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FALLO DE LA CORTE INTERNACIONAL DE JUSTICIA DE 27 DE JUNIO DE 1986 SOBRE ACTIVIDADES MILITARES Y PARAMILITARES EN Y CONTRA NICARAGUA: NECESIDAD DE SU INMEDIATO CUMPLIMIENTO

DESARROLLO Y COOPERACION ECONOMICA INTERNACIONAL

Carta de fecha 29 de agosto de 1989 dirigida al Secretario General por la Encargada de Negocios interino de la Misión Permanente de Nicaragua ante las Naciones Unidas

Tengo el honor de dirigirme a usted en ocasión de adjuntarle copia del artículo publicado en el Washington Post el 27 de agosto del presente año, titulado "Uncle Sam's Money War Against the Sandinistas".

Agradeceré a usted haga circular la presente nota y su anexo como documento oficial de la Asamblea General en relación con los temas 26 y 83 del programa provisional.

(Firmado) Daysi MONCADA
Embajador
Encargada de Negocios, a.i.

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* A/44/150.

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EDITORIALS/COLUMNISTS C1

Anexo

Uncle Sam's Money War Against the Sandinistas

By Peter Kornbluh

THE CONTRAS' U.S.-supplied guns may soon fall silent for good, but an equally devastating economic war waged by Washington continues to inflict severe damage on Nicaragua.

The protracted campaign—based on embargoes, economic isolation and sabotage—has attracted far less opposition and far fewer headlines than the contras' shooting war. But now, more than eight years after it began under Ronald Reagan, the full story of the U.S. effort to destabilize the Nicaraguan economy is gradually emerging. A variety of national-security directives and internal government memoranda show clearly that the United States was indeed using economic as well as paramilitary muscle to force the Sandinistas, as Reagan put it, "to say uncle." At least part of the campaign—a full trade embargo—continues under George Bush.

Ironically, with the contras now expected to be demobilized by the end of the year, Washington's economic pressure may well prove to have been the more important component of the U.S. "low-intensity" war against the Sandinistas. By all accounts, Nicaragua's economy is in disastrous straits. After a promising initial effort to rebuild the country—despoiled for decades by the corrupt Somoza family dynasty—any hope that the Sandinistas can alleviate the poverty and socio-economic neglect suffered by most Nicaraguans is all but gone.

Nicaragua's nightmare is an eery reminder of Chile's experience with Washington during the brief Socialist government of Salvador Allende. Congressional investigations into CIA covert activities in the mid-1970s revealed that President Nixon had directed the CIA to "make the [Chilean] economy scream," while national security adviser Henry Kissinger supervised an economic "destabilization" campaign that contributed to the economic chaos that preceded the overthrow and assassination of Allende in a military coup led by the durable and brutal Gen. Augusto Pinochet.

As in Chile, U.S. economic warfare against Nicaragua has followed a clear blueprint of pressures:

- *Termination of bilateral trade and aid.* After Anastazio Somoza was overthrown 10 years ago, the Carter administration used U.S. economic aid and trade as a carrot to influence the direction of the Sandinista revolution. Under Reagan, it became a stick. Shortly after taking office in 1981, Reagan terminated aid and began gradually curtailing U.S.-Nicaraguan trade. A full embargo was invoked in May 1985.

■ ***An "invisible blockade" of multilateral-development bank (MDB) loans.*** The Reagan administration simply vetoed or stopped some loans by the World Bank and the Inter-American Development Bank (IDB). In other cases, Washington moved to "persuade the Managements of the [MDBs] not to bring these loans forward," according to an internal 1983 memorandum to Treasury

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Secretary Donald Regan. Since that year, Nicaragua has received no multilateral bank loans.

■ *Diplomatic pressure on allies.* With limited success, the State Department twisted government arms in Western Europe to curtail Nicaraguan trade and aid; in Latin America, according to a secret 1984 National Security Decision Directive (NSDD), the White House singled out Mexico for pressure because of its aid to Nicaragua and its leadership of the 1983 Contadora peace initiative, which paved the way for the Central American presidents' decision three weeks ago to disband the contras.

■ *Direct U.S. sabotage.* As disclosed in documents released during the Iran-contra investigation, the contras were directed to attack economic targets in Nicaragua. However, the most dramatic paramilitary assaults—on ports, fuel storage facilities and shipping—were carried out by the CIA itself.

The Reagan administration repeatedly denied that its Nicaragua policy included punitive economic objectives. A March 1985 booklet, "Misconceptions About U.S. Policy Toward Nicaragua," published by the State Department's Office of Public Diplomacy, declared that "the U.S. government has not imposed any form of economic boycott on Nicaragua" and was not "trying to strangle Nicaragua economically."

But according to the first published report of U.S. efforts to undermine the Nicaraguan government (in the June 20, 1981 issue of The New Republic), White House officials began to contemplate a "destabilization program" within weeks of Ronald Reagan's inauguration. Their plan called for Washington to undermine Nicaragua's fragile economy—still recovering from Somoza's destructive efforts to stay in power—by ending U. S. assistance, blocking multilateral bank loans and pressuring other nations to isolate the Sandinistas. The resulting economic distress, it was hoped, would incite internal opposition and blossom into an uprising led by U.S.-backed contras invading from Honduras and Costa Rica.

Notwithstanding the failure of the contras, U.S. policy over the last eight years has closely followed that scenario, and its economic aspects have had the acquiescence of Congress. Within six weeks after Reagan took office, the administration had ended economic aid. In short order, it also denied Nicaragua U.S. Export-Import Bank trade credits—needed by merchants, industrialists and farmers to import U.S. manufactured goods— and Overseas Private Investment Corporation guarantees, which underwrite U.S. corporate investments in the Third World. And in November, the president signed NSDD 17 secretly authorizing the CIA to create a counterrevolutionary army of exiles.

In 1982, when Nicaragua was about to receive its first significant private bank loan from the Bank of America, State Department officials made their opposition known to the bank's officers. The $30-million loan was canceled. Then the administration targeted Nicaragua's primary export to the United States—sugar. On March 10, 1983 the White House announced that Nicaragua's sugar quota would be cut by 90 percent. Despite a ruling by the General Agreement on Tariffs and Trade (GATT), the international-trade equivalent of the United Nations, that the United States' action had violated the GATT Treaty, the Reagan Administration refused to restore Nicaragua's sugar quota.

For more than two years, the National Security Council weighed further economic options, including the ultimate sanction—a full trade embargo. In January 1984, national security adviser Robert McFarlane received a "menu of sanctions" memorandum that included trade cutoffs and pressure on West European allies to cease their trade and aid to Nicaragua, according to one high Reagan administration official. NSDD 124, signed by Reagan in February 1984, called for Secretary of State George Shultz, in coordination with Defense Secretary Caspar Weinberger and CIA Director William Casey, to "review and recommend such economic sanctions against Nicaragua that are likely to build pressure on the Sandinistas." Another NSDD drafted a year later by National Security Council aides Oliver North, Raymond Burghardt and Donald Fortier called for "economic sanctions against the Sandinistas" that would include "placing embargoes on U.S.-Nicaraguan imports and exports."

Basic differences of opinion over the use of trade embargoes between the NSC and the State Department delayed implementation of a full embargo. Indeed, Reagan's announcement of the embargo on May 1, 1985 appears to have been timed to help sustain the contras in Honduras after Congress in April refused the president's request for more contra aid. In a secret April 25 memorandum released during the North trial, McFarlane recommended that Reagan call Honduran President Robert Suazo Cordoba and "make clear the executive branch's political commitment to maintaining pressure on the Sandinistas, regardless of what action Congress takes." McFarlane added that Suazo "will need some overt and concrete sign of this commitment in order to forestall his military in taking action against the [contras]." One such sign would be to "impose a trade embargo."

Six days later, declaring the impoverished nation of 3 million "an unusual and extraordinary threat" under the International Emergency Powers Act, Reagan imposed a full trade embargo against Nicaragua. Some Justice Department lawyers felt it was a dubious use of the law, and the NSC and State argued until the end about "contract sanctity"—whether the embargo would abrogate standing contracts between U.S. businesses and Nicaragua. Ultimately, Reagan sided with the NSC position that such contracts would be invalidated, significantly strengthening the embargo and hurting a number of American companies. "We won the battle at the 11th hour," says one former NSC official. The embargo has been renewed yearly since then by Reagan and Bush.

Aside from the United States itself, Nicaragua's chief source for hard currency and development assistance had been multilateral lending institutions such as the World Bank and the IDB—international agencies that, in turn, depend on U.S. funds for their lending programs. Between 1979 and 1982, Nicaragua obtained 34 percent of its external financial assistance from MDBs.

The Sandinistas received high marks for their use of MDB loans. Even a confidential assessment from the office of the U.S. executive director to the World Bank noted that "project implementation has been extraordinary successful in Nicaragua in some sectors, better than anywhere else in the world."

Nevertheless, beginning in early 1982 the United States sought to block all MDB loans to Nicaragua. Since MDB charters state that only "economic considerations" are relevant to loan decisions, U.S. officials cited Nicaragua's "inappropriate macro-economic policies" as the rationale for Washington's opposition. But the true reason was political. As a former NSC official has acknowledged, "We did help effect [Treasury Department] interventions in the IDB and World Bank to not go ahead and lend to Nicaragua."

The United States holds veto power over low-interest "concessionary" loans at the IDB and World Bank and easily blocked Sandinista access to smaller grants from these insitutitions. On loans that Washington could not veto, it used a variety of methods—organizing voting blocks, delaying paper work and directly pressuring MDB management not to bring the loans forward. "Since January of 1982, the United States has opposed five loans to Nicaragua from the World Bank and the Inter-American Bank," stated a July 1, 1983 memorandum to Donald Regan. "The number of proposals currently being prepared in the MDBs include nine from the IDB and three from the World Bank . . . . Assuming there is no change in Nicaragua's economic policy, Treasury will attempt to persuade the Managements of the Banks not to bring these loans forward, but if that fails we expect to oppose the loans."

With few exceptions [see box], the administration was successful. In 1985, Secretary of State Shultz intervened personally to stop a $58-million loan for agricultural credits to Nicaragua's private farmers. Shultz met with IDB Chairman Antonio Ortiz Mena and sent him a letter "warning that the U.S. could stop funding the IDB if the loan was passed." One bank official told a Washington Post reporter, "We read . . . [it] as a threat . . . ." You have to go back to the days of Allende, and even [then] there was never such a communication from the secretary of state."

Just as the Nixon White House shut down the flow of MDB grants to Chile, the Reagan administration cut Nicaragua off from this important source of external capital. In November 1982, the World Bank froze all Nicaraguan loan applications. After September 1983, the IDB approved no more loans to Nicaragua.

"Between 1981 and 1985, Scandanavia, Western Europe and multilateral institutions provided the Sandinistas with grants and concessional credit totaling approximately $825 million," according to Roger Robinson, former NSC senior director for international economic affairs. Because of such aid, Western European allies, as well as some Latin American countries, became targets of U.S pressure to curtail economic relations with Nicaragua.

Among Latin American nations, the Reagan administration focused on Mexico. Until mid-1985, Mexico was Nicaragua's chief supplier of petroleum on credit. The Mexican government also irked Washington by leading the Contadora group's search for a peaceful solution to the crisis in Central America.

In NSDD 124, Reagan authorized U.S. national-security agencies to "intensify diplomatic efforts with the Mexican government to reduce its . . . economic and diplomatic suport for the Nicaraguan government." NSDD 124 also mandated the State Department to "take the lead in an immediate interagency study of ways in which we can supplement our persuasive efforts with the [gov-

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ernment of Mexico] bearing in mind overall U.S. interests and relations with Mexico." (Adminstration hard-liners subsequently complained that the directive was never fully implemented.)

Western Europe also caught the attention of White House strategists. "We were very active in trying to reduce Western financial flows," says a former administration official. One NSC "action plan" dated July 8, 1983 called on Shultz to "press Western European governments at the highest level to cease financial support for the Sandinistas." In September 1984, Shultz publicly called for the European Economic Community to exclude Nicaragua from its regional-assistance package for Central America. "We strongly urge that such region-to-region assistance does not lead to increased economic aid or any political support for the Sandinistas," Shultz wrote EEC ministers.

The impact of U.S. pressure is difficult to ascertain. Some members of the Reagan White House believe that whatever "demarches" the secretary of state gave to the allies were more like "demarche-mallows." Except for Great Britain, which followed Washington's lead on Nicaragua policy, Western European nations largely resisted U. S. demands to isolate Managua. According to top Sandinista officials, Mexico did retreat from its generous approach to Nicaragua, effectively ending its access to Mexican oil on credit in April 1985. However, the Mexican government reversed its decision later that spring after the U.S. imposed its trade embargo. By then Nicaraguan President Daniel Ortega had made his famous foray to Moscow in a successful search of a steady supply of petroleum.

Direct CIA operations inside Nicaragua both complemented and supplemented the economic war from abroad. According to Bob Woodward's book "Veil," CIA director William Casey once demanded of CIA officials, "What [more] can we do about the economy to make these bastards sweat?"

Using the contras as a weapon offered one method. Both directly and indirectly, their attacks affected all sectors of the Nicaraguan economy. As a June 1983 CIA National Intelligence Estimate on the contra insurgency noted, "Fear and uncertainty stemming from the violence have crippled investment, exacerbated capital flight and cut off commercial lending. Fighting in the countryside has reduced traditional seasonal labor migration and cut into harvests."

For public consumption, however, the "freedom fighters" didn't engage in economic destruction. "Unlike the Marxist guerrillas in El Salvador who have concentrated attacks on economic infrastructure, the Nicaraguan armed opposition has attacked very few economic targets" asserted the State Department tract "Misconceptions About U.S. Policy Toward Nicaragua."

In reality, the contras frequently attacked unprotected economic targets of all kinds. As early as July 1982, the Defense Intelligence Agency reported that the contras were sabotaging highway bridges and fuel tanks. As part of a comprehensive "U.S. Political/Military Strategy for Nicaragua," a blueprint for the overthrow of the Sandinistas drawn up by Oliver North in July 1985, the contras were directed "to repeatedly . . . disrupt the economic infrastructure of Nicaragua with priority to the electrical grid, water, transportation and communications systems." These attacks, North advised, would be a "show-of-force action with maximum psychological benefit."

But the most dramatic attacks on the economy were conducted not by the contras but by CIA itself. Using agents known as "Unilaterally Controlled Latino Assets" (UCLAs), the CIA conducted at least 21 direct attacks on Nicaraguan targets between September 1983 and April 1984. Port infrastructure, fuel tanks, grain storage facilities—all were objects of a concerted CIA/NSC campaign of destruction that culminated in the notorious mining of Nicaragua's harbors.

NSC documents released during the Iran-contra investigations confirm what was widely believed at the time: the objective of the CIA mining operations was not military but economic. "Our intention is to severely disrupt the flow of shipping essential to Nicaraguan trade during the peak export period," North and his colleague, Constantine Menges, reported to McFarlane in a March 2, 1984 "top secret" action memorandum on the sowing of mines in the port of Corinto.

Even more egregious acts of sabotage were in the offing, including a direct assault on an oil tanker in Nicaragua's harbors. "It is our judgment that destroying the vessel and its cargo will be far more effective in accomplishing our overall goal of applying stringent economic pressure," North and Menges wrote. "It is entirely likely that once a ship has been sunk, no insurers will cover ships calling in Nicaraguan ports. This will effectively limit their seaborne trade to that which can be carried on Cuban, Soviet Bloc or their own [ships]."

McFarlane authorized this sabotage plan and briefed Reagan on March 5. But it never came to fruition, perhaps because of the national scandal that erupted four weeks later when details of the CIA mining operations were revealed in the press.

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The U.S. policy of economic punishment, coupled with the devastation of natural disasters such as Hurricane Joan and Sandinista mismanagement of the economy, has taken a toll on every facet of Nicaraguan political, social and economic life.

"The full impact of such a policy on a small impoverished nation is simply incalculable," states Nicaragua's "Memorial on Compensation" submitted to the World Court last March.

According to a confidential report prepared by an international team of economists at the request of the Nicaraguan government last spring, the country is beset by "hyperinflation," "financial disequilibria," critical production losses, trade deficits, and unpayable foreign debt. Average per-capita gross domestic product is now estimated to have dropped lower than Haiti's. The crisis has forced the government to abandon its socialist, welfare-oriented economic programs and to adopt a rigorous stabilization program, characterized by strict austerity measures, severe slashes in the public payroll, supply-side economics and efforts to reach a *modus operandi* with the private sector.

While conservative critics will hold that the Sandinistas' radical policies are responsible for Nicaragua's economic chaos, the reality is that we will never know how the Sandinista experiment might have turned out without the U.S. destabilization campaign. One thing is clear, however: Nicaragua's economic recovery will depend on access to foreign capital, and the United States holds the key to whether it will be forthcoming. "Given the trade embargo and effective blockade of multilateral loans imposed . . . by the United States, Nicaraguan authorities bear an unusual burden in their attempts to raise liquid external funds," states the confidential study prepared for the Nicaraguan government. Therefore, the "prospects for success are far from certain unless external circumstances improve."

Even if the Bush administration backs the demobilization of the contras, as the Central American presidents have asked, the war will not be over. Unless Washington also abandons its economic blockade, Nicaragua could become another country brought to ruin by the United States under the pretext of trying to save it.

Preventing Net Profits

How We Squashed Aid to Nicaragua's Fishermen

A $30.7-MILLION Inter-American Development Bank grant to rehabilitate Nicaragua's fishing industry provides a case study of U.S. economic obstruction. The Treasury Department's Working Group on Multilateral Aid (WGMA) "did not identify any problems with this project itself so serious as to require U.S. opposition," according to WGMA minutes. But Treasury opposed the loan on "macro-economic" grounds. For two years the Reagan administration delayed consideration of the loan by organizing a voting block with Argentina and Chile to keep it off the table. After this coalition broke up in the wake of the Falklands/Malvinas war between Britain and Argentina, Treasury Department officials considered other ways to stop the loan.

"While it would be desirable to stop the distribution of the loan documents for the fishing loan, we do not believe there is much chance for success," an Aug. 2, 1983 strategy memorandum from Assistant Secretary Marc Leland to Secretary Donald Regan stated. Therefore, the memo recommended that Undersecretary Beryl Sprinkel go directly to IDB Chairman Antonio Ortiz Mena and invoke the threat of financial blackmail:

"Dr. Sprinkel should also emphasize to him the importance we attach to avoiding a confrontation with Nicaragua and IDB at this time . . . . We also are concerned about the effects of such a loan on the Congressional appropriation for the new IDB replenishment and, over the long run, continued support in Congress for the institution."

According to the memorandum, Sprinkel would "request that the Bank continue to hold this loan up, failing that, Beryl should stress that we hope Ortiz Mena can prevent any future loans from coming forward in the foreseeable future . . . ."

Sprinkel says he does not recall that specific meeting but adds: "I can imagine that we tried to hold up the loan. We tried to influence policy as the [bank's] largest donor. We would have been irresponsible otherwise."

Despite U.S. pressure, the IDB approved the fishing loan. But the administration succeeded in its longer objective of blocking new loans to Nicaragua.

—Peter Kornbluh
