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CARFAX

Making the economy scream: US economic sanctions against Sandinista Nicaragua

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From 1981 to 1990, the USA engaged in a concerted and multifaceted campaign to overthrow the government of Nicaragua—a policy that was highly controversial domestically and culminated in the Iran–contra scandal. In the history of US attempts to destabilise other governments, the effort against Nicaragua stands out as one of the most intensive and long-lasting. The covert paramilitary dimension of Washington's policy is well known and quite comprehensively documented, in part because of the investigations resulting from the Iran–contra affair.[1] The economic dimension of the policy has received less attention, even though it was arguably more effective. The 'contra' war failed to achieve its aim of overthrowing the Sandinista government by military means, whereas economic sanctions, combined with the costs of the war, succeeded in devastating the economy. Amid widespread privation, the Sandinistas' popular support fell severely, and they were soundly defeated in the 1990 elections.[2]

The weight of scholarly opinion holds that economic sanctions are not an effective foreign policy instrument.[3] Even among scholars who have recently tried to rehabilitate sanctions, most agree that they can only be successful under a limited set of circumstances. Hufbauer, Schott and Elliot, for example, offer a list of nine conditions that determine whether or not sanctions will bring about the desired policy change by the target country. One of their conclusions, interestingly, is that the use of economic sanctions by the USA to destabilise governments in Latin America has been more successful historically than the use of economic sanctions for various other aims.[4] The example of Nicaragua is a case in point.

Carter's aid policy

On 19 July 1979, the Marxist Sandinista National Liberation Front (Frente Sandinista de la Liberacíon Nacional—FSLN) took power in Nicaragua after an 18-month-long insurrection against the dynastic dictatorship of Anastasio Somoza. During the final months of the revolution, the USA tried, unsuccessfully, to ease Somoza out of office in favour of moderate oppositional figures in

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order to prevent the radical Sandinistas from coming to power. In the wake of Somoza's defeat, however, President Jimmy Carter adopted a policy of cautious acceptance of the new Nicaraguan government. Both Nicaragua and the USA had an interest in maintaining friendly relations. Nicaragua desperately needed foreign assistance to help rebuild its shattered economy, which Washington pledged to provide. Moreover, other international assistance—from Latin America, Western Europe, and the international financial institutions—would tend to follow the lead of the USA.

For Washington, maintaining cordial relations with Nicaragua was a means of salvaging something from the failure to keep the Sandinistas out of power. From Washington's perspective, the struggle to control the succession to Anastasio Somoza had been 'lost', but perhaps Nicaragua itself need not be. The Carter Administration set out, quite consciously, to avoid repeating the errors of 1959–60, when US hostility contributed to the radicalisation of the Cuban revolution and its alignment with the USSR.

In the immediate aftermath of the insurrection, the USA provided $10.5 million in emergency relief to help feed and house the thousands of people displaced by the war. This was followed in September 1979 by $8.5 million in 'reprogrammed' economic reconstruction assistance, ie money reallocated to Nicaragua from other foreign aid accounts.[6] In addition, the State Department drew up an $80 million supplemental foreign aid request for Central America for fiscal year (FY) 1980, $75 million of which was for Nicaragua.[7] Despite intense opposition from conservative Republicans, the $75 million aid package eventually passed Congress, albeit with 16 conditions restricting how the funds for Nicaragua could be used.[8]

One of these conditions required that aid be terminated if the president found that the Nicaraguan government was aiding or abetting acts of violence in another country. Despite some intelligence reports that arms were flowing from Nicaragua to the guerrillas in nearby El Salvador, Carter gave the Sandinistas the benefit of the doubt, concluding that this was not government policy.[9] By January 1981, however, new intelligence left no doubt that the Sandinistas were directly involved in smuggling arms to El Salvador. As a result, Carter suspended economic assistance. 'I had no alternative but to cut off aid to the Sandinistas before I left office', Carter said, 'because there was evidence that was clear to me that the Sandinistas were giving assistance to the revolutionaries in El Salvador, and the law required me to stop the aid.'[10]

The suspension of aid was the first step in dismantling the constructive relations with Nicaragua that Carter had tried to maintain for 18 months. By only suspending aid rather than cancelling it, Carter left open the possibility that it might be resumed if Nicaragua ceased its support for the Salvadoran guerrillas. But that determination would to fall to Ronald Reagan.

Halting bilateral assistance

President Ronald Reagan came to office ill-disposed towards Carter's policy of trying to maintain friendly relations with Sandinista Nicaragua. Two days after inauguration, Secretary of State Alexander Haig recommended that the president reafirm the suspension of economic aid to Nicaragua, and Reagan agreed. Two weeks later, the US Agency for International Development (US AID) announced that a $9.6 million shipment of wheat was being delayed pending a review of Nicaragua's support for the Salvadoran guerrillas.[11] These moves surprised no one, since Congressional Republicans had bitterly opposed Carter's Nicaraguan aid package, and the Republican Party Platform explicitly called for ending it.

But US Ambassador to Nicaragua Lawrence Pezzullo, one of the architects of Carter's strategy of wooing the Sandinistas with economic assistance, was not willing to give up so easily. Pezzulo argued forcefully that the proper mix of diplomatic pressure and the *threat* to cut off badly needed economic assistance could persuade the Sandinistas to curtail their material support for the Salvadoran guerrillas. If US aid was actually stopped, Pezzulo pointed out, the Sandinistas would no longer have any incentive to limit their role in El Salvador or maintain a moderate domestic policy. The only instrument Washington would then have to modify Sandinista behaviour would be military pressure. Pezzulo convinced Haig and Reagan to delay a final cut-off of aid for 30 days while he explained Washington's terms to the Sandinistas.[12]

Pezzullo's strategy began to show results almost immediately; the arms flow from Nicaragua to El Salvador stopped.[13] Senior US officials met in mid-March to review Nicaragua's compliance with Washington's demands. Hard-liners in the new administration sought to repudiate Carter's (and Pezzulo's) strategy, replacing it with a policy of hostility towards Nicaragua. Led by National Security Adviser Richard V Allen, they advocated a permanent cut-off of aid to Nicaragua, pointing to the Republican Platform as their rationale. They acknowledged that intelligence reports indicated the arms flow to El Salvador had stopped, but they interpreted this as merely 'seasonal', a result of the guerrillas' reduced logistical needs; the smuggling might resume. There was no way to disprove such speculation, and the hard-liners carried the day. Aid was permanently cut off.[14] The US action prevented the shipment of $9.6 million of food aid and cancelled disbursal of the final $15 million of Carter's $75 million aid package, except for a few million dollars destined for the Sandinistas' opponents in the private sector.

The Sandinistas described the aid cut-off as 'interventionism, blackmail, and Yankee economic aggression'. Within a few weeks, the USSR had offered to provide Nicaragua with 20 000 tons of wheat to make up for the cancelled US shipment, Libya had offered a $100 million loan, and Cuba agreed to provide $64 million in technical aid.[15]

On Capitol Hill, liberal Democrats lamented the new Nicaragua policy, noting that it was inconsistent with the evidence that the Sandinistas had, in fact, halted aid to the Salvadoran guerrillas. Congressman Tom Harkin (D-Iowa) saw the decision as something more sinister: 'There are elements in this administration that are geared up to create economic chaos in Nicaragua', Harkin warned. '[The aid cut-off] is no more than the first step in this destabilization process, the same destabilization process our CIA engaged in [in] the Dominican Republic, in Guatemala, and in Chile.' The real objective of the policy, he predicted, was 'to overturn the Nicaraguan revolution'.[16]

Harkin proved to be right. During the first Reagan Administration, officials were somewhat divided over the ultimate aim of US economic sanctions and paramilitary support for the *contras*. Hard-liners, like Allen, his successor as National Security Adviser, William Clark, and CIA Director William Casey, sought from the beginning to depose the Sandinista government. The 'pragmatists' (as they referred to themselves), like Chief of Staff James Baker and Secretary of State George Shultz, doubted that the *contras* had the capability of overthrowing the Nicaraguan regime, but they nevertheless supported Reagan's policy of hostility as a form of coercive diplomacy designed to force the Sandinistas into making major concessions to Washington regarding both their domestic and foreign policies. These two factions jockeyed for control over the policy until 1985, after which the hard-liners consolidated dominance.[17]

Blocking commercial credit

By mid-1981, Washington was also lobbying against new loans to Nicaragua both from private commercial banks and multilateral lending agencies like the World Bank and the Inter-American Development Bank. Somoza left Nicaragua saddled with $1.6 billion in foreign debt, $760 million of which was owed to private banks.[18] The Sandinistas agreed to pay all of these debts in hopes of keeping lines of credit open for new loans. In 1980, private banks were willing to reschedule Nicaragua's debt on terms favourable to the government, since otherwise it would have been forced into default. But few were willing to risk advancing new capital to the revolutionary regime, and those that considered it were actively discouraged by the USA. 'We simply tell bankers what the situation is in Nicaragua, what our government feels about Nicaragua, the general conditions in the area, and the risks', a US official explained.[19]

In March 1982, for example, Nicaragua was negotiating a $130 million loan from a London-based international banking syndicate that included banks from the USA, Germany, Switzerland, Japan and Mexico. The loan inexplicably fell through at the last minute. In December, the Bank of America was preparing to loan Nicaragua $30 million for just 90 days so that the government could meet a scheduled debt service payment. The loan would have been repaid with proceeds from the cotton harvest. Officials from the US government called loan officers at the bank to inform them of Washington's opposition and, according to some reports, threatened to call members of the Bank's board of directors if necessary to stop the loan. It was stopped.[20] In early 1983, the USA government downgraded Nicaragua's credit-worthiness rating from 'substandard' to 'doubtful', further discouraging private bank loans, even though Nicaragua was meeting its debt payment schedule at the time.

After 1979 Nicaragua received a total of only $12 million in new private commercial bank loans, all of which were 90 day credits to facilitate trade.[21] Managua was forced to renegotiate the scheduling of its private bank debt again in 1983 and 1984 as its hard currency deficit became greater and greater. After 1985, it simply stopped paying, after having spent $234 million on private debt service since 1980, and gotten almost nothing in return.[22]

Blocking multilateral assistance

The USA began opposing multilateral development bank loans to Nicaragua in mid-1981 when it was added to what a Treasury Department official called the 'hit list' of countries that Washington sought to deny loans. The list also included Cuba, Vietnam, Afghanistan and Grenada (until the 1983 US invasion).[23] In November 1981 Washington prevailed upon Chile and Argentina to help block a $30.7 million Inter-American Development Bank (IDB) loan to Nicaragua for 50 fishing boats to replace the Somoza-owned fleet that had sailed away when he was overthrown. For Chile and Argentina, cooperation against Nicaragua was a way to repay a political debt to Ronald Reagan. In July 1981 Reagan had reversed the Carter Administration's policy of voting against multilateral bank loans to Argentina and Chile on human rights grounds.[24]

Voting stock in the multilateral banks is based on each country's financial contribution. As the largest contributor to all the banks, Washington naturally wielded considerable influence. Together, the USA, Chile and Argentina controlled enough votes in the IDB to reject the fishing boat loan, so Nicaragua withdrew the request rather than have it killed. Washington blocked another Nicaraguan effort to get the loan approved in March 1982.

After the USA sided with the UK in the 1982 Falklands/Malvinas War, Argentina dropped out of Washington's cabal. In September 1982 Nicaragua received $34.4 million from the IDB for a hydroelectric project because Argentina supported it despite Washington's opposition.[25] But it still took another year and a half before the loan was approved because of what one of the bank's executive directors called 'filibustering' by the US representative, José Manuel Casanova.

Casanova, a fiercely anti-communist Cuban exile and major contributor to the Republican Party, argued against the economically sound fishing boat loan on the grounds that the Nicaraguans would use the boats to smuggle guns into El Salvador—despite the fact that 44 of the 50 boats were intended for use on Nicaragua's Atlantic coast.[26] Another US official was more candid. Washington opposed the loan, he said, because 'we had an overall political problem' with Nicaragua.[27]

Although no one doubted that Washington's motives were political, the Administration could not openly say so because the charters of all the multilateral banks prohibited the use of political criteria in making loan decisions. Consequently, US representatives at the banks had to argue, evidence to the contrary notwithstanding, that the loans were economically unsound. Since that could be embarrassing, Washington's preferred strategy, according to an internal Treasury Department memorandum, was to 'attempt to persuade the managements of the Banks not to bring these loans forward'.[28]

One instance that caused particular anger among representatives from other countries was the US veto in 1983 of a $2.2 million IDB loan to finish a rural road project that was begun in 1976 and was over 90% completed. The loan was from the bank's Special Operations Fund, a 'soft loan' facility that provided funds on concessionary terms. Approval of a loan from the fund required a two-thirds majority, and the USA controlled 35% of the voting stock.

Contrary to bank tradition, the US representatives did not mention their opposition to the loan until the last moment when it was coming to a vote, whereupon the USA announced it would vote no. It was the second time Washington had exercised its veto over a concessionary loan to Nicaragua; the first was in January 1982 when it blocked a small $0.5 million agricultural loan. Half a dozen directors representing Latin America and Western Europe complained at the transparency of Washington's motives, and when the loan came to a vote, representatives of 42 countries supported it. The USA alone stood opposed, and the loan was defeated. Eventually, the Netherlands provided Nicaragua with bilateral aid funds to finish the project.[29]

The most controversial IDB loan to Nicaragua involved its 1984 request for $58 million to help small private farmers. Like the 1982 hydroelectric loan, the funds would not come from the special concessionary account, so Washington alone could not block them. The Bank's Middle Management Committee approved the loan in October 1984 and the senior management's Loan Review Committee approved it on 17 November, saying 'We consider the program viable technically, institutionally, financially, economically, and legally, and we recommend approval of the proposed loan'. All that remained was for the loan to be put on the agenda of the Board of Directors.[30]

But Bank President Antonio Ortíz Mena didn't schedule it. When Jorge Alexey de Synegub, a Guatemalan who served as the director for all the Central American countries at the bank, inquired as to why the loan was not on the agenda for either the November or December board meetings, he was told, falsely, that the loan was still under review by the bank's technical staff.[31]

US Director Casanova threatened to walk out of any board meeting at which the Nicaragua loan was brought up. Since the board required attendance by directors holding three-quarters of one voting stock in order to have a quorum, Casanova, holding Washington's 35% of the votes, was threatening to paralyse all bank operations.[32] When the Nicaragua loan was left off the agenda for the January board meeting as well, all 25 Latin American countries took the unprecedented step of ordering the Bank management to schedule the loan for the next meeting. That seemed to leave Bank President Ortíz Mena no choice.

But the Reagan administration had not exhausted all its options. To trump the Latin American directive to Ortíz Mena, Washington issued one of its own. On 30 January 1985, Secretary of State Shultz wrote to Ortíz Mena expressing the administration's 'strong' opposition to any loans for Nicaragua. 'Nicaragua is not credit-worthy', Shultz began, and moreover, it might 'misuse' the proceeds from the loan. 'Monies received from the Bank would relieve financial pressures on the GON [Government of Nicaragua] and could free up other monies that could be used to help consolidate the Marxist regime and finance Nicaragua's aggression against its neighbors ... ' Shultz wrote.

Finally, lest there by any doubt about Washington's seriousness, Shultz warned Ortíz Mena to 'consider carefully' how the US Congress and public would react to approval of the Nicaragua loan. 'We are all too well aware of the increasing difficulties in gaining Congressional appropriations for the international financial institutions such as the Inter-American Development Bank', Shultz wrote. The USA was already $1 billion in arrears on its contributions to the Bank. Approval of the Nicaragua loan, Shultz warned, would make it 'even more difficult' to gain additional funding. Shultz concluded by urging Ortíz Mena to 'defer release of the documentation for the proposed loan to a more opportune time in the future'—that is, to defy the previous vote of the board that the loan be scheduled for final approval.[33]

'We read ... [it] as a threat,' said one bank official. Even in the early 1970s, when Washington pressured the bank to cut off credits to Salvador Allende's government in Chile, 'there was never such a communication from a secretary of state', he said. 'There has never been anything like this.'[34] Shultz's actions, wrote a British Foreign Office official, was 'typical of bully-boy tactics which the present US Administration is apt to adopt—towards allies as well as adversaries'.[35]

Ortíz Mena sent the loan back to the technical staff for re-evaluation on the grounds that recent adjustments in the Nicaraguan economy required further analysis. The Latin American members of the Bank, also under US pressure, did not object. The new technical review of the loan lasted a full year, concluding only after top bank officials instructed the technical staff to write a negative report on the loan. The Loan Review Committee, chaired by Executive Vice-President Michael E Curtain, a Reagan appointee, rejected the staff's first assessment because it concluded that the project would probably succeed. A revised report came to the opposite conclusion, echoing Washington's policy position—that Nicaragua's macroeconomic policies would 'not permit economically efficient operation of the project'. The negative report, which would have killed the loan for good, was quickly scheduled for presentation to the Board of Directors.[36] It was put off yet again, this time at Nicaragua's request, to prevent it from being rejected. The loan finally died with a whimper when the IDB discontinued all further loans to Nicaragua because the Sandinistas fell into arrears in repaying past loans. But even that was not the final insult. In 1987 it was Nicaragua's turn to appoint the Central American director for the Bank, a post that normally rotated among the five countries in the region. Washington's allies voted together to deprive Nicaragua of the seat.[37]

In the World Bank, Washington cast its first vote against Nicaragua in January 1982, when it opposed a loan for $16 million to finance infrastructure development in low-income neighbourhoods in Managua. The project was so well conceived that both the Treasury Department and the Latin American Bureau at the State Department supported it, but Secretary of State Alexander Haig ordered the US executive director at the Bank to vote against the loan nevertheless. It passed anyway, because Washington did not have the votes at the Bank to block it.[38]

But like the Inter-American Development Bank, the World Bank was susceptible to pressure from its principal contributor. An October 1981 World Bank report, based on a 1980 field visit, was generally optimistic about Nicaragua's prospects for economic recovery from the insurrection against Somoza, if it could 'receive external assistance at concessional terms'. The report recognised that Nicaragua would be largely dependent on bilateral and multilateral aid, since further commercial bank financing was unlikely.[39]

But in 1981, Robert McNamara retired as president of the World Bank and was succeeded by Republican A W Clausen, president of BankAmerica Corporation. The World Bank's position on Nicaragua underwent a radical reversal, just as Washington initiated its policy of blocking multilateral loans to the Sandinistas. In February 1982, World Bank staff prepared a new confidential report on Nicaragua. In contrast to the report issued just four months earlier, this one was extremely negative. 'Nicaragua's short and medium term prospects are not good,' the report predicted. The Sandinistas had failed to 'establish clear policy guidelines for the economy', and the contradiction between their 'Marxist–Leninist approaches' and the capitalist character of the economy had 'not only thwarted the recovery process, but jeopardized the country's development prospects and credit-worthiness'.[40] The main problem was Nicaragua's lack of hard currency, which could only be remedied by increasing export production. Since private businessmen held a dominant position in the export sector, production would not increase unless the climate for private investment improved.

'The ideological struggle between economic models is, in the final analysis, a power struggle', the report observed. No further loans should be made to Nicaragua unless the Sandinistas were willing to accept the Bank's 'most important recommendation'—that is, to begin 'revitalizing the private sector'.[41] This requirement echoed precisely the demands of the private sector inside Nicaragua and the rationale Washington was using to justify its opposition to Nicaraguan loans.

Even if these measures were taken, Nicaragua would need large-scale economic assistance and loans at concessionary interest rates just to remain solvent in the medium term. Without them, the economy was headed for disaster. The report then recommended that the World Bank cut back its lending to a level 'well below that of the previous two years', a strategy that, by the logic of the Bank's own analysis, was destined to push Nicaragua into even deeper crisis. The report suggested loans equal in real terms to the levels the Bank had provided Somoza, before the loss of 35% of Gross Domestic Product (GDP) and $500 million in capital flight caused by the 1978-1979 insurrection. Even this limited lending programme should be delayed, the report urged, and conditioned upon the Nicaraguan government giving 'some indications that it plans to follow our policy advice'.[42] In short, the Sandinistas were expected to surrender to the private sector in the struggle to define the nature of Nicaragua's social and economic model, in exchange for which they would receive a reduced level of multilateral assistance, inadequate to prevent the economy from slipping into severe recession.

In writing this report, the Bank staff was very much aware of US opposition to further lending to Nicaragua. The report recommended against a 'major assistance' programme because 'increasing constraints and political limitations on the Bank may render this alternative unfeasible'. Nicaragua was 'likely to be a very controversial client' the report added. Washington's opposition to all lending was tacitly acknowledged when the report noted that concessionary loans could not be offered to Nicaragua because the USA held enough votes to veto them unilaterally.[43]

Washington's pressure on the multilateral banks was extremely effective. In the two years from August 1979 to June 1981, before Washington began pressing the banks to halt loans to Nicaragua, the Inter-American Development Bank provided Nicaragua with $193 million and the World Bank provided $91 million. From late 1981 to 1984, Nicaragua received only $34 million from the IDB and $16 million from the World Bank.[44] After 1984, Nicaragua got nothing from either of them because the Sandinistas stopped making debt service payments on prior loans. Their decision to halt the payments was not unreasonable. During the first half of the decade, Nicaragua experienced a net capital outflow in its relations with both the private commercial banks and the multilaterals, paying a total of $423 million in debt service and receiving very little new capital.[45]

The US trade embargo

In addition to blocking international loans to Nicaragua, the Reagan administration also gradually imposed restrictions on US trade. In 1981 it denied Nicaragua credit through the US Import–Export Bank, which makes short-term loans to facilitate trade. Since Nicaragua was unable to secure even short-term credits from commercial banks, it was forced to pay cash for everything it imported from the USA.

To discourage US investment, the administration cancelled Overseas Private Investment Corporation (OPIC) insurance for Nicaragua, thereby substantially raising the risk to investors. In June 1983, when Nicaragua expelled three US diplomats, Washington retaliated by expelling 21 Nicaraguan diplomats and closing all six Nicaraguan consulates in the USA outside Washington. The main effect of this was to make contacts between US businessmen and Nicaraguan trade representatives extremely difficult, further restricting commercial relations.[46]

In 1983 the administration reduced Nicaragua's share of the US sugar quota by 90%. Nicaragua had been exporting about $15.6 million worth of sugar to Washington annually, receiving a premium price of 17 cents/lb—nearly three times the world market price. The reason for cutting the quota, according to the White House, was to reduce the resources available to Nicaragua for 'subversion and extremist violence'. In fact, one of the main reasons was to reassure US allies in Central America of Washington's steadfast antagonism to Nicaragua, despite rising Congressional opposition to the CIA's covert paramilitary war. Reagan wanted to show he intended to 'stay the course in Central America', an administration official explained.[47]

Nicaragua appealed to the United Nations' Sixth Conference on Trade and Development (UNCTAD), which passed (by a vote of 81–18) a resolution condemning economic sanctions against underdeveloped countries by developed ones. Nicaragua also complained that the reduction of the sugar quota violated US commitments under the General Agreement on Trade and Tariffs (GATT) and, in March 1984, a GATT panel agreed, ordering the USA to 'promptly restore' the Nicaraguan quota. Washington ignored the ruling.[48]

The next logical step in the escalating economic war was the imposition of a full trade embargo. In fact, National Security Decision Directive 124 (NSDD 124), which Reagan signed in February 1984, specifically called for officials to 'review and recommend economic sanctions against Nicaragua that are likely to build pressure on the Sandinistas'.[49] Hard-liners in the Defense Department, CIA, and National Security Council staff wanted to impose an embargo, but State, Commerce, and Treasury were all opposed on the grounds that it would violate the GATT and harm relations with allies in both Latin America and Europe. The Commerce Department, in particular, worried that Washington would get a reputation as an unreliable trading partner, which could hurt administration efforts to expand trade with China and other countries with whom Washington had less that amiable political ties.

The Justice Department's Office of Legal Council had a 'serious problem' with the legality of a trade embargo, said a source there; it probably violated the Organization of American States (OAS) and UN charters, as well as GATT.[50] Article 19 of the OAS Charter reads: 'No state may use or encourage the use of coercive measures of an economic or political character in order to force the sovereign will of another state and obtain from it advantages of any kind.' Article 32 of the UN Charter contains virtually identical language.

Finally, some administration officials believed that an embargo would be counterproductive. Since virtually no other country was likely to join a US embargo against Nicaragua, the impact on the Sandinista government would probably be minimal. The people likely to be hurt most were Nicaraguan businessmen, the backbone of the civic opposition to the Sandinistas. The Sandinistas, however, could use an embargo as an excuse to blame the country's mounting economic problems on the USA, just as Fidel Castro had been doing in Cuba for three decades.[51]

In 1983 and 1984 these arguments were enough to hold the line against the hard-liners' demands for an embargo. But after the House of Representatives prohibited further funding for the *contra* war in 1984, and Reagan's initial effort to resume it in 1985 was defeated, the administration needed to take quick action to reassure Honduras that the USA was not backing out on its commitment to the *contras*. Imposing a trade embargo was something that could be done immediately, and it was one of the few sanctions short of direct military action that the administration had not already imposed. The symbolic importance of the embargo thus came to weigh as heavily as its practical effect.[52]

Congressional attitudes also figured in the decision to impose the embargo. During the *contra* aid debates on Capitol Hill, many members had urged an embargo, either as a supplement or an alternative to continued military action. Conservative Republicans were pressing for a trade embargo to reinforce hard-liners within the administration. But moderate Republicans and Democrats also urged Reagan to consider economic sanctions as an alternative way to pressure the Sandinistas. 'If we oppose the regime in Managua, why do we buy Nicaraguan beef and bananas?' asked Senate Intelligence Committee Chairman David Durenberger.[53]

On 1 May 1985, as Reagan arrived in Bonn, Germany, to laud the virtues of free trade at an economic summit with the European allies, the White House announced that the USA was imposing a full trade embargo on Nicaragua. 'US application of these sanctions should be seen by the Government of Nicaragua, and by those who abet it, as unmistakable evidence that we take seriously the obligation to protect our security interests and those of our friends', Reagan wrote in a letter informing Congress of his decision.[54]

To impose an embargo without Congressional approval, Reagan had to invoke the International Emergency Economic Powers Act (IEEPA), under which he could declare a 'national emergency' to deal with an 'unusual and extraordinary threat to the national security and foreign policy of the United States'.[55] Critics scoffed at the idea that Nicaragua, a small country devastated by war, collapsing economically and surrounded by enemies, could pose the sort of threat to the USA that the law intended. But the law gave the president alone the power to decide what constituted a national emergency.[56]

Reaction to the embargo among US allies was uniformly negative. Participants at the Bonn summit criticised it as counterproductive and warned that it would increase regional tensions. Among the Atlantic allies, the UK, Germany, Spain and Portugal all openly opposed the embargo and affirmed their intention to continue trading with Nicaragua. Canada, France, Italy, Sweden and the Netherlands went so far as to extend new trade credits to Nicaragua to offset the effects of the embargo. These reactions were a significant setback for Washington's two-year diplomatic effort to convince the European allies to reduce their aid.[57]

Mexico called the trade ban 'economic coercion', and then reversed its earlier decision to stop selling Nicaragua oil on credit—a decision Washington had struggled for two years to get the Mexicans to take. Colombia and Venezuela, which has been trying to broker a diplomatic settlement of the *contra* war, also criticised the US action.[58] In May 1985 in a meeting of the Latin American Economic System (SELA) all the governments of Latin America supported a resolution that called on the USA to lift the embargo and urged SELA members to take actions to counter the embargo's effects. The OAS Permanent Council adopted a similar resolution, and the 13 nations in the Caribbean Community (CARICOM) also called on Washington to end the embargo. When Assistant Secretary Motley was asked during Congressional hearings if any countries had expressed support for the embargo, he could name only El Salvador—and even El Salvador did not join it.[59]

At the United Nations, the Security council voted 11–1 (with three abstentions) for a resolution criticising the embargo. US allies France, Denmark, and Australia voted in favour, while the UK abstained; Washington's lone 'no' vote vetoed the measure. In the General Assembly, a similar resolution co-sponsored by Nicaragua, Mexico, Peru and Algeria passed 84–4, with 37 abstentions. Only the USA, the Gambia, Grenada and Israel voted against it.[60]

The impact of the trade embargo on Nicaragua was significant. As relations with Washington deteriorated during the early 1980s, the Sandinistas had anticipated that economic sanctions would be imposed eventually. They therefore diversified Nicaragua's foreign trade as much as possible to blunt the impact of an embargo. In 1980, 30.4% of Nicaraguan trade was with the USA. By 1984 that had been reduced to 14.9%, although Washington was still Nicaragua's largest single trading partner. Trade with Western Europe and Japan had grown from 20.6% to 35.1%, and trade with the Soviet bloc jumped from only 1% in 1980 to 15.4% in 1984.[61]

Nicaraguan exports to the USA included bananas, beef, shellfish, tobacco, and sugar—all easily marketable elsewhere, although Nicaragua incurred higher transportation costs to get the goods to their new markets. The biggest problem caused by the embargo was the loss of imports and the resulting unavailability of spare parts for US manufactured goods, which included virtually all Nicaragua's non-agricultural productive capacity. Considerable production was lost while factories waited for crucial replacement parts to be found. The Nicaraguan government estimated that the embargo cost the country about $50 million annually.[62] These costs were offset to some degree by the willingness of some countries to extend additional trade credits to Nicaragua. In his trip through Europe just after the embargo was imposed, Ortega won pledges of $190 million in loans from Western countries and $202 million from the Soviet Union and Eastern Europe.[63]

The economic effects of the *contra* war

From the earliest stages of the *contra* war, the Nicaraguan economy was a primary target, despite the CIA's assurances to Congress that only military installations would be attacked.[64] The *contras* preferred to attack lightly defended farms and villages rather than Sandinista military posts and, along the border with Honduras, their episodic raids severely curtailed agricultural production.

In 1983 the Reagan administration sought to escalate the war's economic toll significantly by mounting a concerted sabotage campaign. 'Let's make the bastards sweat', CIA Director William Casey told Dewey Clarridge, his chief of operations for Latin America. Clarridge came with the idea of creating a special commando force of CIA contract agents—'unilaterally controlled Latino assets', or UCLAS—to attack vital economic installations.[65] 'Our mission was to sabotage ports, refineries, boats and bridges, and try to make it look like the *contras* had done it,' one of the UCLAS later explained.[66]

The CIA outfitted two oil rig servicing ships as platforms for the UCLAS, who were mercenaries recruited from all over Latin America. Operating out of a secret CIA base on Tiger Island, Honduras, in the Gulf of Fonseca, these 'mother ships' sat off the Nicaraguan coast, just outside the 12-mile limit. From there, they launched speedboats and helicopters to attack Nicaraguan ports. CIA officers managed the operations from the mother ships.

US Army Special Operations Forces from the 160th Task Force of the 101st Airborne Division did the flying. Heavy Chinook helicopters ferried the UCLAS and their speed boats to the Nicaraguan coast; light Hughes 500 helicopters strafed and rocketed Nicaraguan coastal defences. Sometimes, especially difficult sabotage operations were carried out by US Navy SEALS (Sea, Air, and Land special forces). 'You don't think we would have gone to all that trouble for a bunch of *contras*, do you?' said one former army helicopter pilot, describing a particularly heated battle to extract a SEAL team.[67]

Between September 1983 and April 1984 the UCLAS and US Special Forces carried out 19 attacks, most of them targeted at Nicaragua's three oil storage facilities. On 10 October 1984 the commandos blew up oil storage tanks at Corinto, causing the loss of over 3.2 million gallons of gasoline and diesel fuel. One hundred and twelve people were injured and some 20 000 had to be evacuated from the city. The fires burned for several days. Three days later, frogmen blew up mooring facilities on the oil pipeline in Puerto Sandino. Shortly thereafter, Exxon Corporation informed Nicaragua it would no longer provide tankers to transport Nicaraguan oil.[68]

Casey was thrilled by the success of the sabotage campaign, and pressed Clarridge to come up with new ideas for crippling the Nicaraguan economy. Clarridge, who had studied the effectiveness of naval mines in the Russo-Japanese War while he was at Columbia University, suggested mining Nicaragua's harbours.[69] The Nicaraguan economy was highly dependent on trade. Choke off shipping, and the economy would die. 'Our intention is to severely disrupt the flow of shipping essential to Nicaraguan trade during the peak export period', National Security Council (NSC) staffers wrote in a memo to National Security Adviser Robert McFarlane shortly after the mining began. 'It is entirely likely that once a ship has been sunk, no insurers will cover ships calling in Nicaraguan ports.'[70]

To avoid the diplomatic headaches that would come from sinking ships and killing seamen from third countries, the CIA had 'firecracker' mines specially made—mines supposedly not big enough to sink a vessel or kill anyone (although some contained 300 pounds of plastic explosive), but big enough to damage ships and, as one official put it, 'wake up folks at Lloyds of London'.[71] Mexican ships were specifically targeted, because Mexico supplied almost all of Nicaragua's oil.[72]

The mining began in January 1984 and continued until Washington's role became public in early April. The mines, about 75 in all, were laid by speedboats and helicopters piloted by UCLAS and US Special Operations Forces. More than half a dozen merchant ships from Japan, Panama, Liberia, the Netherlands and the USSR were damaged by mines in Nicaragua's three major ports—Corinto, Puerto Sandino and El Bluff. Fifteen sailors were injured, and two Nicaraguans were killed when their fishing boats hit mines and sank. The domestic and international outcry over the mining caused the administration to abandon the project in April and, within a few weeks, the Nicaraguans had managed to clear the remaining mines. Nevertheless, the estimated cost of the mining to the Nicaragua economy was $10 million.[73]

During 1985 and 1986 the *contras* and the Sandinista army fought what Nicaraguan President Daniel Ortega called the 'the great coffee war'. In January 1985 the *contras* launched a sustained offensive to disrupt the coffee harvest, thereby depriving the government of desperately needed hard currency. They attacked some 50 state and cooperative farms, and ambushed dozens of trucks carrying farm workers. Between 20% and 25% of the 1985 harvest was lost because it was too dangerous for farmers to go into the fields to pick it. By early 1986, however, the *contras* were so weakened they did not even attempt to mount an attack on the harvest, even though the world market price for coffee had doubled, making the harvest all the more critical to the economy.[74]

Overall, the cost of physical damage caused by the fighting, and lost production resulting from the disruption of transportation, displacement of people from the war zones, interruption of energy supplies, etc, amounted to an estimated $2 billion between 1980 and 1986.[75] The most significant effect of the war, however, was the diversion of resources from economic development to military defence. By 1986, 55% of the government's budget was devoted to fighting the war, a figure that held constant until 1988.[76] With production declining, tax revenues could not begin to cover the costs of the conflict, so the government closed the fiscal gap by simply printing money.

The impact of US sanctions

The cumulative impact of the embargo, the evaporation of external capital from the international banks, and the costs of the *contra* war proved to be fatal for an economy that had never really recovered from the insurrection against Somoza. The insurrection in 1978–79 destroyed some 22% of the fixed capital assets in the manufacturing sector of the Nicaraguan economy. Nevertheless, with the help of external financing, recovery was brisk in 1980 and 1981.[77] The economy began to slow in 1982, however, and by 1983 it had turned down. From there the decline accelerated.

To be sure, the economic policies of the Sandinista government and its ongoing feud with the private sector discouraged investment, thereby exacerbating the country's economic plight.[78] But Nicaragua, like Chile in the early 1970s, was an underdeveloped agricultural export economy, especially dependent on the international market for both goods and capital. When Washington undertook to cut off Nicaragua from the outside world, its economy could not survive the severance. Economic aid from the USSR never came close to covering the resulting losses.[79]

Even without the *contra* war, the Nicaraguan economy would have faced a serious crisis in the mid-1980s. The war tipped it into chaos. Government subsidies to the poor and to small producers, combined with the rising costs of the war, produced a fiscal deficit that the government closed by printing money, triggering a rise in inflation. In 1984, the annual rate was 50%. As the growing trade deficit produced shortages of hard currency, imported inputs to the domestic economy grew scarce, curtailing production and increasing unemployment.[80]

As the standard of living in Nicaragua sank, the Reagan administration tried to detach itself from responsibility for the resulting misery. In May 1985 the State Department released a report on US economic sanctions which concluded, 'depressed economic conditions in Nicaragua were, of course, due to disastrous economic policies adopted by the Sandinistas, and not to any actions by the United States'.[81]

By the end of 1985, Nicaragua was suffering a severe recession. Gross Domestic Product contracted by 5.9% that year, and inflation reached 320%.[82] By 1987, the inflation rate was 1300%. The government took its supplies of old 20 and 50 *córdoba* bank notes and simply printed three more zeroes on them to make 20 000 and 50 000 *córdoba* notes. In 1988, the government's austerity measures, intended to control inflation by reducing public spending, triggered a severe recession. The economy contracted by 15%, and the fiscal deficit actually widened. Inflation raged completely out of control, reaching 33 600%—hyperinflation of the sort experienced by only a few nations in history. As money became worthless, the economy was reduced to primitive barter, further dislocating production and exchange. By the end of the year, the Gross Domestic Product had fallen by a third and per capita consumption had fallen by more than 50% from 1979 levels.[83]

This economic catastrophe proved fatal for the Sandinistas in the 1990 election. They tried as best they could to defuse the economic issue by appealing to nationalism, linking their electoral opponents with the *contras* and the United States. Polls indicated that the war issue seemed to benefit the Sandinistas, whereas discontent over the economy favoured the opposition. By focusing on the war, the Sandinistas hoped to escape, Houdini-like from the political consequences of the country's economic collapse. It didn't work.

On 25 February 1990, 86% of Nicaragua's registered voters turned out to cast their ballots under the watchful eyes of some 2000 foreign observers. The opposition coalition, headed by Violeta Chamorro, won a stunning victory. Chamorro took 54.7% of the popular vote for president, to Daniel Ortega's 40.8%, and Chamorro's allies won 51 seats in the 93-member National Assembly, to 39 for the Sandinistas.[84] The Bush administration rejoiced at Chamorro's election, lifted the economic embargo Reagan had imposed in 1985, and asked Congress to provide $300 million in economic assistance for the new government in 1990 and another $241 million in fiscal year 1991.[85]

The Reagan administration failed to achieve its principal policy goal in Nicaragua—the ousting of the Sandinista government by military force, spear-headed by the *contras*. But the economic sanctions imposed on Nicaragua, which were seen at the time by Washington as a secondary policy instrument, ultimately proved far more effective, for several reasons. First, the structure of Nicaragua's underdeveloped economy made the Sandinistas more vulnerable to economic than military pressure. Especially in the wake of the economic losses caused by the insurrection against Somoza, Nicaragua was highly dependent upon external financial assistance. And, like most of Latin America, Nicaragua's trade was predominantly with the USA. Thus Washington was especially well positioned to punish Nicaragua economically by blocking external financing and cutting off trade, even though few other countries supported these sanctions.[86]

Second, although the USSR and its allies were willing to provide Nicaragua with a vast store of military hardware to fight the *contra* war, they were not prepared to shoulder the ongoing financial burden of propping up the Nicaraguan economy. As in the earlier case of Salvador Allende's government in Chile and the contemporary case of Maurice Bishop's government in Grenada, the Soviets abjured 'another Cuba' as too costly.

Third, Washington's economic sanctions were undertaken in tandem with extensive paramilitary attacks, as part of a multifaceted destabilisation programme. The *contra* war magnified the effectiveness of the economic sanctions by directly damaging production and by siphoning off scarce resources to national defence.

Finally, the hardships imposed by Nicaragua's economic collapse in 1988–89 fatally undermined the Sandinistas base of popular support, which had been widespread in 1979 and still considerable when they won elections in 1984. Although the Sandinistas preferred a Leninist, single-party model of government, they nevertheless allowed a domestic opposition to exist and function—in contrast to Fidel Castro's governing strategy in Cuba.

The existence of an electoral system that forced the Sandinistas to periodically contend with the opposition for power provided a mechanism for the population to express its discontent with their deteriorating standard of living. That is, although the economic sanctions imposed by the USA did not force the Sandinistas to abandon their core policies or ideology, the sanctions did alter the domestic balance of Nicaragua political forces sufficiently to drive the Sandinistas out of power.[87]

In short, the Nicaraguan case demonstrates that under some circumstances, economic sanctions can be highly effective against a vulnerable economy, even when they are largely unilateral and the demands being made on the target regime are extreme.

Notes

1 Peter Kornbluh, *Nicaragua: The Price of Intervention*, Washington, DC: Institute for Policy Studies, 1987; Christopher Dickey, *With the Contras: A Reporter in the Wilds of Nicaragua*, New York: Simon and Schuster, 1985; Holly Sklar, *Washington's War on Nicaragua*, Boston, MA: South End Press, 1988; Sam Dillon, *Commandos: The CIA and Nicaragua's Contra Rebels*, New York: Henry Holt, 1991; and US Congress, *Report of the Congressional Committees Investigating the Iran–Contra Affair*, H. Rept No 100–433, S. Rept No 100–216, 100th Congress, 1st session, 17 November 1987, Washington, DC: Government Printing Office (GPO), 1988.

2 The only specific examinations of the economic dimension of Washington's policy of hostility towards Nicaragua are Kornbluh, *Nicaragua*, pp 93–122; and Michael E Conroy, 'Economic aggression as an instrument of low intensity conflict', in Thomas W Walker (ed), *Reagan Versus the Sandinistas: The Undeclared War on Nicaragua*, Boulder, CO: Westview, 1987, pp 57–79.

3 See, for example, Johan Galtung, 'On the effects of international economic sanctions: with examples from the cases of Rhodesia', *World Politics*, 19, 1967, pp 378–416; Gunnar Adler-Karlsson, *Western Economic Warfare, 1947–1967: A Case Study in Foreign Economic Policy*, Stockholm: Almqvist and Wiksell, 1968; Peter Wallensteen, 'Characteristics of economic sanctions', *Journal of Peace Research*, 5, 1968. pp 248–267; Klaus Knorr, *The Power of Nations: The Political Economy of International Relations*, New York: Basic Books, 1977; James Barber, 'Economic sanctions as a policy instrument', *International Affairs*, 55, 1979, pp 367–384; and Margaret Doxey, *International Sanctions in Contemporary Perspective*, New York: St Martin's Press, 1987.

4 Gary Clyde Hufbauer, Jeffrey J. Schott & Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, Washington, DC: Institute for International Economics, 1990, pp 94–104. Other scholars who have argued that sanctions can be effective in some circumstances include: David A Baldwin, *Economic Statecraft*, Princeton, NJ: Princeton University Press, 1985; Richard Stuart Olson, 'Economic Coercion in world politics: with a focus on North–South relations', *World Politics*, 31, 1979, 471–494; William H Kaempfer & Anton David Lowenberg, *International Economic Sanctions: A Public Choice Perspective*, Boulder, CO: Westview, 1992; Kenneth A Rodman, 'Sanctions at bay? Hegemonic decline, multinational corporations, and US economic sanctions since the pipeline case', *International Organization*, 49, pp 105–137.

5 Robert A Pastor, *Condemned to Repetition: The United States and Nicaragua*, Princeton, NJ: Princeton University Press, 1987, pp 192–193.

6 Karen DeYoung, 'House unit votes $9 million in aid for Nicaragua', *Washington Post*, 12 September 1979.

7 US Senate, *S 2012*, Hearings before the Committee on Foreign Relations, 96th Congress, 1st session, 6–7 December 1979, Washington, DC: US GPO, 1980, pp 77–80.

[8] In addition to the Senate's requirement that 60% of the funds go to the private sector, the House of Representatives specified that only US goods could be purchased with the aid, that none of the money could be used for educational projects in which Cuban advisors or teachers were involved (eg Nicaragua's national literacy crusade) and that 1% of the funds had to be used to inform the Nicaraguan people of the beneficence of the US aid programme. Aid would be terminated if Nicaragua engaged in a consistent pattern of gross human rights violations, aided or abetted acts of violence in another country, allowed Cuban or Soviet combat troops to be stationed in Nicaragua, violated the right of unions to organise and operate, or violated the rights of free speech and press. A number of even more restrictive amendments were defeated. *Congressional Record*, 27 February 1980, pp H2009–H2020.

[9] Presidential Determination No 80–26, September 12, 1980,' 45 *Federal Register* 62779. See also US House of Representatives, *Review of the Presidential Certification of Nicaragua's Connection to Terrorism*, Hearings before the Subcommittee on Inter-American Affairs, Committee on Foreign Affairs, 96th Congress, 2nd Session, 30 September, 1980, Washington, DC: US GPO, 1980.

[10] For a description of the new intelligence see Pastor, *Condemned to Repetition*, p 228. The law did not, in fact, leave Carter much alternative. Section 536 (g) of the Foreign Assistance Act as amended reads: 'In the event that the President transmits such a certification, but at a later date he determines that the Government of Nicaragua cooperates with or harbors any international terrorist organization or is aiding, abetting, or supporting acts of violence or terrorism in other countries, the President shall terminate assistance to the Government of Nicaragua under this chapter ... 'from "Presidential Determination No 80–26'.

[11] Alexander M Haig, Jr, *Caveat: Realism, Reagan and Foreign Policy*, New York: MacMillan, 1984, p 109; Juan deOnis, 'Wheat sale to Nicaragua delayed', *New York Times*, 11 February 1981.

[12] Pastor, *Condemned to Repetition*, pp 232–233; author's interview with Lawrence Pezzullo, Washington, DC, May 1982.

[13] See the testimony of administration officials in the US Senate, *The Situation in El Salvador*, Hearings before the Committee on Foreign Relations, 97th Congress, 1st session, 18 March and 9 April, 1981, Washington, DC: US GPO, 1981, pp 10–11; US House of Representatives, *Foreign Assistance Legislation for Fiscal Year 1982 (Part 7)*, Hearings and Markup before the Subcommittee on Inter-American Affairs of the Committee on Foreign Affairs, 97th Congress, 1st session, 23, 26 30 March and 8 April 1981, Washington, DC: US GPO 1981, pp 68, 71.

[14] Roy Gutman, *Banana Diplomacy: The Making of American Policy in Nicaragua 1981–1987*, New York: Simon and Schuster, 1988, pp 35–37; Dickey, *With the Contras*, p 106.

[15] 'Nicaragua denounces US aid cut-off', *Los Angeles Times*, 3 April 1981; and Associated Press, 'Soviets send aid to Nicaragua', *Miami Herald*, 26 April 1981.

[16] *Congressional Record*, 2 April 1981, pp S3391, H1285–1287.

[17] The internal divisions within the Reagan administration are described in virtually all the memoirs of Reagan's foreign policy aides. Regarding Nicaragua, see especially, George P Shultz, *Turmoil and Triumph: My Years as Secretary of State*, New York: Charles Scribner's Sons, 1993; and Constantine C Menges, *Inside the National Security Council: The True Story of the Making and Unmaking of Reagan's Foreign Policy*, New York: Simon and Schuster, 1988. For an outsider's view, see Gutman, *Banana Diplomacy*.

[18] International Bank for Reconstruction and Development (IBRD), *Country Program Paper: Nicaragua*, 16 February 1982, Washington, DC: typescript, 1982, p 11.

[19] Quoted in Alfonso Chardy 'US studies further cutback in commerce with Nicaragua', *Miami Herald*, 14 May 1983. On the initial willingness of the banks to restructure Nicaragua's debt, see Richard Weinart, 'Nicaragua's debt renegotiation', *Cambridge Journal of Economics*, 5, 1981, 187–194. Weinart was a consultant to the Nicaraguan government during the restructuring negotiations.

[20] Richard Stahler-Sholk, 'Foreign debt and economic stabilization policies in revolutionary Nicaragua', in Rose J Spalding (ed), *The Political Economy of Revolutionary Nicaragua*, Winchester, MA: Allen and Unwin, 1987, pp 151–168; Rodman, 'Sanctions at bay?', pp 195–137.

[21] Stahler-Sholk, 'Foreign debt and economic stabilization policies in revolutionary Nicaragua', pp 151–168.

[22] E V K Fitzgerald, 'An evaluation of the economic cost to Nicaragua of US Aggression, 1980–1984', Spalding (ed), *The Political Economy of Revolutionary Nicaragua*, pp 195–216.

[23] Jim Morrell, 'Redlining Nicaragua', *International Policy Report*, December 1985, pp 1–7.

[24] John M Goshko, 'US ends opposition to loans to repressive Latin regimes', *Washington Post*, 9 July 1981. Carter's policy was based on Sec 701 of the International Financial Institutions Act, which mandates opposition to loans for countries whose governments are guilty of 'gross violations of internationally recognized human rights', except in cases where the loans would benefit the poor.

[25] Jim Morrell & William Jesse Biddle, 'Central America: the financial war,' *International Policy Report*, March 1983, pp 1–11.

[26] Michael Gardenswartz, 'Has politics spoiled the IDB?, *Institutional Investor*, March 1985, pp 97–100; and Morrell, 'Redlining Nicaragua', pp 1–7.

[27] Clyde H Farnesworth, 'US bars loans for Nicaragua road', *New York Times*, 30 June 1983.

[28] Quoted in Kornbluh, *Nicaragua*, p 105. Article VIII of the IDB charter, for example, states: 'The Bank, its officers and employees ... shall not interfere in the political affairs of any member, nor shall they be

influenced in their discussions by the political character of the member concerned. Only economic considerations shall be relevant to their discussions ... ' Morrell, 'Redlining Nicaragua', pp 1–7. The World Bank agreement contains virtually identical language in Article IV.

[29] Inter-American Development Bank, 'Board of Executive Directors, Minutes of meeting 83/21 ... June 22, 1983', DEA/83/21, 28 June, 1983.

[30] Morrell, 'Redlining Nicaragua', pp 1–7.

[31] Dana Priest, 'Nicaraguan loan splits Inter-American Bank', *Washington Post*, 20 January 1985.

[32] Morrell, 'Redlining Nicaragua', pp 1–7.

[33] Letter from George P Shultz, US Secretary of State, to Antonio Ortíz Mena, President of the Inter-American Development Bank, 30 January 1985.

[34] Karen DeYoung, 'Shultz intervenes on loan: Inter-American Bank is asked to defer funds for Nicaragua', *Washington Post*, 8 March 1985.

[35] Quoted in Kornbluh, *Nicaragua*, p 112.

[36] Jim Morrell, 'Inter-American Development Bank writes negative report on Nicaragua loan', *Center for International Policy Aid Memo*, 20 December 1985; Kornbluh, *Nicaragua*, p 113.

[37] Andres Oppenheimer, 'Nicaragua decries rebuff from IDB', *Miami Herald*, 25 March 1987.

[38] Morrell & Biddle, 'Central America: the financial war', pp 1–11. A bank official said of this loan, 'The Nicaraguan government had performed so well in terms of using the financial and physical resources ... they built twice as many roads and water supply connections as were expected in so short a time. It was the best urban development project at the Bank.' Nancy Strogoff, 'Nicaragua: the other war', *Progressive*, January 1984, pp 22–23.

[39] Conroy, 'Economic aggression as an instrument of low intensity conflict', pp 57–79.

[40] IRBD, *Country Progam Paper: Nicaragua*, p 1.

[41] Ibid, pp 2, 12–13.

[42] Ibid, pp 7–8, 13.

[43] Ibid, pp 13–14, 17.

[44] Ibid, pp 10–11; Robert J McCartney, 'US will oppose loans to Nicaragua', *Washington Post*, 1 July 1983.

[45] Fitzgerald, 'An evaluation of the economic cost to Nicaragua of US aggression, 1980–1984', in Spalding (ed), *The Political Economy of Revolutionary Nicaragua*, pp 195–216. The Sandinistas never sought financing from the International Monetary Fund because in May 1979, as the Somoza regime was crumbling, the IMF gave it a $63 million loan. Of that, $49 million was delivered before Somoza, fled, and he took almost all of it with him; the remaining $17 was provided to the Sandinista government in August 1979. The Sandinistas agreed to pay off the loan to Somoza, but they were so wary of the IMF that they never asked it for funds themselves. 'The IFIs in Central America: development or politics?', *Center for International Policy Aid Memo*, 1 October 1982.

[46] Philip Taubman, '21 Nicaraguans in 6 Consulates Expelled by US', *New York Times*, 8 June 1983.

[47] Lou Cannon & Margot Hornblower, 'US to cut Nicaragua's sugar sales', *Washington Post*, 10 May 1983; and Francis X Clines, 'Sandinists curbed on US sugar sales', *New York Times*, 11 May 1983.

[48] On the UNCTAD ruling, see Paul Lewis, 'UN trade parley attacks US move against Nicaragua', *New York Times*, 3 July 1983; on the GATT report, see Kornbluh, *Nicaragua*, p 101.

[49] Kornbluh, *Nicaragua*, p 93.

[50] Joanne Omang, 'Sanctions: a policy of default', *Washington Post*, 8 May 1985.

[51] Joanne Omang, 'Reagan expected to place sanctions against Nicaragua', *Washington Post*, 1 May 1985. This assessment was generally shared by even the most anti-Sandinista members of the Nicaraguan private sector, such as COSEP President Enrique Bolaños. 'Nicaraguan says embargo aids Sandinista government', *New York Times*, 29 September 1985.

[52] Omang, 'Sanctions: a policy by default'.

[53] US House of Representatives, *The Imposition of Economic Sanctions and a Trade Embargo Against Nicaragua*, Hearing before the Subcommittees on International Economic Policy and Trade, and Western Hemisphere Affairs, Committee on Foreign Affairs, 99th Congress, 1st Session, 7 May 1985, Washington, DC: US GPO 1985, p 59.

[54] 'Message to the Congress on economic sanctions against Nicaragua, 1 May, 1985', *Public Papers of the Presidents of the Unites States: Ronald Reagan, 1985, Book 1*, Washington, DC: US GPO, 1986, pp 548–549. At the same time, the administration cancelled the landing rights of Nicaraguan commercial aircraft in the USA, and gave notice of its intent to cancel a bilateral Treaty of Friendship, Commerce and Navigation. The treaty was abrogated because it prohibited exactly the sort of embargo Washington was imposing.

[55] International Emergency Economic Powers Act, 50 U.S.C. Sec. 1701 Met seq.; 'Executive Order 12513—prohibiting trade and certain other transactions involving Nicaragua, 1 May, 1985', *Public Papers of the Presidents of the United States: Ronald Reagan, 1985, Book 1*, pp 547–548.

[56] 'Key Congressman praise embargo', *New York Times*, 2 May 1985. Under the National Emergencies Act 50 U.S.C. Sec. 1601 *et seq.*, it was possible for Congress to declare a national emergency at an end by concurrent resolution. But since a concurrent resolution amounted to a legislative veto, it was most probably

unconstitutional under the 1983 Supreme Court ruling in *Immigration and Naturalization Service vs Chadha.* Thus Congress would have had to pass new legislation to end the embargo against Nicaragua. Since that would require a two-thirds vote in both houses to overcome Reagan's inevitable veto, the Democrats never tried.

[57] Clifford Krauss, 'US trade embargo helps Nicaragua's Sandinistas', *Wall Street Journal*, 2 October 1985; Lou Cannon, 'Summit partners criticize sanctions against Nicaragua', *Washington Post*, 4 May 1985; Edward Cody, 'Western Europeans open talks on Central America', *Washington Post*, 29 September, 1984.

[58] 'Mexico joins critics of US embargo against Nicaragua', *Washington Post*, 5 May 1985.

[59] 'Latin group urges US to lift Nicaragua embargo', *Journal of Commerce*, 16 May 1985; Reuters, 'Caribbean unit faults US', *New York Times*, 13 May 1985; US House of Representatives, *The Imposition of Economic Sanctions and a Trade Embargo Against Nicaragua*, pp 50, 71.

[60] Reuters, 'Managua sets austerity measures', *Washington Post*, 11 May 1985; 'Security council ruling sought', *New York Times*, 7 December 1985. Nicaragua also asked GATT to rule on the legality of the embargo, as it had when Washington reduced the Nicaraguan sugar quota. The USA claimed the embargo was justified under Article 21 of the GATT agreement, which gives member states the right to 'take any action which it considers necessary for the protection of its essential security interests', (quoted in US House of Representatives, *The Imposition of Economic Sanctions and a Trade Embargo Against Nicaragua*, p 33). Washington was only willing to allow a GATT panel to review whether imposition of an embargo was, in general, consistent with Article 21; it would not allow a review of whether the US claim of national security was justified. Under those limitations, the GATT panel reluctantly agreed that an embargo was allowable, but warned that Article 21 needed to be clarified to prevent its abuse in the future. 'GATT hands tied on Nicaragua', *Financial Times*, 7 November 1986.

[61] Tony Jenkins, *The US Embargo Against Nicaragua—One Year Later*, Policy Focus No 3, Washington, DC: Center for International Policy and Overseas Development Council, 1986, p 3.

[62] 'Nicaragua moves to protect assets', *Journal of Commerce*, 16 March 1987.

[63] Jenkins, *The US Embargo Against Nicaragua*, p 5.

[64] Chairman of the House Intelligence Committee Edward Boland described CIA Director William Casey's original description of the *contra* war's aims in *Congressional Record*, 27 July 1983, p H5721.

[65] Bob Woodward, *VEIL: The Secret Wars of the CIA 1981–1987*, New York: Simon and Schuster, 1987, p 281. The CIA had originally trained *contra* units as commandos, but they weren't very effective. Dillon, *Commandos*, p 133.

[66] Quoted in Kornbluh, *Nicaragua*, p 47.

[67] The SEALs were probably drawn from US forces stationed in El Salvador, who were training Salvadoran commandos to use 'piranha' speedboats provided by the CIA to intercept arms smuggling to the Salvadoran guerrillas. Both the Salvadoran commandos and the UCLAs operated their boats from the same base on Tiger Island, just off the Honduras coast. Salvadorans were also the most numerous nationality among the UCLAs, though before the US training programme, El Salvador had no navy. Andres Oppenheimer, 'Poor islanders fear a role in contra war despite chance of jobs', *Miami Herald*, 1 November 1986; Frank Greve & Mark Fazlollah, 'NSC bypassed military with covert operations', *Miami Herald*, 26 July 1987. Some of the UCLA operations are described in 'CIA employees fought Nicaraguans', *Washington Post*, 20 December 1984, although the participants are described as 'CIA employees' rather than Special Forces units.

[68] David Rogers & David Ignatius, 'How the CIA-aided raids in Nicaragua in '84 led congress to end funds', *Wall Street Journal*, 6 March 1985; 'CIA internal report details US role in contra raids in Nicaragua last year.', *Wall Street Journal*, 6 March 1985; Charles R Babcock, 'CIA directly oversaw attack in October on Nicaragua oil facility', *Washington Post*, 18 April 1984; Associated Press, 'October 10 assault on Nicaraguans is laid to CIA', *New York Times*, 18 April 1984; and Robert J McCartney, 'Exxon cuts Nicaragua's oil supply', *Washington Post*, 15 October 1983. The CIA's role in the harbour attacks came to light shortly after the disclosure that the USA had mined Nicaragua's harbours, probably as a result of Edward Boland's off-hand remark that there were 'other things' besides the mining that the UCLAs had done. *Congressional Record*, 12 April 1984, p H2918.

[69] Rogers & Ignatius, 'How CIA aided raids in Nicaragua in '84 led Congress to end funds'.

[70] Memorandum to National Security Adviser Robert C McFarlane from Oliver L North and Constantine Menges, 'Special activities in Nicaragua', 2 March 1984, in US Congress, *Iran–Contra Investigation: Hearings*, Volumes 100–107, Part III, Joint Hearings before the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition, and the House Select Committee to Investigate Covert Arms Transactions with Iran, 100th Congress, 1st session, Washington, DC: US GPO 1987, pp 726–727.

[71] Hedrick Smith, 'Britain criticizes mining of harbors around Nicaragua', *New York Times*, 7 April 1984. George Shultz confirmed this purpose: Shultz, *Turmoil and Triumph: My Years as Secretary of State*, p 406.

[72] Alfonso Chardy, 'Contras plotted Mexican ship paths', *Miami Herald*, 12 January 1988.

[73] Kornbluh, *Nicaragua*, pp 50–51.

[74] Author's interview with Daniel Ortega, Managua, Nicaragua, July 1987. See also Clifford Krauss, ' "Great Coffee War" in Nicaragua is being won by Sandinistas', *Wall Street Journal*, 21 January 1986.

[75] Jenkins, *The US Embargo Against Nicaragua*, p 7; Fitzgerald, 'An evaluation of the economic cost to Nicaragua of US aggression, 1980–1984', pp 195–216.

[76] Julia Preston, 'Inflation runs away in Managua', *Washington Post*, 22 January 1988.

[77] John Weeks, *The Economies of Central America*, New York: Holmes and Meier, 1985, p 158.

[78] See, for example, Forrest D Colburn, *Post-Revolutionary Nicaragua: State, Class, and the Dilemmas of Agrarian Policy*, Berkeley, CA: University of California Press, 1986; Dennis Gilbert, *Sandinistas: The Party and the Revolution*, New York: Basil Blackwell, 1988.

[79] Soviet aid to Nicaragua peaked in 1987 at about $750–800 million annually—$300 million in economic assistance and $450–500 million in military assistance. The economic aid was vital, since it included virtually all of Nicaragua's petroleum imports. Don Oberdorfer, *The Turn: From the Cold War to a New Era*, New York: Poseidon Press, 1991, pp 340–341; Julia Preston, 'Soviets raise profile—but not aid—in Managua', *Washington Post*, 6 November 1989.

[80] International Bank for Reconstruction and Development (IBRD), *Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Economic Recovery Credit ... to the Republic of Nicaragua*, 3 September 1991, Report No P-5598-NI, Washington, DC: IBRD, 1991, p 3.

[81] Joanne Omang, 'Sandinistas mismanaged economy, US says', *Washington Post*, 4 May 1985.

[82] Bill Gibson, 'A structural overview of the Nicaraguan economy', in Spalding (ed), *The Political Economy of Revolutionary Nicaragua*, pp 15–42.

[83] At the end of 1988, GDP stood at 67.5% of its 1978 level, and per capita consumption at 46.3%. International Bank for Reconstruction and Development (IBRD), *Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Economic Recovery Credit ... to the Republic of Nicaragua*, 3 September 1991, Report No P-5598-NI, Washington, DC: IRBD, 1991, p 3.

[84] 'Results of the February 25, election', *Barricada International* (Managua), 10 March 1990.

[85] Lawrence Eagleburger, 'US assistance to Panama, Nicaragua', *Current Policy*, 1264, Washington, DC: Department of State, 1990; Guy Gugliotta, 'Criticism muted as Nicaraguans visit', *Washington Post*, 17 April 1991.

[86] On the general issue of dependent economies' vulnerability to sanctions, see Olson, 'Economic coercion in world politics'.

[87] One way to understand the effect of US policy in this case is to view it as a two-level game, in which US policy moves do not have much effect on the Level I game (negotiations with the Sandinistas), but have profound reverberation in Nicaragua's Level II game (the level of support given the Sandinista government by domestic political constituencies). Robert D Putnam, 'Diplomacy and domestic politics: the logic of two-level games', *International Organization*, 42, pp 427–460. For elaborations on Putnam's model, see especially the collection of essays in Peter B Evans, Harold K Jacobson & Robert D Putnam (eds), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, Berkeley, CA: University of California Press, 1993.