Economic and Financial Reform in Nicaragua: Challenges and Opportunities to 2025

Ira Sohn
Montclair State University

The paper reviews Nicaragua's vital statistics and the major economic and political events since the end of the Somoza Era. The poorest country in Central America, Nicaragua is projecting a larger role in the global economy because of its plan to construct a canal to rival the Panama Canal, which would have major consequences for Nicaragua and Panama as well as for China and the United States. Using a framework that assesses the performance of a national economy that participates in today's globalized world, I identify the strengths and weaknesses of Nicaragua towards the end of enhancing the future performance of its economy.

INTRODUCTION

While the economies of most of Europe and the United States continue to heal almost a decade after the Great Recession, Latin America experienced impressive growth for the decade ending in 2013, with only a brief downturn in 2009 (United Nations, 2013). The favorable international economic environment until 2008 -- in particular the double digit growth of Gross Domestic Product (GDP) in China (and the resulting boom in international commodity prices) -- along with more responsible economic policies and/or improvements in the legal and tax environments for business in some countries in Latin America, i.e., Brazil, Chile, and Peru, resulted in higher regional economic growth rates and improved living standards in the first decade of the new century.

However, more recently, GDP growth is slowing in China (7.3% in 2014, 6.8% in 2015, and growth slowed to 6.7% in 2016); weak growth continues in Europe (to be sure, amplified by the UK's vote in June 2016 to leave the EU and the resulting uncertainty this casts over the viability of the European Project as the divorce takes form), Japan, and in the US; and negative growth in Brazil, Venezuela, and Argentina reduced regional growth to 1.2% in 2014, -0.4% in 2015, and (an estimated) -0.4 % in 2016 (United Nations, 2016; The Economist, 2016e). As a result of the sluggish growth in the world economy since the Great Recession, the budget shocks -- along with major corruption scandals and governance issues in many large Latin American countries (Argentina, Brazil, Mexico, and Venezuela, to name just a few) -- are causing Latin American voters to reject the leftist populist governments that have been in power over the last decade and a half, and are turning to center-right leaders who promise to improve the performance of their economies and to restore confidence in the institutions of their countries (New York Times, 2016a; Rathbone, 2016). This is already the case in Argentina, Brazil, Paraguay, and Peru (Schipani, 2016).

The ongoing economic crisis in Brazil -- the region's largest economy -- warrants additional comment: in 2015 GDP declined by more than 3.8%, and in 2016 GDP is projected to decline by 3.4%. In 2015 the country was mired in one of the worst recessions since the 1930s with unemployment greater than 9.0%, an inflation rate of 11%, and a budget deficit in excess of 8.3% of GDP (United Nations, 2016; Jelmayer and Lewis, 2016). In 2016 the country was also in the midst of political and constitutional crises with the impeachment of President Dilma Rousseff and allegations of corruption were also leveled at her replacement, acting President Michel Temer. Positive economic growth in Brazil is not expected to be restored until 2017, at the earliest (Leahy, 2016).

This paper begins with a summary of Nicaragua's's vital statistics, and is followed by an in-depth review of the main political events of the past that shaped some of the major institutions of the country and the current -- both domestic and international -- political and economic environment that affects the performance of the Nicaraguan economy through some of the key policies that have been implemented recently. This section of the paper concludes with data that provide some measures of Nicaragua's relative material wellbeing as compared with neighboring countries in Central America. Part 2 provides a review of research regarding the "ingredients" judged to be important for a well-performing national economy that is participating in the wider global economy in the second decade of the 21st century. These "ingredients" are used in the next section to assess the current state of the Nicaraguan economy -- both its strengths and weaknesses. I conclude by summarizing the strengths the country can draw on to the end of improving the performance of its economy and increasing living standards, and highlighting the country's most glaring shortcomings that are impeding a more prosperous future.

Part 1. Vital Statistics, a Summary of Nicaragua's Past Political and Economic History, and Some Current Comparative Measures of Wellbeing

Vital Statistics

The Republic of Nicaragua, administratively comprised of 15 departments and two-self-governing regions (see below), is bordered on the north by Honduras, on the south by Costa Rica, on the east by the Caribbean Sea, and on the west by the Pacific Ocean. With the largest land area in Central America -- about 130,000 square km -- Nicaragua is slightly smaller than New York State. The country lies between 11-14 degrees north of the equator. In mid-2015, Nicaragua's population was approximately 6 million people and its population growth rate was estimated at 1% per annum (p.a.) -- a shade below the Latin America average of 1.1% p.a. (Central Intelligence Agency, 2016). In 2015, the country registered a net **out-**migration rate of 3 per 1000 of population (mostly to neighboring Costa Rica and to a lesser extent to the United States), compared with 3.7 in Cuba and 20 in Syria (https://en.wikipedia.org/wiki/List_of_countries_by_net_migration_rate).

Life expectancy at birth in 2015 was reported at approximately 73 years, about six years less than in the United States, and the infant mortality rate in Nicaragua was 20 per 1000 live births, about triple the US ratio. In 2015 about 60% of Nicaraguans lived in urban areas, well below the 82% US rate. The country's ethnic breakdown is 69% mestizo (mixed Amerindian and white), 17% white, 9% black, and 5% Amerindian. Nicaragua registers greater than 83% literacy for those 15 years and older, and in 2010 the country spent 4.4% of its GDP on education, below the US rate of 5.2%. The World Bank classifies Nicaragua as a lower middle-income country, with per capita GDP in 2015 estimated at $5,000 US on a purchasing power parity (ppp) basis (Central Intelligence Agency, 2016).

Turning to the composition of GDP in 2015, agriculture accounted for 18.1% of GDP (but employed 31% of the approximately 2.98m people in the labor force); industry for 22.9% of GDP (and 18 % of the labor force); and services for approximately 58.9% of GDP. In 2014, the urban unemployment rate was 6.8%, and Gross Fixed Capital Formation as a percentage of 2015 GDP was reported at 27.8% (Central Intelligence Agency, 2016; United Nations, 2015). The country's most important food exports are coffee and beef.

A Summary of Nicaragua's Political and Economic History: 1502-2015

In 1502, Christopher Columbus was the first known European to have reached what is now Nicaragua, and, by 1524, the first permanent Spanish settlements were founded in Granada on Lake Nicaragua and in León, west of Lake Managua, from which the Spanish conquest and colonization of this territory progressed. Regarding its conquests in the New World, it is well-known that among Spain's most potent weapons in subduing the indigenous people of the Americas were the infectious diseases carried by the Spanish colonizers that were inflicted on the native population (https://en.wikipedia.org/wiki/Nicaragua).

The Captaincy General of Guatemala, also known as the Kingdom of Guatemala, was an administrative division of the Spanish Empire in Central America established in 1609 that included, at times, the present-day nations of Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, and the Mexican state of Chiapas. It was established to deal with foreign threats to the area from the Caribbean, with Spain granting the area autonomy in administrative and military matters. After this administrative division was dissolved in September 1821 with the Act of Independence of Central America, Nicaragua became part of the First Mexican Empire, but with the overthrow two years later of the Empire's monarchy, Nicaragua joined the fledgling United Provinces of Central America, later known as the Federal Republic of Central America. Less than fifteen years later, in 1838, Nicaragua became an independent republic.

As is commonplace in fledgling republics during their early years of independence, fierce economic and political rivalries emerge: in Nicaragua it was between the Liberal elite of León and the Conservative elite of Granada that resulted in civil war during the 1840s and 1850s.

An American named William Walker, at times a physician, lawyer, journalist and mercenary, who organized several private military expeditions into Latin America with the intention of establishing English-speaking colonies under his personal control, arranged to be "invited" by the Liberals in 1855, and ended up usurping the presidency of the Republic of Nicaragua through a rigged election in 1856. He ruled until 1857, when he was defeated by a coalition of Central American armies and executed by the government of Honduras in 1860. Following that episode, the Conservatives ruled the country for the next three decades.

In the interim, one geographical anomaly regarding Nicaragua's territorial integrity remained to be settled: the Mosquito Coast. During the nineteenth century the question of this region's borders was a serious international issue between Britain, the United States, Nicaragua, and Honduras. The Mosquito Coast is a narrow strip of territory, fronting the Caribbean Sea, that extends inland for about 60 km (40 miles), and runs about 400 km (225 miles) from north to south.

Despite successes elsewhere in Central America, the Spanish failed to gain significant influence in this region and it remained outside of their control. This allowed the indigenous people to continue their traditional way of life and to welcome visitors from other regions, including English and Dutch privateers who preyed on Spanish ships and found refuge in the Mosquito Coast. As a result, the Mosquito Coast was intermittently a British Protectorate (1638-1787; 1844-60), a Spanish colony (1787-1800), an Autonomous Territory of Nicaragua (1860-1894), and, in late 1894, the territory was formally incorporated into the Republic of Nicaragua as the Department of Zelaya (please see below). The region continued to enjoy a certain autonomy under Nicaraguan rule, though there was considerable tension between the claims of the government and those of the indigenous people. This tension was expressed openly during the Sandinista rule (please see below), which sought greater state control. The region's residents were strong supporters of U.S. efforts to undermine the Sandinistas and were important allies of the Contras (please see below). During the 1980s, the Department status was eliminated, and the area was split between the North American Atlantic Autonomous Region (RAAN) and the South American Atlantic Autonomous Region (RAAS), regions with a certain degree of self-government. Finally, in 2014, the regions were renamed the North Caribbean Coast Autonomous Region (RACCN) and the South Caribbean Coast Autonomous Region (RACCS).

Serious involvement of the United States in Nicaragua began in the mid-19th century. The start of the gold rush in California in 1849 increased US interest in Central America as a transoceanic route. However, while United States interest in Nicaragua waned during the last half of the 1800s because of isolationist sentiment following the United States Civil War (1861-65), it grew again during the final years of the Zelaya administration (1893-1909).

This interest intensified when the US was considering alternatives for a canal to link the Atlantic and Pacific Oceans. The Nicaragua option was abandoned after the decision by the US Senate to purchase the French-awarded Colombian Panama Canal concession in 1902. Angered by the United States' choice of Panama for the site of a trans-isthmian canal, President Zelaya made concessions to Germany and Japan for a competing canal across Nicaragua. As a result, relations with the United States deteriorated, and civil war erupted in October 1909. The United States broke diplomatic relations with the Zelaya administration, and soon thereafter 400 United States marines landed on the Caribbean coast, eventually leading to an occupation of Nicaragua by the marines from 1912-33 except for a nine month interval in 1925. With the Panama Canal construction winding down, in 1914 the Bryan-Chamorro Treaty was signed by the American and Nicaraguan governments that, in exchange for $3m, granted the US the rights to any canal built in Nicaragua in perpetuity and a renewable 99-year option to establish a naval base in the Gulf of Fonseca. Until the treaty was abolished in 1970, a competing transoceanic canal in Nicaragua without US permission would have been impossible.

From 1927-1933 General Augusto César Sandino led a guerrilla war first against the Conservative government and then against the US marines, who reoccupied the country in 1926 after a brief withdrawal. Before leaving in 1933 the US established the Guardia Nacional (National Guard), a military/police force that was trained and equipped by the US with the objective to be loyal to US interests. Anastasio Somoza García, the son of a wealthy coffee planter and who was educated in the US, became the foreign secretary, took the title of "General", and, with the help of the US, became the head of the National Guard. In the wake of a peace treaty ceremony in February 1934 between the Sandino faction and the Nicaraguan president, Juan Bautista Sacasa, Sandino, upon leaving the Presidential House, was kidnapped by soldiers of the Guardia Nacional and assassinated the same night. Hundreds of his followers in his agricultural colony were similarly executed.

This cleared the way for what was to become the Somoza Family Era in Nicaragua (1936-79), one of the longest and most powerful family dynasties in the hemisphere. After eliminating his enemies, Somoza began purging his allies: he eliminated suspect officers in the National Guard and then deposed President Sacasa and assumed the presidency in early 1937 after a rigged election at the end of 1936. Anastasio Somoza García controlled political power -- directly as president or indirectly through carefully chosen surrogates -- from 1937 until his assassination in 1956. According to one exhaustive study on Nicaragua:

> "Somoza García ruled Nicaragua with a strong arm, deriving his power from three main sources: the ownership or control of large portions of the Nicaraguan economy, the military support of the National Guard, and his acceptance and support from the United States. The Somoza family also controlled the PLN (Nationalist Liberal Party), which in turn controlled the legislature and judicial system, thus giving Somoza García absolute power over every sphere of Nicaraguan politics. Nominal political opposition was allowed as long as it did not threaten the ruling elite. Somoza García's National Guard repressed serious political opposition and anti-government demonstrations. The institutional power of the National Guard grew in most government-owned enterprises, until eventually it controlled the national radio and telegraph networks, the postal and immigration services, health services, the internal revenue service and railroads...Somoza García owned textile companies, sugar mills, rum distilleries, the merchant marine lines, the national Nicaraguan Airlines (Líneas Aéreas de Nicaragua --Lanica), and La Salud dairy -- the country's only pasteurized milk facility. Somoza García also gained large profits from economic concessions to national and foreign companies, bribes, and illegal exports. By the end of World War II, Somoza García had amassed one of the largest fortunes in the region -- an estimated US$60 million" (Merrill, 1993).

In the aftermath of World War II, despite growing domestic and international opposition to the Somoza García dictatorship among political parties, labor, business groups, and the United States government, Somoza resorted to the whole range of political, economic, constitutional, and diplomatic machinations to retain his overwhelming power -- either directly or through "elected" surrogates -- all the while adding to his family's wealth. He was a true Talleyrand of his time! However, on September 21, 1956, while attending a PLN party in León to celebrate, once again, his nomination for the presidency, Somoza García was fatally wounded, and was flown to the Panama Canal Zone, where he died eight days later, only to be succeeded as president by his eldest son Luis Somoza Debayle from 1957-63. The new president raised hopes for political liberalization by, among other reforms, restoring the constitutional ban on presidential re-election. Also noteworthy to mention, his government was among the first to condemn the Cuban Revolution and to accuse Fidel Castro of attempting to overthrow the Nicaraguan government. The Somoza Debayle government played a leading role in the Bay of Pigs invasion of Cuba in 1961, allowing the Cuban exile brigade to use military bases on the Caribbean coast to launch the failed maneuver, endearing himself and Nicaragua to Washington.

Unable to succeed himself, from 1963-67 trusted surrogates (some would say "puppets" of the Somozas) -- René Schick Gutiérrez and Lorenzo Guerrero Gutiérrez -- served as presidents until Somoza García's younger son, Anastasio Somoza Debayle, replaced his ailing brother as a candidate in the 1967 election, and following his victory, served as president and head of the National Guard, awarding him unprecedented political and military rule over the country, that, not unexpectedly, was abused: corruption and the use of force intensified, accelerating opposition from both populist and business groups.

Reluctant to leave office after his constitutionally mandated four-year term that was to end in 1971, Anastasio Somoza Debayle successfully amended the constitution to remain in power until 1972, and growing political pressure from both his own party and from the opposition led to a negotiated agreement to form a three-member junta to rule from 1972-74 amid rising popular discontent because of deteriorating economic and social conditions in the country.

The "beginning of the end" of the Somoza dynasty came in the wake of the horrific earthquake that struck Managua in December 1972 which left 10,000 dead, 50,000 families without homes, and destroyed 80% of the capital's commercial buildings with allegations that the National Guard joined looters in the chaotic aftermath following the earthquake. The reconstruction effort was corrupted by the Somoza family by skimming millions of dollars of international relief aid. Despite the mounting opposition to Somoza's rule -- even in his own party -- Anastasio Somoza Debayle was able to manipulate the electoral system one more time to stand for, and win, re-election in September 1974.

Around the time of the Cuban Revolution a group of student activists formally organized the Sandinista National Liberation Front (Frente Sandinista de Liberación Nacional, or FSLN). While they initially struggled to attract followers in the 1960s, with the growing corruption and repression that was endemic in the Somozas' rule on the one hand, and the success in Cuba of armed rebellion against an entrenched and corrupt political elite on the other, by the early 1970s the Sandinistas, as they were known, gained enough support from peasants and student groups to launch limited military initiatives, such as seizing the home, in December 1974, of a former government official and taking as hostages a handful of leading Nicaraguan officials, many of whom were Somoza relatives. Predictably, the Somoza government responded to the emboldened opposition with further censorship, intimidation, torture, and murder. The National Guard increased its violence against individuals and communities suspected of collaborating with the Sandinistas, and in less than a year it killed many of the FSLN guerrillas. This escalation in human rights abuses brought national and international condemnation of the Somoza regime, increasing the support for the Sandinista cause.

As the regime's repressive responses escalated, so did the number of supporters of the FSLN. As is often the case with revolutionary movements, factional disputes -- representing different ideological hues -- surfaced, with the arm called the Third Way (led by Daniel José Ortega Saavedra and his brother Humberto Ortega Saavedra) that advocated "immediate insurrection", eventually prevailed.

International pressure on Nicaragua was ramped up when the newly-installed Carter administration made U.S. military assistance conditional on improvements in human rights, forcing President Somoza to lift the state of siege in September 1977. This was followed by an anti-Somoza alliance formed by academics and prominent members of the Nicaraguan business community amidst an escalation in capital flight, forcing the regime to depend on foreign credit to finance a rapidly increasing government budget deficit.

The murder of *La Prensa* publisher Pedro Joaquín Chamorro Cardenal in January 1978 provoked mass demonstrations against the regime, calling for the president's resignation, followed by a nationwide general strike that paralyzed both private industry and government services for ten days, and the following month the US government suspended all military assistance forcing Somoza to buy weapons on the international market, while the stressed economy suffered from increased capital flight, a lack of investment, high rates of inflation and unemployment, and declining living standards.

With the economy continuing to unravel and the population becoming increasingly polarized, by the end of the year the regime was further isolated and discredited when the Organization of American States (OAS) Inter-American Commission on Human Rights charged the National Guard with numerous human rights violations, that was followed by a United Nations (UN) resolution condemning the Nicaraguan government.

In the wake of a failed attempt by the OAS to mediate the crisis at the beginning of 1979 and after economic support from international financial institutions was gradually suspended the economy continued its downward spiral, resulting in a ratcheting-up in the level of violence. Political support for the FSLN, which assumed a leadership role in the opposition to Somoza, became more broad-based, and military support flowed from Cuba, Panama, and Venezuela enabling the rebels to take control of many areas of the country. In June, a provisional government in exile was organized by the opposition groups and a "blueprint" for governing was announced. International recognition soon followed, and by mid-July, President Somoza agreed to resign, and he was killed in September 1980 while living in exile in Paraguay, allegedly by Argentine guerrillas. For a small country like Nicaragua, the toll from the insurrection was palpable: approximately 50,000 dead, 150,000 Nicaraguans in exile, and 600,000 homeless (Merrill, 1993).

The immediate goal of the new government was to reconstruct the national economy. The government received bilateral and multinational financial assistance and rescheduled the national foreign debt on advantageous terms. The Agrarian Reform Law nationalized all rural properties owned by the Somoza family and their associates -- a total of 2,000 farms representing more than 20 percent of Nicaragua's cultivable land -- and the country's financial institutions, all in bankruptcy from years of massive capital flight, were also nationalized. A total of 1.5m acres of land was re-distributed to peasant farmers (Otis, 2015).

Though the five-member junta espoused political pluralism, the FSLN, under the leadership of Daniel Ortega, began to dominate the ruling junta, now reduced to three members, and through the FSLN's mass organizations the Sandinistas consolidated their power over the country's political and military institutions, and less than a year after their victory the Sandinistas controlled the government.

However, opposition to the Sandinista's increasingly aggressive and autocratic rule began to grow: The \$60m in aid provided by the Carter administration in 1980 was suspended by President Reagan immediately after taking office in January 1981, alleging that Nicaragua was shipping arms to El Salvador. Later that year the US authorized support for groups trying to overthrow the Sandinistas, that became known as the Contras. They were composed of former members of the National Guard who fled to Honduras after the overthrow of President Somoza, by disgruntled peasants from the north, and indigenous groups from the Mosquito coast many of whom, after rejecting Sandinista efforts to incorporate them into the national mainstream and demanding autonomy, were forcibly relocated by the government.

As the anti-government campaign became a serious threat to the government largely through damage to the economy, in 1982 the Sandinista's took a page out of the Somoza regime's playbook: imposing emergency laws to ban criticism (including press censorship) and the formation of opposition political organizations. As a result of the increasing conflict the Sandinista regime was forced to increase military spending, reducing funds available for social programs and agricultural support programs. With the increased violence, support by the Church hierarchy for the government began to wane that was amplified by the tense visit of Pope John Paul II to Nicaragua in March 1983.

After years of wrangling over procedural details, national elections for president and the national assembly were held in November 1984, with the Sandinistas winning about two-thirds of the votes cast in a poll that foreign observers generally reported as fair, though it was criticized by the Reagan administration as a "sham". On January 10, 1985, Daniel Ortega, who aspired to remake Nicaragua as a second Cuba, began a six-year term as president of Nicaragua (O'Grady, 2013). Despite a ban by Congress in April 1985 on official funding for the Contras and a ruling against the US by the International Court of Justice in June 1986, the Reagan administration, under the pretext of "national security", suspended all trade with Nicaragua. The Ortega administration, in turn, suspended civil liberties and accused the Church and the media of destabilizing the political system. However, the hardening of positions led the US Congress to resume funding to the Contras and that forced the Ortega administration to increase spending on national defense further reducing spending on economic development.

Once the Iran-Contra scandal was exposed in November 1986, the US Congress re-imposed its ban on most military support for the Contras, and with the conflict looking like a military stalemate as both sides were economically exhausted as foreign sources of financial and military support dried up, the "planets were aligning" for a negotiated end to the conflict. In 1987 Costa Rica's newly elected president, Oscar Arias Sánchez, promoted a comprehensive regional peace plan that would embrace all of Central America. The Arias Plan had the following planks: "amnesty for persons charged with political crimes, a negotiated cease-fire, national reconciliation for those countries with insurgencies (Guatemala, El Salvador, and Nicaragua), an end to all external aid to insurgencies (United States support to the Contras and Soviet and Cuban support to guerrillas in Guatemala and El Salvador), and democratic reforms leading to free elections in Nicaragua" (Merrill, 1993).

The implementation of this accord in Nicaragua began with the creation by the Ortega administration of a National Reconciliation Commission headed by Cardinal Miguel Obando y Bravo, and the US government, for its part, leaned heavily on the Contras to negotiate. By January 1988, President Ortega agreed to hold direct talks with the Contras, to lift the state of emergency, and to call for national elections. This was followed in March by a cease-fire agreement after direct talks between the Sandinista government and representatives of the Contras that also provided for a general amnesty to all Contra members and released imprisoned members of the National Guard.

With the economy on its knees, in return for financial support from international organizations the Nicaraguan government was obliged to adopt an austerity program that inflicted considerable pain in the short term. The suffering was compounded by the shocks of a pair of natural disasters: a destructive hurricane in October 1988 that killed more than 400 people, left 230,000 people homeless, and inflicted an estimated $1bn of damages; and, the next year, a severe drought that adversely affected agricultural output for 1990.

The imminent collapse of the economy accelerated the move by the government to unlock international financing by advancing the date of national elections to February 1990, in addition to guaranteeing fair participation for opposition parties and permitting international observers to observe the elections. A coalition called the National Opposition Union (Unión Nacional Opositora (UNO)) composed of 14 disparate parties that included liberals, conservatives and communists -- unified only by their dislike of the Sandinistas -- nominated Violeta Barrios de Chamorro, publisher of *La Prensa* as their presidential candidate, who, in a surprise result, captured 55% of the vote against Daniel Ortega's 41%. After a lengthy and tense transition period pledging democratic government and national reconciliation, the ONU assumed power in June 1990.

The FSLN was defeated by the opposition parties in the next two presidential elections in 1996 and 2001, despite the conviction and sentencing of former-president Arnoldo Alemán (1997-2001) for embezzlement, money laundering, and corruption in 2003, though the Sandinistas -- along with liberal members of parliament -- attempted to weaken Alemán's successor, Enrique Bolaños, and ultimately oust him from power. This "peaceful" putsch was resisted by the international community that included the Central American presidents, the US, the OAS, and the European Union. Concerning the economy, over the 1990-2006 interval -- that is from the time an elected president was in office until the return of Daniel Ortega -- the GDP increased at approximately 3% p.a., including a string of negative growth years in the early 1990s (http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NI).

In 2007 Mr. Ortega was returned to power with 38% of the votes cast after a successful election campaign, aided by his manipulation of the electoral law that lowered the percentage of votes needed to avoid a run-off election to 35% (with a margin of 5%). He was able to prevail in the Supreme Court where the court permitted him to stand for re-election in 2011 which he won in a landslide victory with 63% of the vote, largely attributed to strong economic growth and sound economic policies. In 2014, the National Assembly approved constitutional changes -- on the back of impressive economic growth despite headwinds from a weak global economy -- that permitted Mr. Ortega to run for a third consecutive term in the November 2016 elections.

With his successful bid in the November 2016 elections his tenure risks turning Nicaragua into an "elected dictatorship and the Sandinista party is becoming a personal fief" (The Economist, 2016d). He has tight control over most of the country's institutions: the electoral authority, Congress, the police, military, and the courts. His family, friends, and allies control fuel companies, television stations, and public construction companies (Robles, 2016a). To insure the continuity of this emerging Ortega dynasty, President Ortega named his wife Rosario Murrillo as his vice-presidential running mate in the November 2016 elections (The Economist, 2016c). The couple have installed the seven children they have together in key posts to guarantee the family's succession (Robles, 2016b).

That said, from 2007-16, the time interval spanned by Mr. Ortega's return to power, the economy expanded by almost 4.0% p.a. (http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NI); in the five years ending with 2015, GDP growth averaged just below 5% p.a. (United Nations, 2016); and according to the World Bank, GDP is projected to grow by 4.2% in 2016 (Robles, 2016a).

Central America: A Brief Survey of Nicaragua's Neighborhood

The data presented in Table 1, below, provide a snapshot of Nicaragua's relative position with its regional neighbors for some generally accepted indices of "quality of life" and economic wellbeing. According to The Economist (2011), the isthmus of Central America is the "most routinely murderous region on earth". One of the symptoms -- some might argue causes -- of living in a "bad neighborhood" is an elevated homicide rate, reported at 11.3 per 100,000 of population for Nicaragua, more than twice the US rate, which itself is five times the rate in the European Union (http://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=NI-US-EUUN). However, to its credit, only Costa Rica has a slightly lower homicide rate than Nicaragua within Central America (Table 1). More about this below.

Situated on the southern flank of the Northern Triangle countries of El Salvador, Guatemala, and Honduras, Nicaragua, until recently, has been able to escape the violence, insecurity, and endemic corruption that is so widespread in these three Northern Triangle countries which have been overwhelmed by drug mafias and criminal gangs (New York Times, 2016b). Violence is not only at a high level, but it is increasing. Central America's Northern Triangle region is among the most violent in the world (http://www.wola.org/commentary/five_facts_about_migration_from_central_america_s_northern_triangle), leading to massive outflows of people from these countries. In the last five years, the US and Mexico have returned 500,000 refugees to Central America, including 40,000 children (Kristhof, 2016).

Natural disasters are also part of the landscape. Four of the seven countries in the region have been classified as among the most vulnerable in the world to destructive weather or other acts of nature including hurricanes, floods, landslides, earthquakes, and volcanic eruptions (The Economist, 2011). Then, of course, there are the social metrics illustrated by the data in Table 1, where, clearly, Nicaragua appears to be better off than some of its regional neighbors judging by its respective poverty rate -- third lowest after Costa Rica and Panama in the region -- though it is below the regional average in educational expenditures as a percentage of GDP and its physician density rate.

Civil wars plagued many Central American countries during the 1970s and 1980s that were linked to the then ongoing Cold War between the US and the Soviet Union with the dictators being backed by the former, and the guerrillas supported by the Soviet Union and its regional proxy, Cuba. Nicaragua, judging by its history that was discussed at length above, serves as an example of this.

Over the last few decades, Central America has been in the frontline of the drugs trade and organized crime since it is wedged in between the world's largest cocaine-producing countries (Colombia, Peru, and Bolivia), Mexican cocaine traffickers, and the world's largest consumer market for cocaine, the United States. Along with the increased violence and insecurity that accompanies the drugs trade, according to the World Bank, the economic cost imposed on the economies of the region by the drug-related crime and violence was estimated at approximately 8% of the region's GDP, about **twice** the relative cost of the US's annual defense budget (The Economist, 2011), and an estimated 16% of GDP in El Salvador (The Economist, 2016a).

TABLE 1
CENTRAL AMERICA: A SNAPSHOT OF THE REGION[a]

Country	GDP per Capita (2015 US$, ppp)	Population (Millions, 2015)	Population Below Poverty Line (% of Population)	Education Expenditures (% of GDP)	Physician Density Rate (per 1000 Population)	Homicide Rates (per 100,000 Population)
Belize	8,400	0.35	41.0	6.2	0.83	34.4
Costa Rica	15,500	4.81	24.8	7.0	1.11	10.0
El Salvador	8,300	6.14	36.5	3.4	1.60	64.2
Guatemala	7,700	14.92	59.3	2.8	0.93	31.2
Honduras	4,900	8.75	60.0	5.9	0.37	84.6
Nicaragua	**5,000**	**5.91**	**29.6**	**4.5**	**0.90**	**11.3**
Panama	21,800	3.66	26.0	3.3	1.65	17.2

a. Latest available data
Source: Central Intelligence Agency (2016);
http://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=NI-US-EU

Part 2. The Methodological Framework

Before discussing the areas in which reform will be needed to improve the long-term performance of the Nicaraguan economy to the end of raising living standards, it is worthwhile reviewing some of the alternative "paths to prosperity" that have been proposed by the leading development experts -- individuals and institutions -- over the last half century.

The ideas of Raúl Prebisch (1959) and Hans Singer (1964) provided the intellectual firepower for the development blueprint anchored in "import substitution" because their thesis was based on the declining terms of trade for primary products and the dynamic benefits to the economy of a vibrant manufacturing sector. These concepts became operational policy in most of Latin America in the 1960s-70s, ensuring a large and growing role of the state in the economy through supportive taxes and subsidies if not direct ownership of productive capacity.

The role of state involvement in the economy for development purposes that is a corollary of the Prebisch-Singer thesis was actually the foundation of the work proposed earlier by Paul Rosenstein-Rodan (1943) and P.C. Mahalanobis (1955), which stressed increasing returns to scale and kick-starting growth through large-scale investments, and accelerating economic development by government encouragement of heavy industry, respectively.

These "inward" winds of economic development shifted in favor of more "outward" and "market-oriented" strategies that were advanced during the 1970s by Balassa (1971), Bhagwati (1978), Krueger (1978), and Little, Scitovsky, and Scott (1970). The "market-based" approach to improving the performance of the economy and to enhancing living standards reached its zenith with the views of a group of Latin American economists and policymakers, the World Bank (1991), and various academic and "think tank" development experts such as John Williamson (1994) with the so called "Washington Consensus" of the 1990s. For example, in its 1991 World Development Report, the World Bank articulated four broad requirements that characterize a national economy as "battle ready" to meet the challenges of the fiercely competitive world economy at the end of the 20th century. They included:

> A stable macro-economy characterized by both fiscal and external balance and low and stable inflation;
>
> The adoption of a competitive micro-economy that includes a substantial reduction in state ownership and management of productive assets and the elimination of price distorting subsidies and taxes;
>
> Strong global linkages that include adherence to GATT (now the WTO), low and uniform tariff rates, absence of non-tariff barriers, a uniform and market-determined exchange rate, a liberalization of the rules governing capital flows and foreign direct investment and;
>
> An active government policy that promotes social and economic investment, especially in the areas of education, infrastructure, and health.

In its 1997 World Development Report (World Bank, 1997), the Bank expanded the reach of the fourth requirement to include the promotion and enforcement of property rights, reducing the level of corruption in the country, and ensuring a reliable legal system -- some of the so-called “second tier” reforms.

TABLE 2
MODIFIED “WASHINGTON CONSENSUS”

a. Fiscal and monetary discipline
b. Redirection of public expenditure priorities towards health, education, and infrastructure
c. Tax reform and improved tax administration
d. Unified and competitive exchange rates
e. Modernization of government and "quasi" government institutions
f. Deregulation
g. Trade liberalization and regional integration
h. Privatization
i. Elimination of barriers to foreign direct investment
j. Banking reform and financial liberalization

The “Washington Consensus” (WC), which was originally compiled in 1990 and published by John Williamson (1994), enumerated a list of desirable conditions that, if adopted and adhered to, would, over time, put reforming countries on the path to success in the global economy. Since the late 1990s, because of its alleged failure to address the issue of poverty reduction directly, the Washington Consensus was subjected to heated intellectual debate within academia and the major international organizations such as the World Bank (Beattie, 2000). Nevertheless, this framework continued to assume a central role in the debate on development strategies for low- and middle-income developing countries during the first decade of the 21st century. Readers interested in this debate are referred to Rodrik (2010) for a review of this subject. (Please see Table 2, above, for a list of its main points).

In light of the experience of the late 1990s (increasing poverty rates and stalled economic growth due to an adverse external environment), proponents of the Washington Consensus amended the original framework to ensure that fiscal policy is counter-cyclical to supprt economic growth in an economic downturn, and to focus on reducing income inequality by ensuring that the poor have access to assets, i.e., education, land titling, micro-credit and land reform, that will enable them to work themselves out of poverty (Williamson, 2003).

While the "reform decade" of the 1990s did restore growth in GDP and GDP per capita in Latin America when compared with the "lost decade" of the 1980s -- growth in GDP and GDP per capita from 1991-98 was 3.5% and 1.7% p.a., respectively compared with 1.0% and -1.0% p.a. in the 1980s (United Nations, 1998) -- many observers of Latin America contended that the "neoliberal" reforms of the 1990s have not only failed to deliver sustained growth, but have made the region more vulnerable and increased unemployment, poverty and inequality. As a result, some political pundits asserted that Latin America, in the first few years of the new century, was returning "to populist and/or anti-market leftist nationalism" (The Economist, 2003). However by 2016, for many of the largest countries in South America, in particular Argentina, Brazil, and, most recently, Peru, where, after a decade and a half of "populist" (and failed) policies, voters have again abandoned these politicians and are electing more centrist -- and market-friendly -- governments (Rathbone, 2016). In Venezuela, with inflation estimated at more than 500% and GDP expected to decline by 8% in 2016 (Malkin and Casey, 2016), the leftist-populist Chávez-Maduro regime appears to be nearing its endgame.

In a review article of economic development blueprints, Dani Rodrik (2010) assessed the experience of China, which over the last three decades arguably has had the most successful growth and poverty reduction program in recorded history, and notes that there does not appear to be any single orthodox Western economic plan that was adhered to by Chinese economists and policymakers.

Rodrik also observed that even in (now relatively prosperous) Chile -- admitted to the Paris-based club of "rich" countries, the Organization of Economic Cooperation and Development (OECD) in 2010 -- during the 1970s-80s a strict universally scripted development plan was abandoned and a more heterodox (and indigenously articulated) strategy was adopted even during the tense Pinochet era.

It now appears, according to Rodrik, that a more fruitful approach to prescribing a successful path to economic growth and development is one that is based on "diagnostics', as proposed by Hausmann, Rodrik, and Velasco (2008) and Hausmann, Klinger, and Wagner (2008). In place of a "boiler plate" set of rules and a rigid, unyielding approach to growth these development economists propose to identify a country's binding constraints and then prioritize the policy reforms given the political and social realities of the country involved. These authors argue that the earlier, carefully scripted paths to growth and development have not lived up to their expectations:

> "The currently prevailing view, as reflected in the World Bank's (2005) report on the lessons from the 1990s or by the blue-ribbon Commission on Growth and Development (2008), accepts the importance of outward orientation but places much less emphasis on trade liberalization and is much more willing to condone a measure of industrial promotion in order to achieve and sustain high growth" (Rodrik, 2010; p. 40).

Rodrik praised China's so-far successful development approach of grafting a market system on top of a heavily regulated state sector (that was the orthodoxy of an abandoned Communist economic system) with China's development plan evolving over time as their binding constraints change: first in agriculture; then in industry; then in foreign trade; and eventually in finance, the environment, and pension reform.

It is important to note that despite its impressive poverty reduction cum economic growth program now in its fourth decade, China enjoys enormous leverage in the world because of its population of 1.4bn people -- almost 20% of the world's population -- that is increasingly willing and able to become "21st century consumers". China's voracious appetite for fuel and non-fuel minerals (Sohn, 2008a; Sohn, 2008b), "first world" foods and diets, electricity and other infrastructure goods, along with its still large though increasingly more expensive labor force, provides it with enormous "monopoly-like" and "monopsony-like" power on world resource, factor, and product markets. The market access that it provides for the goods and services of global companies confers on China tremendous leverage regarding the terms it dictates for foreign (inward and outward) investment, the aid programs it operates, its managed foreign exchange and capital account regimes, and, most recently, the simmering problems of its unreformed banking system, chronic overcapacity in its resource and manufacturing sectors, the widespread corruption in the country, and, not least, China's emerging corporate debt problems, which recently reached 255% of GDP (The Economist, 2016b; Kynge, 2016; Financial Times, 2016). To be sure, particularly in the wake of the 2008-9 global financial crisis and the need for substantial global rebalancing, China's trade, savings, investment, capital account, and exchange rate policies are exacerbating the adjustments that are needed and increasing the political and diplomatic tensions in the world. The jury is still out whether China's one-party political system can be maintained with continuing globalization and technological change.

Nevertheless, over the last few years, after a prolonged internal debate, even the thinking of the International Monetary Fund, in juxtaposing the harsh economic and financial consequences of the 1997-98 Asian crisis with the relative calm in China in the aftermath of the 2008-09 global financial crisis, has evolved on the need for, and desirability of, capital account liberalization as the complement of already liberalized current accounts for developing countries. This new 'institutional view' recognizes that liberalizing "developing countries capital accounts before they have reached a certain level of financial and institutional development is highly risky" (Plender, 2012).

Daron Acemoglu and James Robinson (2012) argued in favor of the critical role played by economic institutions in explaining the enormous differences in living standards across the world. They contend that these institutions determine the economic incentives and the resulting allocation of resources, investment, and innovations needed for growth. Ultimately, it is politics that shape these institutions and their evolution. It will, of course, be interesting to track, during the next few decades, the evolution of China's political system, especially in the wake of slower growth since 2010 and a rebalancing of China's economy away from exports and investment towards consumer spending -- and if the changes that are introduced support the "right" economic institutions as argued by Acemoglu and Robinson.

The winds of globalization have shifted in the second decade of the 21st century as the growth in world trade slows due, in part, to economic, social, and political stresses in the developed countries, the result of anemic growth in GDP growth, stubbornly high unemployment rates and/or lower employment participation rates, and continuing technological change in the manufacturing and service sectors. Proposals to continue liberalizing global, regional, and, even bilateral trade and investment have been withdrawn, at least temporarily. Failure to complete both the Trans-Pacific Partnership (TPP) -- a regional initiative among twelve Asia-Pacific economies -- and the Transatlantic Trade and Investment Partnership (TTIP) -- involving the US and the EU -- are recent examples of these pressures. The June 2016 vote in the Brexit referendum in the UK and the election in November 2016 of Donald Trump in the US serve as examples of the political backlash resulting from the above social and economic stresses.

In the next section -- which takes the measure of the Nicaraguan economy -- I rely heavily on the "ingredients" prescribed in the market-based and outward-looking approach to economic growth and development noted in the above-mentioned World Bank reports, while at the same time being mindful of the contributions made by those advocating a more tailored approach to development that identifies binding national constraints and priorities in the quest for economic modernization over the next decade, in addition to the important role of institutions cited by Acemoglu and Robinson that was discussed above. The emphasis in the next section is on the current state of the economy and the Ortega administration's program of economic, financial, political, and technological change for Nicaragua.

Part 3. The State of the Nicaraguan Economy: Strengths and Weaknesses

Macroeconomic Stability

With a view towards improving the performance of the Nicaraguan economy during the next decade it is useful to take the measure of the current state of the economy following the World Bank's "recipe" described in Part 2, above. The first of the four broad requirements needed for a well performing national economy is macro-economic stability, generally characterized by both fiscal and external balance, low and stable inflation, and high levels of employment.

It would be of interest to examine these macro-variables over the last six years, that is, how the Nicaraguan economy performed over the 2010-15 period. The 2010 starting year was selected because this was the first year that positive GDP growth was restored to the region after the end of the Great Recession in the US and the global financial crisis. However, after 2010, regional GDP growth began to decline -- though it was still positive until 2015 -- as a result of slow growth in the global economy and the precipitous decline in world commodity prices. This triggered serious domestic imbalances in four large Latin American economies -- Brazil, Argentina, Mexico, and, arguably the most serious, in Venezuela -- that continue. Over this interval Nicaragua experienced much higher annual growth than the region as a whole, in part because the country is much less dependent on energy and mining exports than the four above-mentioned regional "giants" that dominate the Latin American economy.

It is important to note that 2009 was the only year to date in this century in which both Nicaragua and its region, Latin America and the Caribbean, experienced negative economic growth, -2.8% and -1.2%, respectively, caused by the severe recession in the US and more generally, in the world economy (United Nations, 2016). According to the data in Table 3, below, the region's GDP growth peaked the following year, in 2010, at 6.2% p.a., and has declined gradually over the next four years, falling into negative territory in both 2015 and 2016 largely because of the continuing headwinds from sluggish growth in the global economy and the more serious problems in the large "neighboring" countries mentioned above. The International Monetary Fund projects annual GDP growth in Nicaragua at 4.0% to the end of the decade (IMF, 2015).

According to the IMF, Nicaragua's "public finances are broadly sound", that is, the central government's fiscal balance has ranged between very small deficits and surpluses (less than 1% of GDP on either side) over the six-year interval reported in Table 3, when compared with the average regional fiscal balance. The modest deficit recorded in 2014 resulted from "a decline in grants funded by the oil collaboration scheme with Venezuela" -- more about this below. Finally, the public debt ratio has averaged 41% over the six-year interval, and the IMF projects that a similar ratio is likely to prevail for the rest of the decade (IMF, 2015).

Except for a short-lived one-year uptick in 2014, over the six years ending in 2015 inflation in Nicaragua has trended down, averaging 6.5% p.a. as compared with regional inflation of 5.6% p.a. The decline in inflation in Nicaragua over the interval reflects, in large part, the decline in food and transportation costs which, in turn, is attributed to lower world energy prices. Because of these developments in world commodity prices, the IMF (2015) expects that short-term inflationary pressures in Nicaragua will remain subdued.

Turning to the rate of unemployment, while the official data suggest that the country's urban unemployment rate is within the range of the broader Latin America region, it is important to note as that Nicaragua's urbanization rate of 60% is well below the regional average of 80% that makes Latin America the most urbanized region in the world (http://www.atlanticcouncil.org/publications/articles/urbanization-in-latin-america). This suggests that the Nicaraguan *national* unemployment rate is considerably higher than the corresponding Latin American rate only because of the larger percentage of the population living in rural areas who are typically outside of the formal economy and working in subsistence farming. Since 2010, even though Nicaragua registered a much higher participation rate than the regional average -- for example, in 2014 the rate for Latin America was 59.5% of the population against 74.2% in Nicaragua -- UN statisticians are careful to warn readers that Nicaragua's "new measurements that have been used since 2009 are not comparable with the previous series". (Please see Table A.18 in (United Nations, 2016)). Of course, one of the main challenges facing Nicaragua in the medium-term is integrating its large (and poor) rural population into the modern economy to extend the progress made since 2009 in reducing both the national poverty and *extreme* poverty rates. (More about this below).

With regard to Nicaragua's yawning current account deficit as a percent of GDP (please see Table 3 below), as a result of a lower oil import bill due to a sharp decline in international oil prices the current account deficits in 2014 and 2015 have receded to more manageable levels despite the decline in manufactured exports in 2015 as a result of softening commodity prices and the expiration of a preferential trade agreement with the US which is part of the CAFTA-DR free trade agreement. The current account deficit is being financed by remittances (estimated at about 10% of GDP in 2015) and foreign direct investment (particularly from Venezuela in recent years) that was estimated at about 6.4% of GDP in 2015 (United Nations, 2016). The ongoing instability in Venezuela raises questions regarding the reliability of this source of FDI in the short- and medium- term. (More about this below).

TABLE 3
MACROECONOMIC DATA: NICARAGUA AND LATIN AMERICA, 2010-2015

Macroeconomic Variable	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Gross Domestic Product (annual % change):						
Nicaragua	3.2	6.2	5.1	4.5	4.7	4.0
Latin America and Caribbean	6.2	4.7	2.9	2.8	1.2	-0.4
Gross Fixed Capital Formation (% of GDP):						
Nicaragua	21.4	24.4	27.7	27.9	26.4	27.8
Latin America and Caribbean	20.4	21.3	21.3	21.5	20.8	19.7
Central Government Balance (% of GDP):						
Nicaragua	-0.8	0.5	0.5	0.1	-0.3	0.7
Latin America and Caribbean	-2.6	-2.5	-2.1	-2.9	-2.6	-3.3
Consumer Prices (annual % change):						
Nicaragua	9.1	8.6	7.1	5.4	6.4	2.8
Latin America and Caribbean	5.4	5.7	4.9	4.9	6.3	6.6
Urban Unemployment Rate (average annual %):						
Nicaragua	7.8	5.9	5.9	5.7	6.8	...
Latin America and Caribbean	7.3	6.7	6.4	6.2	6.0	6.6
Central Government Expenditure (% of GDP):						
Nicaragua	17.6	17.6	17.2	17.3	17.8	18.3
Latin America and Caribbean	26.1	26.4	25.0	25.6	25.3	25.6
Current Account Deficit (% of GDP):						
Nicaragua	-10.0	-12.8	-10.6	-11.1	-7.1	-8.2
Latin America and Caribbean	-1.3	-1.4	-1.8	-2.7	-3.1	-3.5

Source: United Nations (2013-16); IMF (2015)

The Adoption of a Competitive Microeconomic Environment

According to the World Bank (1991), improving the microeconomic foundation of the national economy includes, among other things, a substantial reduction in state ownership and management of productive assets and the reduction and/or elimination of price distorting subsidies and taxes.

Compared with the other countries in Central America, according to the IMF (2015), Nicaragua has the highest ratio of tax revenue to GDP despite having one of the lowest per capita income levels in the region (Table 1). Because of its large informal economy, the level of GDP officially reported in Nicaragua is likely to be much below the "shadow" unofficial level that would capture much of the economic activity in the large informal sector. In 2012, according to the IMF, total tax revenue collected by the government was 15% of GDP, of which 1.4% was raised by personal income taxes, 4.1% from corporate income taxes, 0.1% from property taxes, 6.1% from value-added taxes (VAT), and 2.8% from excise taxes.

Since 2009, Nicaragua, has enacted a stream of tax reforms to improve the equity and efficiency of the tax system and to enhance government tax revenue. Law 712 broadened the income tax base to include capital-sourced income and eliminated some exemptions on excise taxes, which together increased tax revenue by 2% of GDP over the 2010-2012 period.

The main features of Law 822, enacted in 2012 and implemented in 2013, were the reduction or elimination of tax exemptions, particularly in value-added taxes, that would offset a reduction in the statutory corporate tax rate from 30% to 25% to the end of increasing tax revenue and to improving tax efficiency. In 2015, as a result of various VAT exemptions and reductions, Nicaragua had the most narrow VAT-base among the countries in Central America and registered the lowest VAT-efficiency ratio in Central America because so many goods escaped the full-force of VAT (IMF, 2015). Broadening the VAT-base by reducing exempted goods that were purchased mostly by wealthier households would improve the progressiveness and efficiency of the VAT. In 2010, total tax exemptions were estimated at approximately 7.6% of GDP, 90% of which were exemptions or reductions in VAT, one of the highest in Central America. These 2013 reforms reportedly increased government tax revenue by an additional 1% of GDP (IMF, 2015).

However, at the end of 2014 some key parts of the 2013 reforms were put-on-hold, allegedly, for reasons having to do with administrating the reforms. These included: the phase-out of tax incentives for businesses; the extension of the VAT framework to incorporate imported services; and the planned reduction of the personal income tax rate from 30 to 25%. The IMF urged the government to reinstate the reforms that were not implemented as quickly as possible.

In its 2015 Article IV Consultation Staff Report (IMF, 2015), one of the recommendations addressed the need to begin eliminating electricity subsidies which were estimated to cost the government about 1.25% of GDP annually. The report said that these price-distorting subsidies tended to “benefit disproportionately non-vulnerable groups”. Recognizing that their immediate elimination was politically unfeasible, the IMF urged the government to begin a gradual phase-out of the subsidies, and to substitute in their place direct cash transfers to poor households that would offset the resulting higher electricity prices, ultimately permitting electricity prices to better reflect electricity costs and, implicitly, the “inefficiencies” in the sector resulting from bloated costs and/or monopoly elements.

In addition, recognizing the contribution of small- and medium-size enterprises towards enhancing national economic and job growth, the IMF argued that the tax regime these businesses faced should be reformed to provide incentives to “grow” this sector of the economy, which, if successful, will also reduce the degree of “informality” in the economy.

According to the World Bank’s *Doing Business* project which provides objective measures of business regulations and their enforcement across 189 economies and looks at domestic small- and medium-size companies and measures the regulations applying to them through their life cycle, Nicaragua, in 2016, ranked 125th, 15 places below Honduras and the lowest ranked country in Central America (www.doingbusiness.org). The country performs particularly poorly with construction permits, arranging for electricity, registering property, and applying for credit. Concerning its competitive ranking, Nicaragua lags behind most other Central American countries, and with respect to its global competitiveness position, Nicaragua was ranked 99th out of 148 countries (IMF, 2015).

Global Linkages

Despite the general push-back over globalization in recent years -- and more specifically the June 2016 Brexit referendum in the United Kingdom and the victory of Donald Trump in the November 2016 US presidential elections that were both triggered largely by poorly-managed immigration and trade policies that were amplified by the wave of refugees fleeing from war- and violence-torn areas, continuing high unemployment rates (and declining labor-market participation rates) particularly among the young and unskilled, and increasing income inequality -- in the opinion of most economists, adhesion of the national economy to the larger global economy is still indispensable for improving a nation’s material well-being. It is without doubt that the successful development model implemented by China over the last four decades is, in part, due to China’s re-engagement with the world economy after decades of economic autarky.

Consumers benefit from liberalized trade by having more choice of goods, often at lower prices and/or with higher quality. More competition faced by domestic producers from imported goods reduces domestic producers' pricing power, and provides crucial incentives to enhance efficiency and productivity. The prospects of higher exports (in part to pay for increased imports) raise both national employment and income.

Liberalization of the capital account, provided the domestic banking system is sufficiently strong, along with a unitary and market-based exchange rate, confers benefits to both borrowers and investors alike. Lower interest rates for borrowers, and improved risk/reward tradeoffs for investors, as well as greater discipline on the public finances imposed by these open capital markets complement the benefits provided by a liberalized trade account. It is important to note that policy experts are still debating the cost/benefit calculus for developing countries of full capital account liberalization in the wake of the Asian financial crisis at the end of the 1990s and the financial meltdown in the US and Europe a decade later (Beattie, 2011; Plender, 2012). Finally, providing a "state-of-the-art" legal, tax, and regulatory environment for foreign investment is critical for attracting and maintaining much-needed financial capital, new technology, and managerial talent for the national economy.

The main issues discussed in this section focus on the planned parallel canal that would bridge the Atlantic and Pacific oceans, the outlook for foreign direct investment (and, in particular, a more extensive development of the country's tourism sector), the "oil collaboration scheme" with Venezuela known as the PetroCaribe program, and Nicaragua's currency regime. Before examining these issues, a brief review of the role that international trade plays in the Nicaraguan economy is provided.

During the final two decades of the Somoza dynasty that ended in 1979, according to the World Bank (http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=NI), exports as a percentage of GDP increased from 24% to 42%. This ratio declined after the Sandinistas assumed power in 1980 and during the disruptive civil war period that followed, with the ratio falling to 11.8% of GDP by the time the Arias Plan was launched in 1987. As the prospects for ending the conflict with the Contras improved, in 1989, on the eve of national elections, exports as a percentage of GDP increased to 32.5%, but the global recession in the early 1990s led to a reduction in the ratio to 13.1% by 1994. Since then the ratio has increased, reaching a record level of 45.4% in 2012 before sliding back to 37.5 % in 2015. Nicaragua's enhanced engagement in world trade also generated chronic trade imbalances -- imports reached 55.5% of GDP in 2015 -- that need to be financed, as discussed earlier and below.

Regarding foreign direct investment, between 1970-90, due to the appalling economic and political environment that existed in the country, foreign direct investment (FDI) flows were virtually non-existent. Not surprisingly, with political stability and a functioning economy re-established, foreign investment began to flow. Nicaragua's ratio of FDI to GDP, which averaged about 6.5% since 2010 -- though still less than $1bn a year -- is twice the rate of the regional ratio (http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=ZJ). To be sure, according to the IMF (2015) in 2009, Venezuela financed almost 60% of Nicaragua's current account deficits through a combination of its "oil collaboration" program (please see below), FDI, and other flows. As a result of the decline in global oil prices, and more recently the collapse of the Venezuelan economy, that percentage has fallen to about 33% in 2015. Hence the need to seek out new sources of hard currency, some of which are described below.

The dream of building a canal across Nicaragua has been conjured up (and languished) more than a dozen times before its most recent advent in 2013. It began with a 16th-century Spanish explorer, and included two 19th-century notables, Napoleon III and Cornelius Vanderbilt, before the announcement by Nicaragua's president, Daniel Ortega, that his Sandinista-controlled Congress had granted a 100-year concession -- that was codified in the Constitution -- to Hong Kong-based Chinese telecoms magnate Wang Jing to build and operate the planned 278km waterway -- three times as long as the existing Panama Canal. Its price-tag was conservatively estimated to range between $40-50bn, roughly 4-5 times Nicaragua's GDP (Daley, 2016; IMF 2015).

The proposed interoceanic project plans to include two deep water ports, two free-trade zones, an oil pipeline, a railroad, and an international airport. The construction could create 50,000 jobs, double the country's GDP over the project's five-year construction period by propelling the economy into a Chinese-like double-digit growth trajectory, and lift 400,000 people out of poverty. The Nicaraguan government sees the project as "a ticket out of grinding poverty" (De Córdoba, 2013).

In light of the long period of time that Nicaragua was crippled by violence, political unrest and guerrilla warfare -- recall that the country was a proxy battle-ground for the Cold War in the late 1970s and 1980s -- it is nothing less than remarkable that Nicaragua is now deemed to be sufficiently peaceful and investment-friendly to attract a global infrastructure project -- with the life-span of a century -- as large and as a costly as this canal (Karmin, 2015).

It is worthwhile reviewing some of the "pros and cons" that have been aired about the need and feasibility of the project. The prestigious management consulting firm McKinsey concluded that the project is "technically relatively straightforward" and could work from the engineering perspective, while other experts claim the venture "could be the biggest white elephant in human history" (The Economist, 2015; De Córdoba, 2013). While the recently upgraded Panama Canal can now accommodate ships carrying 13,000 containers -- up from 5,000 containers before the modernization -- ships with 18,000 containers can transit the expanded Suez Canal, a sea-level canal without locks. In addition, an unintended consequence of continued global warming is providing another transoceanic route that is becoming more and more feasible with each passing year: the Arctic route through the Northwest Passage (The Economist, 2013a). The proposed Nicaraguan canal will be designed to accommodate vessels capable, ultimately, of carrying 25,000 containers (De Córdoba, 2014).

Because of the high "fixed costs" (and low "marginal costs") associated with canals and the slowdown in the growth in world trade over the last decade some critics have questioned whether there is a need for so much "transiting capacity" in the isthmus at this time. This problem is similar to the classic problem in economics of having two utility companies serving the same neighborhood: the price benefits to consumers from the efficiencies derived from "economies of scale" would be surrendered by the entry of a second "producer" or, without regulation, a "price war" would lead to "market failure". One could counter that argument by saying that growth in world trade, over time, will increase, and with the long "lead-times" needed to increase "canal capacity", just as countries "grow into" their hydro-electric or nuclear-energy capacity over time, similarly the world's "transport infrastructure" needs to expand to accommodate the projected growth in the world economy and world trade.

Along with the economics and engineering aspects, the proposed canal also raises some challenging social, environmental, and geopolitical issues. The plan calls for carving through the ancestral lands of indigenous groups, with 27,000 people expected to be uprooted and relocated (Otis, 2015). The canal could trigger serious environmental problems affecting drinking water, irrigation systems, fishing and bio-diversity because of the need to dredge along 105km of Lake Nicaragua, the largest fresh water lake in Central America and the main source of the country's drinking water (The Economist, 2014c; De Córdoba, 2014; Zach, 2015).

Regarding the status of the social and environmental issues, an Environment and Social Impact Assessment (ESIA), written in June 2015 by a consulting firm hired by the investors, recommended additional studies be performed before making a definitive assessment of the project. Furthermore, a panel of international specialists at a conference organized by Nicaragua's National Academy of Science concluded, after reviewing the ESIA, that "the information made available in the ESIA report was insufficient to evaluate fully the net benefits of the canal" (IMF, 2015).

The geopolitical elements are intriguing to say the least. While the sources of financing for this venture have not yet been determined -- though according to the project manager securing the financing for the project is not a constraint (Webber and Shepherd, 2015) -- there is no doubt that for China the canal is a "game-changer" since China is currently the second largest customer using the Panama Canal (Webber, 2015). It will likely enable China to move military assets from the Pacific to Atlantic ocean, adding to the suspicions in Washington of China's increasingly aggressive actions. In July 2016 China announced that it will continue to build on the disputed South China Sea islands in defiance of the unfavorable international arbitration ruling it received in The Hague (Wong, 2016).

Even though the Chinese-led proposed canal project is being delayed for at least a year in order to permit the lead investors to address the ecological, social, and economic challenges enumerated above, the Nicaraguan government is eagerly promoting other opportunities that will attract FDI. It is important to recall that Nicaragua today has the same leader it had in the 1980s, who at that time ordered land seizures and implemented massive redistribution programs, though since returning to power in 2007 has courted big business (The Economist, 2013b) and encouraged private sector development by providing tax-incentives that provide large exemptions on real-estate and income taxes (Karmin, 2015). One critic has gone so far as to describe the president's *volte-face* as nothing less than an "epiphany" (Otis, 2015).

Blessed with abundant and pleasant beaches and a temperate climate -- and, above all, a country at peace -- the Nicaraguan government's package of tax breaks has enticed foreign investment by real estate developers and major US hotel chains such as Hyatt Hotels Corporation and Four Seasons Hotels & Resorts, who are both opening luxury hotels in the country (Karmin, 2015). Nicaragua is also riding the wave of the eco-tourism boom by exploiting its favorable position of having within its borders 7% of the world's biodiversity while occupying only .01% of the world's land mass (Zach, 2015).

The PetroCaribe program is a Venezuelan energy-assistance program for selected Caribbean and Central American countries -- including Nicaragua -- that was launched by Hugo Chávez in 2005. The participating countries buy oil from Venezuela, and their upfront cost for these oil purchases depends on market prices. The higher the international price of oil, the more of the cost is loaned to the participating countries on very lenient terms. For example, loans have been extended for 25 years and at interest rates as low as 1%. The cash saved by the purchasing country is earmarked for many purposes: energy subsidies, education, and beach remediation. In the case of Nicaragua, the value of the preferential Venezuelan financing for oil imports has been more than 10% of government revenue and equivalent to around 4% of GDP. If this program is modified or eliminated it would create an enormous vulnerability for Nicaragua's fiscal and current account balances, as Venezuela's economy continues it downward spiral (The Economist, 2014b). In fact, reduced financial account inflows from Venezuela are forcing policymakers to draw down reserves, or to hasten the depreciation of the currency (http://www.latinamericamonitor.com/economic-analysis-gaping-current-account-shortfall-will-narrow-modestly-2016-june-2016).

Another important achievement towards improving the integration of its financial sector into the global financial network occurred in February 2015 when the OECD's Financial Action Task Force (FATF) removed Nicaragua from its "gray list" of jurisdictions which have deficiencies in their regimes confronting money laundering and financing terrorism. A more comprehensive assessment of its practices against these two financial scourges is scheduled for 2017 (IMF, 2015).

Finally, Nicaragua has maintained a crawling peg currency regime since December 2004. The managed depreciation of the domestic currency reduces the demand for imports and makes exports more competitive. Its currency, the córdoba, which has been declining by a steady 5.0% each year against the US dollar, compares favorably to Nicaragua's competitors in textile manufacturing, such as Vietnam (where the dong has declined by just over 3.0%), thereby enhancing the competitiveness of its manufactured exports (http://www.latinamericamonitor.com/economic-analysis-gaping-current-account-shortfall-will-narrow-modestly-2016-june-2016).

An Active Government Policy to Promote Social and Economic Investment

The last of the four World Bank "ingredients" to be included in the recipe for a well-managed national economy is an active government policy that promotes social and economic investment, especially in the areas of poverty reduction, health, education, and physical infrastructure, including transport, telecommunications, and energy. For many of the world's countries during most of the second half of the 20th century rapid economic growth led to increased living standards that were accompanied by marked improvements in public health systems, nutrition, greater access to education, and, as a result of these, significant increases in life expectancy and reductions in infant mortality and adult morbidity rates.

The United Nations Development Program in its most recent Human Development Report 2015 (UNDP, 2015) ranked Nicaragua 125th out of 188 reporting countries in its key metric, the Human Development Index. For the purposes of comparison with its neighbors, Costa Rica had a ranking of 69, and Honduras, 131. The index measures the average achievement in three basic dimensions of human development: life expectancy; education levels; and the standard of living (measured by GDP per capita).

The World Bank's Worldwide Governance Indicators (WGI) for 2015 reports country percentile rankings against the world (and various regions) for six measures of "good government". In all six categories (voice and accountability; political stability and absence of violence; the rule of law; control of corruption; government effectiveness; and regulatory quality) Nicaragua's's ranking was below (and for some, significantly below) its regional average, and in only two categories -- political stability and the absence of violence, and the rule of law -- have there been improvements since 2009, though their rankings in these two categories are still below the Latin American regional average (http://info.worldbank.org/governance/wgi/index.aspx#countryReports).

While Nicaragua is certainly a more peaceful country since the end of the civil war and free elections have been in place, critics of President Ortega -- along with some of the mainstream press -- question whether it is accurate to claim that the rule of law has been advanced by his administration. Increasingly, the president and his appointees were ignoring the Constitution when he began a (then illegal) third term as president (The Economist, 2012). According to the opposition, "Ortega's reforms are aimed at legalizing everything that until now he has done illegally, such as limitless re-election" (The Economist, 2013b). The 39 constitutional amendments that he proposed included more popular participation through referendums which will come at the expense of the elected National Assembly, weakening the system of "checks and balances" that is essential for functioning democracies. This would insure that the president's program can be implemented even if the Sandinistas lose control of the National Assembly. Provided the economy does not stall, "rule by referendum" can facilitate the Sandinista agenda even without the legislative branch. However, Nicaragua's ranking in Transparency International's 2015 "Corruption Index" -- 130th out of 168 countries -- testifies to the degree of corruption, lack of transparency and accountability in government, and the weak rule of law in Nicaragua (https://www.transparency.org/country/#NIC).

In September 2000, building upon a decade of major United Nations conferences and summits, world leaders came together at the United Nations Headquarters in New York to adopt the United Nations Millennium Declaration. The Declaration committed nations to a global partnership to reduce extreme poverty, and set out a series of eight time-bound targets -- with a deadline of 2015 -- that have become known as the Millennium Development Goals (MDGs). Many of the aid programs -- with multilateral institutions such as the World Bank and the International Monetary Fund and bilateral programs with individual countries -- with which Nicaragua has participated since the the 1990s are structured around these MDG goals. Therefore, the remainder of this section highlights the progress made by Nicaragua in meeting a number of the MDG targets.

According to the World Bank, Nicaragua's poverty rate, based on its national poverty line, declined from 42.5% of the population in 2009 to 29.6% in 2014 (http://databank.worldbank.org/data/reports.aspx?Code=SI.POV.NAHC&id=af3ce82b&report_name=Popular_indicators&populartype=series&ispopular=y) and, according to the IMF (2015), there has been a similar reduction in the rate of *extreme* poverty over the same time interval, from 14.6% to 8.3%. To its credit, in 2009 Nicaraguan poverty rates reflected the worst of Central America but by 2014 only Costa Rica and Panama had lower poverty rates than Nicaragua (Table 1, above). This impressive reduction in poverty rates can be attributed in large part to Nicaragua's record of strong economic growth over this period -- well above the growth rate of the region as a whole (Table 3, above).

It is useful to point out that Nicaragua was among the countries that participated in the Heavily Indebted Poor Countries (HIPC) Initiative that was launched by the World Bank and the IMF in 1996 as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries (https://www.imf.org/external/np/sec/pr/2000/pr0078.htm#annex). Nicaragua received the bulk of the assistance under the enhanced HIPC Initiative in return for satisfying a number of conditions, including adoption and implementation of a poverty reduction program.

Over the past two decades Nicaragua has made important progress in the areas of stabilization and structural reform that substantially improved the performance of the economy, as described above. Nicaragua has also made considerable efforts in social policy that were critical to sustained poverty reduction. For example, while Nicaragua remains one of the poorest countries in Latin America, its fertility rate declined much faster over the last half century than the average rate of the region. Today Nicaragua's total fertility rate is 2.3 per woman compared to the region's 2.2, while in 1970 Nicaragua's fertility rate was 6.8 per woman compared to the region's 5.0 (http://www.un.org/en/development/desa/population/publications/pdf/fertility/world-fertility-patterns-2015.pdf).

One of the important metrics that contributes to lowering the national fertility rate is a country's infant mortality rate (number of deaths per 1,000 live births): in 1995, the rate in Nicaragua was 41.4 while two decades later the rate declined to 19.4, a reduction of more than 50%, comparable to the reduction in this metric for the region as a whole (IMF, 2015, Table 11; http://data.worldbank.org/indicator/SP.DYN.IMRT.IN?locations=ZJ). Another of the United Nations' stated Millennium Development Goals is achieving universal primary education. Nicaragua has made considerable progress in addressing this serious deficiency which has implications for the productivity of its labor force. In 1990, the year free elections were held, the primary school completion rate was 40% (for the relevant age group), while two decades later the rate rose to 85% (http://data.worldbank.org/indicator/SE.PRM.CMPT.ZS?locations=NI). To be sure, Nicaragua's rate in 2010 was well below the 99% average rate reported for the region as a whole. It is also important to note that nothing in the data presented mentions anything about the "quality" of the education.

Turning to some MDG's which affect the "quality of life", 73% of the population had access to water in 1990 -- as compared to the regional average of 85% -- with the percentage increasing to 87% a quarter of a century later as compared to 95% in the region as a whole (http://data.worldbank.org/indicator/SH.H2O.SAFE.ZS?locations=NI-ZJ). Concerning sanitation, 44% of the population had access to sanitation in 1990 compared with 67% in the region, with the percentage increasing in Nicaragua to 68% a quarter of a century later compared with 83% in the region as a whole (http://data.worldbank.org/indicator/SH.STA.ACSN?locations=NI-ZJ). Judging by the above data it appears that Nicaragua is still "about a generation behind" its region in providing access to these two essential "quality of life" amenities.

Regarding the provision of physical infrastructure -- electricity, transport, and communications -- which simultaneously increases the efficiency of the economy and confers "quality of life" benefits to residents, there has been progress in this area as well. From 1990 to 2013, annual per capita electricity consumption (in kWh) increased from 308 to 598 (an annualized growth rate of 2.9%), compared with the Latin America and Caribbean region where per capita electricity consumption increased from 1165 to 2118 over the same interval, (an annual rate of increase of 2.6%) (http://data.worldbank.org/topic/infrastructure?locations=NI-ZJ). While variations in weather could explain some of the difference between Nicaragua's per capita electricity consumption level and the regional average, the large disparity in per capita electricity consumption can more likely be attributed to the poverty rate, the lower urbanization ratio, and, more generally, the lower standard of living in Nicaragua compared with the region as a whole.

Nicaragua's transport infrastructure viewed through the lens of paved roads also lags behind its neighbors. In 2014, only 14% of Nicaragua's roads were paved. The corresponding metric for Honduras was 23%; Costa Rica, 26%; Mexico, 36%, and the United States, 65% (CIA, 2016). The low percentage of paved roads adversely affects the economy by increasing costs and delays to businesses and consumers.

Turning to communications infrastructure, a wide disparity exists between Nicaragua and its regional average regarding internet users (per 100 of population), fixed telephone subscriptions (per 100 of population), and fixed broadband subscriptions. In 2014, regarding internet users, in Nicaragua it was 17.6 users and the regional average was 50.2 users, while Nicaragua had 6 fixed telephone subscriptions and the average in the Latin America region was 18 telephone subscriptions. The corresponding metrics for the United States were 87.4 internet users and 40 fixed line subscriptions in 2014 (http://data.worldbank.org/topic/infrastructure?locations=NI-US-ZJ). It is important to point out that as a result of the introduction and rapid adoption of cellular phones, fixed telephone subscriptions in the US peaked at 68 in 2000.

The last two components in the World Bank's fourth "ingredient" was expanded to include the "second tier" reforms (World Bank, 1997) -- public security and governance -- that affect the quality of life, directly and the economy, indirectly. Drugs-related activities breed insecurity, kidnapping, theft, murder, extortion, and corruption, all, regrettably, in abundance in Central America. According to the United Nations Development Program, Latin America is the only region in the world where the murder rate increased from 2000-10 (The Economist, 2014a), and the isthmus of Central America is considered to be the "most routinely murderous region on earth" (The Economist, 2011).

That said, Nicaraguan statistics present a paradox to those who link homicides to poverty. While Nicaragua, using per capita GDP (at market prices), is the poorest country in Central America it has the second lowest homicide rate, after Costa Rica (Table 1, above). While the rate of 11 homicides per 100,000 of population is almost three times the rate of the US, it is well below the rates in El Salvador and Honduras.

Experts who have studied this "paradox" attribute the lower level of overall violence in Nicaragua -- relative to its neighbors -- to the policy of "community policing" which is practiced by the National Police, an institution that is a product of the 1979 Sandinista revolution and the subsequent civil war. According to The Economist (2014a), "instead of *mano dura* -- the iron-fist policies of its northern neighbors -- it offers a 'friendly hand' to prevent gang penetration in Nicaraguan society. Instead of jailing wayward youths, it offers them counseling, education and job opportunities." But this is only half the story. Nicaragua -- the largest country in Central America -- has a lengthy coastline on the Pacific Ocean and the Caribbean Sea so it is well placed to serve as a transit area for drugs traveling from the South American producers to US consumers. After Mexico's former President Felipe Calderón declared war on drugs in 2006, Mexico began squeezing its cartels at home, and the drug-related violence moved south, transforming Central America from a passive transit route to a central theater in the war on drugs.

Honduras, El Salvador, Guatemala and Belize responded by militarizing their response with funding and training from United States, under a new program called the Central American Regional Security Initiative (CARSI). Nicaragua, in part because of its tense relations with the United States (discussed above) was not included in this program, forcing it to choose a different path.

One expert on Nicaraguan security believes that Nicaragua's strategy is to manage organized crime and regulate the drug trade: unofficially, the state negotiates with one mafia, which controls the entire national territory. While recognizing that drugs are passing through, the government's position is to permit their transit to points north, i.e., the US, provided the accompanying violence and conflict are sufficiently contained to maintain the social and political order. In other words, the government essentially had to "pick its poison": confront the drug trade militarily as Honduras and El Salvador have done and risk greater violence, or accept the associated corruption that the drug trade brings provided it is contained.

In 2011, The Global Commission on Drugs -- that included among its members former UN Secretary-General Kofi Annan and former US Federal Reserve Chairman Paul Volcker -- declared that the "global war on drugs has failed". In September 2014, the commission issued a follow-up report recommending policies that work, i.e., including some legalization and encouraging countries to try regulating instead of prohibiting some aspects of the drug trade. So to some extent the kind of policies Nicaragua has chosen have started to gain traction internationally (http://www.npr.org/sections/parallels/2014/10/26/357791551/nicaragua-follows-its-own-path-in-dealing-with-drug-traffickers).

CONCLUSION

Over the last quarter century political leaders and policymakers in virtually every country in the world have been confronted with the same question: In the wake of widespread political, technological, and institutional change around the world, for countries that are firmly anchored in the global economy of the 21st century, what adjustments are required in a country's economic and financial policies that will lead to improvements in material wellbeing for the population at large? From China to Brazil, Russia to South Africa, Japan to Australia, India to North Africa, and, even from the United States to Western Europe, all have struggled, or are struggling, with the same "existential" problem: how can countries increase -- or, in the worst case, maintain -- living standards for the bulk of their populations, given the "cards they have been dealt"?

The objective of this paper is to present the predicament of Nicaragua, a poor country that is located, on the one hand, in one of the most violent regions of the world and, on the other, at the crossroads of today's global economy: near the southern rim of the large and wealthy North American continent and near the northern boundary of the equally large though much less prosperous South American landmass, and, simultaneously, strategically positioned, like Panama, with sovereign access to both the Atlantic and Pacific Oceans. Assuming the appropriate transport infrastructure is in place, this favorable geography can be exploited to facilitate trade with the Americas, Europe and the Asia-Pacific region.

Can Nicaragua use its favorable geographical position and its relatively low-wage (and low-skilled) labor force (even by Asian standards) -- to improve the performance of it national economy?

Arguably the "wild card" in the quest to improve long-term living standards in Nicaragua resides with China: will the recently announced intent to construct a transoceanic canal be realized? If the project goes forward, it will be "game-changer" not only for the Nicaraguan (and Panamanian) economy, but it will also have geopolitical consequences, especially for US-Chinese relations. This "world class" infrastructure project would provide thousands of construction related jobs for unskilled Nicaraguan workers for at least a decade, that would be followed by a growing indefinite stream of future cash flow from ships transiting the canal.

On the other hand, will the perceived "takeover" of the country's institutions and key assets being engineered by the Ortega family -- and the corruption and lawlessness that it breeds which is beginning to mirror the deposed Somoza dynasty (1936-79) that was accompanied by decades of civil strife and economic disruption -- derail the economic revival and political stability that Nicaragua so desperately needs to improve national living standards and reduce its still elevated poverty rate? The other major potential dangers that exist are: First, can the country continue to escape the drug-related violence that has plagued its regional neighbors in the Northern Triangle -- El Salvador, Guatemala, and Honduras? Second, will the economic and political stability currently being enjoyed by Nicaragua be maintained if subsidized Venezuelan oil deliveries and other financial support -- not limited to foreign direct investment flows -- are reduced or eliminated as the economic and political crises in Venezuela intensify? Even though the IMF has given Nicaragua a "clean bill of health" that has opened up funding by international financial institutions (IMF, 2015), in September 2016 the US House of Representatives unanimously passed a bill that would authorize US policymakers "to veto aid from multilateral lenders to Nicaragua unless the country takes steps to ensure free elections" (Montes and De Córdoba, 2016). At the least, this action would have to be included in any decision to move forward with the Chinese/Nicaragua canal project. At this writing, in early January 2017, it is impossible to assess the consequences of this legislation with the arrival of the Trump administration in Washington in less than two weeks.

ACKNOWLEDGMENT

I thank Claudia Binaghi for her great help in creating the tables that appear in the paper and the attractive PowerPoint presentation slides used at the Conference.

I am grateful to the Department of Economics and the School of Business at Montclair State University, who jointly provided the required funding to enable me to present the paper at the Eighteenth

Annual Conference of the National Business and Economics Society in March 2017 in Puerto Vallarta, Mexico.

REFERENCES

Acemoglu, D. & J. Robinson. (2012). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, New York: Crown Business.

Balassa, B. & Associates. (1971). *The Structure of Production in Developing Countries*, Baltimore and London: Johns Hopkins Press.

Beattie, A. (2000). World Bank Stages Intellectual Battle over Globalization, *Financial Times*, June 30.

Beattie, A. (2011). Tension Over Capital Flows Draws IMF Into the Fray, *Financial Times*, January 6.

Bhagwati, J. (1978). *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes*, Cambridge, MA: Ballinger Press.

Central Intelligence Agency (CIA). (2016). *The World Factbook*, (https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html).

Commission on Growth and Development. (2008). *The Growth Report: Strategies for Sustained Growth and Inclusive Development,* Washington, D.C.

Daley, S. (2016). Lost in Nicaragua, a Chinese Tycoon's Canal Plan, *The New York Times*, April 4.

De Córdoba, J. (2013). Nicaragua Revives Its Canal Dream, *The Wall Street Journal*, June 14.

De Córdoba, J. (2014). Nicaragua Starts Canal As Critics Lambaste It, *The Wall Street Journal*, December 23.

Financial Times. (2016). China's Addiction to Debt Threatens the Economy, September 20.

Hausmann, R., B. Klinger & R. Wagner. (2008). Doing Growth Diagnostics in Practice: A 'Mindbook', *Harvard University Center for International Development Working Paper 177*, September.

Hausmann, R., D. Rodrik & A. Velasco. (2008). Growth Diagnostics (Chapter 15), in *The Washington Consensus Reconsidered: Towards a New Global Governance*, Eds. J. Stiglitz and N. Serra, New York: Oxford University Press.

International Monetary Fund (IMF). (2015). *Nicaragua, Staff Report For The 2015 Article IV Consultation*, December, Washington, D.C.

Jelmayer, R., & J. Lewis. (2016). Brazil's Economic Gloom Lightens, *The Wall Street Journal*, July 25.

Karmin, C. (2015). A Changing Nicaragua Attracts U.S. Developer, *The Wall Street Journal,* April 15

Kristhof, N. (2016). Deporting Kids to Die, Sunday Review, *The New York Times*, July 17.

Krueger, A. (1978). *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences*, MA: Ballinger Press.

Kynge, J. (2016). Investors' Taste for China Sours Over Debt Fears, *Financial Times*, September 2.

Leahy, J. (2016). Brazil Plans Budget Freeze for Up to 20 Years. *Financial Times*, June 20.

Little, I., Scitovsky, T. & M. Scott. (1970). *Industry and Trade in Some Developing Countries*, London: Oxford University Press.

Mahalanobis, P. (1955). The Approach to Operations Research to Planning in India, *The Indian Journal of Statistics*, 16(1/2), 3-62.

Malkin, E. & N. Casey. (2016). Court Decides For President In Venezuela, *The New York Times*, October 13.

Merrill, T. (ed). *Nicaragua: A Country Study*. Washington: GPO for the Library of Congress, 1993.

Montes, J. & J. De Córdoba. (2016) Ortega Family Tightens Grip in Nicaragua, *The Wall Street Journal*, November 5-6.

New York Times. (2016a). The Left on the Run in Latin America, May 23.

New York Times. (2016b). An Exodus in Our Own Backyard, July 4.

O'Grady, M.A. (2013). Bill de Blasio, From Managua to Manhattan, *The Wall Street Journal*, October 7.

Otis, J. (2015). For Grand Canal, Nicaragua Seeks Land, *The Wall Street Journal*, June 6.

Plender, J. (2012). Growth Targets Risk Currency Wars and Capital Controls, Insight, *Financial Times*, December 19.

Prebisch, R. (1959). Commercial Policy in the Underdeveloped Countries, *American Economic Review*, 49(2), 251-73.
Rathbone, J. (2016). Under New Management, FT Big Read, Latin America, *Financial Times,* June 23.
Robles, F. (2016a). The Contras Are Back, but Nicaragua Denies It, *The New York Times*, March 8.
Robles, F. (2016b). Wife. Then First Lady. And Now Running Mate, *The New York Times*, October 31.
Rodrik, D. (2010). Diagnostics Before Prescription, *The Journal of Economic Perspectives*, (volume 24, number 3), Summer.
Rosenstein-Rodan, P. (1943). Problems of Industrialization in Eastern and South-Eastern Europe, *Economic Journal*, (53), 202-11.
Schipani, A. (2016). Morales Defies Referendum Defeat with Plans to Run Again, Financial Times, December 19.
Singer, H. (1964). *International Development: Growth and Change*, New York: McGraw- Hill.
Sohn, I. (2008a). Minerals-Supply Security and Minerals-Use Efficiency: Some Observations from the 1970-2005 Interval, *Minerals and Energy*, 145-61.
Sohn, I. (2008b). Energy-Supply Security and Energy-Intensity: Some Observations from the 1970-2005 Interval*, Minerals and Energy*, 184-87.
The Economist. (2003). Wanted: A New Regional Agenda For Economic Growth, April 26.
The Economist. (2011). The Tormented Isthmus: Central America, April 16.
The Economist. (2012). A Surprising Safe Haven: Crime in Nicaragua, January 28.
The Economist. (2013a). A Man, a Plan -- and Little Else; Nicaragua's Proposed Canal, October 5.
The Economist. (2013b). The Comandante's Commandments; Power Grab in Nicaragua, November 9.
The Economist. (2014a). Crime in Latin America: A Broken System, July 12.
The Economist. (2014b). Single Point of Failure; PetroCaribe and the Caribbean, October 4.
The Economist. (2014c). Digging for Truth; Nicaragua's Canal, December 20.
The Economist. (2015). Trench Warfare in Nicaragua; If the Panama Canal Gets a Rival, August 1.
The Economist. (2016a). Crime in El Salvador: The Gangs That Cost 16% of GDP, May 21.
The Economist. (2016b). Coming Clean: China’s Debt, July 9.
The Economist. (2016c). The World This Week, August 6.
The Economist. (2016d). From Comrade to Caudillo, Bello, September 17.
The Economist. (2016e). Bello: Of Growth and Globalization, September 24.
United Nations. (1998). *Preliminary Overview of the Economies of Latin America and the Caribbean.* Santiago, Chile: CEPAL.
United Nations. (2013). *Preliminary Overview of the Economies of Latin America and the Caribbean,2012.* Santiago, Chile: CEPAL.
United Nations. (2014). *Preliminary Overview of the Economies of Latin America and the Caribbean,2013.* Santiago, Chile: CEPAL.
United Nations. (2015). *Preliminary Overview of the Economies of Latin America and the Caribbean,2014.* Santiago, Chile: CEPAL
United Nations. (2016). *Preliminary Overview of the Economies of Latin America and the Caribbean,2015.* Santiago, Chile: CEPAL.
United Nations Development Programme (UNDP).(2015). *Human Development Report 2015: Work for Human Development,* New York: United Nations Development Programme.
Webber, J. (2015). China’s Money Floods Into Waterways, *Financial Times,* March 27.
Webber, J. & C. Shepherd. (2015). Nicaragua’s $50bn Canal Plan Delayed, *Financial Times*, November 27.
Williamson, J. (1994). *The Political Economy of Policy Reform*, Washington, D.C.: Institute for International Economics.
Williamson, J. (2003). From Reform Agenda to Damaged Brand Name, *Finance and Development,* September, 10-13.
Wong, C.H., (2016). Beijing to Keep Building on Disputed Islands, *The Wall Street Journal*, July 19.
World Bank. (1991*). World Development Report, 1991*, New York: Oxford University Press.

World Bank. (1997). *World Development Report, 1997*, New York: Oxford University Press.
World Bank. (2005). *Economic Growth in the 1990s: Learning from a Decade of Reform*, Washington, D.C.
Zach, E. (2015). Nicaragua's Troubled Waters, *The New York Times*, April 26.

WEBSITES CONSULTED

http://www.atlanticcouncil.org/publications/articles/urbanization-in-latin-america
www.eia.gov
https://www.imf.org/external/np/sec/pr/2000/pr0078.htm#annex
http://www.latinamericamonitor.com/economic-analysis-gaping-current-account-shortfall-will-narrow-modestly-2016-june-2016
http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf
www.oecd.org/tax/transparency/
http://unstats.un.org/unsd/methods/m49/m49regin.htm)
http://www.un.org/en/development/desa/population/publications/pdf/fertility/world-fertility-patterns-2015.pdf
http://info.worldbank.org/governance/wgi/index.aspx#countryReports
http://data.worldbank.org/topic/infrastructure?locations=NI-ZJ)
http://data.worldbank.org/topic/infrastructure?locations=NI-US-ZJ
http://data.worldbank.org/indicator/SE.PRM.CMPT.ZS?locations=NI
http://data.worldbank.org/indicator/SI.POV.NAHC/countries/PA?display=graph
http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=ZJ
http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=NI
http://data.worldbank.org/indicator/SH.H2O.SAFE.ZS?locations=NI-ZJ
http://data.worldbank.org/indicator/SH.STA.ACSN?locations=NI-ZJ
http://data.worldbank.org/indicator/SP.DYN.IMRT.IN?locations=ZJ).
https://en.wikipedia.org/wiki/List_of_countries_by_net_migration_rate).
https://en.wikipedia.org/wiki/Nicaragua).
http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NI).
http://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=NI-US-EU
http://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=NI-US-EUUN
http://info.worldbank.org/governance/wgi/index.aspx#reports)
http://data.worldbank.org/about/country-and-lending-groups
http://www1.worldbank.org/finance/assets/images/Crisis_Man.pdf
http://databank.worldbank.org/data/reports.aspx?Code=SI.POV.NAHC&id=af3ce82b&report_name=Popular_indicators&populartype=series&ispopular=yhttp://data.worldbank.org/indicator/SP.DYN.IMRT.IN?locations=ZJ
http://www.bbc.com/news/world-latin-america-28558480
http://www.ey.com/GL/en/Services/Tax/International-Tax/Alert--Mexico-s-tax-reform-is-signed-by-president-and-published
www.doingbusiness.org
http://www.npr.org/sections/parallels/2014/10/26/357791551/nicaragua-follows-its-own-path-in-dealing-with-drug-traffickers
https://stats.oecd.org/Index.aspx?DataSetCode=REV
http://report.hdr.undp.org
http://www.wola.org/commentary/five_facts_about_migration_from_central_america_s_northern_triangle
https://www.transparency.org/country/#NIC