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Summary

This report discusses Nicaragua's current politics, economic development and relations with the United States and provides context for Nicaragua's controversial November 6, 2016, elections.

After its civil war ended, Nicaragua began to establish a democratic government in the early 1990s. Its institutions remained weak, however, and they have become increasingly politicized since the late 1990s. Current President Daniel Ortega was a Sandinista (Frente Sandinista de Liberacion Nacional, FSLN) leader when the Sandinistas overthrew the dictatorship of Anastasio Somoza in 1979. Ortega was elected president in 1984. An electorate weary of war between the government and U.S.-backed contras denied him reelection in 1990. After three failed attempts, he won reelection in 2006, and again in 2011. He is expected to win a third term in November 2016 presidential elections. As in local, municipal, and national elections in recent years, the legitimacy of this election process is in question, especially after Ortega declared that no domestic or international observers would be allowed to monitor the elections and an opposition coalition was effectively barred from running in the 2016 elections.

As a leader of the opposition in the legislature from 1990 to 2006, and as president since then, Ortega slowly consolidated Sandinista—and personal—control over Nicaraguan institutions. As Ortega has gained power, he reputedly has become one of the country's wealthiest men. His family's wealth and influence have grown as well, inviting comparisons to the Somoza family dictatorship. As president, Ortega has implemented social welfare programs that have benefited Nicaragua's poor—reducing poverty and raising incomes—and thereby buoyed his popularity.

The United States and other countries have responded in critical but measured terms to Ortega becoming more authoritarian. For many in the international community, Ortega's cooperation on issues of importance to them, such as counternarcotics efforts and free trade, and the relative stability in Nicaragua seem to outweigh Ortega's perceived provocations and authoritarian proclivities. Similarly, in the minds of many Nicaraguans, Ortega's authoritarian tendencies appear to be outweighed by populist measures that have improved their standard of living.

Although President Ortega's stated goal has been to implement socialism in Nicaragua, which he defines as a mixed economy, he has maintained many elements of a market-based economy. Nicaragua has maintained growth levels above the average for Latin America and the Caribbean in recent years. Over the past decade, poverty has declined significantly. Nevertheless, Nicaragua remains the poorest country in Central America and the second-poorest country in the Western Hemisphere, ahead of Haiti. The Ortega administration is taking steps to prepare for a probable sharp contraction in funds from Venezuela, a major source of government revenues in recent years. Controversy and conflict have been growing over Ortega's decision to grant a 100-year concession for an inter-oceanic canal through Nicaragua to a Chinese company. The government maintains the project would stimulate the economy and provide jobs. Critics argue it would displace rural communities and harm the environment.

The United States and Nicaragua cooperate on issues such as free trade and counternarcotics. U.S. aid has sometimes been reduced over concern for the narrowing democratic space in Nicaragua. Currently, Nicaragua is part of the U.S. Strategy for Engagement in Central America. Tensions rose recently when Nicaragua expelled three U.S. officials. Other U.S. concerns include violations of human rights, including restriction on citizens' rights to vote, government harassment of civil society groups, arbitrary arrests and killings by security forces and corruption. The Administration and some Members of Congress have expressed concern about Nicaragua's relationship with Russia, especially recent military purchases.

Legislation related to Nicaragua includes H.R. 5708 and S. 3284.

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Nicaragua's Current Political Situation

Nicaragua began to establish a new democracy in the early 1990s after eight years of civil war in which the United States supported the anti-Sandinista contra movement in the country. Institutions such as a democratically elected legislature, a partially independent judiciary (judges are elected by the National Assembly), and an independent electoral council remained weak, however. Since the late 1990s, these institutions have become increasingly politicized. In 1998, the leftist Sandinista National Liberation Front (FSLN, or Sandinistas) and the conservative Constitutionalist Liberal Party (PLC) made a pact intended to limit participation by other political parties.

Current President and FSLN leader Daniel Ortega was a member of the junta that took power in 1979 after overthrowing dictator Anastasio Somoza and was elected president in 1984. As part of a regional peace plan, Ortega agreed to democratic elections in 1990, which he lost to Violeta Chamorro. After losing three successive bids to regain the presidency in 1990, 1996, and 2001 elections, Ortega was elected in 2006. Since then the government has grown increasingly authoritarian in nature. He was reelected in 2011.

As a leader of the opposition in the National Assembly from 1990 to 2006 and during his two terms as president, Ortega has slowly consolidated Sandinista—and his own—control over the country's institutions. The United States and other observers cite municipal and regional elections over this period, as well as the 2011 presidential elections, as having been flawed and used to strengthen Ortega's control of national institutions. Nonetheless, Ortega and the FSLN have raised the standard of living for much of Nicaragua's poor population, thereby increasing the Sandinistas' popularity and public support. For instance, although numerous observers questioned the legitimacy of the 2011 national elections and the official tally giving Ortega almost 63% of the vote, many also conceded that Ortega most likely would have won the elections even without carrying out fraud.

By 2012, the FSLN had achieved “near complete dominance over most of the country's institutions,” according to Freedom House.¹ In summer 2016, the government removed some of the last checks on Ortega's power by removing members of the opposition from the legislature.

In early September 2016, Nicaragua granted asylum to former El Salvadoran President Mauricio Funes, who is being investigated for alleged corruption. Funes, of the leftist Farabundo Martí National Liberation Front (FMLN), said he is fleeing political persecution from rightist elements and is afraid for his safety.

Nicaragua at a Glance

Population: 6 million (2014 est., WB)
Area: 130,370 square kilometers (2015, CIA)
GDP: \$31.3 billion purchasing power parity (2015, CIA)
GNI Per Capita: \$5,000 PPP (2015, CIA)
Ethnic groups: mestizo (mixed Amerindian and white): 69%, white: 17%, black: 9%, and Amerindian: 5% (2015, CIA)
Religions: Roman Catholic: 58.5%, Protestant: 23.2% (Evangelical 21.6%, Moravian 1.6%), Jehovah's Witnesses: 0.9%, other: 1.6%, none: 15.7% (2005 est., 2015, CIA)
Leadership: President Daniel Ortega; Vice President Omar Hallelevens; National Assembly President René Núñez; Minister of Finance and Public Credit Iván Acosta; Minister of Foreign Affairs Samuel Santos López (EIU)
Sources: World Bank (WB); Central Intelligence Agency World Factbook (CIA), Economist Intelligence Unit (EIU).

¹ Freedom House, “Nicaragua,” 2013, at <https://freedomhouse.org/report/freedom-world/2013/nicaragua>.

Consolidation of Sandinista Dominance Under President Ortega

President Ortega further consolidated not only his party's but also his own dominance with 97 constitutional amendments passed by the FSLN-dominated 92-member legislature in January 2014. The changes eliminated presidential term limits, removed the requirement for at least 35% of the vote to win the presidency in the first round of voting, and limited dissent by banning lawmakers from voting against their own party. Ortega also drafted a new military code and pushed it through the legislature the same month. The constitutional amendments and the revised military code gave the president new powers of patronage and expanded the role of the military in public administration. The armed forces had been the one institution that remained independent from the executive branch. The 2014 code, however, gave the president more influence over the appointment of the army's high command and afforded him the power to appoint active-duty officers to civilian government positions, which the previous code had prohibited.

The code also expanded the army's role, under a new "national security" framework, in internal security. The military is designated to provide security for the proposed inter-oceanic canal; share management of ports, airports, and telecommunications facilities with civilian agencies; and protect national data systems and ground-based satellite communications.² Critics are concerned that these expanded duties could be used to increase surveillance of civilians for political purposes.

Ortega further expanded his legal control over state institutions in June 2014, when the legislature approved a reformed law regulating the national police. Although some observers believe Ortega has had de facto control of the police since 2007, the law shifted responsibility for the police from the interior ministry directly to the president.³ The law also established a vetting process for police recruits through community groups controlled by the ruling FSLN, raising concerns that the police will be used for increased political repression.

Opposition groups worry that a prohibition in the police law against "private investigative activities" may be used further to impede investigative reporting by the media. According to Freedom House, the Ortega administration "engages in systematic efforts to obstruct and discredit media critics."⁴ Journalists are victims of death threats and violence, they and complain that the police fail to protect them when attacked by pro-government groups at opposition demonstrations. The Nicaraguan constitution impedes freedom of the press by limiting the right of criticism to "constructive" criticism.⁵

In summer 2016, the government removed some of the last checks on Ortega's power. In June 2016, the Sandinista-controlled Supreme Court issued rulings that prevent any major opposition force from running against Ortega and the FSLN. The court removed opposition leader Eduardo Montealegre as the head of the Liberal Independent Party (Partido Liberal Independiente, or PLI), ruling that Pedro Reyes, the head of a weaker faction, should be recognized as the party's leader instead; Montealegre and others say that Reyes is supportive of the FSLN.⁶ The PLI was the

² "Ortega Expands Influence over Military," Economist Intelligence Unit, February 12, 2014.

³ "Nicaragua: Taking Charge of the Police," Economist Intelligence Unit, June 24, 2014.

⁴ Freedom House, "Nicaragua," 2015, at <https://freedomhouse.org/report/freedom-world/2015/nicaragua>.

⁵ "Nicaraguan Journalists Need Protection, Access to Information—RSF," [text of report by Paris-based media freedom organization Reporters Without Borders], BBC Monitoring Media, February 28, 2015.

⁶ "Nicaragua: Fears Grow over a One Party State," *Latin American Weekly Report*, June 30, 2016; Luis Galeano, "Nicaragua Electoral Authority Unseats Opposition Lawmakers," *Washington Post*, July 30, 2016; and communication from MRS, September 7, 2016.

largest group within the opposition bloc. In July 2016, the Supreme Electoral Council ousted 16 legislators from the PLI and its ally, the Sandinista Renovation Movement (Movimiento Renovador Sandinista, or MRS) from congress for their refusal to recognize Reyes as their party's leader. The MRS called the decision "a new blow to completely liquidate political pluralism and make disappear [stet] the opposition voices in parliament ... that have played an important role in denouncing Ortega's abuses of power."⁷

The Sandinista government has defended many of its actions as strengthening the legal system by codifying decrees into law. Opponents and other analysts see the measures as a means to perpetuate Ortega in power indefinitely. Since his long-sought return to the presidency in 2006, Ortega has implemented social welfare programs that have benefited Nicaragua's poor—reducing poverty, raising incomes, and providing subsidies and services—and thereby buoyed his popularity.

Today, despite criticism from some quarters within the country and some loss of popularity over the past few years, Ortega remains the most popular political figure in Nicaragua. As his popularity and power increased, so did Ortega's family wealth and influence. Ortega is reputed to be one of the wealthiest men in the country, and his children all own businesses, inviting comparisons to the Somoza family dictatorship the Sandinistas overthrew in 1979. Some press reports claim that President Ortega has lupus or another disease, but he has not disclosed the exact nature of his illness.

His wife, Rosario Murillo, has considerable power in his administration and is regarded by many observers as a *de facto* co-ruler. She is the chief government spokesperson and appears almost daily on national television. Widespread speculation that the couple was positioning Murillo to succeed her husband appeared to be validated when Ortega named Murillo as his vice-presidential running mate in August 2016. Critics charge that the couple runs Nicaragua like a fiefdom⁸—charges that were leveled against the Somoza family dictatorship, which the Sandinistas overthrew.

The opposition is weak and divided, and it is handicapped by FSLN control of the legislature, electoral council, and other aspects of Nicaraguan political life.

Measured International Response to Ortega's Authoritarian Tendencies

The United States and some other countries have responded in critical but measured terms to Ortega becoming more authoritarian. Several reasons may account for the lack of a stronger response. Perhaps the principal reason is that Ortega has been very pragmatic in international relations. Politically, he has fostered relations, but not joined in lockstep, with governments critical of the United States, such as Venezuela, Russia, and Iran. But he also carefully balances his antagonistic stance against the United States and parts of Europe with cooperation on issues of importance to these countries and to Nicaragua, such as counternarcotics efforts, free trade, and Central American integration. Economically, Ortega's government has pursued macroeconomic policies that enable it to maintain working relationships with multilateral financial institutions such as the World Bank and the International Monetary Fund. For instance, unlike some of his

⁷ Luis Galeano, *op. cit.*

⁸ *BBC News*, "Nicaragua: Ortega Names His Wife as Running Mate," August 3, 2016.

fellow members in the Venezuelan-led Bolivarian Alliance for the Americas (ALBA), Ortega has maintained mostly mainstream macroeconomic policies and has not nationalized resources.

Another reason some countries may not want to press Nicaragua on these issues is that Nicaragua is more stable and less violent than most of its Central American neighbors and there is no clear alternative to Ortega. Although opposition exists, it is divided and so far has been unable to present a coherent alternative to Ortega's governance plans and programs. Essentially, in the minds of many Nicaraguans, Ortega's authoritarian tendencies appear to be outweighed by populist measures that have improved their standard of living. Similarly, for many in the international community, the relative stability in Nicaragua seems to outweigh Ortega's perceived provocations and authoritarian proclivities.

2016 Elections

The next national elections for president and the legislature are due to be held on November 6, 2016. Ortega, currently 70 years of age, is widely expected to win reelection to a third consecutive term. The constitutional changes he pushed through the legislature mean that presidents have no limit on reelection and can now be elected with a simple plurality. Critics both at home and abroad question the legitimacy of the electoral process. The Consejo Supremo Electoral (CSE, Supreme Electoral Council) issued the electoral calendar without making any changes that the political parties had suggested for improving the process. The regulations do not allow for either domestic or international observation of the elections. In addition, opposition party participation has been eliminated or severely restricted. If reelected, Ortega's term would be extended another five years; by 2018, he will have been president for more than 16 years—longer than Anastasio Somoza García, founder of the dictatorial dynasty that Ortega helped to overthrow.

In April 2016, two principal opposition candidates withdrew from the race. Fabio Gadea, who officially won 31% of the vote in the 2011 elections, announced that he would not run on the center-right Partido Liberal Independiente (PLI, Liberal Independent Party) ticket again, as had been expected. Gadea, aged 84, cited a lack of transparency in the electoral process as the basis for his decision. The PLC candidate, Noel Vidaurre, also unexpectedly withdrew from the race, reportedly saying that longtime PLC leader Arnoldo Alemán's decision to name his wife and other close associates as candidates for deputy would undermine efforts to revive the party's image. Alemán was president from 1997 to 2002 and was prosecuted by the subsequent Bolaños administration for embezzling about \$100 million in public funds while in office. Without these candidates at the head of their ticket, the opposition parties' chances in legislative elections were hurt as well. After the 2011 elections, the PLI had 22 out of 91 seats in the National Assembly and the PLC had 2 seats. A June 2016 poll had each of these parties garnering just 5.6% of the intended votes, to the FSLN's 65%.⁹

Despite this sizeable lead, the Sandinista government continued to take steps that further crippled the opposition. The Sandinista-controlled Supreme Court issued rulings in June 2016 that prevent any major opposition force from running against Ortega and the FSLN. The court removed opposition leader Eduardo Montealegre as the head of the PLI, ruling that the head of a weaker faction—but one Montealegre says is supportive of the FSLN—should be recognized as the party's leader instead.¹⁰ The PLI had joined other parties in a *Coalición Nacional* por la

⁹ "Nicaragua President Ortega Expected to Win Third Straight Term—Poll," Reuters, June 27, 2016.

¹⁰ "Nicaragua: Fears Grow over a One Party State," op. cit.

Democracia (National Coalition for Democracy, or CND); Montealegre and the other party leaders denounced the Supreme Court's ruling as an effort to keep them out of the 2016 electoral race. The Supreme Court then invalidated both factions seeking control of the small Partido de Acción Ciudadana (Citizen Action Party), the only other party in the coalition with legal standing under which the coalition might have run candidates.¹¹ In July 2016, as mentioned above, the government ousted 16 members of the PLI and MRS from the legislature.

On September 6, 2016, having been prohibited by the court from participating in the elections, the election-oriented coalition disbanded. Some members of the CND launched a protest movement, Citizens for Liberty, which, along with the MRS and other groups, is boycotting the November 6 presidential election, calling it an "electoral farce."¹²

Other organizations have expressed concern about the Supreme Court's decisions, including the principal private-sector lobby, COSEP; human rights groups, such as the Nicaraguan Human Rights Center; and the Episcopal Conference of Nicaragua. The latter reportedly said that any "intent to create conditions for the implementation of a single party regime ... is harmful for the country."¹³

Because the FSLN has had a majority in the current National Assembly, it has been able to pass legislation proposed by the Ortega administration without having to compromise with the opposition. The further weakening and exclusion of the largest opposition coalition heading into the November elections likely will ensure that the FSLN maintain its supermajority in the next session.

Nationwide municipal elections are scheduled for 2017. The FSLN is also widely expected to win many of those offices.

Economic Development

Nicaragua's establishment of a framework for economic development since the signing of the 1990 Central American Peace Accords, which ended years of armed civil war in Nicaragua, has followed a more consistent path than has its democratic development.

The World Bank says Nicaragua stands out for maintaining growth levels above the average for Latin America and the Caribbean. Nicaragua's economic growth reached a high of 6.2% in 2011; the World Bank estimates a drop in growth of 3.9% for 2015 and predicts growth of 4.2% for 2016.¹⁴ President Ortega's stated goal has been to implement socialism in Nicaragua, which he defines as a mixed economy.¹⁵ Nonetheless, he has maintained many elements of a market-based economy, including participation in the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR).

Nicaragua's economy faces two significant challenges. High electricity costs appear to hinder the business community's ability to compete and stifle foreign investment in new businesses. The future of the Trans-Pacific Partnership (TPP) agreement could also have a negative impact on Nicaragua's textile production, a major export commodity for Nicaragua.

¹¹ "Judicial Rulings Disqualify Opposition from Elections," Economist Intelligence Unit, June 22, 2016.

¹² "Nicaragua President Ortega Expected to Win Third Straight Term—Poll," op. cit.; and Luis Galeano, op.cit.

¹³ "Nicaragua: Fears Grow over a One Party State," op. cit.

¹⁴ The World Bank, "Nicaragua: Country at a Glance," accessed April 25, 2016.

¹⁵ U.S. Department of State, *Background Note: Nicaragua*, January 18, 2011.

Poverty Reduction

According to the World Bank, “Nicaragua’s macroeconomic stability has allowed the country’s decisionmakers to shift from crisis control mode to longer-term, pioneering strategies to fight poverty.”¹⁶ Poverty has declined in recent years but remains high. Over the past decade, poverty dropped from almost half the population (48%) in 2005 to 30% in 2014.¹⁷ Since his election in 2006, President Ortega has instituted many social-welfare programs to help the country’s poor population, providing free education, free health care, and home-improvement programs. Nevertheless, Nicaragua remains the poorest country in Central America—in terms of per capita GDP—and the second-poorest country in the Western Hemisphere, ahead of Haiti.

Assistance from Venezuela

Many of Ortega’s social welfare programs have been paid for in past years with assistance from Venezuela, particularly through low oil prices paid by Nicaragua, a sizeable export of Nicaraguan farm goods to Venezuela, and large-scale Venezuelan investments in Nicaraguan infrastructure. According to some estimates, more than 25% of the Ortega administration’s revenues have come from Venezuela in some years.¹⁸ International donors and institutions have raised concerns about the lack of transparency of funds from Venezuela and the use of those funds for political patronage by Ortega, sometimes suspending or reducing aid in response to those concerns. A sharp contraction in funds from Venezuela, a possibility due to the drop of oil prices to historic lows and to political troubles in Venezuela, could seriously harm Nicaragua’s economy. The Ortega administration is preparing for that possibility, however. According to the Economist Intelligence Unit, the Ortega administration has “curtailed some subsidies, removed others from off-budget expenditure and attracted new sources of external finance”¹⁹—including international financial institutions. The Ortega government says it also will be taking fuller advantage of U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) benefits to expand exports further and continuing to attract foreign direct investment to strengthen its economy. Nicaragua became a full member of the Caribbean Community (CARICOM) in July 2016. CARICOM’s goals include promoting economic integration and cooperation and coordinating foreign—primarily economic—policy.

Controversy over Proposed Canal

Controversy and conflict have been growing over Ortega’s decision to grant a 100-year concession for an inter-oceanic canal through Nicaragua to a private Chinese company, HK Nicaragua Canal Development Investment Company Ltd. (HKND). The deal was rushed through the legislature for approval in June 2013. It gave HKND powers to expropriate lands, exempted the company from local tax and commercial regulations,²⁰ and guaranteed HKND that there would be no criminal punishment for breach of contract.²¹ The government maintains the project

¹⁶ The World Bank, “Nicaragua Overview,” accessed April 25, 2016.

¹⁷ The World Bank, “Nicaragua: Country at a Glance,” data, <http://data.worldbank.org/country/nicaragua>, accessed April 25, 2016.

¹⁸ “Public Unrest Will Rise Amid Economic and Security Challenges,” Business Monitor Online, March 29, 2016.

¹⁹ Economist Intelligence Unit, *Country Report: Nicaragua*, generated April 18, 2016, p. 3.

²⁰ “Canal construction (NICARAGUA) (Brief article),” Caribbean Update, Gale Group Inc., February 1, 2015.

²¹ Pablo Fonseca Q., “Nicaragua Constructs Enormous Canal, Blind to its Environmental Cost,” *Scientific American*, February 11, 2015.

will stimulate the economy and provide jobs. No environmental study was conducted before the deal was made. On June 1, 2015, the government said a just-concluded environmental study—which was paid for by HKND—had found the canal to be “viable,” but the government released no details of the report to the public.²² The government has also kept the technical and financial studies secret.²³

The canal would be 172 miles long, three times the length of the Panama Canal, and twice as deep. The Chinese company estimated the cost would be \$50 billion and broke ground in December 2014, but it has made no visible progress since then. The investor with whom the Ortega administration made the canal deal, Chinese billionaire Wang Jing, reportedly lost about 80% of his \$10 billion worth, heightening questions about the project’s financing. HKND officials say the company is doing preconstruction studies and will begin canal construction in late 2016, but some experts are wondering if the project is dead.²⁴

Various biologists and scientific organizations have expressed alarm that the canal would cut across Lake Nicaragua, or Cocibolca, endangering Central America’s largest source of fresh water. Scientists also express concern that the route would damage networks of internationally protected nature preserves that include wetlands, coral reefs, rainforests, and coastal areas. Noting that international standards require environmental studies to be completed and published before work begins, these scientific organizations have asked the Nicaraguan government to suspend the project until independent studies are completed and publicly debated.²⁵ The U.S. embassy also expressed concern about the lack of information and urged that all stages of the project be conducted openly and transparently.²⁶

A British consulting firm issued a study of the project in fall 2015, recommending further studies in many areas before work proceeded.²⁷ According to another analysis, “[d]rought, declining water levels, expanding deforestation, rising sedimentation, and frequent seismic events do not bode well for an undertaking that requires stable ecological and geological conditions.”²⁸

In early April 2016, an organization called the National Council for the Defense of Land, Lake, and Sovereignty, which includes farmers and environmental organizations, presented a measure to the legislature to repeal the law allowing the canal’s construction. Petitioners need 5,000 stamped signatures to ask that any measure be reviewed by the National Assembly; the group collected 7,000 stamped signatures and more than 28,000 non-stamped signatures. The National Assembly rejected the measure on April 11, saying the assembly lacked “jurisdiction” to repeal the law and noting that in 2013 the Supreme Court had already rejected another legal action to prevent the canal’s construction.²⁹

Nicaraguan human rights and indigenous groups have filed a complaint with the Inter-American Court on Human Rights, saying their rights to prior consent have been violated. The canal’s

²² Associated Press, “Nicaragua Says Study Finds Canal ‘Viable’; No Details Pubic,” *New York Times*, June 1, 2015.

²³ “Canal construction (NICARAGUA) (Brief article),” *op. cit.*

²⁴ Suzanne Daley, “Lost in Nicaragua, a Chinese Tycoon’s Canal Plan,” *New York Times*, April 4, 2016.

²⁵ Richard Harris, “Scientists Fear Ecological Disaster in Nicaragua’s Planned Canal,” NPR, February 20, 2014; and Pablo Fonseca Q., February 11, 2015, *op. cit.*

²⁶ U.S. Embassy, Nicaragua, “Nicaragua: Canal Interoceánico,” press release, January 6, 2015.

²⁷ Suzanne Daley, *op. cit.*

²⁸ Karen Masters et al., “An Improbable Future for Nicaragua’s Inter-Oceanic Canal,” *Mongabay*, May 25, 2016.

²⁹ Carla Selman, “Protest Risks Rising in Nicaragua Ahead of Election as Parliament Rejects Measure to Repeal Inter-Oceanic Canal Law,” IHS Global Insight Daily Analysis, April 13, 2016.

proposed route will go through indigenous lands and displace many communities inhabited by indigenous and Afro-Caribbean people. Members of the opposition Sandinista Renovation Movement have been concerned that very little is known about the developers and that because the agreement lacks sufficient oversight or input, it may open the door to corruption.³⁰

Numerous demonstrations against the canal have occurred, some involving thousands of protesters. Government forces have sometimes responded with force; at least two protesters died in late 2014. On April 22, 2016, thousands of people again marched to protest the proposed canal, saying it would displace rural communities and harm the environment. More protests have occurred and seem likely to continue.

Figure 1. Map of Nicaragua



Source: Created by the Congressional Research Service using data from the *International Business Times*, Planet Protect, and Esri.

Relations with the United States

The United States has sought to strengthen democratic institutions and practices in Nicaragua since Nicaragua initiated a transition to democracy in 1990. The United States has repeatedly expressed concerns as those institutions became politicized and, according to the State Department, democratic space has narrowed. It has sometimes reduced assistance to sanction the Nicaraguan government. In 2013, for example, the United States moved almost \$4 million in counternarcotics assistance away from direct support to the government because of inadequate

³⁰ Luis Galeano, "Nicaragua Canal Fast-Tracked with Chinese Boost," Associated Press, June 8, 2013.

Nicaraguan government transparency. The funds were shifted to drug eradication and nongovernmental drug demand reduction programs instead.³¹ Both houses of Congress are currently considering bills that would oppose loans at international financial institutions for the Nicaraguan government unless it is taking effective steps to hold free, fair, and transparent elections (H.R. 5708, S. 3284).

According to the U.S. Department of State, despite some of the concerns about the direction the Ortega government has taken Nicaragua, increasing numbers of private American citizens, including retirees, reside in Nicaragua. In addition, about 250,000 U.S. citizens visited Nicaragua in 2014.

Tensions between the two countries have risen recently. Nicaragua expelled three U.S. officials—two U.S. customs and border control agents and a U.S. Army War college professor researching the canal—from the country on June 14, 2016. The State Department said that such action was “unwarranted” and could have a negative impact on bilateral relations, particularly trade.”³² The Ortega government stated that two officials (it did not mention the third official) were acting without the knowledge of Nicaraguan authorities. The State Department issued a travel alert on June 29, 2016, informing U.S. citizens to increased Nicaraguan government scrutiny of foreigners’ activities, new requirements for volunteer groups, and the potential for demonstrations during the fall election season.

U.S. Assistance to Nicaragua

The Administration’s FY2016 foreign aid request for Nicaragua totaled \$18.2 million and focused on strengthening independent media and civil society organizations and working with at-risk youth along the Caribbean coast to reverse increasing violence and insecurity. Congress appropriated \$10 million for Nicaragua. The FY2017 request of \$14.8 million for Nicaragua has the same goals. The request includes \$14.5 million in Development Assistance (DA) and \$300,000 in International Military Education and Training (IMET). The DA funding would support civil society, education, and citizen-security programs.

The United States and Nicaragua cooperate on security and counternarcotics issues. According to the Administration’s Congressional Budget Justification, IMET assistance would “promote the professional development of the Nicaraguan military and strengthen the military-to-military relationship with the United States.” Through the Central America Regional Security Initiative (CARSI), the United States has provided equipment, training, and technical assistance to support law-enforcement operations. The United States has worked with the Nicaraguan police and navy to improve their narcotics interdiction capabilities and supported nongovernmental drug demand reduction programs.

From 1994 to 2015, U.S. administrations had to certify to Congress that Nicaragua was resolving property claims by U.S. citizens whose property was expropriated in the 1980s, or issue a property waiver, before Congress would approve aid on an annual basis. In August 2015, the United States announced that Nicaragua had resolved the last of the relevant claims, and that requirement was dropped.³³

³¹ U.S. Department of State, *2015 International Narcotics Control Strategy Report*, “Country Report: Nicaragua,” March 2016.

³² John Kirby, Spokesperson, U.S. Department of State, Daily Press Briefing, Washington, DC, June 16, 2016.

³³ U.S. Department of State, “U.S. Bilateral Relations Fact Sheets: Nicaragua,” June 22, 2016.

Human Rights

For decades, various U.S. administrations and Congresses have expressed concerns about respect for human rights in Nicaragua. According to the State Department’s 2015 human rights report on Nicaragua, the principal human rights abuses committed by the Nicaraguan government were restrictions on citizens’ rights to vote, obstacles to freedom of speech and press, and increased government harassment and intimidation of nongovernmental and civil society organizations. Other notable abuses included biased policies to promote single-party dominance; arbitrary arrests by police; life-threatening prison conditions; widespread corruption; violence against women and lesbian, gay, bisexual, transgender, and intersex people; trafficking in persons; and violations of trade union rights. Discrimination against ethnic minorities and indigenous people and communities, people with disabilities, and people with HIV/AIDS has also been reported.

According to the State Department’s human rights report, there were several allegations that the Nicaraguan government or its agents committed arbitrary or unlawful killings and “human rights organizations and independent media alleged some killings ... were politically motivated.”³⁴ Government agents committed “many” of those killings during confrontations with illegal armed groups in the northern part of the country, the report said. According to the State Department, the Nicaraguan government generally did not act on complaints of corruption or human rights abuses—including unlawful killings—allegedly committed by security forces. In addition, the Nicaraguan government limits public information on abuse investigations. Under such conditions, some observers are concerned that it may be difficult for the United States to ensure that officers participating in U.S.-sponsored IMET programs are not human rights abusers.

The State Department’s report said that human rights organizations reported several cases of arbitrary arrests by the Nicaraguan police and army related to protests in several cities.³⁵ The State Department also reported that the Ortega government intimidated and harassed journalists, increased restriction of access to public information, and harassed and intimidated nongovernmental and civil society organizations in 2015.

Nicaragua made some progress in combatting corruption during earlier democratically elected governments. In 2003, for example, then-president Enrique Bolaños’s Administration convicted former president Arnoldo Alemán of embezzling about \$100 million in public funds while in office.³⁶ According to the State Department’s 2015 human rights report on Nicaragua, Nicaraguan officials frequently engage in corrupt practices with impunity.

Trade Between the United States and Nicaragua

The United States and Nicaragua are participants in the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). Since the accord went into effect in 2005, U.S. exports to Nicaragua have increased by 101% and Nicaraguan exports to the United States have grown by 170%. According to the Office of the U.S. Trade Representative, Nicaragua is currently the United States’ 62nd largest goods trading partner, with \$4.4 billion in total (two-way) goods trade during 2015.

³⁴ U.S. Department of State, Country Reports on Human Rights Practices for 2015, “Nicaragua,” April 2016.

³⁵ U.S. Department of State, Country Reports on Human Rights Practices for 2015, “Nicaragua,” April 2016.

³⁶ Alemán was sentenced to 20 years in prison for fraud and money-laundering. He continued to control the Constitutionalist Liberal Party, however, and was released under broad terms in 2007 after Ortega took office. For further information, see CRS Report RL33983, *Nicaragua: The Election of Daniel Ortega and Issues in U.S. Relations*, by (name redacted).

The top U.S. exports to Nicaragua in 2015 were machinery, articles donated for relief, electrical machinery, mineral fuels, and knitted or crocheted fabrics. Nicaragua was the United States' 72nd largest goods export market in 2015, with U.S. goods exports up 25% (\$248 million) from 2014. U.S. exports of agricultural products to Nicaragua include soybean meal and oil, corn, dairy products, and prepared food.

Nicaragua was the 57th largest supplier of goods imports to the United States in 2015. The top Nicaraguan exports to the United States in 2015 were knit apparel, electrical machinery, woven apparel, precious metal and stone (gold), and coffee. Recent changes in U.S. laws regarding cigars could have a negative impact on future tobacco exports from Nicaragua.

The American Chamber of Commerce estimates that more than 125 companies operating in Nicaragua have some relation to a U.S. company, either as wholly or partly owned subsidiaries, franchisees, or exclusive distributors of U.S. products. The companies have more than 300,000 employees in Nicaragua.

Nicaragua's Relationship with Russia and Other Extra-Hemispheric Actors

Some Members of Congress have expressed concern about Nicaragua's relationship with Russia, especially recent military purchases. Russian President Vladimir Putin visited Nicaragua in 2014, saying that he intended to continue strengthening economic ties with Nicaragua.³⁷ President Ortega pushed through the legislature authorization for a ground station in Nicaragua for a Russian satellite network. The Nicaraguan Army has expressed interest in buying a fleet of Russian-made fighter jets for defense and to prevent aerial drug trafficking. Costa Rican and Honduran analysts have expressed concerns that such an arms purchase would be destabilizing to the region. Nicaragua ordered 50 tanks from Russia to be delivered in 2016-2017, reportedly costing \$80 million, which also raised concern among its neighbors. Nicaraguan and Russian military officials reportedly said that delivery of the battle tanks was part of ongoing "military cooperation" between the two countries.³⁸

The Nicaraguan government has kept many aspects of the canal deal, including the technical and financial studies, secret.³⁹ This secrecy has contributed to speculation that the Chinese government is involved in the project. China and Nicaragua do not have diplomatic relations; Nicaragua maintains relations with Taiwan. The Chinese government denies involvement in the canal, but some experts claim that it has influence over HKND, the private Chinese company granted the canal concession.⁴⁰

Although various reports emerged in 2009 that Iran was expanding its role in Nicaragua, causing concern in Washington, those reports were later shown to be untrue or exaggerated.⁴¹ In late August 2016, Iran's foreign minister, Mohammad Javad Zarif, included a visit to Nicaragua on his Latin American tour. The Iranian government said the trip was part of its efforts to expand economic relations with the region now that international sanctions against Iran have been lifted.

³⁷ Rigoberto Díaz, "Russia's Putin in Cuba, Nicaragua to Rekindle Latin America Ties," *AFP and the Tico Times*, July 12, 2014.

³⁸ Timothy Williams, "Nicaragua, Sparking Concerns in Central America," *Costa Rica Star*, April 27, 2016.

³⁹ "Canal construction (NICARAGUA) (Brief article)," op.cit.

⁴⁰ Danielle Renwick, "Nicaragua's Grand Canal," *Council on Foreign Relations*, April 24, 2015, pp. 2, 5.

⁴¹ Anne-Marie O'Connor and Mary Beth Sheridan, "Iran's Rumored Nicaraguan 'Mega-Embassy' Set Off Alarms in U.S.," *Washington Post*, July 13, 2009.

Zarif said that areas of cooperation between the two countries could include work on the Nicaraguan canal, agriculture, energy production, and banking, among others.⁴²

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⁴² “Iranian Foreign Minister Zarif Mulls Investment in Projected Nicaragua Canal,” *Hong Kong Shipping Gazette Daily News*, September 1, 2016.

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