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A recent economic upswing in Nicaragua could not have come at a better time for President Daniel Ortega, who is quickly closing in on an unprecedented--and arguably unconstitutional--third term in office. Nicaragua's upcoming general election is set to take place Nov. 6.

With less than two months to go, Ortega, the long-standing leader of the Frente Sandinista de Liberación Nacional (FSLN), has a healthy poll lead over his closest rival, 79-year-old Fabio Gadea Mantilla of the Partido Liberal Independiente (PLI). Ortega, a key figure in the 1979 Sandinista revolution, first held the presidency from 1985-1990. After several failed bids, he won a second term in 2006 (NotiCen, Nov. 9, 2006).

Ortega owes much of his recent success to infighting among his opponents (NotiCen, March 24 2011). As it did in 2006, the fractured opposition plans to run several candidates--including ex-President Arnoldo Alemán (1997-2002) of the Partido Liberal Constitucionalista (PLC)--and is thus likely to split the conservative voting block to Ortega's advantage.

Yet, unlike 2006, when Ortega eked out a 38% victory only because opponents Eduardo Montealegre and José Rizo divided what would have been a 55% vote haul between them, the FSLN leader looks poised to win this election regardless. A CID-Gallup poll published Sept. 30 put support for the president at 45.8%. Even if their support were combined, Gadea (33.5%) and Alemán (10.1%) would only garner 43.6% of the vote, the survey found.

In the past few years, Ortega appears to have improved his political standing with voters--despite claims from opponents that his candidacy is illegal. Nicaragua's Constitution prohibits leaders from serving back-to-back terms and limits at two the total number of times someone can hold the top office.

To what then does the controversial incumbent owe his increasing popular support? Nicaragua's relatively rosy economic numbers may not be the sole explanation, but they have no doubt helped. If nothing else, the improved economic figures neutralize one of the political right's standard lines of attack: that leftist leaders--particularly one with Ortega's revolutionary credentials--are bad for the economy.

Flood of foreign investment

A victim of the global financial crisis, the Nicaraguan economy slumped in 2009 (NotiCen, Jan. 7, 2010). In 2010, however, GDP growth rebounded--to the tune of 4.5%. So far this year the trend has continued. Exports are up. Coffee sales alone have increased by nearly 40%, thanks to rising prices. Tourism revenue has increased as well, up a modest 3%. The International Monetary Fund (IMF) forecasts "robust growth" overall of at least 4% for 2011.

And rather than dry up on Ortega's watch, as critics predicted, foreign direct investment (FDI) has been pouring in. In mid-September, the Brazilian firm Techshoes announced plans to set up a shoe

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factory that will reportedly employ 1,200 Nicaraguan workers. Techshoes plans to invest US$10 million in the project.

Two weeks later, Cupid Nicaragua, a US clothing company, promised to expand its operations in Nicaragua by investing an additional US$24 million. B2Gold Corp., a Canadian mining company, also announced plans in September to expand local operations. Before the end of the year, the firm plans to open a new mine, called Jabali.

Between 2009 and 2010, FDI in Nicaragua rose 17%, from US$434.2 million to US$507.9 million, according to ProNicaragua, the country's public-private investment promotion agency. This year--thanks to firms like Techshoes and B2Gold Corp.--FDI is expected to top US$1 billion, more than double the amount from 2010.

"We're looking at Nicaragua as a great opportunity," Mario Macedo, a representative for the Brazilian construction firm Andrade Gutierrez, told the Nicaraguan weekly Confidencial. "There's political stability and contracts are honored, both for us and for [our Brazilian competitor] Queiroz Galvão….Also [Nicaragua] is the safest country in all of Central America."

Comparative advantages

When it comes to Central America, "safety" is a relative term. But it is also true that Nicaragua, for now anyway, has avoided much of the mayhem plaguing its neighbors in the "Northern Triangle"--made up of Guatemala, El Salvador, and Honduras--which boast some of the world's highest murder rates. The UN Development Programme (UNDP) says the average homicide rate in Latin America is 25 per 100,000. In the three Northern Triangle countries, the murder rate is twice as high. Nicaragua, by contrast, has a murder rate of just 13 per 100,000, the UNDP estimated in its 2009-2010 Central American Human Development Report.

In Nicaragua, "the structures of social cohesion left by the revolution, and the training received by the Nicaraguan police, based on the principle of service to society, have played a key role," Arturo Chub of the Guatemala-based nongovernmental organization (NGO) Asociación para el Estudio y Promoción de la Seguridad en Democracia (SEDEM) told Inter Press Service.

Nicaragua's other big selling point when it comes to FDI is cost. Central America's largest country in territory, Nicaragua has historically been its poorest. As a result, land--and labor--remain cheap. No wonder that in the first half of this year, Nicaragua outpaced even China in apparel exports to the US. During that time, exports--from foreign-owned maquiladora clothing factories in Nicaragua--jumped 22% in volume, according to the US Department of Commerce's Office of Textiles & Apparel (OTEXA).

None of that is to say, however, that FDI has poured in by pure market osmosis. Through ProNicaragua, Ortega's administration has actively pursued foreign investors. And the president has helped broker many of those deals, according to ProNicaragua's executive director Javier Chamorro.

"The president is accessible," Chamorro told Confidencial. "The president finds time in his schedule to receive the investors we bring him. When we ask him to sit down with certain business people, he does. And not just with new [investors]. He also sits down with people already [doing business in Nicaragua]."

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Easy come, easy go?

Serious questions remain, however, on just how sustainable Ortega's FDI-focused economic model is. For starters, Nicaragua's surging foreign investment numbers are somewhat deceiving considering that a big percentage of that cash influx comes from a single source--Venezuela. That also makes the Nicaraguan economy vulnerable should it suddenly lose its oil-rich benefactor.

A close political ally of Venezuelan President Hugo Chávez, Ortega agreed early in his presidency to throw Nicaragua's lot in with the Venezuela-led Alianza Bolivariana para los Pueblos de Nuestra América (ALBA) trade group. The move has so far proven beneficial both for Nicaragua in general--which has increased exports to Venezuela and received bundles of Venezuelan FDI and soft loans--and Ortega personally.

Through ALBA-linked business, Ortega has gained access to large sums of money that he can use at his discretion--to fund popular social programs that do not figure into the government's official budget (NotiCen, May 26, 2011). Critics charge that some of the money also makes its way into Sandinista campaign coffers.

"Using figures from the Banco Central de Nicaragua, we can conclude conservatively that over the past three years, the government has had an extra US$1 billion for discretional expenses, outside of the budget," Dr. Arturo Cruz, a former Nicaraguan ambassador to the US, explained during a May 12 presentation before Inter-American Dialogue's Central American Working Group in San Salvador, El Salvador.

Ortega now has reason to wonder just how much longer he can count on Venezuelan largess. Earlier this year, President Chávez was diagnosed with cancer. During the past several months the Venezuelan leader has made several trips to Cuba to undergo chemotherapy treatment. Chávez also faces an upcoming electoral challenge (NotiSur, Aug. 12, 2011). Should health problems or the 2012 election end Chávez's lengthy run in office, Ortega will suddenly find himself without his preferred business partner.

Nicaragua also faces the looming prospect of another global recession, which could not only eat away at the country's export figures but also dip into the country's remittances revenue. Like most of its Central American neighbors, Nicaragua depends heavily on money sent back by family members living in the US and elsewhere. An estimated 1.5 million Nicaraguans live abroad. In 2010, Nicaragua's ex-patriot population--half of which lives in the US--sent back a combined US$820 million (equivalent to 13% of GDP), according to government figures.

The IMF has already factored in the gathering economic storm clouds to predict that Nicaragua's economic growth will slow to between 3.3% and 3.8% in 2012. "It's likely that the trend toward lower GDP growth and lower inflation will continue during 2012 as a consequence of a weaker international economic climate," IMF official Marcello Estevão noted during a recent visit to Nicaragua.

The fact also remains that the Nicaraguan economy, for all its encouraging GDP and FDI growth numbers, still struggles to provide the kinds of decent paying jobs needed to lift people out of poverty. Instead, to make sure foreign capital keeps flowing in, Nicaragua has a perverted incentive to protect one if it's key comparative "advantages": cheap workers.

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"If you don't include Venezuelan investment, the FDI numbers are much smaller. As The Economist says, the only thing attracting foreign investors to Nicaragua is cheap labor," economist Edmundo Jarquín, Fabio Gadea's running mate, told Confidencial. "When, as we hope, salaries start to rise, [Nicaragua] is going to have to come up with other things besides cheap workers to attract FDI: things that currently aren't available here, like legal security, political confidence, guarantees that investors will have the infrastructure and a qualified workforce."

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