

## **Committee/Council: Economic and Social Council**

**Issue: The case of Nicaragua: access to resources that support economies**

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### **Introduction**

The Republic of Nicaragua is the country with the largest area in the region of the Central American Isthmus. With a multiethnic population of 6 million, Nicaragua is a multicultural country including indigenous peoples and native tribes. Its socio-cultural stratification has influenced the finances of the country, which has witnessed economic and political development in the last years. This progress is directly linked to the exploitation of Nicaragua's resources, including large amounts of mineral deposits, and the exploration for Hydrocarbons in the region. Within the last decade, the state has attracted multiple investors that have focused mainly on the evaluation and development of natural resources. Nicaragua's economy continues to post growth, however, a large part of the population continues to live under the poverty line and the country is considered to be the second poorest in the Americas by nominal GDP. Nicaragua has traditionally relied on agricultural exports to sustain its economy, with pushes to diversify into manufacturing in the 1950s and 1990s. But the country's meagre national wealth benefited mainly a few elite families of Spanish descent, in particular the Somoza family in the mid-20th century. This dynasty ruled the country with US backing between 1937 and the Sandinista revolution in 1979. Furthermore, some states' increasing influence on the country, as well as restricted regulation of the exploitation of natural resources have increasingly been a matter of discussion for the international community.

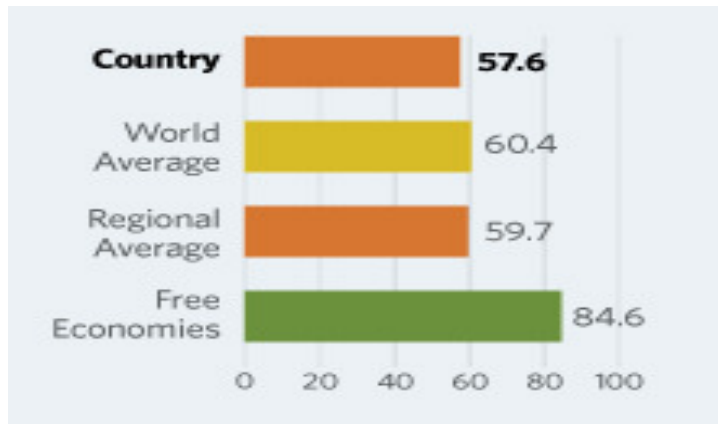


Figure 1: Evaluation of wealth of the Nicaraguan nation, compared with the World/Regional Average and the wealth of a Free Economy [Source: Heritage.com 2015 Index of Economics](#)

## Definition of Key-Terms

### GDP

Gross Domestic Product is defined as the monetary value of all the finished goods and services produced within a country's borders on an annual basis. It includes all of private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Although GDP cannot take into account the underground economy of a country and is not intended to gauge material well being, it is commonly used as an indicator of the economic health of a country, as well as serving as a measure of a nation's productivity.

### Natural resources

The naturally occurring assets that provide benefits through the provision of raw materials and energy used in economic activity (or that may provide such benefits one day) and that are subject primarily to quantitative depletion through human use. They are subdivided into four categories: mineral and energy resources, soil resources, water resources and biological resources. Each type of natural resources can generate great profits, demands however a modern infrastructure, in order to be exploited to its full potential and be profitable.

### Inflation

Inflation is a highly important term in the world of economics. It can be defined as the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Central banks mainly attempt to stop severe inflation, along with severe deflation, in an attempt to keep the excessive growth of prices to a minimum.

The most frequently quoted and most significant measure of inflation is the Consumer Prices Index (CPI). As inflation rises, every dollar/pound/euro etc. will allow the buyer to purchase a smaller percentage of a good. If CPI is 3%, this means that on average, the price of products and services that can be bought is 3% higher than a year earlier. Or, in other words, 3% more would be needed to buy the same products that could have been bought 12 months ago. An extreme rise of CPI can be a sign of economic crisis, whereas fluctuations in a country's CPI usually project a country's high dependence on external investments and markets.

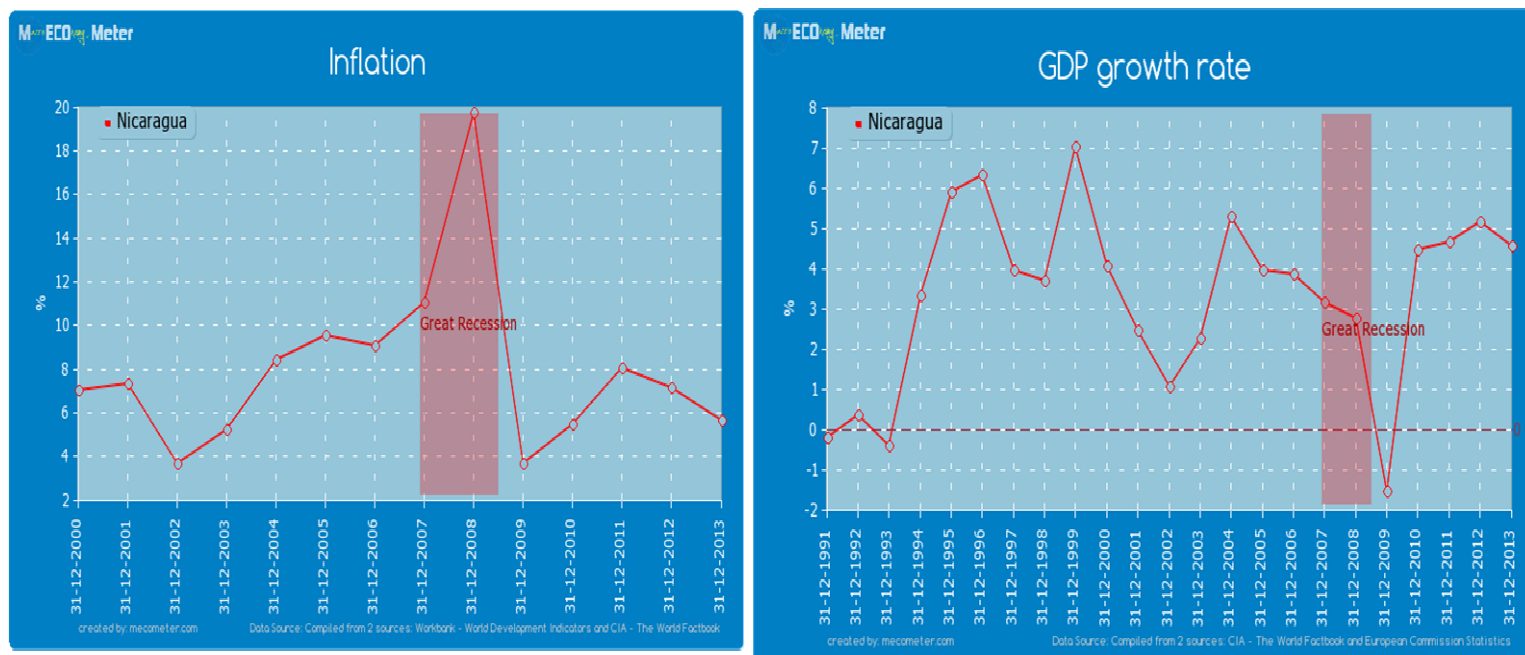


Figure 2: Visualization of the Inflation and GDP growth rate in Nicaragua since 1991. The often and major fluctuations depicted in the diagrams are signs of economic instability and influence of external factors. Source: [MacroEconomyMeter.com](http://MacroEconomyMeter.com)

## Background Information

### Historical events

Nicaragua, which was discovered in 1523 and constituted a British colony during the 17<sup>th</sup> and the 18<sup>th</sup> century, gained its independence in 1821 and was incorporated into the Mexican empire. In 1823, the state constituted a part of the United Provinces of Central America, whereas in 1838, it became fully independent.

## The United States' role in Nicaragua

During a period of political instability, including the establishment of dictatorship, the United States played a major role in the deposition of persons in the political and military scene of Nicaragua and established military bases in the region. The influence of the US was prolonged for over a decade, sponsoring attacks and mining harbors in the region. The case was discussed in the International Court of Justice, which found the United States guilty of military and paramilitary activities within the Nicaraguan borders.

## Nicaragua's climate

The agricultural and tourist sectors are directly influenced by the tropical climate, which can be observed in Nicaragua. Due to the warm temperatures and the high precipitation Nicaragua is home to a rich variety of plants and animals. Nicaragua is located in the center of the Americas; due to this privileged location the country is home to a great biodiversity. These factors along with the weather and light altitudinal variations allow the country to provide a unique tourist destination, although the tourist sector is not a primary source of income.

## The exploitation of the country

Nicaragua is heavily dependent on its natural resources, with cotton and gold being the main exports at present and offering an occupation for the majority of the citizens. Although this sector could be highly profitable for the Nicaraguan economy, the embezzlement of the profits by a long standing economic elite in combination with the manipulation of the fluctuating markets by other states do not offer a lucrative basis for evolution.

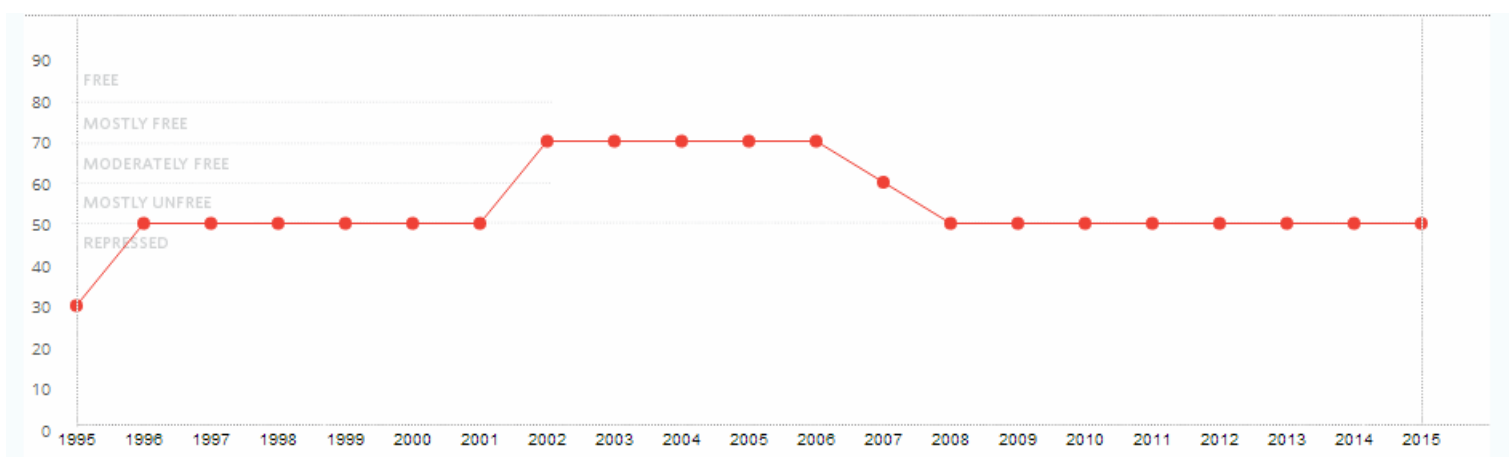


Figure 3: Evaluation of the financial freedom of the citizens in Nicaragua [Source: Heritage.com 2015 Index of Economics](#)

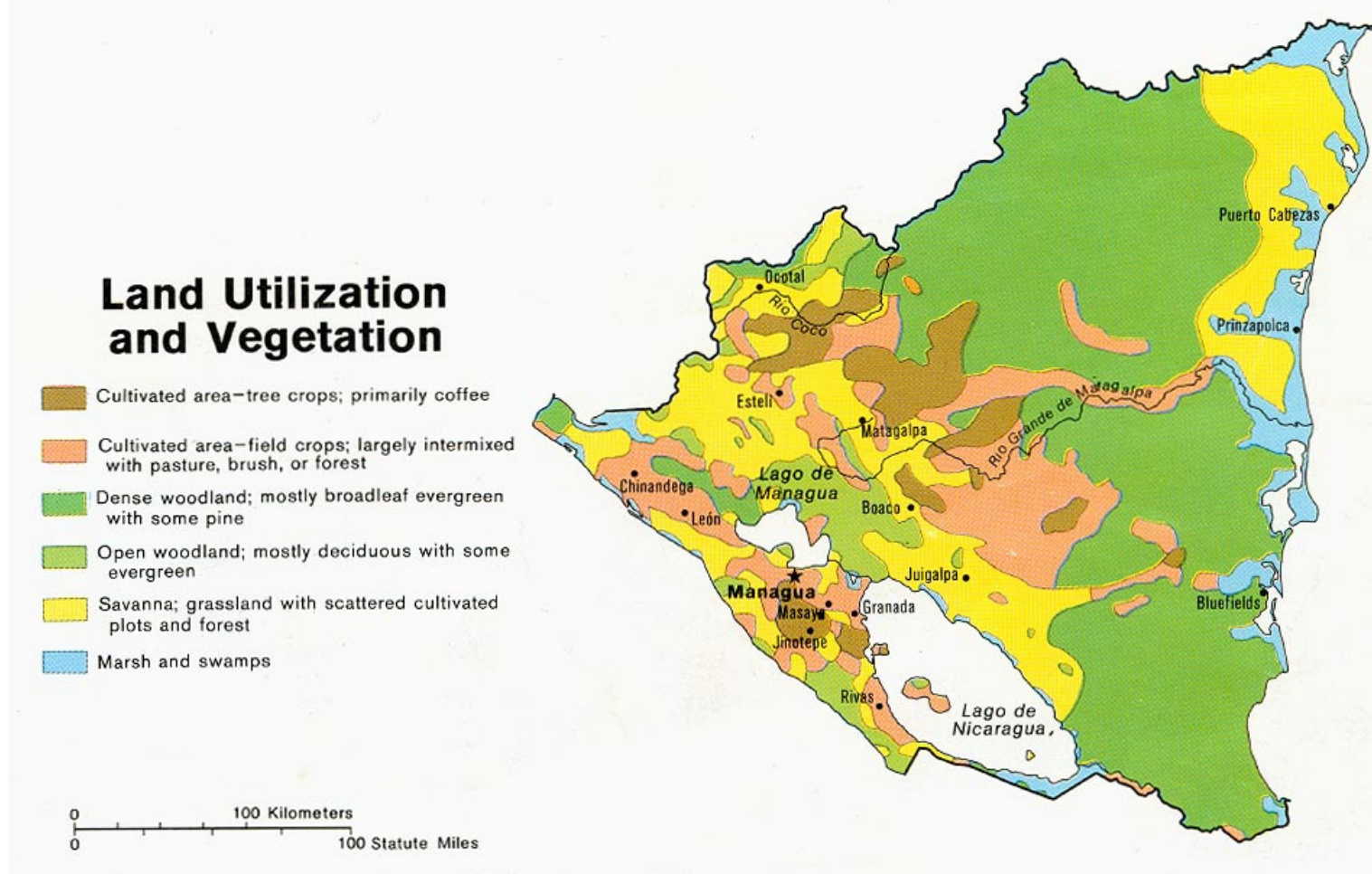


Figure 4: Land Utilization and Vegetation in Nicaragua [Source: NationMaster.com](http://NationMaster.com)

## Major Countries and Organizations Involved

### The United States of America

The United States of America has played a major role in the development of the Nicaraguan state. As the biggest exportation and importation partner of the country, the USA has a direct impact on its economy. Furthermore, Nicaragua's cultural and social stratification has directly been influenced by the United States, whose importance for the finances and politics of Nicaragua has been widely discussed and even criticized.

### Costa Rica

Costa Rica is a neighboring country to the Nicaraguan state. A large section of the border between the countries, which share bilateral relations since the 15<sup>th</sup> century, runs on the right (southern) bank of the San Juan River. Nicaragua is sovereign over the Rio San Juan, and by treaty Costa Rica has the right to navigate over parts of the river with 'objects of commerce'. Costa Rica has been proven to be an important ally, but also an economic adversary for Nicaragua. Tensions between the states have even reached the ICJ, where Costa Rica is the primary opponent of the new ship canal linking the Atlantic and Pacific Oceans.

## The United Nations

Nicaragua has been a member of the United Nations since 1945. The organization, and primarily the United Nations Human Rights and UNICEF, has made concerted efforts to aid the population of Nicaragua that has to endure the pressure of a fluctuating economy, and has organized and assisted in campaigns and missions including the Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment, World Food Program for Nicaragua and the Permanent Mission to Nicaragua.

## The International Monetary Fund

The IMF is "a cooperative institution that 182 countries have voluntarily joined because they see the advantage of consulting with one another in this forum to maintain a stable system of buying and selling their currencies so that payments in foreign money can take place between countries smoothly and without delay." The IMF supported the Nicaraguan economy by offering loans during the 20<sup>th</sup> century, an extended part of which was written off by 2000. However, the measures proposed by the institution and its influence have been criticized, due to the country's inability to overcome financial decline, even after following its guidelines.

## The World Bank

The World Bank has also been one of the main players on the scene of the Nicaraguan economy. The World Bank's initial goal was to reduce poverty and improve living standards by promoting sustainable growth and investment in the local population. To achieve this objective, the bank provided loans, technical assistance and policy guidance to Nicaragua, among other developing-country members. Recently, the organization has promoted projects that provide rural households with access to agricultural and natural resource management services to stimulate higher productivity.

## **Timeline of Events – The Nicaraguan Economy**

<b>Date</b>	<b>Description of event</b>
Pre-Columbian Era	At the time of the first Spanish explorations, Nicaragua was organized as a well-developed primarily agrarian society in the central highlands and Pacific lowlands. The rich soils offered the opportunity for the production of a wide array of products, including beans, peppers, corn, cocoa, and manioc.

Colonial Era	The arrival of the Spanish explorers in the early 16 <sup>th</sup> century led to the destruction of any elementary infrastructure and the profound restructuring of the economy. The early conquistadors were interested primarily in gold; European diseases and forced work in the gold mines decimated the native population and destroyed the indigenous agricultural system.
The Coffee Industry	The exploitation of coffee, which was first grown domestically as a curiosity in the early 19 <sup>th</sup> century, changed Nicaragua's economy radically. Commercial coffee growing began and evolved primarily in the region of Managua, the capital city, and its production boomed in the 1870's. Unlike other agricultural products, the coffee industry demanded investors in order to evolve, therefore, the law was changed accordingly in order to encourage foreign investment and allow easy acquisition of land.
Internal crisis – End of 19 <sup>th</sup> century	This coffee-based industry that boomed during the 19 <sup>th</sup> century had a negative long-term effect on the economy, which was now under the influence of foreign investors and a small domestic elite and oriented towards the production of a single agricultural export. Only a small number of landowners received profits from the coffee industry and taxes on the products were virtually nonexistent, whereas the economy was exposed to fluctuations of the price of coffee on the world markets. This contributed to the prevalence of a socioeconomic division leading to the elimination of social mobility and the formation of a privileged class in control of the markets.
Diversification and Progress – 1945-1977	After the end of World War II, the Nicaraguan government requested the help of technocrats responsible for restructuring the industrial and economic sector of the state. The main proposal, which was also realized and led to economic growth within the country, was the production of new crops, including primarily bananas, sugarcane and cotton. Economic growth continued in the 1960s, largely as a result of industrialization, and Nicaragua achieved a certain degree of specialization in processed foods, chemicals, and metal manufacturing.
Apparent development and the end of the 20 <sup>th</sup> century	Although statistics for the period 1970–77 seemed to show continued economic growth, they reflected fluctuations in demand and the high world prices for coffee and cotton rather than a continued diversification of the economy. By the mid-1970s, the government's economic and dictatorial political policies had alienated nearly all sectors of society. Armed opposition to the Somoza regimes, which had started as a small rural insurrection in the early 1960s, had grown by 1977 to a full-scale civil war. The fighting caused foreign investment to drop sharply and the private sector to cut investment plans. A series of political problems and natural disasters continued to

	<p>plague the economy in 1991 and 1992. The need to accommodate left and right wing views within its ruling coalition and attempts to work with the Sandinista opposition effectively prevented the implementation of unpopular economic measures. Nicaragua, still heavily dependent on traditional agro-industrial exports and on the exploitation of natural resources, continued to depend on foreign assistance.</p>
<p>Modern times – Economic growth</p>	<p>Since 1990 Nicaragua has entered a period of political and economic progress. In that year, press censorship was lifted, a ceasefire was enforced and general elections were held, whereas the USA lifted the embargo it had implemented, however, the economy of the state had already been ruined. Towards the end of the century, the government had received multiple loans, which, together with the corruption and the black market, did not allow the local economy to evolve. In 2004, the World Bank wrote off 80% of Nicaragua's debt to the institution, whereas in the same year the Nicaraguan President reached an agreement with Russia to write off the state's multi-billion-dollar Soviet-era debt. Additionally, in 2006 a free trade deal with the United States came into effect, while plans to build a new ship canal linking the Atlantic and Pacific Oceans were revealed. At the same time, opponents say the project will be an environmental disaster and will displace tens of thousands of people living along the proposed route.</p>

## Relevant UN Treaties, Resolutions and Events

### United Nations Security Council [Resolution 562](#)

The United Nations Resolution, after recalling [Resolution 530](#), referred to the role that certain states played in the configuration of the economy and integrity of the Nicaraguan state and affirmed the country's right to self-determination and to live in peace without outside interference.

### NICARAGUA VS UNITED STATES on self-defense and use of force

The [case](#) involved military and paramilitary activities conducted by the United States against Nicaragua from 1981 to 1984. Nicaragua asked the Court to find that these activities, which included the direct and indirect interference of the United States in the internal affairs, the politics and finances of the state, violated international law. In 1986, the International Court of Justice held that the United



States breached its customary international law obligation – not to use force against another State when it directly attacked Nicaragua in 1983 – 1984 and when its activities with the contra forces resulted in the threat or use of force and that the United States could not justify its military and paramilitary activities on the basis of collective self-defense.

## Previous Attempts to solve the Issue

The economic structure of Nicaragua and the issues that derive from it have directly affected the population of the country. The United Nations have expressed their willingness to assist the nation in its effort towards progress and evolution. The aid that has been offered includes the provision of humanitarian assistance and basic goods and the proposal of possible solutions to the on-going financial instability. At the same time, institutions such as the World Bank and the International Monetary Fund have tried to support Nicaragua by accommodating it with loans, a great part of which was written off by 2000. Finally, many states have repeatedly expressed their readiness to financially assist the Nicaraguan state and some have signed important treaties and agreements with the country. Despite the numerous efforts made inside and outside of Nicaragua, however, the socioeconomic problems of the state seem to persist.

## Possible Solutions

The Nicaraguan economy is in a debt crisis and in economic hardship and the fact that the source of wealth, the land, only belongs to a small portion of the population, has endorsed a social split that hampers economic growth. The financial problems of Nicaragua and the country's need for access to resources that will support its economy are grave. The proposal of feasible and reasonable solutions is vital for the progress of the Nicaraguan society that is currently suffering under the pressure of a fluctuating economy. Furthermore, it is of great importance that the solutions to the issue are adapted to the regional economy and the needs of the society, so that they can be accepted by the local population and gradually become a part of the financial policy of the state.

Some argue that deflation could be a possible solution for the Nicaraguan economy. This long-run solution is associated with the notion of "internal evaluation" as a way of becoming competitive. With the nominal exchange rate fixed at unity, the only way for the Nicaraguan terms of trade to deteriorate, and thus become more competitive internationally, is to have the domestic price fall. By this, through aggressive wage and income cuts, Nicaraguan products will be more competitive internationally. However, this proposal presupposes that Nicaragua will export a combination of products.

In addition, characteristic for Nicaragua's socioeconomic structure is the uneven distribution of wealth, which precludes the formation of an urban middle class, the existence of which would be vital for the progress of the country. In the past economic policy had provided tax cuts to wealthy business owners in an attempt to increase their profits, on the basis that doing so would improve the country's overall economy. However, these tactics led to a drastic growth of the gap in wealth between the rich and the poor. Possible solutions to this phenomenon could be the strengthening of a welfare state, either by attempting to increase the wealth of the upper class or decrease inequality. These policies may include the adoption of national economic systems or the operation of small-scale charitable organizations, while providing increased welfare to the poor in an attempt to raise their standard of living and directly decrease economic inequality.

Furthermore, an indispensable aspect of the internal economic policy of the state should refer to the combating of illicit trade and the black market, which will ultimately lead to the taxation of the rich within the country. Thereby, the income of the state will increase and the government will be able to play the role of a welfare state and provide the lowest social layers with basic goods and services, including health insurances and education.

Finally, although Nicaragua is the second poorest country in the Western Hemisphere, its geography and natural resources are favorable for both regional and international markets. The country's growing economy is based largely on agriculture, however the financial and the tourist industries are starting to take root. A possible way for Nicaragua to enter a period of economic growth would be to begin investing in these sectors, thereby creating a more stable and trustable source of income.

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