much more focused on furthering Chavez's leftist agenda and is according to him, a "new integration mechanism" between the four countries.^{xvii} By signing, it reaffirms the previously presented belief that Nicaragua is disgruntled with the seemingly restrictive policies of the traditional sources of funding, notably the IMF and World Bank, and is thus turning to this new source.^{xviii} Moreover, the threat to the United States is furthered by Iran's interest in joining ALBA as an observer nation, a move that is currently being discussed, but nevertheless is alarming to American interests, due to the currently hostile nature of the Iranian-American relationship.^{xvii} In essence, it seems as if Venezuela is not only attempting to form a coalition that counteracts American political influence, but also limit their current and future economic clout. As evidenced above, they are irrefutably on their way.

Political and Economic Situation

Due to this politicking of Venezuela, and despite the overwhelming success of many of USAID's traditional programs, as previously mentioned, the future is seemingly very uncertain for American commercial interests. This is predominantly attributed to the changing political dynamics in the country, especially since the 2006 election. In a tightly contested election, Daniel Ortega, the candidate of the leftist Sandinistas National Liberation Front (FSLN), received approximately 38% of the vote, just surpassing the necessary 35%. Throughout his

campaign, Ortega, who fought the American supported Contra rebels as a Marxist leader in the 1980s, called for increased “unity and reconciliation” while surprisingly saying that he would maintain business relationships with America.^{xix} Ortega, however, has repeatedly displayed affection for Venezuela’s Chavez and said he would like to increase the level of pan-Latin American relations. Such statements led Paul Trivelli, the American ambassador to Nicaragua, to label Ortega’s democratic standards “very doubtful” and warned American business interests that an Ortega-led Nicaragua would not be beneficial for their investments and a move out of the country would be advisable.^{xix} As a result, Nicaragua is now at a dangerous breaking point in its relationship with America, as the well being of American commerce in and with the country is threatened. Nevertheless, Ortega has consistently displayed inconsistency; his pendulum-like politics have routinely swung from publicly supporting a strong alliance with Venezuela to a dramatically different platform calling for capitalism and promotion of its partnership with America.

Ortega’s election immediately drew into question the future of America’s role in the country, while giving significant momentum to Chavez and his leftist friends in the race to gain another ally. Although America had continually warded off Ortega from the political victory, contributing to his electoral losses 1990, 1996, and 2001, the U.S. simply was not able to protect its favored candidate, the Harvard-educated banker and the leader of the Nicaraguan Liberal Alliance (ALN) Eduardo Montealegre. Predictably, the U.S. and Venezuela had repeatedly sparred over their favored candidates, Ortega and Montealegre, in the months approaching the election and this debate eventually manifested into a “giving war.”^{xx} Venezuela decided to rapidly increase donations of oil and fertilizer to the country to show the potential benefits of a strong alliance. Moreover, despite American aid, many Nicaraguans were not content with the

status quo of a relatively stagnant economy, lack of a stable utility infrastructure, and corruption. Thus, the prevailing theme of this election has been reform; Ortega represented this for many voters, despite his storied presence in contemporary Nicaraguan politics. Therefore, Chavez won out despite the strong tradition of American aid. Now, many Latin American experts fear that this emblematic shift in the leadership will preclude the U.S. from continuing a strong presence of aid and trade with the country, and rather open the door for a Venezuelan, Bolivian, and Cuban economic and political coalition.^{xx} Of course, such a move would be detrimental for American interests in the country, as those countries have all nationalized previously privately held companies and significantly impeded American commerce on many levels. For example, oil and gas reserve nationalization in Bolivia that came at the expense of Spanish-Argentine venture Repsol YPF, Brazil's Petrólio Brasileiro (Petrobras), Britain's British Petroleum (BP) and France's Total.^{xxi} If this trend were to extend into Nicaragua, American commerce in the country would likely be largely discontinued, to say the least.

Predictably, Venezuela has seized upon Ortega's victory as an opportunity to significantly increase its presence in Nicaragua and further spread its "21st Century Socialism." Chavez has achieved success largely through the nationalization of key industries, including telecommunications and, of course, oil. Specifically, he has used revenue from the state run petroleum enterprise, PDVSA, to fund his "Bolivarian Revolution," aimed predominantly at increasing social programs as well as addressing the plight of Venezuela's poor. On an international level, he has strengthened political, economic, and social with Latin American countries following a similar socialist path. For instance, Cuba and Venezuela have both benefited by their trade of petroleum for medical doctors.^{xxii} At Ortega's January 10 inauguration, Evo Morales, the Socialist president of Bolivia, shared the stage with Ortega and

declared that they, along with Chavez, would work together to “nationalize their countries industries and bring death to American imperialism.”^{xxiii} The inauguration ceremonies also included the music of Quilapayun, a well-known socialist folk group, serving as an allusion to the late Chilean president Salvador Allende, a martyred socialist. Perhaps the most pertinent message for American companies with interest in the country, however, was Ortega’s rhetoric on defeating “savage capitalism” and working with this Chavez led coalition to do so.^{xxiii}

Additionally, the day after Ortega’s inauguration, he signed the aforementioned ALBA agreement. In response, Chavez promised \$30 million in “gifts and low-interest loans, 100,000 barrels of oil on ‘preferential terms’ to ease the country’s transportation crisis and dozens of electricity plants and health cooperatives.”^{xxiii} Chavez followed this up by sending a tanker with 84,000 gallons of oil to the country, distributed by Alba Petroleos de Nicaragua (Albanic), an organization Ortega created for just this task. Bayardo Arce, an economic advisor for the FSLN, has even estimated that Venezuelan oil imports to Nicaragua could reach \$700 million annually; such imports would be paid for with inordinately low interest bonds and “bartered exports,” such as sugar, beans and meat that compromise much of Nicaragua’s current export capacity.^{xi}

Chavez’s government has been extremely public regarding the motives for these moves; his ambassador to Managua, Miguel Gómez, even said, “Over the next five years Nicaragua is going to feel the effects of true co-operation based on solidarity, not one of trade and speculation...we want to infect Latin America with our model.”^{xxiv} Moreover, Nicaragua is one of sixteen member nations of PetroCaribe, which entitles members to discounted energy through Chavez’s PdVSA. Cuba followed these statements up with its own pledge to provide Nicaragua with hundreds of Cuban doctors.^{xxiii} These agreements would have the potential to not only cement Venezuela as Nicaragua’s primary ally, but could also drastically derail American imports and

commercial influence within the state. Therefore, America would be well served to counter Chavez's "philanthropy" with its own benevolence.

Despite the nature of this influential relationship, Ortega, along with the FSLN in general, has continually swung back to the right on the political spectrum, maintaining a fairly capitalist approach in his policies. In fact, Ortega and his administration have repeatedly said that they will not take part in property seizures, unlike in the 1980s; this is credible rhetoric considering that many of their followers, the Sandinistas, are now property owners and capitalists.^{vii} This decision is very practical considering Section 527 of the Foreign Relations Authorization Act of 1994 that "prohibits certain U.S. assistance and support for a government of a country that has confiscated U.S. citizen property, unless the government has taken certain remedial steps."ⁱ Fortunately for Nicaragua, Secretary of State Rice, in July of 2007, issued a "14th Annual national interests waiver of the Section 527 prohibition due to Nicaragua's improved track record in resolving such issues as well as advantageous reform progress."ⁱ This waiver is extremely pertinent to the implementation of the recommended policy; without it, aid could not be distributed. It is apparent that Ortega is aware of the importance of maintaining a strong relationship with America, as exemplified by these swings to the right. However, in light of Chavez's efforts, the United States cannot let Nicaragua slip into Chavez's sphere of influence, as is the potential scenario if America does not augment their aid packages.

Again, there have been numerous displays of Ortega's efforts to promote his relationship with his American allies and a corresponding level of accountability with American money. For instance, Ortega's government has displayed an impressive amount of cooperation in talks with Chris Berry, the American owner of prominent resort "Pelican Eyes," as he resolves a land dispute with a relative of famous Nicaraguan revolutionary Augusto Sandino.^{xxiii} The

maintenance of rights in this case has been a sign of hope for many American owned enterprises in the country. Additionally, the Sandinistas played a critical role in ratifying CAFTA-DR, thus displaying their newfound affinity for capitalism.^{xxv} Furthermore, Ortega did provide an opportunity for cooperation with USAID, saying that he wished to enhance the rights of poor Nicaraguans through increased infrastructure and improved services; both of which are primary functions of the American organization. He followed this up by meeting with U.S. Health and Human Services Secretary Michael Leavitt and U.S. Ambassador Trivelli, despite the latter's unpopularity in Nicaragua, in order to discuss his plans on cooperation.^{xxiii} As well, he chose Jaime Morales Carazo as his vice-president and has allied with Cardinal Miguel Obando y Bravo, a prominent Catholic Church leader and a former opponent of Ortega. Moreover, Ortega has worked to prevent complete alienation of historic American partners, particularly in light of the aforementioned \$175 million grant from the MCC.^{xxiii} As a result of these promising signs, American businesses are proceeding with "cautious optimism", according to the Latin Business Chronicle.^{xxvi} In all, American direct investment in Nicaragua reached \$261 million in 2006^{xxvii}. Therefore, the American government must demonstrate a similar level of commitment to the country to ensure a promising future rapport with their Nicaraguan counterparts.

Likewise, Ortega has managed to promote American business, despite his publicized relationship with Chavez and ALBA. Michael Cobb, the American CEO of the \$14 million Gran Pacifica Beach & Golf Resort "mega-project," says, "the reality is that President Ortega is saying the right things and doing the right things. Private property rights are being protected...The local economy is humming right along".^{xv} Another major project is a \$100 million Cone Denim assembly factory, built by the U.S.-based International Textile Group. Furthermore, even Latin American capitalists are proceeding with investments in the country. Carlos Slim, the third-

richest man in Latin America, publicly acknowledged “In Nicaragua there are a lot of opportunities for investment” and has thus proceeded with several business and social investments.^{xv} Another such example is the positive dialogue between Ortega and Timothy Thomas, a Nicaraguan-based broker for ReMax. Thomas was even inclined to say: "Our investors met with Daniel Ortega after the election, and he wasn't the Danny Ortega of the 1980s, that's for sure."^{xxiii} All of these signs are very promising for the future of American commerce in the country as well as again showing the potential for strong economic relationship.

Furthermore, Nicaragua has created free trade zones (FTZ) for twenty-four American manufacturing firms, in addition to forty-three Asian, and thirteen other foreign owned ones, as of September 2005. These FTZs have large potential employment growth and are quickly become an economic staple. These are in line with Nicaragua’s WTO obligations. Additionally, Nicaragua worked with the IMF’s Poverty Reduction and Growth Facility (PRGF) to increase transparency in the nation’s finance and banking sector, seen as generally successful. This work culminated in the fall 2005 passage of legislation improving the Superintendence of Banks and Other Financial Institutions (SIBOIF) and the Guarantee of Deposits in Institutions of the Financial System (FOGADE).^{xxxi} Such reform demonstrates Nicaragua’s eagerness to acquire more American capital as well as the increasing quality associated with these investments.

Nevertheless, uncertainty, with specific regards to the legal aspects of conducting business in the country, has kept the aforementioned optimism fairly grounded. For instance, Nicaraguan police seized an ExxonMobil fuel-terminal on August 18, 2007, after a judge deemed that Esso, the relevant subsidiary, owed back taxes of \$3 million. Company representatives responded by declaring the action as not only dangerous and illegal, but also unfounded- they do not acknowledge owing any taxes to the country.^{xxviii} Mary Anastasia

O'Grady, of the Wall-Street Journal, deemed this to be an apparent attempt by Ortega to turn the state-run energy company, Petronic, into an energy monopoly by seizing Esso Nicaragua's storage tanks.¹ O'Grady went on to say that this incident has "given Mr. Ortega's 'investor-friendly' Nicaragua a black eye."^{xxix} Similarly questionable, Nicaragua's Supreme Court ruled four private, deep water oil explorations invalid, despite previously being permitted and being insured by the U.S.'s OPIC.^{xxxviii} Furthermore, President Ortega has continually expressed threats of forcing out Union Fonesa, a Spanish power company that has control of Nicaragua's only two distribution companies.^{xxx}

All in all, it would be ignorant to ascertain that Nicaragua does not have palpable challenges; nevertheless, it has the potential that promises valuable returns on American aid assuming it maintains equitable regulation of commerce and fair economic policies in general. Nicaragua is largely moving down the path toward eliminating such weaknesses, albeit at a relatively slow pace and with a few natural deviations. Fortunately, completion of aid projects will be able to catalyze this journey to economic stability from a commercial perspective.

Fortunately, despite rumors and outlier occurrences indicating the contrary, the country is moving predominantly towards privatization rather than nationalization. This trend is exemplified by the 2004 privatization of Enitel, which is now largely controlled by Mexican based America Movil.^{xxxi} The sale of the government's stake in Enitel was significant because it demonstrated the opportunity for foreign corporations to invest in Nicaraguan businesses in a transparent process. Nonetheless, the proposed increase would further stimulate this process as well as prevent Nicaragua from swinging back to the left more consistently, a trend that could prove devastating for American interests in the long run. In other words, the United States must act preventively to ensure that Nicaragua continues on its overall path toward governmental

¹ Venezuela's PdVSA, through PetroCaribe, supplies Petronic.

accountability and an efficient free-market economy. By doing so, success will be eminently attainable.

Policy Proposal

All in all, the pendulum-like politics of Nicaragua puts the U.S. at a crossroads in this relationship; it could either decide to cut ties and essentially cede the loss of an economic partner to Venezuela, or continue collaboration and fight to maintain their interests. Realizing this, it makes sense that they continue to provide substantial aid in an attempt to turn the situation around, instead of cutting off aid and try to take a negative incentives approach. Fortunately, this increased aid approach is viable due to the Secretary Rice's aforementioned waiver of Section 527. Thus, it makes sense that the United States increases such aid to a level of \$365 million, which is determined by the US committing 0.7% of its Gross National Product (GNP) to official developmental aid (ODA) and then taking that number and applying the current percentage of overall aid given to Nicaragua. So, the calculations are as followed: $13,839,400,000,000$ (GNP as of April 2007)* 0.007 * 0.0038 = \$365 million. Aid requested for the 2007 fiscal year totaled \$35,157,000. Although this 938% increase could appear excessive, it is clearly warranted and the long-term benefits are undoubtedly tremendous. In fact, this target number is appreciably less than aid given to Israel, totaling \$720 million in economic aid alone, despite that nation having a GDP per capita of \$14,000.^{xxxii} Additionally, such an increase is in line with the 1970 UN Resolution to pledge this percentage; an obligation the US has due to its association as an official UN donor government^{xxxiii}. Explaining the need for a drastic percentage increase is the reality that ODA is currently a minute 0.25% of American GNP.^{xxxiv} Thus, it is important to emphasize that this proposed increase in Nicaraguan aid, while strategically significant, is not meant to

undermine American aid elsewhere. Rather, it is intended to augment American aid as a whole, with the American Congressional budget absorbing this increase.

This policy is, of course, not historically unprecedented. The well known Marshall Plan helped countries shattered by World War II recover, while simultaneously protecting American political and economic interests. The U.S. Economic Cooperation Administration (ECA) was designed to protect Western Europe and Japan from the threat of communism, the primary strategic objective in U.S. foreign policy at the time. Although these countries, like Nicaragua, were often tempted to lean toward socialism and communism, especially in times of particular despair, the aid package ultimately succeeded in its plan. This was accomplished through the provision of grants, with the purpose of increasing the economic capability of these countries. Of course, this plan was largely successful and now serves as a valuable lesson in future aid endeavors, such as the proposed one.^{xxxv} As the Marshall plan concluded, attention turned to developing nations where the threat of communism also existed. However, USFEA began to address this issue in a new way: by tackling poverty and instability in these target nations. Similarly, the Alliance for Progress, under the Kennedy administration, strove to limit the influence of Castro's revolutionary Cuba through economic and military aid. There is also a precedent for foreign aid to Central American specifically; during the tumultuous 1980s, the U.S. used historic amounts of foreign aid to "fortify and strengthen the U.S. orientation of other governments in the region."^{xxxvi} Specifically, Honduras was the target of much of this aid, as it received \$1.7 billion in aid from 1981 to 1991, due to its designation as the primary Central American ally in the fight against the far-leftist governments of El Salvador and, ironically, Nicaragua.^{ix} Now, the Nicaragua's role has reversed and American decision-makers must realize their importance on the macro-level, a position similar to El Salvador's in the 1980s.

Another example of U.S. aid augmentation in times of strategic importance has been the significant and repeated aid increase to countries with temporary seats on the United Nations Security Council (UNSC). Research has shown that the U.S. increases its aid to these countries generally by 59% during their time on the UNSC.^{xxxvii} In particular, aid increased during times of particular U.S. strategic importance. Clearly, if the U.S. were willing to take such an approach in the public arena of the UN, then a similar one in a more individual issue would be consistent behavior.

Benefits

Because Ortega has continually displayed attraction towards Chavez's leftist coalition as well as the contrasting American approach when convenient to do so, such benevolent action through USAID would be extremely influential in Ortega's policies. Thus, this approach would undermine the interests of Chavez, promote American business interests by providing a secure economic environment, and effectively address Nicaragua's aforementioned challenges while simultaneously stabilizing commerce and protecting American investments. Finally, this aid increase has the potential of ending Venezuela's emerging economic balancing coalition. Specifically, the most valuable benefit of a successful policy implementation would be to convince Nicaragua to leave ALBA and end its formal relationship with Venezuela, Cuba, and Bolivia. That is, the United States could successfully use aid augmentation to convince Nicaragua to leave this alliance in its entirety, ending this coalition's momentum as well as undermining its regional influence. Such a move would show the world that Nicaragua is a dedicated ally of the U.S. Also, by demonstrating to the world that the U.S. intends to increase their soft power in a way that benefits the receiving party, they will dramatically increase their

legitimacy and probability of ultimate success in this situation. Of course, leaving military aid and cooperation out of the picture will likewise further the legitimacy of this soft power increase.

Undeniably, working to increase the stability, infrastructure, human capital, and quality of life in Nicaragua would enhance the business environment for American companies. To give a tangible example of the need for increased USAID for the benefit of Nicaraguan commerce, there is only one cold storage facility, noticeably donated by USAID, in the entire country being used as a medium for Nicaraguan meat export, despite the market demand for considerably more facilities. Undoubtedly, Nicaragua is reliant on foreign aid in its budget; in fact, 36% of its FY 2004 budget originated from foreign aid.^{xiv} By addressing these critical issues, the U.S. would enhance the commercial environment as well as give life to Nicaragua's disadvantaged economy.

Overall, Nicaragua represents a tremendous opportunity for American companies, with the following listed by the State Department as potential market opportunities: "vehicles, auto parts and equipment, construction equipment and materials, consumable goods, computer equipment and peripherals, telecommunication equipment and services, medical and dental equipment, agricultural inputs, food processing and refrigeration equipment, wheat, yellow corn for animal feed, and rice."^{xxxi} Of course, tourism, one of the fastest growing industries, has considerable opportunities sweetened by tax benefits. To demonstrate, the number of "first-class" hotel rooms more than doubled between 1998 and 2005 and Delta Airlines has recently boosted direct flights to Managua.^{xxxi}

By addressing the vital issues of Nicaragua, USAID would limit corruption through implementation and practice of ethical codes, increase government transparency, aid Nicaraguan businesses, and invest in their human capital through education and health care. The organization has confidence that its programs will achieve these objectives upon completion.

Likewise, this work will catalyze improved conditions for Nicaraguans, as well as a more accountable presidential administration, more American-friendly policies within Nicaragua, and an enhanced business climate for American investors. The US embassy in Nicaragua appears to largely be in agreement regarding such an approach. Embassy spokesperson Preeti Shah has called American aid, which has provided over \$1 billion toward Nicaraguan development in the predominant sectors since 1990, “longstanding, regardless of political affiliation”^{xxxviii}. Such a statement should certainly appease any detractors of American involvement, specifically those who question the political overtones of aid. Moreover, USAID publicly maintains the importance of continuing engagement with Nicaragua on its website:

A key U.S. national interest in Nicaragua is to promote economic growth through integration in regional and global markets, since Nicaragua's poverty and high unemployment can threaten the long-term sustainability of democracy and rule of law. Increased stability in Nicaragua's democratic institutions and growth in its impoverished economy contribute to a more secure, democratic and prosperous region. In addition, U.S. national security can be affected by Nicaragua's poorly controlled borders and weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs and arms.^v

Fortunately, the organization realizes the value of continued aid that is consistent with this policy approach. As well, members of the U.S. Congress recognize the need to remain seriously engaged with Nicaragua. House Resolutions 642², 208³, and 564⁴ all express support for such an increase in aid in various ways.^{xxxix, xl, xli}

² H.R. 642 urges “friendship” and support for Nicaraguans in light of the catastrophic damage of Hurricane Felix.

³ H.RES. 208 commends the work of Operation Smile, a non-profit dental organization.

⁴ H.RES. 564 calls for increased American support towards curbing crime rates in Nicaragua and other Central American countries.

Nicaragua's property rights demonstrate a small example of the need for aid. Although they are generally viewed as adequate, they are noticeable fluctuations in their enforcement that have many pondering their true validity. There is a strong presence of intellectual property laws, which are considered to be proficient thanks in part to the signing of a Bilateral Agreement on Intellectual Property Rights with the United States in 1998 and the approval of the World Intellectual Property Organization's Copyright Treaty and Performances and Phonograms Treaty in 2002. Also, the 2004 implementation of the Criminal Procedures Code has made the judicial system both more efficient and effective, particularly for businesses. Also beneficial from a legal standpoint, Nicaragua "accepts binding international arbitration to resolve investment disputes between foreign investors and the state."^{xlii} Nevertheless, trademark enforcement remains largely ineffective; similarly, copyright protection is fairly weak, epitomized by the seizure of some 13,000 pirated CDs and DVDs in a January 2006 raid. However, enforcement will be strengthened with increased training from American officials and the legal obligations of CAFTA-DR that requires, among other measures, the disclosure of enforcement standards.^{xxx} Overall, this scenario demonstrates the promising state of Nicaragua's investment opportunities and characteristic potential for growth. If the United States government were to assist Nicaragua in accomplishing their goals regarding intellectual property, and others aforementioned ones, then they would have a seriously enhanced economic partnership.

Challenges

In light of the various aforementioned deterrents to American involvement in Nicaragua, notably of a partnership with Venezuela and the lack of consistent adherence to the promotion American-friendly policies, critics argue against engagement. Some elites in the American community will inevitably view this continuation of aid as "undeserved charity." The American

embassy in Managua has been particularly vocal in its opposition of Ortega and thus poses as a serious impediment towards the implementation of aid to his government.^{xvi} Of course, the 938% suggested increase in aid to Nicaragua would not be easily accomplished. The House Appropriations Committee has historically displayed an affinity for subtle budgetary increases to USAID. Finally, to convince Nicaragua to dissolve its membership in ALBA will be most difficult, due to Ortega's public affinity towards this union. Essentially, the U.S. would be asking him to go directly against his inauguration day orations, a task that most politicians aren't particularly keen on. It is also possible that others will view this strategy as a form of appeasement and thus other states might threaten nationalization of key industries so that they might extort the U.S. for their own foreign aid handouts. A final challenge is the theory that increasing foreign aid from the United States will ultimately reduce the revenue generation of Nicaragua, due to the fungibility of foreign aid. If this were the case, Nicaragua's long-term economic sustainability would be hindered.^{xliii}

Overcoming the Challenges

The first step in overcoming the hurdles involving implementation is to effectively demonstrate to the American people and their representatives in Congress the magnitude of this issue in terms of inter-American affairs as a whole. Nicaragua is a microcosm of a general trend developing in Latin America; the growing influence of anti-American executive leaders, and lessening free-markets. If the U.S. fails to properly engage Ortega's government with assistance, they will face far-reaching ramifications and could lose much of the influence they currently yield. Of course, to catalyze aid implementation, Ortega's government must demonstrate to American diplomats his willingness to be a more American-friendly leader, a trait he has not yet displayed with true consistency. Surely, increased aid will correlate with a straightening of this

path. Likewise, the U.S. must convince Ortega that the long-term sustainability of aid from Venezuela, Bolivia, and Cuba is very much in doubt, due to the tumultuous political scenes in these respective countries as well as the limited and increasingly fleeting nature of Venezuela's primary resource: oil. In fact, Chavez is losing significant momentum in his own country: his proposed Constitutional Referendums were not accepted by voters in a recent election, despite his adamant public petition to get them passed.^{xliv} Next, despite the idea that this could lead to a domino effect in foreign aid through a foreign perception of appeasement, the U.S. must stand by this decision. Nicaraguan voters have put Ortega in office for a reason, and it is extremely unique in both its strategic importance and political and economic vulnerability. Therefore, there are few, if any, other cases in the world that could have similar leverage on the U.S. in this realm. Finally, the merit behind the hypothesis that Nicaragua's long-term economic outlook would be hurt by increased general aid is refuted by the recent economic findings that report, "long-run growth is independent of foreign aid."^{xlv} In fact, when foreign aid is used for investment purposes, as is often the case with USAID allocations, it will have a "positive, though statistically imprecise effect on growth."^{xlvi}

Of course, building an American-led coalition of international donors would ease the burden on USAID, while further promoting its goals. USAID, on behalf of the U.S. currently leads all donors, with other notable donating countries include Sweden, Denmark, Germany, Japan, Spain, the Netherlands and Switzerland; all have worked with USAID to address Nicaragua's critical problems in governance, public health, education, and economics. Promoting the level of cooperation on this front would certainly enhance the practicability of persuading Nicaragua to withdraw from ALBA as well as more effectively undermining Venezuela's influence; as such a global force should easily overcome Venezuela, Bolivia, and

Cuba. Other examples of world cooperation in aid to Nicaragua are highlighted by the World Food Program, one that has been a leader in providing food for the poorest populations of Nicaragua^{xlvii}. Overall, global cooperation would undoubtedly help the U.S. overcome some of the above challenges, while still helping the U.S. achieve its three-pronged goal set.

Conclusion

Nicaragua is at the center of the struggle to maintain American hegemony in Latin America; thus, the United States is clearly well served to increase aid for Nicaragua through USAID. By doing so, the U.S. could effectively pressure Nicaragua to withdraw from ALBA, essentially ending its union with its anti-American allies of Bolivia, Cuba, and Venezuela. Additionally, this would provide the country with the necessary infrastructure developments, human capital investment, quality of life improvement, and political influence necessary for American firms to successfully engage in business in the country. The potential is there for success, both in terms of political stability and commercial viability. The time for America to act is now; the U.S. must increase aid appropriations if it wants to promote its interests. Let us hope that this action occurs for the benefit of American businesses and Nicaraguan citizens alike.

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