

# The Role of Foreign Aid in the Reconstruction of the Nicaraguan Economy

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**M**uch controversy has ensued with regard to the role of foreign aid in development. The issues often raised are whether or not foreign aid has played a positive role in achieving economic progress in the Third World and whether or not it is indispensable to the developing countries. Such issues confront nations whose economies are dependent on the world capitalist system and even those who already are in transition to socialism.

The case of Nicaragua is no exception. Under the Somoza regime, foreign aid, mainly from United States had a negative role as it was used to enrich and strengthen the dictatorship which, in turn, facilitated the entry of American capital through multinational corporations, into the country. Not only were the resources of Nicaragua exploited, but it made the local economy greatly dependent on the American market. All these were done at the expense of the Nicaraguan people.

Despite this experience, it will be initially surprising to note that the present Sandinista government continues to emphasize Nicaragua's need for international economic assistance. This paper will thus look into the role by which foreign aid is envisioned by the Sandinista government to play in the reconstruction of the Nicaraguan economy. It will initially focus on the development strategies of the present Nicaraguan leadership and how foreign aid is perceived to be an essential component of economic reconstruction. More importantly, it will examine the country's strategies aimed at preventing its entanglement with the political and economic interests of the international lending countries/institutions and analyze the reasons for its success in this endeavor.

## Nicaragua's Development Strategy

When the Sandinista government toppled the Somoza regime in 1979, they inherited an economy which was very

much dependent on the global capitalist system. Nicaragua had a primary producing export sector which was heavily dependent on the United States for its markets and a government which relied mainly on foreign borrowings not only to finance its deficits and economic projects but also to compensate for its chronic imbalance in trade relations. Aside from this, the economy also suffered greatly from food shortages, creating the problems of malnutrition and unemployment/underemployment.<sup>1</sup>

All these were further aggravated by the "war economy" created by Sandinista Revolution in view of the country's production capacity characterized by the following: "1) extreme damage done to the textile and fishing industries; 2) breakdown of the country's distribution network and the paralysis of the state apparatus; 3) disruption of the 1979 agricultural cycle with domestic and export crops left unplanted; 4) a cash crisis caused by the flight of capital before the insurrection and the depletion of state reserves; and 5) Nicaragua's external debt which reached US\$1.64 billion the highest per capita debt of any Latin American states."<sup>2</sup>

The Sandinista government sought to confront these problems based on the following principles: First was to reactivate the economy with the provision of basic needs as its major goal; second was to reinvigorate the state through "administrative reforms, financial control and popular participation"; third was the strengthening of the "national unity" of the workers, peasants, artisans and professionals as well as the "patriotic businessmen"; and lastly, transition to the new economy which would involve the "installation of production capacity and the reallocation of the surpluses".<sup>3</sup>

In 1983, the Sandinista government made explicit a five year development project. This included the following: the maintenance and increase of rural infrastructure and production; the distribution of increments on real per capita con-

sumption to the poorest section of the population; the reduction of middle-class luxury consumption; market diversification in foreign trade with emphasis on economic relations with the Western European, Japanese, socialists and Third World countries.<sup>4</sup>

In general, the New Sandinista Economy as embodied in its Plan 80 aimed "to achieve economic development as opposed to growth, social justice as opposed to exploitation and adequate insertion into the international division of labor as opposed to dependence."<sup>5</sup>

The Sandinista state assumed a great role in the implementation of these economic objectives. It created the Area of People's Property (APP) which took charge of confiscating Somoza's properties (mainly lands), nationalized the financial system, foreign trade and natural resources and took charge of the expansion of social services like health, education and housing as well as public transportation. It was not, however, the intent of the State to socialize all means of production and thus it allowed and even encouraged the existence of private enterprise and gave it a major role in the development of a mixed economy consisting of state corporations as well as small, medium and large private enterprises.<sup>6</sup> (See Table 1)

The sector which received immediate attention was the agricultural sector. The Nicaraguan Government of National Reconstruction immediately implemented agrarian reform which it believed to be a key factor in creating a just and egalitarian society.<sup>7</sup>

One-fourth of the agricultural sector was socialized through the organization of state farms and production cooperatives. This became known as the Sandinista Agriculture Community (SAC) which was composed of organizations of rural workers and landed peasants. The government also extended credit and technological assistance to the SAC. 64% of Nicaragua's cultivable land however still remained in the hands of large private commercial farms and the Nicaraguan government also extended credit to them at low interest rates as well as taxed them at low levels to stimulate private investments.<sup>8</sup> (See Table II)

The major problems faced by the Sandinista government in the agricultural sector was that of balancing the production of exports and the production for basic food supply. Exports must keep the economy afloat in terms of foreign exchange but at the same time domestic crops must satisfy local demand and purchasing power. The private sector contributed at least 40% of the value of production in export agriculture as well as 60% of the value of production in the country's agro-industrial subsector.<sup>9</sup> Major export crops are coffee and cotton; sugar, sesame, bananas and cattle were also exported.

The government also placed emphasis on the manufacturing sector. It created, for example, the People's Industrial Cooperative (COIP) which took over 168 factories from Somoza and his associates. Its major goal was to re-orient it to produce basic goods, e.g., textiles and toothpaste, for the

TABLE I  
STATE PARTICIPATION IN THE ECONOMY, 1980

	Public sector (%)	Capitalist sector (%)	Small producers (%)
<i>Production</i>			
Agriculture	21	29	50
Manufacturing	25	45	30
Construction	70	5	25
Mining	95	5	—
Subtotal: Material production	25	37	38
Services	56	22	22
Gross domestic product	41	34	25
<i>Commerce</i>			
Production for export	26	59	15
Exports	75	25	—
Imports	45	55	—
Internal trade	30	35	35
<i>Accumulation</i>			
Fixed investment	82	13	5
Credit granted	100	—	—
Credit received	40	40	20
<i>Employment</i>			
Economically active population	21	26	53

Sources: MIPLAN (The Nicaraguan Ministry of Planning). In Thomas Walker ed., *Nicaragua in Revolution*. New York: Praeger Publishers, 1982.

TABLE II  
PRODUCTION OF AGRICULTURAL PRODUCTS  
(by form of ownership in 1979-80)

Crop	State Sector (INRA) (%)	Small Producers (%)	Large Producers (%)
Cotton	20.0	18.0	62.0
Coffee	15.0	30.0	55.0
Livestock	15.0	73.0	12.0
Corn	8.7	87.2	4.4
Beans	17.0	79.1	3.8

Source: CIERA elaboration, 1980.

\*The Ministry of Agricultural Development defines small producers as those with a family income of less than \$1,800 per year. These producers usually own less than 15 hectares of land in Thomas Walker, ed., *Nicaragua in Revolution*, New York: Praeger Publishers, 1982.

internal market. But like the agricultural sector, the private sector controlled much of the industrial sector, that is, at least two-thirds of the entire proportion.<sup>10</sup>

#### Role of Foreign Aid

The Nicaraguan government needed around US\$2.5 billion to rebuild its economy.<sup>11</sup> The government could not depend solely on its agro-export earnings because its main exports, i.e., cotton, coffee, sugar and beef, suffered decreases in prices at the world market. This created trade deficits and balance of payment problems for the country. (See Table III) There was also a great decline in Nicaragua's trade relations with its major trading partner, the United States. The latter, for example, cut its sugar imports from Nicaragua by 90%<sup>12</sup> as a result of its disapproval of the Sandinista government. Nicaragua, therefore, had to resort to foreign loans to provide initially the capital which will enable the government to implement its economic reconstruction goals. The need for these were also enhanced with the country's debt problem which the Somoza regime left the new government. It needed, for example, "additional extension of financial assistance of more than US\$350 million on average year for its imports and debt servicing".<sup>13</sup>

Although the Sandinista government realized that they would have to rely heavily on foreign loans to finance the initial years of its economic reconstruction, it stressed that it had no intention of subsuming its economic goals and objectives to the debt policies of the lending countries or agencies. It also declared that "aid was welcome from all corners but with no strings attached".<sup>14</sup>

#### Obstacles In Obtaining Foreign Aid

To obtain more foreign loans, the Sandinista government had to pledge that it will pay the previous loans made by the

Somoza regime. This was to lessen, if not negate the private lenders' hesitancy in extending credit to the new government because of the country's huge debt and deteriorating balance of payments. Such an attitude was aggravated with the World Bank's report in 1982 which declared Nicaragua as only "marginally credit worthy".<sup>15</sup> In the short-term, therefore, Nicaragua had no chance of acquiring aid from private lenders because their current reserves could not assure the other countries of the security of repayment.<sup>16</sup>

The United State also exerted enormous pressure in preventing the flow of foreign loans to the country in its attempt to isolate and de-legitimize the Nicaraguan government. It halted, for example, the disbursement of its last US\$15 million in committed economic assistance to the country. The International Monetary Fund (IMF), a U.S.-controlled international lending institution, on the other hand, forced Nicaragua to pay back its pre-revolution loans immediately after the Sandinista triumph. Fortunately for the Sandinista government, the IMF was the only one to do this.<sup>17</sup>

#### Alternative Sources Of Foreign Aid

The Nicaraguan government embarked on a strategy in obtaining foreign loans from other sources aside from the United States and its lending institutions. Fortunately, the Sandinistas were able to generate sympathy for their cause and during the first four and one-half years of the revolutionary period, they received offers of US\$2.5 billion in economic assistance, 49% of this came as official bilateral assistance from the non-socialist countries of Western Europe, North America, Latin America, Africa and Asia. Another 26% was provided for by multilateral organizations in the non-socialist countries. The socialist bloc's share of commitments amounted to 25% or a total of US\$606 million.<sup>18</sup> (See Table IV).



Eighteen percent of Nicaragua's loans came from the Soviet bloc's 11 socialist states. From 1979-1983, economic assistance from them amounted to the total value of US\$1,216,450,000. This was broken down to the following categories: US\$451 million in economic aid; US\$423.9 million in concessionary trade credits; US\$193.75 million in donations; US\$81 million in non-trade related loans; and US\$66.8 million in technical assistance. Economic assistance from the Soviet Union during this period amounted to US\$443.7 million.<sup>19</sup> Its concessionary trade to Nicaragua, on the other hand, amounted to US\$215.9 million. Terms of trade for these credits were concessionary ranging between 2.5% and 5% interest with a repayment period of 10 to 25 years. Some of these credit arrangements included grace periods of up to five years.<sup>20</sup>

Cuban assistance to Nicaragua amounted to US\$286 million in 1979 - 1983. Their relief assistance in particular amounted to US\$80 million.<sup>21</sup> The German Democratic Republic (GRD) also contributed a substantial amount, i.e., US\$103.25 million of economic assistance to the new Sandinista government. Its donation to Nicaragua arrived as early as September 1979. In 1981, it signed an economic-technical cooperation pact with the Sandinista government.<sup>22</sup>

Bulgaria, on the other hand, contributed much more, i.e., US\$232.5 million in economic assistance. In the summer of 1980, it even sent medical donations to Nicaragua amount-

TABLE III  
BALANCE OF PAYMENT  
(millions)

	1977	1978	1979	1980
Exports (FOB)				
Traditional products*	414	428	408	320
Others	222	218	208	150
Subtotal	636	646	616	470
Imports (CIF)				
Petroleum	105	89	76	165
Equipment	193	114	46	105
Others	464	392	308	700
Subtotal	762	595	430	870
Imports (FOB)	704	553	389	787
Visible Balance	- 68	+ 93	+ 227	- 317
Invisible Balance	- 125	- 127	- 138	- 88
Donations	11	9	72	23
<i>Current Account Balance</i>	- 182	- 25	161	- 382
Net Entries of Capital:				
Public	196	43	209	-
Private +	- 71	- 242	- 339	-
Subtotal ++	125	199	130	213
Variation in Reserves	+ 57	+ 224	- 31	- 169

Source: MIPLAN, September, 1980.

\*Cotton, coffee, sugar and meat.

Includes "errors and omissions," (i.e. capital flight) before July 1979; after that date it includes credits to banks for support of private sector.

A negative sign reflect as increase.

in Thomas Walker, ed., *Nicaragua in REvolution*, New York: Praeger Publisher, 1982.

TABLE IV  
SOURCES OF EXTERNAL FINANCING CONTRACTED, 1979-82  
(IN PERCENTAGES)

	1979	1980	1981	1982	1979-82
Multilateral	78	33	13	17	31
Bilateral	22	67	87	83	69
Western countries	22	48	72	36	48
Western Europe	6	12	9	7	9
United States	—	14	—	—	4
Latin America	16	22	48	28	30
Africa/Asia	—	—	15	1	5
Socialist countries	—	19	15	47	21
	100	100	100	100	100

Source: Nicaragua, International Reconstruction Fund (FIR), July 1983; in Thomas Walker, ed., *Nicaragua the First Five Years*, U.S.A. Praeger Publishers, 1985.

ing to US\$500,000. In 1981, it reached an agreement with the Nicaraguan government to give technical assistance to the food and processing industries and gave a US\$10 million loan to finance the country's telecommunications industry as well as infrastructures. More loans were extended by Bulgaria to Nicaragua in 1983 when another cooperation agreement was signed. This included a trade credit of US\$140 million for the years 1983-1985. Economic assistance from Czechoslovakia, Yugoslavia, North Korea and Hungary, however, amounted to US\$75 million, US\$40 million, US\$3 million and US\$5 million respectively. The People's Republic of China also extended economic assistance amounting to US\$31 million.<sup>23</sup>

Despite all these foreign assistance from the socialist bloc, it is important to note that the Sandinista government was adamant in its desire not to replace their dependence on the United States with dependence on the Soviet Union and its allies as was seen in Vietnam's and Cuba's experiences. Nicaragua also had to face the reality that the Soviet bloc does not have sufficient economic resources to extend adequate aid for their recovery program. This was one of the major reasons why the Sandinista leadership sought to actively pursue a non-aligned foreign policy aimed to achieve a broad base of international support from other governments, particularly from the social democratic governments in Western Europe as well as from Latin America.<sup>24</sup>

Between 1979 and 1981, Western Europe donated (in cash and kind) over US\$61 million or 32.5% total donation to Nicaragua. The European Economic Community, in particular, donated US\$16 million. During that same period,

Western European countries granted Nicaragua US\$93 million in bilateral loans which corresponded to 18% of total billion loans to Nicaragua.<sup>25</sup> Other statistics revealed that from 1980 to 1982, Nicaragua received US\$809 million in net financial flows from sources covered by the Organization for Economic Cooperation and Development (OECD). Nearly 83% came from countries outside of the socialist bloc.<sup>26</sup>

It is interesting to note the reasons behind Western Europe's great interest in supporting the Nicaraguan government despite strong efforts by the United States to isolate it. A major reason is due to Western Europe's concern for East-West and North-South relations. They believe that by isolating Nicaragua, one will just drive it into the socialist camp. Another reason was to satisfy the left-wing supporters of Europe's socialist democratic governments. The European countries, therefore, exerted great effort in providing alternative support for the Nicaraguan governments. The European countries, therefore, exerted great effort in providing alternative support for the Nicaraguan government. Moreover, they did not hesitate to issue critical statements concerning the aggressive policy of the United States towards the Sandinistas. This was most evident last June 1983 when 500 Western European parliamentarians issued a statement declaring that they were appalled by the deliberate curtailment of aid to Nicaragua by the Reagan administration. This was in response to the United States' veto of Inter-American Development Bank loans to the country during that year.<sup>27</sup> Nicaragua was able to take advantage of this political tension between the United States and its Western European allies to gain political

recognition and more importantly, economic assistance from the latter.

The Latin American countries, particularly Mexico and Venezuela, also pulled their resources to assist the Nicaraguan economy. These two countries, together with Cuba, West Germany, Holland and Sweden, for example, gave Nicaragua US\$130 million in straight donations and US\$128 million in government loans.<sup>28</sup> The significance of Mexico's and Venezuela's economic assistance is seen in their perception of the Nicaraguan experience as a test case for their leadership in Latin America. As members of the Contadora group, which also includes Columbia and Panama, they were determined to find a peaceful solution to the Nicaraguan problem with a

governments, it did not discount the possibility of obtaining foreign loans from private commercial banks. This was one major reason why the Sandinista government declared that it was going to pay all its debts. Had it done otherwise, the Sandinistas would have a very difficult time not only in getting loans from international banks but from foreign countries as well. It was, however, also for the benefit of these transnational banks to give financial assistance to Nicaragua so it will not default. Nicaraguan default on loans might provide a precedent for other Third World debtor countries.<sup>31</sup>

The Nicaraguan government, although it very much welcomed credit from international commercial banks, remained selective with regard to its lending creditors. It was

TABLE V  
Total New Commitments of Multilateral and Bilateral Assistance  
to Nicaragua, by Major Country Grouping: 1979-1983  
(million of \$ U.S.)

		1979	1980	1981	1982	1983	1979-1983
Multilateral	(\$)	213	170.9	86.2	93.6	65.1	628.8
organizations	(%)	78	32	13	17	15	26
World scale	(\$)	22	67	33.7	37	0	159.7
	(%)	8	13	5	7	0	7
Regional	(\$)	191	103.9	52.5	56.6	65.1	469.1
	(%)	70	20	8	10	15	19
Official bilateral	(\$)	58.7	356.7	600.9	448.1	35	499.4
	(%)	22	68	87	83	8	61
Capitalist	(\$)	58.7	254.7	495.7	195.2	204	1208.3
countries	(%)	22	48	72	36	48	49
Western	(\$)	14.6	63.2	60.2	38.7	86.7	263.4
Europe	(%)	5	12	9	7	20	11
North America	(\$)	0	72.6	0	0	0	72.6
	(%)	0	14	0	0	0	3
Latin America	(\$)	44.1	118.9	332.5	153.5	83.5	732.5
	(%)	16	23	48	28	20	30
Africa and Asia	(\$)	0	0	103	3	33.8	139.8
	(%)	0	0	15	1	8	6
Socialist	(\$)	0	102	105.2	252.9	146	606.1
countries	(%)	0	19	15	47	34	25
Total	(\$)	271.7	527.6	687.1	541.1	425.1	2452.6
	(%)	100	100	100	100	100	100

minimum amount of intervention from the United States government.<sup>29</sup>

Among the other Third World countries, Libya in 1981 provided US\$100 million in aid as a defiance of the cancellation of bilateral American assistance to Nicaragua as well as a denunciation of the Reagan administration's announcement to block further loans from the World Bank and the Inter-American Development Bank to Nicaragua.<sup>30</sup> A major reason therefore why non-socialist countries sought to support the Nicaraguan cause was their disapproval of the manner in which the United States was conducting an antagonistic policy towards the Sandinista government.

The Sandinista government has thus found alternative sources of foreign aid to enable it to pursue its economic reconstruction. Although its major sources come from foreign

in particular adamant in stating that it would not rely solely on the IMF because of the institution's determination to impose on Nicaragua its austerity program which would definitely be detrimental to the latter's economic objectives. The Sandinista government therefore declared that the IMF had no role to play in the formation of its economic policy.<sup>32</sup> Thus one can see that the Nicaraguan government was determined not to subordinate its economic policies to the interests of lending institutions. This was made largely possible through its tapping of alternative sources of foreign aid aside from the United States. (See Table V)

#### Other Forms Of Foreign Aid Assistance

It is interesting to note that foreign assistance to the Nicaraguan government did not all come in outright loans but

TABLE VI

	1976	1977	1978	1979	1980	1981	1982	1980-1982
Total estimated flows <sup>a</sup>	73.8	69.9	57.9	177.2	235.8	367.4	205.8	809
Net from non CMEA <sup>b</sup>	73.8	69.9	57.9	177.2	235.2	287.4	148.8	671.4
(Percentage from non-CMEA)	100.00	100.00	100.00	100.00	99.75	78.23	72.30	82.99
Net ODA from U.S.	14	14	24	29	79	14	6.	99
(Percentage of ODA from U.S.)	18.97	20.03	41.45	16.37	33.50	3.81	2.92	12.24
Net from OPEC <sup>d</sup>	0	0	0	1	0	100	0	100
(Percentage from OPEC)	0.00	0.00	0.00	0.56	0.00	27.22	0.00	12.36
Net IMF Credit <sup>e</sup>	0	2	.013	55.9	-1.9	-20.4	-4.02	-29.32
(percentage from OPEC)	0.00	2.86	0.02	31.55	-2.08	-5.55	-1.95	-3.62
Net multilateral <sup>f</sup>	20.6	31.2	18.9	42.3	1111.1	111.3	54.2	276.6
(Percentage of Multilateral)	27.91	44.64	32.64	23.87	47.12	20.29	26.34	34.19
IBRD/IDA	5.8	14.5	5.9	5.55	26.5	36.5	13.9	76.9
IDB	12.5	14.6	11.3	29.3	34.2	49.3	22	105.5
sum + U.S.	3.23	43.1	41.2	63.8	139.7	99.8	41.9	281.4
(Percentage of IBRD/IDA and IDB)	24.80	41.63	29.71	19.64	25.74	23.35	17.44	22.55
Net CMEA countries	0	0	0	1.6	.6	80	61	141.6
(Percentage of CMEA)	0	0	0	.9	.2	21.9	32.1	17.50
Net private sector <sup>g</sup>	n.a.	.2	1.2	3.6	5.3	33.2	15.1	53.6
Net export credits	n.a.	10.8	-5.9	-5.9	-8.6	31.7	13.4	36.5

Source: Michael E. Conroy, "External Dependence, External Assistance and Economic Aggression Against Nicaragua", Latin American Perspective Spring, 1985.

also in kind. Technical assistance was extended to Nicaragua by the Western and Eastern European as well as Latin American countries. Cuba, for example, sent its construction workers to the country to help build a 426 km coast-to-coast Nicaraguan highway. It also sent advisers to help develop the country's dairy and fishing industries. The Soviet Union, likewise, sent numerous scientists and technicians to aid the construction of a dry dock which will be used by the Soviets for their tuna fleet. Czechoslovakia donated US\$40 million worth of exports to Nicaragua in heavy production equipments, trucks and textile plants.<sup>33</sup> Spain recently announced a grant to the Nicaraguan government for forestry, fishing and cultural projects.

Foreign aid in kind was also given to improve the education and health facilities of Nicaragua. These are key elements

in the development project of Nicaraguan society. The Soviet Union, for example, built vocational schools in Matagalpa and Managua and gave at least 1,000 scholarships to the Sandinista government. Cuba, on the other hand, supplied Nicaragua with Cuban professors and primary school teachers and gave advice in the education program designs. They also gave around 12,000 scholarships for studies in Cuba and helped spearhead the Literacy Crusade in the country.<sup>34</sup>

Medical assistance was also provided for by Cuba, West Germany and the Soviet Union in the form of human, national and technical assistance. This enabled Nicaragua to implement its public health projects. The German Democratic Republic gave medical supplies the value of which reached one million deutschmarks. Food aid was also given by these governments.

TABLE VII  
NICARAGUA: DIVERSIFICATION OF TRADING PARTNERS (PERCENT OF TOTAL TRADE)

Economic Regions	1977		1980		1981		1982		1983	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Central American Common market	21.0	21.6	16.7	33.9	13.9	21.1	12.9	15.1	7.8	15.3
Latin American Integration Association	2.6	14.7	0.1	20.2	2.2	26.0	3.6	27.2	2.1	23.5
Mexico	(1.2)	(2.0)	(-)	(2.2)	(1.8)	(12.0)	(3.5)	(20.0)	(2.1)	(19.8)
Venezuela	(1.4)	(11.4)	(-)	(916.8)	(0.1)	(8.7)	(0.03)	(5.2)	(-)	(0.6)
European Economic Community	28.4	12.6	28.8	7.8	19.4	11.5	23.5	14.1	25.7	9.7
United States	22.8	28.8	36.0	27.5	25.8	26.3	22.0	19.0	18.1	19.4
Japan	11.0	10.1	2.8	3.2	11.2	2.8	11.1	2.4	15.3	2.4
Canada	0.4	0.7	6.3	1.2	5.2	2.4	4.5	1.6	1.5	2.5
COMECON (Council of Mutual Economic Assistance)	1.0	0.3	2.7	0.2	7.3	3.3	7.4	11.5	12.7	16.6
Others	12.8	11.2	6.6	6.0	15.0	6.6	15.0	9.1	16.8	10.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Office of Planning, Ministry of Foreign Trade, in Thomas Walker, ed., *Nicaragua: The First Five Years, U.S.A.*: Praeger Publishers, 1985.

TABLE VIII  
NICARAGUA: PRINCIPAL MEANS OF FINANCING IMPORTS (MILLIONS OF U.S. \$)

Sources	1980		1981		1982		1983	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Donations	81.0	9.1	56.8	5.7	23.5	3.0	56.9	7.1
Lines of credit	86.3	9.7	102.7	10.3	117.3	15.1	154.5	19.1
Treaties	—	—	—	—	141.3	18.2	159.7*	19.8
Liquid foreign exchange	719.9	81.2	759.9	76.0	307.0	39.6	268.2	33.2
*Barter	—	—	—	—	9.4	1.2	15.1	1.9
Other	—	—	80.0	8.0	177.0	22.9	152.5	18.9
Total	887.2	100.0	999.4	100.0	775.5	100.0	806.9	100.0

Source: Office of Planning, Ministry of Foreign Trade, in Thomas Walker, ed., *Nicaragua: The First Five Years*, U.S.A. Praeger Publishers 1985.

\*According to Ministry of Planning

The Soviet Union, for example, shipped wheat to Nicaragua in 1981 when the United States halted government financing of wheat sales to Nicaragua.<sup>35</sup>

It is also interesting to point out that military assistance was extended to Nicaragua. Cuba, for example, gave arms and training to the FSLN even after their triumph. Cuba also sent tanks, helicopters and ground-to-air missiles as well as military personnel. France also sent non-offensive weapons to Nicaragua valued at 90 million francs.<sup>36</sup>

Despite all these foreign assistance in cash and in kind, the Nicaraguan government was determined to ensure that its economy would not entirely be dependent on these. One way it tried to ensure this was through the expansion as well as diversification of trade. It sought additional markets for its primary exports as well as new sources for its imports and technology so as to lessen its economic dependence on U.S. banks and multinational corporations.

There was also an attempt by the Nicaraguan government to promote non-traditional agricultural exports and its success was seen in the rise of their export earnings from US\$14 million in 1979 (two to three percent of total exports) to US\$39 million in 1983 (ten percent of total exports).<sup>37</sup> Diversification of trading partners as well as export products was also a means to prevent the Sandinista government from being vulnerable to the use of trading and credits as instruments of political pressure.<sup>38</sup> (see Table 6)

#### Lessons To Be Learned On The Role Of Foreign Aid

The Nicaraguan economic reconstruction project under the Sandinista government has placed in a different perspective the role which foreign aid can play in Third World economies. Foreign aid in Nicaragua is not looked upon as an end in itself, (i.e., solely for bridging balance of payment deficits, for augmenting savings, for supplementing domestic resources) but also as a means to develop a self-sufficient economy which is geared towards the satisfaction of the population's



*Nicaragua's Daniel Ortega.*

basic needs. It, therefore, also aims to make Nicaragua less dependent on the world capitalist market in the long run. Thus, the Sandinista government sees the need to insert the local economy into the international division of labor, at the same time, being cautious enough to avoid dependence on the external market.



Complementing this is policy of the Sandinistas to welcome foreign aid from any interested party yet maintaining its unwillingness to sacrifice its political and economic sovereignty to the debt stipulations of the lending creditors. More importantly, the Nicaraguan leadership made clear that it will not be dependent on only one source of foreign aid.

Nicaragua was quite successful in effectively implementing its economic strategies. It was quite-expected that it would be able to obtain economic assistance from the socialist bloc because of ideological and political compatibility. The victory of the Sandinistas over the American-supported dictatorship of Somoza meant a victory for Nicaragua's national liberation movement purported to be Marxist-Leninist. There was, thus, a certain commitment within the socialist bloc particularly among the Eastern European countries to come to the aid of Nicaragua. However, as compared to Cuba and Vietnam, which relied solely on the Soviet Union for assistance, quite a number of Eastern European countries came to the aid of Nicaragua as can be seen in the substantial amount of foreign loans extended to it. Nicaragua, therefore, will not likely suffer from too much dependence on the Soviet Union as what happened to these two Third World socialist countries. Cuba's President Fidel Castro even cautioned the Sandinistas from depending heavily on the U.S.S.R.

It is also important to point out the economic reason behind the extension of financial loans from the Eastern European bloc to Nicaragua. One can say that a major cause for this is the need of the former for alternative markets not only for their export products but also for their import commodities as well. Thus Nicaragua, an agricultural nation teeming with natural resources, is perceived to be a viable trading partner. Previously, such an economic relationship was not possible because of American control of Nicaragua's economy. Such a development is most welcomed by the Nicaraguan government which is likewise in search of trading partners that will not economically and politically dominate its country like the way the United States did.

As discussed earlier, the European socialist countries, were not the only ones who were eager to extend loans to Nicaragua but the Western European countries as well. A possible reason for this is the changing nature of the relationship of Western Europe and the United States. The Western European countries, particularly during the early 1970s which saw the weakening of the American economy began to assert themselves politically as well as economically. They carried out foreign policies that were not essentially harmonious or congruent to those of the US. Politically, for example, some of these European governments refused to support the United States-sponsored isolation of Nicaragua because it feared this would push it towards the socialist bloc and therefore further polarize not only East-West relations but North-South as well. Economically, the Western European bloc may have also regarded Nicaragua as a market for its exports and imports.



The United States has long dominated the Latin American markets and the vacuum they have left in Nicaragua gave the European countries an opportunity to penetrate the country's market. This may be perceived as an initial step in increasing European trade and investments in the region.

Developing countries, in general, are also beginning to assert themselves against the United States to the advantage of Third World radical countries like Nicaragua. United States pressure, for example, on Latin American countries in general to cut their economic relations with Nicaragua, remains unheeded. Most prominent among these nations are Mexico and Venezuela. Politically, these countries are determined to lessen any form of American intervention in the region. Economically, there is a great effort by these two countries to establish a Central American Common Market and for it to be viable, one would have to strengthen the Latin Americans countries in the region including Nicaragua.

The increasing clout of Third World countries is also evident in the availability of loans to Nicaragua because of the interest of funding agencies as well as commercial banks in reviving the Nicaraguan economy so as to prevent a

Nicaraguan default which could trigger a snowball effect on the other Third World debtor nations. The Sandinista leadership was thus successful in taking advantage of these external factors to pursue the diversification of its sources of foreign aid as well as foreign trade partners enabling it to effectively implement its economic reconstruction objectives. (see Table VII)

This is a major reason why there is great pressure exerted by the United States Congress on the Reagan Administration to stop further military aid to the Nicaraguan contras in the latter's attempt to destabilize the Sandinista government. Argument against this largely rests on the view that despite American efforts, Nicaragua seems to be getting stronger.

One can be optimistic therefore that in the long run, as Nicaragua achieves economic stability, more countries would be interested to come to its assistance. The Sandinista government should therefore look into the possibility of expanding trade with the other Latin American countries in particular

and with the other Third World nations in general. The former is perceived to help foster economic stability and development in the region while the latter will contribute to present efforts to consolidate the trading relations of the South bloc.

Another alternative to foreign aid which Nicaragua has resorted to but has not yet fully utilized is that of barter trade (See Table VIII) which may enhance its economic relations with those developing countries surely lacking capital.

These economic strategies will certainly crystallize one of the major contributions of the Nicaraguan revolution to the Third World cause, i.e., the creation of a self-sufficient economy with basic needs as the top priority and their attempt to minimize the country's dependence on the world market. This brings to light the possibility that in the long run, Nicaragua may be the model for developing countries seeking to achieve development through an initial but conscientious utilization of foreign aid and ultimately, through a self-reliant economy basically independent of foreign assistance. **K**

#### Notes:

<sup>1</sup>Michael E. Conroy, "External Dependence, External Assistance and Economic Aggression Against Nicaragua, *Latin American Perspectives*, Spring 1985, Vol. 12 No. 2, 1p 39.

<sup>2</sup>George Black, *Triumph of the People*, London, 1981.

<sup>3</sup>Thomas Walker, ed., *Nicaragua in Revolution*, New York: Praeger Publishers, 1982.

<sup>3</sup>Jose Luis Corragio and George Irvin, "Revolution and Democracy in Nicaragua", *Latin American Perspectives*, Spring 1985, Vol. 12 No. 2, p. 28.

<sup>5</sup>Walker, *Nicaragua in Revolution*.

<sup>6</sup>Richard Harris, "The Revolutionary Process in Nicaragua", *Latin American Perspectives*, Spring 1985, Vol. 12 No. 2, p. 9.

<sup>7</sup>Walker, *Nicaragua in Revolution*, p. 235.

<sup>8</sup>Black, *Triumph of the People*, p. 209.

<sup>9</sup>Harris, "The Revolutionary Process in Nicaragua", p. 12.

<sup>10</sup>*Ibid.*

<sup>11</sup>Black, *Triumph of the People*.

<sup>12</sup>Thomas Walker, ed., *Nicaragua: The First Five Years*, U.S.A.: Praeger Publishers, 1985.

<sup>13</sup>Conroy, "External Dependence, External Assistance..." p. 43.

<sup>14</sup>Walker, *Nicaragua in Revolution*, p. 212.

<sup>15</sup>Black, *Triumph of the People*, p. 219.

<sup>16</sup>Conroy, "External Dependence, External Assistance..." p. 51.

<sup>17</sup>*Ibid.*

<sup>18</sup>Conroy, "External Dependence, External Assistance. . .", p. 63.

<sup>19</sup>Walker, *Nicaragua: The First Five Years*, p. 459.

<sup>20</sup>*Ibid.*, p. 454.

<sup>21</sup>*Ibid.*, p. 459.

<sup>22</sup>*Ibid.*, p. 456.

<sup>23</sup>*Ibid.*, p. 458.

<sup>24</sup>Harris, "The Revolutionary Process in Nicaragua", p. 18.

<sup>25</sup>Walker, *Nicaragua: The First Five Years*, p. 487.

<sup>26</sup>Conroy, "External Dependence, External Assistance. . ." p. 61.

<sup>27</sup>Walker, *Nicaragua: The First Five Years*, p. 259.

<sup>28</sup>Black, *Triumph of the People*, p. 219.

<sup>29</sup>Walker, *Nicaragua: The First Five Years*, p. 515.

<sup>30</sup>Conroy, "External Dependence, External Assistance. . .", p. 63.

<sup>31</sup>Walker, *Nicaragua in Revolution*, p. 384.

<sup>32</sup>*Ibid.*

<sup>33</sup>Walker, *Nicaragua: The First Five Years*, pp. 453-457.

<sup>34</sup>*Ibid.*, p. 448.

<sup>35</sup>*Ibid.*, p. 453.

<sup>36</sup>*Ibid.*

<sup>37</sup>*Ibid.*, p. 252.

<sup>38</sup>Walker, *Nicaragua in Revolution*, p. 323.