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Costa Rica, Panama, and Nicaragua: explaining economic success levels

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COSTA RICA, PANAMA, AND NICARAGUA: EXPLAINING ECONOMIC
SUCCESS LEVELS

by

KEVIN NEGY

A thesis submitted in partial fulfillment of the requirements
for the Honors in the Major Program in International and Global Studies
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and in The Burnett Honors College
at the University of Central Florida
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Thesis Chair: Dr. Houman Sadri

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Abstract

Latin America is a region that has deep roots in Spanish colonialism. Since its independence, many countries in the region have heavily depended on agriculture exports to industrialized states to support their economies. This has led to political theorists to label Latin America as an area full of “periphery” countries that are exploited for resources by “core countries. Costa Rica, Panama, and Nicaragua were not the exception. In recent years, however, a noticeable difference between the economies of the countries has helped Costa Rica and Panama become more successful than Nicaragua, on the basis of GDP, GNI, and other similar measures.

This thesis attempts to explain this economic difference by analyzing what type of relationship the three countries have had with the United States (which has acted as a regional hegemon) and analyzing how each country has handled economic dependence on agriculture. Through this comparative case study, the thesis tries to add to development and dependency theory literature.

Dedication

For my parents, Charles Negy and Alma Alarcón,
who have encouraged and expected the best of me since birth.

Acknowledgements

I would like to thank, Dr. Houman Sadri, for agreeing to be my thesis chair and assisting me along the way. To Dr. Lisa Nalbome and Dr. Joseph Vasquez, thank you for agreeing to be on my committee and for all of your feedback. Thank you to all of my friends who have kept my head high during the entire process by using humor (you know who you are). To Adriana, for standing by me loyally and providing moral support throughout. Of course, thanks to my extended family, which provided encouragement despite the distance between us. To my brother, Kenny, who has motivated me to achieve through brotherly competition. And, finally, a special thanks to my parents, Charles and Alma, who have been there since day one for me.

Table of Contents

Chapter 1: Introduction	1
The Case for Hegemonic Allegiance	6
The Case for Agriculture	9
Chapter 2: Costa Rica	13
Costa Rican Political History	13
Costa Rican Economic Industries	17
U.S.- Costa Rican Relations.....	20
Chapter 3: Panama	24
Panamanian Political History.....	24
Panamanian Economic Industries	29
U.S.- Panamanian Relations	31
Chapter 4: Nicaragua	35
Nicaraguan Political History.....	35
Nicaraguan Economic Industries	39
U.S.- Nicaraguan Relations.....	43
Chapter 5: Conclusion.....	46
Works Cited	56

List of Figures

Figure 1: GNI (billions)	3
Figure 2: GNI Per Capita	4
Figure 3: GDP Growth.....	4
Figure 4: Remittances (millions)	6

List of Tables

Table 1: Net Migration.....	5
Table 2: Costa Rican Agriculture	20
Table 3: Panama Agriculture	31
Table 4: Agriculture in Nicaragua	43
Table 5: Analysis	51

Chapter 1: Introduction

When examining the economies of different countries or states, there is obvious variation in terms of the success of economies. This brings up the question, *why are some countries more successful than others?* This is a question that political scientists have been trying to answer for decades. It is a question to which there is not one clear answer: there are many paths and policies that lead to success, as well as different combinations that make success more likely. It is the intent of this study to offer two possible explanations: lack of agriculture dependency and an amicable-independent relationship with a hegemon.

Before elaborating on these explanations, however, one must identify the statistics that will be used to classify success levels. Typically, to compare the economies of different states there are several indicators that can help describe this term. The first is GNI or Gross National Income. The GNI (also called GNP) is the total market price of goods produced by citizens of a specific country regardless of where the product is made. This measurement is the most used when trying to prove economic success because “the ability of a nation to produce value in goods and services is an obvious measure of economic success” (Margolis 2). Similarly, GNI per capita, or GNI per person, is another economic indicator because it takes into account how large the population of a state is. This is important because it will shed light on whether economic success is more a result of simply having a large population and therefore a larger work force or if the economic success is a result of other factors, as seems to be the case with Russia (World Bank).

Another indicator is GDP and its growth. GDP is the total market value of products created within a country (Ip 16). GDP growth from year to year is often used to measure

whether an economy is improving. This economic measure is also expressed in terms of “per-capita.”

Thirdly, migration numbers can be used to indirectly surmise the economic state of a country. The net amount of migrants can help indicate the success of an economy, because those that are more successful should, in theory, have less emigration while less successful economies should have more emigration. As used in Table 1, a positive migration statistic signifies a greater number of immigrants than emigrants, while a negative statistic signifies more emigrants than immigrants.

Finally, remittances, or the amount of money sent back to a country from nationals working in other countries, are another economic measure of importance. An economy that is better off should have fewer remittances from abroad than economies that are worse off. For instance, Jamaica, which in the 90s suffered economic problems, received a high amount of remittances accounting for between 10-13% of GDP between 1996 and 2001 (Hillman and D’Agostino 139).

Taking into account all of these factors, it is important to note that it is not the intent of this paper to declare one state successful and another unsuccessful. There is no economic threshold where one can make such bold classifications. Thus, in determining relative economic successes, a qualitative method will be used. Essentially, these economic indicators mentioned above will be taken into account together and will be used to determine whether a state is more or less successful in relation to others.

In this study, the countries of Costa Rica, Panama, and Nicaragua will be compared. Costa Rica and Panama have had more successful economies than Nicaragua in the past few

decades. These two have outperformed Nicaragua in the economic categories of GNI, GNI per capita, and GDP growth, according to World Bank figures. GNI has been steadily increasing for all three but increasing at greater rates in Costa Rica and Panama (Figure 1 and 2). GDP growth has been more sporadic, but Nicaragua (with the exception of 2010 in which it surpassed both Costa Rica and Panama) still seems to have the lowest growth patterns (Figure 3).

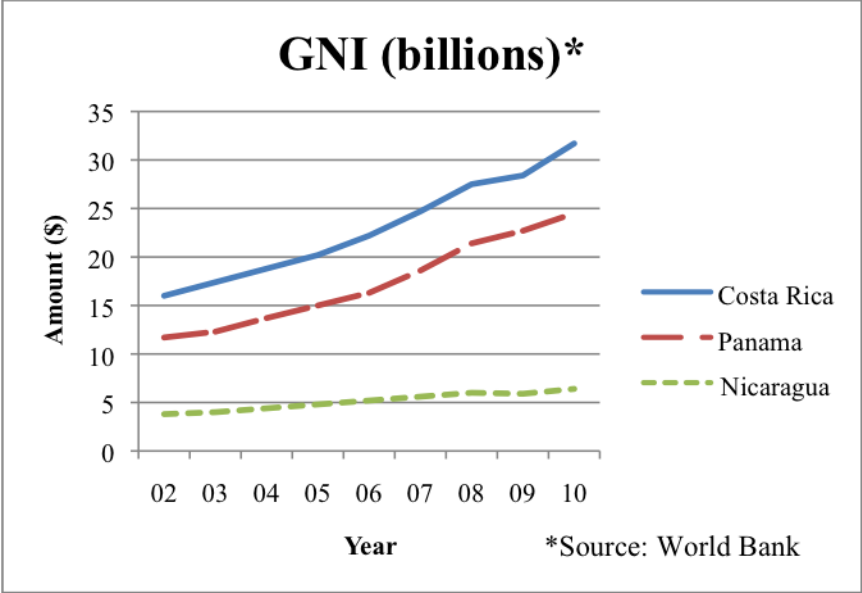


Figure 1: GNI (billions)

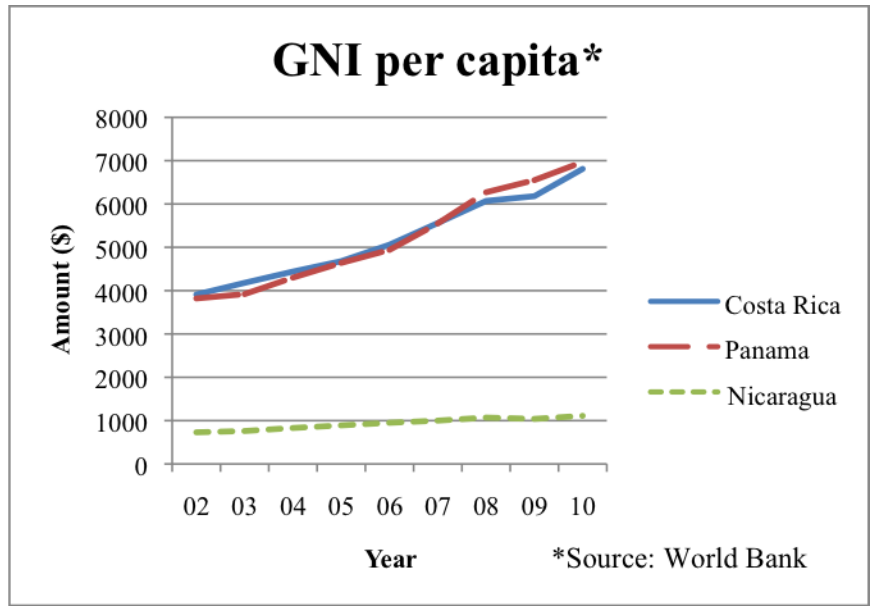


Figure 2: GNI Per Capita

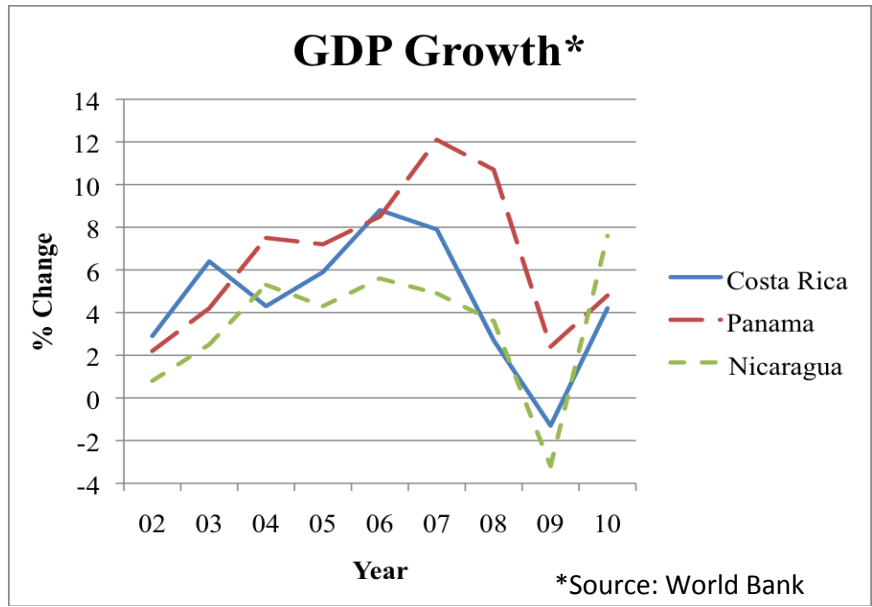


Figure 3: GDP Growth

When looking at immigration, Nicaragua reportedly has a negative migration number, meaning that it has more people migrating to other countries than it has people migrating into

Nicaragua. Compared to the positive net migration numbers of Costa Rica and Panama, Nicaragua seems to be the least economically successful of the three (Table 1). In addition, after examining the amount of remittances for each of the three states, this conclusion is further solidified (Figure 4).

An issue with just looking at immigration numbers, however, is the question of whether immigration is an effect of economic success or is a cause for success. For instance, in his article on the economic development of the United Arab Emirates, Steve Dobronsky argues that a possible explanation for development could be that the inflow of immigrants to the UAE helped stimulate the economy because those immigrants filled lower skilled jobs (Dobronsky). Nonetheless, when using the immigration statistic alongside the other economic measures mentioned, a more confident conclusion on the economic successes of each country can be made. Therefore, it can be said that Costa Rica and Panama have been more economically successful on the basis of immigration numbers, remittances, along with GNI and GDP figures.

Net Migration			
Year	05	10	
Costa Rica	84,000	75,600	
Panama	8,000	11,000	
Nicaragua	-206,400	-200,000	

Table 1: Net Migration

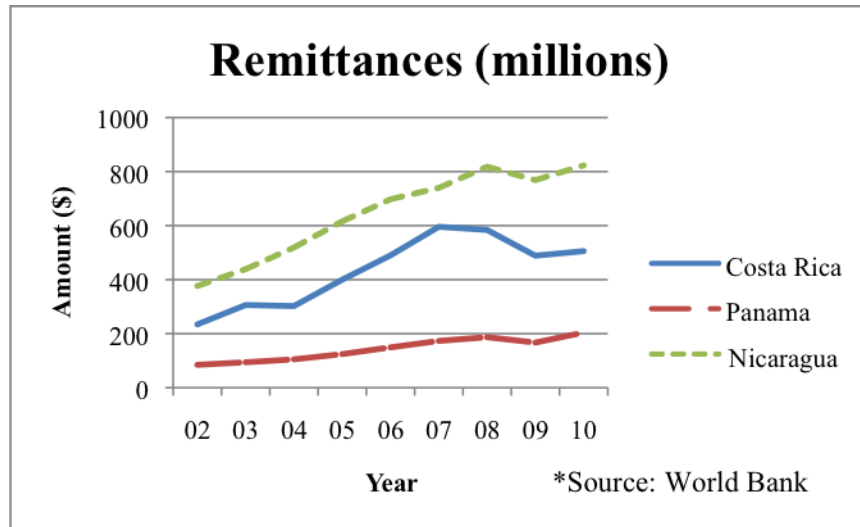


Figure 4: Remittances (millions)

What, then, could help explain the difference in economic success among the three countries? Two possible explanations have been induced based on the history of each state. These explanations are (1) level of interaction with the U.S. and (2) level of reliance on agriculture in the economy. The argument presented here is that in a comparison of states, those states that have had, what will be called, “amicable-independent relationships” with the U.S. and have had lower reliance on agriculture will be more likely to be economically successful than states that have cold relations with the U.S. and depend greatly on agriculture.

The Case for Hegemonic Allegiance

The first explanation deals with the type of relationship each country has with the U.S. The significance of the U.S. is in its role as a “hegemon.” Since 1945 at the end of World War II, the United States was left as arguably the most powerful state in the world economically and militarily. The only other major challenger for the next several decades was the Soviet Union.

Nonetheless, many theorists have argued that the United States was and is the closest thing to a global hegemon, hegemon being defined in Essentials of International Relations as “a dominant state that has a preponderance of power; often establishes and enforces the rules and norms in the international system” (Mingst 332). The importance of the hegemon in relation to the three cases presented is the type of relationship these states have with this hegemon. The most favorable relationship type between one country and a hegemon is the “amicable-independent relationship.” In this relationship, the weaker state would benefit from relations with the hegemon but would not allow the hegemon to interfere directly in its domestic affairs and therefore would remain independent. For instance, due to the amount of power and wealth available to the United States, states with this kind of relationship would benefit from favorable trade agreements, increased tourism, and increased foreign investment that would stimulate their economies. At the same time, maintaining independence would enable the country to make political decisions in its own best interests and avoid being exploited. On the other hand, countries that either choose not to interact with the U.S. (for isolationist or ideological reasons) or have antagonistic relations with the U.S., in theory, should be less inclined to be successful because they will not benefit from U.S. aid, tourism, or foreign investment. In this way, success seems more likely when a country has an amicable-independent relationship with a hegemon.

Theoretically, this idea of obtaining benefits from an amiable hegemonic relationship is expressed in the Hegemonic Stability Theory/Power Transition Theory. Abramo Organski, who founded this theory, argued in his book *World Politics* that the international system is most stable and peaceful when there is a single dominant hegemon in the hierarchy of power (Organski 323-337). This powerful state remains atop the hierarchy by providing private goods to its allies and

denying those goods to non-ally states (Bussman and Oneal 89). Using this logic, it is in a non-hegemon state's interest to cooperate with the hegemon in the hopes of receiving goods and benefits. Alternatively, any state that chooses to act against that country will suffer from it. Any state that chooses to cooperate will have "similar foreign policy preferences" and will share "preferences regarding important issues," in return for the goods of security, favorable trade deals, and access to resources (Bussman and Oneal 93). Interestingly, the study by Bussman and Oneal found no correlation between being allied to the hegemon and economic success (106).

The real life benefits of being allied with a great power state can be seen in the Marshall Plan, in which the U.S. sent aid to the Western Bloc of Europe (Kydd 629). Similarly, the program of USAID (U.S. Agency for International Aid) was created in 1961 by the Kennedy administration to provide economic assistance to developing areas that either had good relations with the U.S. or were in the U.S. strategic interests to help (USAID). It is this kind of economic stimulation that would encourage favorable relations between countries.

The U.S. has also attempted to open up trade with less successful countries. This resulted in the creation of two major American trade blocs. NAFTA (North American Free Trade Agreement) was signed in 1992 and opened up trade between the U.S., Mexico, and Canada. Following this agreement, several Central American states and the U.S. signed CAFTA (Central American Free Trade Agreement). These trade blocs were a result of favorable relations with the hegemon and helped ease trade among members (although some scholars argue that the blocs did not actually help Latin American countries) (Vanden 172, 175).

Similarly, if one adheres to the idea that the Soviet Union acted as another regional hegemon during the Cold War, then its support for Cuba throughout the "war" shows how

hegemonic support can help a state's economy. Gary Prevost, political science professor at St. John's University in Minnesota, writes that up until the collapse of the Soviet Union, Cuba depended on the USSR to purchase its sugar crop yield and sell oil at a cheap price (Vanden 380-389).

These examples provide a starting point into looking deeper at the relationship between allying with a global power (the U.S.) and the economic success of an outside country. Through this lens, Costa Rica, Panama, and Nicaragua will be examined.

The Case for Agriculture

The other explanation studied here is the level of reliance on agriculture. Those societies that depend more on agriculture for their economy are less likely to be economically successful. This is because agriculture is an industry that constantly fluctuates in terms of profit. Crops can be destroyed quickly if swarms of insects devour the crop before an insecticide can be used. Diseases and fungus' can kill a crop rapidly. Any random weather changes can be detrimental to the success of a crop. Therefore, natural forces cause agricultural profits to sway greatly and can limit the success a state can achieve.

Aside from environmental reasons, agriculture industries tend to support inequality between landowners and workers. Specifically in Latin America, this inequality has been a historical phenomenon. It is this historical precedence that may be a reason why inequality continues to persist in the region: workers may accept inequality as a fact of life and thus have less inclination to change the system. This inequality keeps economies from improving (Vanden 156).

Lastly, agricultural economies in Latin America have at times suffered from a semi-imperialist U.S. Even though the U.S. did not actually claim any Latin American countries as colonies, U.S. businesses took advantage of the cheap labor in those states to set up plantations. These businesses took profit away from the state and its local citizens and gave it to U.S. business owners. One of the most well known examples of this was the United Fruit Company in the early 1800s located in Guatemala (Vanden 157).

Some scholars attempt to explain this imperialistic nature of agriculture-based societies by using the Dependency Theory. Dependency Theory was developed in the 1950s to help explain Latin American states' dependency on former colonial powers. Hans Singer provided the groundwork for the theory by explaining that the former colonialist states such as the U.S. and Western Europe form a "core," a group of industrialized, successful states. By contrast, there is a "periphery" of states in which raw materials are extracted and are used for the benefit of the core. This does not lead to economic success because, according to Singer, "(1) it removed most of the secondary and cumulative effects of investment from the country in which the investment took place to the investing country; and (2) it diverted the underdeveloped countries into types of activity offering less scope for technical progress, internal and external economies taken by themselves, and withheld from the course of their economic history a central factor of dynamic radiation which has revolutionized society in the industrialized countries (Singer 165)." These periphery states are often agriculture-based economies that have no real alternative options because "terms of trade are unequal" and internal constraints such as "land tenure and social and class structures" don't allow for any changes (Mingst 71, 265). This explanation seems to indicate that the only escaping the mold of a peripheral state is to

industrialize and focus on alternative industries other than a limited agriculture industry, especially considering that “industrialized states generally have higher educational levels, more advanced technology, and more-efficient use of capital, all of which add to their tangible power potential” (Mingst 110). Further, the limited profitability of agriculture may be caused by the fact that agriculture products are primary goods and have less value-added than products of other economic industries. Raúl Prebisch, another founder of the dependency theory, applied these ideas to Latin America in his famous article, *The Economic Development of Latin America and Its Principal Problems* (Dosman 247-249). This Singer-Prebisch Thesis spawned a new way of thinking about the relationship between unindustrialized countries and core-industrialized ones.

According to a study done by Lawrence Margolis during the 1970s and 1980s, states that had higher percentages employed in agriculture consistently had lower GNP (Gross National Product) per capita. In addition, while no correlation could be found between GNP and manufacturing industries or service industries, the fact that agriculture economies correlated with a lower GNP is significant (Margolis 24-28). These findings support the hypothesis that non-agriculture based economies will have more chance for success, depending on the alternative industry.

To see how moving away from agriculture can benefit a country, one only needs to look towards Africa. Mauritius is one such country that has experienced economic growth in recent decades due to industry shift. Similar to Latin American countries, it was a colonial state, but it gained its independence in 1968 and has since transitioned from a “low-income economy to a middle-income economy (Sobhee 30).” One of the policy changes of Mauritius that is explained by Sanjeev Sobhee in his article about the country’s development is its change from a mono-crop

agriculture industry to an economy that is more reliant on manufacturing and service industries (30).

Conclusion

This comparative study will provide possible explanations for the success of one state compared to another. Theoretically, comparing the cases of Costa Rica, Panama, and Nicaragua will offer opportunities to judge the reliability of the international relations theories of Hegemonic Stability Theory and Dependency Theory. The comparison will show that the Dependency Theory maintains credibility on the reasoning for why countries are underdeveloped, but will differ when it comes to prescribing actions for a country that wishes to develop. Dependency theorist Andre Gunder Frank has suggested that the most effective method of avoiding exploitation is for peripheral nations to isolate themselves from the global economy, a complete withdrawal (Balaam and Veseth 81-82). Contrary to this belief, the three cases studied subsequently will show that a country should not isolate completely, as advised by Frank, but rather it should seek a relationship with hegemons. Further, this relationship should be classified as amicable-independent so that the country can maintain control over its own politics while still reaping the benefits of a hegemon.

In terms of agriculture dependence, this case study will make the case that countries should delve into other more lucrative industries and sectors, such as service and tourism. Avoiding dependence of the unstable agriculture industry should catalyze the development process.

This study will be split up into three sections, one for each case. The states that will be discussed are Costa Rica, Panama, and Nicaragua. These three states have been chosen so as to

eliminate as many alternate explanations as possible. That is, the choice of these three countries has controlled for location (all three are in Central America), government type (all democracies), and size (all are smaller sized countries, both land-wise and population-wise). Each country chapter will contain a section briefly detailing its political history in order to provide background on each state before assessing the two variables individually. Then the chapter will discuss the country's relationship with the U.S. and then its dependency (or lack of) on agriculture.

Chapter 2: Costa Rica

In the region of Central America, Costa Rica is a state that is noted for being one of the most democratic. Central America is known for states that alternated between authoritarian dictatorships and slightly more democratic governments every few years. These authoritarian governments were often the result of military coups. These transitions from one government to another were often violent, leading to civil wars in some such as El Salvador and Guatemala. Costa Rica is no exception. Nonetheless, it is noteworthy for being one of the oldest democracies in Central America. For over 60 years, Costa Rica has enjoyed peaceful democratic elections and transitions between governments.

For the last ten years, Costa Rica has also been one of the more successful states in Central America, economically (GDP, GDP growth, and GDP per capita being the major economic measurements used to conclude this success). Two explanations for this success are agriculture dependency and relations with the U.S. This chapter will be split into three parts: a short political history of Costa Rica post-independence, an analysis of the first explanation, and, finally, an analysis of the second explanation.

Costa Rican Political History

Costa Rica, as a state, did not achieve total independence until 1838, when Braulio Carrillo Colina became “dictator for life” after a successful coup (Booth 39). Previously, Costa Rica had been a Spanish colony and was considered a part of Mexico. In 1821, Mexico declared independence from Spain and two years later, five former colonies (including Costa Rica) broke away from Mexico to form the Central American Federal Republic. This united republic did not

last and led to a civil war. The republic collapsed in 1838 and from then on Costa Rica became an autonomous nation (Booth 19).

Following Costa Rican independence, the society was split up into wealthy landowners and agricultural laborers. These wealthy landowners transformed Costa Rica into a predominantly agricultural society, specifically with industries of coffee and bananas. The significance of this early agricultural society is that it would establish economic inequality among Costa Ricans (Booth 36). In addition, Costa Rica would be cast into the “periphery” status, if one gives importance to the “core-periphery” idea, thus providing the “core” with natural resources.

From 1824-1905, Costa Rican leaders were changed constantly, trading between military and civilian leaders, often securing power through coups. Although elections in an ideal democracy are ones that are free and accurate representations of a population, Costa Rican elections during this time were dishonest, merely being used to legitimize power. Ironically, this early history of holding elections would help influence the Costa Rican population to adopt a democratic government in the 20th century (Booth 40).

An important leader during this time period was Colonel Tomás Guardia Gutiérrez, dictator from 1870 to 1882. His policies are significant because although he was authoritarian, he enacted policies that served to democratize Costa Rica some. His constitution created a unicameral legislature in addition to the strengthening of his own power as leader. This strengthening of power equaled a loss of power for the elite coffee landowners, creating discontent and a desire for a government with more power to the people. Gutiérrez used tax

money to fund education, which improved literacy levels. His policies also helped develop a middle class, a characteristic of democracies (Booth 40-41).

The agriculture industry throughout this time continued to be the number one industry for Costa Rica, however. Coffee was the dominant export in the second half of the nineteenth century. It represented 75 to 95 percent of all Costa Rican exports. This dependency on coffee and banana exports among other agricultural exports would present problems for the Costa Rican economy in the first decades of the twentieth century. Agriculture industries are not consistently lucrative due to many factors, including fluctuations in demand and crop yields from year to year. This caused “boom and bust cycles” of revenue for Costa Rica. Costa Rica’s GNP per capita declined in the 1900s, grew from the 1910s to 20s, and declined again once the Great Depression hit in 1929 (Booth 42).

Militarily, according to Deborah Yashar, a key distinction of Costa Rica compared to other Central American countries during this time period was a military that was not as repressive as the military of, for instance, Guatemala, even though both governments were authoritarian (Yashar 32-33). The significance of the lack of repression by the military was that it enabled Costa Ricans to engage in politics somewhat peacefully, a characteristic that would translate into the transition into democracy in the 40s and eventually the deactivation of the military.

With the Great Depression, the Communist Party was strengthened due to frustration among United Fruit Company workers that had been laid off. With their support, the Communist Party helped elect Republican presidents Rafael Calderón Guardia and Teodoro Michalski. These presidents used intimidation and violence to legitimize their government. Their support

for workers caused class tensions and, according to John Booth, ultimately led to the 1948 civil war (Booth 43-44).

The six-week 1948 civil war began when Calderón Guardia refused to relinquish power after being defeated in the 1948 elections. He and his backers (including the communist party) engaged in a civil war with the opposing National Liberation Army, led by José Figueres. The National Liberation Army, with the help of anticommunists, won the war and took over Costa Rica. Figueres was subsequently elected leader of Costa Rica. Under his rule, the 1949 constitution was created which created the Supreme Electoral Tribunal and allowed female suffrage. It also, interestingly, prohibited the existence of a standing army. This effectively eliminated any fear of coups or military rule from within Costa Rica (Booth 48). This constitution was key in Costa Rican history because it marks the beginning of a more honest democracy (Vanden 60).

Economically, this newly democratic government nationalized banking and insurance companies. In the next decade, the National Liberation Party led Costa Rica into an import-substitution industrialization economy. GDP per capita rose greatly as a result, growing 27% in the 1960s and 31% in the 1970s. The Costa Rican population employed in agriculture declined significantly. In addition, more money was spent on education than other Central American countries. This was achieved all the while maintaining a peaceful democratic process (Booth 50-51).

In the 1980s, simultaneous with the global economic slowdown, Costa Rica experienced its own recession. Export prices fell while oil prices and external debt increased. Costa Rica engaged in some neoliberal policies to help improve the economy (Booth 51-52). Nonetheless,

the economy in present day seems to have picked back up with mostly consistent GDP growth since 2002 (The World Bank “GDP growth”).

Costa Rican Economic Industries

For adherents of the core-periphery theory, (in which core industrialized states exploit peripheral states for their resources and agricultural products) Central America is a region often used to represent the periphery. Central American states, due to their location near the Equator, have had fertile lands for agriculture and, as such, have historically engaged in agriculture economies. Costa Rica is not an exception. Starting in the 1820s, coffee cultivation became an important industry that would affect the Costa Rican economy greatly. Coffee became the main export for Costa Rica in the 1800s. It represented 75 to 95 percent of all exports in the second half of the nineteenth century. It was produced on medium-sized farms by peasants, rather than on large plantations with cheap labor (Yashar 55). It is worth noting that agricultural-based societies, such as Costa Rica and other Central American countries in the 1800s, would seem less likely to be a democracy due to the fact that agriculture societies generally seem to spawn the creation of two distinct social classes: an elite made up of mostly landowners and a working class made up of farmers. This elite tends to create a government based on oligarchy (rule by the few) in which to rule over the larger working class citizens. In Costa Rica, this was the case, as can be seen by the oligarchy that ruled during the early 1800s. The difference in Costa Rica from other Central American countries was that the dichotomy did not produce the amount of violent class warfare as in places like Guatemala (Yashar 60-61).

At the end of the nineteenth century, the newly built Costa Rican railroad encouraged another agricultural product to support the national economy: bananas. The banana fruit was

now a lucrative export, in addition to coffee. Bananas furthered Costa Rican dependence on an agriculture-based economy. Both coffee and bananas accounted for 90% of export earnings in the 1920s (Yashar 63). The most famous U.S. owned fruit-company in Costa Rica and Latin America, the United Fruit Company, took advantage of this railroad to transport bananas to shipping ports (Booth 38). Companies such as this one would be the epitome of the exploitation by a core country of a periphery country as described in dependency theories.

Unfortunately for Costa Rica, as happens in agricultural economies, coffee prices decreased significantly in the 1930s. Costa Rica's agricultural economy took a hit at the same time as the Great Depression (Yashar 65). During this economic downturn, the Communist Party began organizing workers to form labor unions. These labor unions would be legalized in 1943 when Costa Rica passed a new labor code allowing for union organizing (Yashar 141). The importance of these labor unions in terms of the economy was that they would help encourage improvements in worker wages and conditions. Although Figueres severely limited union participation (which had communist roots at the time) post-civil war, the economic improvements made during the period of unionization catalyzed the creation of a middle class. This middle class would become the focus of subsequent governments and encouraged the transition away from agriculture.

In the 1950s the Costa Rican government under the National Liberation Party made efforts to improve the economy by moving towards one with more social services for the middle class as well as engaging in import-substitution industrialization (Booth 157). This would involve redistributing income to the middle class, providing better education for well-trained workers, and supporting domestic products as opposed to foreign imports. As a result, the

agriculture industry would decline consistently in terms of percentage of GDP up until the present day. From 1950 to 1960, agriculture went from being 38.5% of GDP to 29.7%. The manufacturing sector increased steadily during this time, as did the public sector (government controlled businesses and industries) (Booth 159). During this period of increased governmental involvement in Costa Rican politics and economies, “unemployment and consumer prices stayed low, income inequality declined, and real wages, infant mortality, literacy, life expectancy, and educational attainment all improved” (157).

The 1970s and 1980s were tough decades for Costa Rica, as they were for the rest of the world. Oil prices had risen rapidly and caused Costa Rican officials to decide to increase government spending to soften the increase in production costs. This, however, put the state in more debt than it could handle. Costa Rica had to accept foreign aid from the U.S., the World Bank, and the International Monetary Fund. This led to an economy led by neoliberal policies. These policies of privatization, a smaller government, and decrease in subsidies did not actually help the economy. They did, however, encourage increasing diversification of nontraditional exports, lessening dependence on coffee and bananas (170). The 1990s also saw tourism grow and become an important industry for Costa Rica. In 1995, 15% of the labor force was employed in the tourism industry, further decreasing reliance on an agricultural economy (Booth 164).

More recently, over a period of ten years, Costa Rican agriculture has accounted for an average of 8% of GDP.

Agriculture as a % of GDP*

Year	02	03	04	05	06	07	08	09	10
%	9	9	9	9	9	8	7	7	7

Table 2: Costa Rican Agriculture

*Source: World Bank

According to the U.S. State Department, the Costa Rican service industry made up about 71% of GDP in 2010. A large portion of the service industry is from tourism, more specifically “eco-tourism.” (U.S. Dep. of State “Costa Rica”). In addition to being famous for its beautiful beaches that look out onto the Caribbean, the “eco tourism” aspect of Costa Rica draws tourists to view its tropical rainforests and the diverse animal species that inhabit them. Many national parks are dedicated to maintaining and preserving these forests in order to continuously attract foreigners.

To summarize, the most distinctive trend of the Costa Rican economy over time is the transition away from agricultural dependency. More specifically, it is now an economy focused the service sector, including tourism, more than anything else. Simultaneous with this shift, the Costa Rican economy has steadily progressed. When this trend is compared to other Central American states, the pattern seems to suggest that there is a correlation between economic success of a country and its movement away from agriculture dependency.

U.S.- Costa Rican Relations

The United States and Costa Rica have historically maintained a friendly relationship for the most part. According to the U.S. Department of State website, the U.S. supports Costa Rica because both share the same goals and values. These are shared beliefs in democracy, human

rights, and environmental preservation. Both the United States and Costa Rica are democracies (Costa Rica since 1948) and are known for supporting other democratic governments (although this is often only rhetoric). Costa Rica is also an active U.N. member that supports human rights doctrines and in this way supports a U.S. guided IGO (inter-governmental organization). Finally, both states have agreements to preserve Costa Rican forests (U.S. Dep. of State “Costa Rica”).

From a Costa Rican perspective, Costa Rican support of the United States can also be attributed to the aforementioned shared goals and values. Additionally, in geopolitical terms, having the U.S. as an ally is extremely comforting to Costa Rica, which has lacked an active military since 1948. Any external threats to Costa Rica will think twice about military conflict due to fear of retaliation by the United States. In addition, as will be shown, the United States can provide economic support to Costa Rica in times of need.

In the 1970s, with U.S. President Richard Nixon encouraging détente with the Soviet Union during the Cold War period, Costa Rica felt comfortable enough to engage in relations with the Soviet Union while maintaining relations with the United States. Nonetheless, in the 1980s, alongside more heated U.S. relations with the Soviet Union, Costa Rica followed suit and went back to an alliance with the U.S. and ceased relations with the USSR (Booth 183). This action shows that Costa Rica made foreign policy decisions that would protect its relationship with the regional hegemon, the U.S.

Around this time, Anastasio Somoza held the position of authoritarian leader in Nicaragua. Diverging from previous support of the Somoza family, the U.S. under President Jimmy Carter was calling for Somoza to end human rights violations. In this case, Costa Rican

support of human rights encouraged them to allow anti-Somozan rebels to train on their lands (Booth 183). Once the rebel Sandinistas successfully replaced the Somoza regime, however, the U.S. changed policy and attempted to overthrow the communist tied Sandinistas. Despite many Costa Ricans wish to remain neutral in the domestic affairs of Nicaragua or to use diplomacy to deal with the Sandinistas, Costa Rica in the end gave in to economic pressure from the U.S. At the time, Costa Rica was suffering economically and therefore agreed to a financial aid package from the United States in return for allowing “contras” (rebels attempting to overthrow the Sandinistas) to train on Costa Rican soil (186).

U.S.-Costa Rican relations took a hit in 1983 when Costa Rican President Monge declared neutrality so as to prevent the U.S. from turning “Costa Rica into a second aircraft carrier against the Sandinistas (186).” Nonetheless, the U.S. continued sending financial support to Costa Rica: between 1981 and 1988 about \$1.14 billion dollars. (162)

Once again in the 1990s when Costa Rica suffered more economic problems, the U.S. was ready to help. USAID, along with the IMF and the World Bank, U.S. backed international organizations, sent financial assistance to Costa Rica (U.S. Dep. of State “Costa Rica”).

More recently, the U.S. has been Costa Rica’s most important trading partner. The U.S. accounted for almost half of its exports, imports, and tourism, according to the Department of State website. Many U.S. citizens choose to live in Costa Rica after retirement and bring American dollars with them.

In terms of agreements, the two have a tropical forest preservation agreement that has given Costa Rica more than \$50 million dollars. The two have a Maritime Cooperation Agreement, which allows the coast guards of each country to work in unison to combat drug

trafficking and illegal immigration. Finally, the U.S. and Costa Rica joined the Central American Free Trade Agreement (CAFTA) along with other Central American states in order to promote economic transactions between the countries (U.S. Dep. of State “Costa Rica”).

Conclusion

In conclusion, Costa Rican economic success levels in the last ten years seem to be correlated with its economic industries and its relationship with the United States. Costa Rica has evolved from being a purely agricultural dependent economy focused on the crops of coffee and bananas to an economy that now relies on the service sector for most of its GDP. Much of this transition stems from a newfound focus on tourism.

In addition, its strategic and moral alignment with the United States has seemed to promote its economy directly through financial aid throughout times of economic crisis and downturns. Indirectly, the relationship has been beneficial by providing Costa Rica with one of the largest foreign markets in the world and the U.S. has become its largest trading partner. A key feature of this relationship is the lack of direct U.S. interference in the country politically throughout its history. Therefore, the relationship between the two countries can be classified as amicable-independent. As shown in the following chapters, Panama, like Costa Rica, has engaged in both a movement away from agriculture and in positive relations with the U.S. while Nicaragua has failed to do the same as of yet.

Chapter 3: Panama

The state of Panama is located in the southern-most part of Central America. It is a state that is mostly known internationally for its famous canal, which connects the Pacific Ocean and the Atlantic Ocean. It is one of the Central American states that has managed to establish a democratic government over the last 20 years. It, like other states in the region, experienced its share of military dictatorships throughout its history. It also has been subjected to foreign influences since its colonial days.

For the last ten years, Panama has also had an economy that has been fairly successful in comparison to other states in Central America. As stated, the measurements for this economic success for the purpose of this case study are GDP, GDP growth, GNI, and GDP per capita. As will be shown, Panama shares two major characteristics with Costa Rica that might help explain this success: amicable relations with the U.S. and an economy that is not focused on agriculture. Once again, this chapter will be split into three parts: a short political history of Panama, analysis of the type of economy, and, finally, analysis of the U.S.-Panamanian relationship.

Panamanian Political History

Similar to many other Latin American countries, Panama was a Spanish colony up until the nineteenth century. In 1821, Panama ended its ties to Spain, a relatively peaceful split in comparison to other wars of national independence in the region. Immediately, the Panamanian government agreed to join the Republic of Gran Colombia, the ideal united Latin American state created by Simón Bolívar. With his death in 1830, however, the republic would disband into individual states. In the aftermath, Panama remained a part of what was then called “Nueva Granada” which is now known as “Colombia” (Harding 16).

Panama immediately proved to be an area of strategic interest for the more powerful states of the U.S., Britain, and France, who all saw the potential for a connection between the Atlantic and Pacific Oceans that would make the transport of goods much more efficient. After the British threatened to take some Panamanian land by force, the U.S. used the Monroe Doctrine, which declared that no non-Western states should interfere in the Western Hemisphere's affairs, to rationalize a military intervention. In addition, Colombian fears of British invasion persuaded them to sign the Bidlack-Mallarino Treaty of 1846 with the U.S. This treaty allowed the U.S. to intervene militarily in Panama at any time to protect U.S. interests. The treaty would be used to rationalize any intervention over the next several decades. It also gave transit rights to the U.S. inside of Panama (Harding 17-20).

Panamanian independence from Colombia was finally achieved in 1903. Colombia had ended its Thousands Days' War, a civil war that left Colombia in disarray and convinced Panama that it was the right time to revolt. The U.S. had been trying to acquire rights to continue the construction of the Panama Canal but Colombia had not agreed to any deals. Therefore, knowing that the Panamanians were attempting to secede from Colombia, the U.S. sent its Navy to assist in the rebellion. After a relatively bloodless revolution, Panama gained its independence. The U.S. acknowledged their independence formally by signing the Hay-Bunau-Varilla Treaty. In the treaty, the U.S. obtained the right to continue building the canal as well as establishing a "Canal Zone" that was sovereign from Panama. (Sánchez 50-56)

Over the next several decades, Panama's economy suffered more than expected. First, the U.S. gained more revenue from the canal as opposed to Panama initially. Second, local Panamanian businesses suffered because they faced competition from U.S. businesses located in

the Canal Zone that were able to capitalize on U.S. laws and subsidies to produce the cheapest goods. Third, differing wage laws favored white U.S. citizens over Panamanian laborers. Once Panamanians realized that the U.S. had influence over national government policies, the tension in Panama between the two nationalities was great. Resentment towards the United States would continue for years to come (Sánchez 66-67).

Throughout the early 1900s, Panama was a constitutional democracy. Leaders during this period were a mix of liberals and conservatives, but effectively had less sway than desired because of the influence and power of the United States. The year 1931 marked the first of several coups in Panama since it had gained its independence. The coup, which was led by Arnulfo Arias, overthrew current President Florencio Arosemena and installed Arias' brother, Harmodio, as president (Harding 39-40). President Arias signed the Hull-Alfaro Treaty of 1936, which tried to modify the 1903 canal treaty to get a fairer deal for the Panamanians. While the U.S. did agree to share more of the canal revenue with Panama and attempt to limit the unfair advantages of "zone" (U.S. owned) businesses over Panamanian businesses, it did not change U.S. control over the "Canal Zone" and its right to intervene militarily when necessary. (Sánchez 97)

A second coup occurred when Arnulfo Arias, leader of the 1931 coup, was elected president. This Arias brother was an ardent nationalist who began jailing political opponents. He also supported the German Nazis in World War II. This caused the U.S. to support the National Police in their coup in which they overthrew Arias and installed a U.S. supported leader, Ricardo Adolfo de la Guardia. (Harding 41-42)

With the rise of Panamanian nationalism in the late 1940s, Arias reentered the political scene. He persuaded José Remón, head of the National Police who had had an intense hatred of Arias, to install him as president. Panama had just gone through a chaotic year in which three presidents were kicked out of office. Remón, who hoped to increase support of the National Police by backing Arias, decided to support his presidency (Sánchez 116). After a few years of playing by the rules, Arias reverted back to his nationalist authoritarian ways, jailing six former presidents, suspending the constitution, and closing a newspaper. Again, the National Police forced Arias out of office in 1951 (Harding 48-49).

In the 1950s, Panamanians continued demanding more control over the canal and caused the relations between the U.S. and Panama to worsen. Then President José Remón, in an attempt to gain popular support, negotiated with U.S. President Dwight Eisenhower for a more equal share of canal profits (Sánchez 122). Although Remón was somewhat successful, Panamanians were still left unsatisfied. 1958 brought about deadly riots in and out of the Canal Zone. These riots continued the next year in response to the successful overthrow of a U.S. - backed dictatorship during the Cuban revolution. Nonetheless, the riots did little to change U.S. control over the canal, with the exception of encouraging the Kennedy administration to send foreign aid in order to calm tensions and prevent the spread of communism (126-128).

With the assassination of John F. Kennedy, tensions did not decrease, however. Although the U.S. allowed a few Panamanian flags to be flown in the Canal Zone, some schools were not allowed to fly the flag on their property. In response, several students attempted to fly the flag at their local high school in 1964. When American students and parents from the same school confronted the Panamanian students, the riot began. The Panamanian flag was ripped,

U.S. police officers fired at students, and Panamanians began setting U.S.-owned businesses ablaze. These riots lasted a total of four days and caused over 28 deaths (Harding 58-60). Relations continued to sour with the election of Arnulfo Arias for a third time in 1968, this time supporting U.S. involvement in the Canal Zone. He was overthrown eleven days into his presidency by the military for trying to dismantle the National Guard (63-64).

For the next two decades, Panama would be under military rule. Omar Torrijos, who had U.S. support due to his anti-communist stance, was the first military leader of the period. Torrijos and his 1972 constitution repressed citizens while increasing the power of the state and industrializing the economy. He famously signed two treaties in 1977 with the U.S.: one that granted control of the Canal Zone to Panama and then the transfer of the canal back to Panama in 1999, the other that ensured canal neutrality during the Cold War (Sánchez 153-157). In 1981, however, the political scene was shaken up again with the death of Torrijos and the eventual takeover by Manuel Noriega. Noriega ended the promise of democracy made by Torrijos and instead began engaging in activities deemed anti-U.S., despite his continued pro U.S. rhetoric. U.S. support steadily dwindled as Noriega became less cooperative and more repressive against his people and his opponents (162-166). Finally, in 1989, the U.S. invaded Panama and overthrew Noriega to install a democratic government.

This new democratic government had to deal with a terrible economy that had suffered after years of sanctions against Noriega. With the transfer of the canal returned to Panama in 1999, nonetheless, the Panamanian economy has slowly been improving in terms of GDP and GNI, but still suffers from a relatively large foreign debt. On a positive note, since the overthrow

of Noriega, elections in Panama have become free, fair, and peaceful ones (Dep. of State “Panama”).

Panamanian Economic Industries

Unlike its neighbors in the rest of Central America, Panama shed its agrarian dependency much earlier in its history. The strategic location of its territory made it a lucrative area for the construction of the canal to connect ships from the Atlantic to the Pacific. Once the U.S. built the canal in 1914, Panama immediately transitioned from an agrarian society to a society more focused on trade and international traffic (Looney 6). With World War II, the amount of workers needed for operation and defense of the canal increased and caused an increase in the demand for local goods, which helped improve the economy. During the period following the war, agriculture made up 28.7% of GDP in 1950 and 27.3% in 1955 (30). Economic growth was limited due to the lack of ownership and control of the canal and the surrounding Canal Zone. Further, the U.S. imposed policies that consistently gave them majority of profits at the expense of Panama. This is an aspect of the canal that would be an issue for many decades.

During the presidency of José Remón in the 1950s, his domestic policies intended to improve the economy by increasing national production. He also signed the Remón-Eisenhower Treaty, which increased the annuity received from the canal and opened trade access to transiting vessels (Sánchez 121-122). In this way, Remón continued focusing on trade and service as opposed to agriculture.

The Torrijos regime further sought to increase government power over the Panamanian economy. The government began promoting industrialization, rural development, and construction of national infrastructure in order to promote national growth (149). The state itself

took a larger role in the economy, eventually building sugar refineries, a copper mining company, and passing tax laws that attracted many banks to Panama (150). These industries provided alternative industries to agriculture.

During the Noriega years, however, the economy suffered from U.S. backlash. As a result of issues with the Noriega regime, the U.S. decided to freeze \$296 million in Panama's assets in the U.S. and place harsh economic sanctions on Panama. This helped Panama enter into a depression (Harding 108).

Once Noriega was overthrown by the U.S. military, newly elected leaders favored neoliberal policies of privatization. In addition, the Pérez Balladares administration prepared for the nearing transfer of the canal by convincing other countries that the canal would remain secure and protected (Sánchez 181).

Since the transfer of the canal, President Martin Torrijos (son of Omar Torrijos) initiated an expansion of the Panama Canal. This further emphasizes the importance of the canal and the Canal Zone in the economy of Panama and the lack of reliance on agriculture.

In addition to the canal, the Colon Free Trade Zone is an important Panamanian economic sector. The zone was created in 1948 to serve as a distribution and processing center for Latin America. It was a designated area of Panama in which companies could process goods with major tax exemptions that would motivate businesses to work in Panama. It has helped the Panamanian economy by creating employment for local citizens. The companies that work in the trade zone bring advanced technology to Panama and through use, teach workers to operate machinery. Finally, it is illegal to sell any goods produced in the zone in Panamanian domestic

markets. In this way, Panamanian domestic goods are protected from the cheap goods produced there (Looney 81).

More recently, between 2002 and 2010, agriculture has only made up about 7 % of GDP. This number is roughly on par with the percentage for Costa Rica and is also relatively lower than the average for Nicaragua.

Agriculture as a % of GDP*

Year	02	03	04	05	06	07	08	09	10
%	8	8	8	7	7	7	6	6	5

*Source: World Bank

Table 3: Panama Agriculture

Instead of agriculture, Panama relied on the service sector for about 77% of GDP in 2012. The top service industries, according to the U.S. Department of State website, were the Panama Canal, banking, and the Colon Free Trade Zone. Although Panama still suffers from high debt, it has one of the highest GDP growth rates in Central America. Part of this success could be related to the lack of dependency on agriculture.

U.S.- Panamanian Relations

The United States and Panama has shared a long intricate history. The relationship began when the U.S. supported Panamanian independence from Colombia. In return for naval assistance and state recognition, the U.S. was granted the right to build the Panama Canal and have control over the newly created Canal Zone. The construction of the canal was completed in 1914. In this way, initially having a good relationship with the U.S. enabled Panama to gain its independence. In addition, Panama would benefit more and more from the revenue of the Panama Canal.

The economic benefits would be slow in coming, however. The portion of profit given to the Panamanians initially did not amount to much and Panamanian laborers were not treated equally to the U.S. zone workers. The 1936 Hull-Alfaro treaty attempted to correct these issues but in the end the U.S. did not implement the policy agreements (Harding 45-46).

In some ways, the semi-direct involvement of the U.S. in Panama hurt the Panamanian economy. By controlling the area surrounding the canal, the U.S. was able to pass a bill that would allow it to gain even more revenue from the canal without considering the Panamanians. Panamanians suffered because the new economic measures also eliminated social services and low-cost housing for non-U.S. citizens (51).

In order to offer Panama more benefits from the canal, the 1955 Treaty of Mutual Understanding and Cooperation was signed. The treaty increased the annuity paid to Panama to 1.93 million dollars. It allowed Panama to tax Panamanians who were living in the Canal Zone. Finally, the treaty allowed Panamanian companies to sell more products in the zone and to transiting ships (Sánchez 122).

Following the 1959 Cuban revolution, in which communist leader Fidel Castro kicked out a U.S. backed dictatorship, the United States feared further revolutions in Latin America. As a result, the Alliance for Progress program was initiated under the administration of President Kennedy. The program provided financial aid to Latin American countries including Panama in order to bribe the countries from siding against the U.S. Through this program, Panama was able to carry out public works programs such as building schools, roads, and low cost housing. It also allowed the government to make improvements in the health care system (Sánchez 131).

During the 1980s, Manuel Noriega lost support from the U.S. government because of his repressive leadership (accused of murder), drug trafficking, and anti-U.S. actions. In response, the U.S. enacted a series of economic sanctions against Panama. In addition, the U.S. froze 296 million dollars of assets belonging to Panama. These actions hurt the economy in the years to come and they show how having a foreign country that interferes directly in the domestic affairs of another can be harmful economically (Harding 108).

Years after Noriega, once the U.S. was about to pull out its soldiers from Panama, Panamanians had mixed feelings about the withdrawal. 78% expressed a desire to have the military remain involved in some way according to a poll taken in 1996. This had to do with the \$350 million that was brought in annually by the military, as well as the thousands of jobs U.S. presence provided (126).

Since then, the U.S. has withdrawn troops from Panama and relinquished control of the canal, both in the year 1999. According to the U.S. Department of State website, the U.S. and Panama have close cultural ties and are interested in promoting economic, democratic, and social development. Panama has also recently established a Bilateral Investment Treaty Amendment with the U.S. (Dep. of State “Panama”). Both countries are also involved in the same international organizations, such as the U.N., World Bank, IMF, and the World Trade Organization, essentially working towards the same goals.

Conclusion

In conclusion, Panama is one of the more economically successful countries in Latin America. With the exception of its high foreign debt, it has a high GDP, GDP growth, and GNI. In terms of agriculture dependency, Panama has never been as reliant on agriculture as its

neighbors such as Costa Rica or Nicaragua. It has benefitted from its strategic location and relied on the service industry and trade sector since the creation of the Panama Canal in 1914. Although it has suffered through economic slumps, its overall economic success in past years may indicate that the lack of agriculture dependency could be related to more success, which is the opposite of Nicaragua.

As for the relationship with the U.S., Panama has had a complex relationship with the great power state. The two have had a semi-amicable relationship since Panamanian independence. Initially, the two had a good relationship because the U.S. helped Panama achieve independence. As the years went on, Panama would be divided on whether U.S. control of the canal was a form of neo-colonialism or whether their presence helped economically. Nonetheless, U.S. presence in Panama at times helped economically and at times it hindered. When the U.S. finally took an active direct approach in overthrowing Noriega, Panama suffered economically because of the sanctions put in place by the U.S. In modern times, the U.S. has withdrawn from Panama, allowing it a similar relationship as the relationship with Costa Rica, in which the countries support each other but the U.S. does not interfere in the domestic affairs of either country. Since that time, Panama has grown economically, as has Costa Rica. Therefore it could be said that the change from a semi-amicable relationship to an amicable-independent one has helped Panama become more successful than Nicaragua.

In the next chapter, it will be shown how Nicaragua differs from the first two cases. Nicaragua has had less success than Costa Rica and Panama and also has differed in its dependency on agriculture and its relationship with the U.S.

Chapter 4: Nicaragua

Nicaragua is located right in the middle of Central America. It is the largest state in the region with an area of about 130,000 sq. km. (U.S. Dep. of State “Nicaragua”). It is known for its abundance of natural resources and arable land that have been essential to the economy. The government of Nicaragua has alternated between dictatorships and democracies, similar to other Central American countries. The most famous transition between governments in Nicaraguan history was the 1979 Sandinista Revolution. The change affected the relations with the United States greatly.

For the last ten years, Nicaragua has been one of the least successful states in Central America. It has the lowest levels of GDP, GDP growth, and GDP per capita out of the three countries being compared (Costa Rica and Panama) in this case study. Once again, to analyze the politics of Nicaragua, the chapter will first give a brief overview of Nicaraguan political history (focused on the events leading up to and during the 1979 Sandinista revolution). The following two sections will be devoted to showing how reliance on an agriculture-based economy and strained relations with the United States is related to its lower levels of economic success.

Nicaraguan Political History

Nicaragua was a Spanish colony up until 1821 and then finally became a completely sovereign state in 1838 (breaking away from a united Central American republic). Around this time, however, the United States and Great Britain began having interest in Nicaraguan territory. Both countries were interested in constructing a transportation route through the country that would provide access to both the Atlantic and Pacific oceans. The Clayton-Bulwar Treaty,

signed in 1850, tried to reduce the tensions between the two great powers by encouraging cooperation on the creation of any transit route, but in the end, the treaty did little to prevent the U.S. from taking an activist role in Nicaragua. During the Nicaraguan civil war in 1855, a U.S. soldier, William Walker, became leader of the victorious liberal army and went on to become first president of Nicaragua. He led a liberal government that was initially supported by the U.S. but slowly lost international backing, which culminated in his execution in 1860. The end of the Walker era marked the first transition between liberal and conservative governments in Nicaraguan history (Vanden 539).

For 30 years after Walker, Nicaragua would be led by a conservative government which would not be threatened until 1893 when José Zelaya took control of the government under the “Liberal Revolution” movement. Zelaya introduced liberal national reforms that convinced the U.S. to overthrow his administration in 1909. Following his overthrow, U.S. marines helped set up the presidency of conservative leader Adolfo Díaz. During Díaz’ presidency, the first appearance of the influential figure Augusto César Sandino occurred Nicaraguan history. Sandino was politically trained in Mexico and become leader of the liberal struggle against Díaz. His anti-imperialist stance led him to fight against the U.S. marines between 1927 and 1933. During this time, the Liberal Party had taken over the government but Sandino, still upset over U.S. presence and interference in Nicaragua, still launched a guerrilla war. In 1937, nonetheless, the National Guard (led by Anastasio Somoza) killed Sandino, but not before he had created a large following of fellow “Sandinistas” who would impact Nicaraguan political history four decades later (Vanden 540-541).

The year 1936 marked the beginning of the Somoza dictatorship in Nicaragua. Anastasio Somoza, who was backed by the U.S., was effectively able to lead a corrupt government for twenty years. His government limited freedom of expression greatly and exiled opposition groups. After stepping down from office after ten years of initial rule, the amount of repression by the government allowed for the “election” of Somoza-supported candidates and then his reelection in 1950 (Walnut 153). During this Anastasio Somoza period (1936-1956), Nicaragua focused its economy on the production of primary goods such as coffee and cotton, becoming the “periphery” country that characterized many Latin American countries in the twentieth century (Vanden 541).

The Somoza dynasty continued after the assassination of Anastasio Somoza in 1956 by Rigoberto López Pérez, a Nicaraguan poet who was against Nicaraguan dependence on the United States. The assassination had no immediate effect on the government because the dictatorship continued with the takeover by Luis Somoza, eldest son of the former dictator. During the administration of this second Somoza, the now-famous FSLN revolutionary political group was formed. Led by Carlos Fonseca, the Frente Sandinista de Liberación Nacional (FSLN) got its start in 1961 with an ideology based on Marxist theory and that used Augusto Sandino as the idol of the organization. The organization modeled its actions on the Cuban Revolution, using the guerrilla warfare tactics that had been utilized by Fidel Castro in the 1950s. Although the revolutionary group suffered a major setback losing many members at the hands of the Nicaraguan National Guard in 1967, the group persisted nonetheless and the attempted revolution would turn in their favor in the next decade (Vanden 543).

The third period of the Somoza dynasty came at the death of Luis Somoza from a heart attack in 1967. Immediately, his brother, Anastasio Jr., became president of Nicaragua by winning a rigged election. His military background, unlike his brother, caused him to rule more authoritatively, creating a more corrupt dictatorship and a government that did not adhere to the Nicaraguan constitution (Vanden 544). It was this blatant disregard for laws and abuse of the Nicaraguan people that allowed the FSLN to become stronger by gaining support among the local citizens.

Up until the Nicaraguan earthquake of 1972, the Sandinistas were not in a position to revolt successfully against Somoza. The earthquake, however, led to the increasing support of the Sandinistas. In the aftermath of the quake, the Somoza regime began stealing international relief funds from its people, which caused many peasants and even elite Nicaraguans to begin supporting the Sandinista cause, hoping to remove Somoza from power. Further hurting the Somoza regime, the Sandinistas successfully took hostage a party thrown by a pro-Somoza financier. The Sandinistas demanded the release of political prisoners. Although Somoza gave in to the demands, he retaliated by installing martial law in Nicaragua, allowing the torture and murder of anyone suspected to be related to the FSLN. These actions only served to push many more Nicaraguans from various economic levels to join the FSLN cause. Interestingly enough, even the Catholic Church, whose religion was completely against the Marxist theory ideology, allied with the Marxist-based FSLN to combat the regime (Vanden 544-545).

After years of struggle against the guerrilla warriors, Somoza fled Nicaragua in 1979 under extreme pressure and the threat of defeat. The FSLN took over and began rapidly changing government policies, such as making the move to a mixed economy and the creation of

democratic elections. The transition to a mixed economy (in which the many industries are nationalized) combined with the communist/anti-imperialist roots of the Sandinistas instilled fear in U.S. government officials, who were already dealing with communist threats from the Soviet Union. This caused President Ronald Reagan to launch the Contra War against the Nicaraguan government, in which the U.S. hired former Somoza National Guard forces, armed them, and trained them in Honduras from 1981 to 1990. Nonetheless, the Sandinistas government successfully resisted the Contra movement. Eventually, the FSLN would hold relatively honest elections in 1984, winning under the leadership of Daniel Ortega. Ortega would rule until the 1990, when a slumping economy and hostility from the U.S. would encourage citizens to vote out the FSLN and elect Violeta Chamorro of the National Opposition Union party (Vanden 548-549).

From 1990 to 2006, the government of Nicaragua shifted to three presidents who were focused on using neo-liberal reforms to restart the Nicaraguan economy. These processes only served to increase Nicaraguan debt, unemployment, and poverty (Vanden 552). These neoliberal failures, although regaining some U.S. support that was completely lost during the Sandinista period of the eighties, enabled Daniel Ortega to win another presidential election in 2006 and again in 2011 (U.S. Dep. of State “Nicaragua”).

Nicaraguan Economic Industries

Nicaragua is the epitome of a periphery state in the core-periphery political theory. Due to its sizable land mass, fertile soils, and relatively small population it has been a producer of primary goods for several decades.

During the regime of Anastasio Somoza in the 1930s and early 1940s, the main economy of Nicaragua was shifted from raising livestock to growing coffee. Coffee allowed the existing “latifundias” to continue by having laborers who would normally raise cattle and instead have them on cultivation of coffee (Vilas 49). These latifundias were large areas of land owned by a “patrón” but worked on by subservient peasants who earned very little income (Vanden 10). Through these latifundias, the production of coffee (along with other crops) merely served to benefit the elite landowners while exploiting working class laborers. Nonetheless, coffee quickly became one of the most lucrative exports for Nicaragua. Coffee made up about half of Nicaraguan exports in the 1930s, followed by bananas as the second largest export (Vilas 52).

Excluding a mini gold rush in the 1940s, agriculture remained the focus of the Nicaraguan economy. During the 1950s cotton became the new lucrative cash crop. Throughout the late 1950s and 1960s, cotton and coffee consistently accounted for more than half of the total Nicaraguan exports. With the influx of increased foreign investment the cotton industry encouraged the improvement of technologies aimed at more efficient harvesting (Vilas 51-52). Nonetheless, the increased investment also caused a “proletarianization” (creation of an industrial working class) of the masses because workers did not own any of the means of production and now relied on salaried jobs to survive.

During the final two Somoza dictatorships, industrialization increased in importance for Nicaragua. Industrial exports increased in percentage of exports from around 20% to about 45% from the 1960s to the end of the 1970s. In addition, imports of capital goods continued to rise. Nonetheless, even during this time, Nicaragua continued to be extremely dependent on agriculture for revenue. Although agriculture as a percentage had decreased between 1960 and

1979, it still accounted for at least half of all exports. Some of the industrialization that had occurred during this time was the creation of fertilizer and pesticide factories, which supported the agriculture industry (Dijkstra 44-45).

Despite the amount of poverty in Nicaragua, the Somoza dynasty never radically attempted to reform the economy. The dictatorship position enabled the Somoza family to take advantage of the political system and profit directly off the agriculture economy, which effectively eliminated any desires to enact agrarian reforms. By 1945, Anastasio Somoza was one of the largest coffee producers in Nicaragua and was the largest cattle rancher. This statistic emphasizes the amount of land Somoza was able to control and how much he profited from this ownership. In addition, at the end of the Sandinista revolution in 1979, the Somoza family was estimated to be worth between \$500 and \$900 million (Vilas 87).

The U.S. alliance to Nicaragua, or more specifically the Somoza regime, proved harmful economically because the alliance reinforced Nicaraguan agriculture dependency. In the late 1940s, about 70-90 percent of Nicaraguan exports were sent to the U.S. Once the beef industry had increased in the mid seventies, the U.S. bought 90% of beef exports (Vilas 51). Hypothetically, if the U.S. had not imported as much from Nicaragua as it had, the demand for those exports would have significantly decreased and that should have, theoretically, caused Nicaraguans to allocate resources to other industries that were more profitable. Nonetheless, due to the stable demand from the U.S., Nicaragua was encouraged to continue in the agriculture economy.

With the transition from the Somoza dynasty to FSLN leadership, several changes were made to the political system. For instance, the economy was transformed from a capitalist

economy to a “mixed economy.” In the mixed economy, the Sandinistas nationalized the property owned by the Somoza family and people with close ties to the Somozas. In the end, this turned out to be about 20% of arable Nicaraguan land and 25% of total material production (Dijkstra 76-77). Although the Sandinistas had communist roots, private production in their mixed economy was still allowed. This may have been an attempt to please Nicaraguans that had wanted the Somoza regime overthrown but did not agree with Sandinista ideology. In addition, the mixed economy, as opposed to a completely communist system, may have been put in place to avoid completely upsetting the U.S. (which was confronting communism in the Soviet Union and China) (Dijkstra, 74-75).

Another policy change in Nicaragua post-Somoza was the Agrarian Reform Law. In the 1980s, the law allowed the government to confiscate land that was not being used efficiently or being used at all. Any confiscated land would be redistributed to landless peasants who could guarantee efficient use of the land (Dijkstra 78-81). At the same time the law was enacted, the amount of exports from industrial products decreased significantly in the first 6 years of the Sandinista government. Agriculture also experienced a slight decrease, but, overall, the economy still profited mostly from agricultural products (Dijkstra 119).

The year 1988 epitomized why agriculture dependency is a risky endeavor. That year hurricane Joan struck Nicaragua and caused \$828 million in damages. This affected the production of coffee, corn, and other agricultural products and contributed to an 8 percent drop in GDP for that year (Dijkstra 140).

Throughout the 1990s, the new presidents of Nicaragua engaged in neoliberal policies to attempt to improve the economy. These policies did not help the economy;

unemployment reached around 50% in the mid 90s, income inequality increased, and foreign aid and assistance made up the greatest inflow of capital (Vanden 552).

In the past decade, the Nicaraguan economy still relied greatly on agriculture. Agriculture has averaged about 19% of GDP over the period of 2002-2010, significantly more than the averages of Costa Rica and Panama. During this time period, Nicaragua was also less economically successful than those countries (World Bank).

Agriculture as a % of GDP*

Year	02	03	04	05	06	07	08	09	10
%	19	18	19	19	19	18	20	20	21

*Source: World Bank

Table 4: Agriculture in Nicaragua

U.S.- Nicaraguan Relations

Up until the Sandinista revolution, the United States had had favorable relations with Nicaragua. Nicaragua historically had always had to deal with U.S. intervention in the region, specifically in the 1910s, causing anti-imperialist sentiment to appear in such political figures as Sandino and Fonseca. Once the U.S. propped up dictators that it supported (Díaz, Somoza, etc.), it became a powerful ally of Nicaragua. It provided an enormous trading partner and sent financial aid to the region. For instance, as mentioned, the U.S. market absorbed between 70-90 percent of Nicaraguan exports during the second half of the 1940s (Vilas 51). The U.S. would continue to be supportive of Nicaragua up until the Sandinista Revolution.

The Sandinista Revolution came at an inopportune time for the U.S., however. The U.S. was in the midst of the Cold War with the Soviet Union and Nicaragua would be treated as a pseudo proxy war. The Sandinistas’ anti-imperialist, communist-influenced ideology upset the U.S. government who would not have as much control over political decisions in Nicaragua and

feared the spread of communism in the western hemisphere. That communist influence in the Sandinistas provided the U.S. with an excuse to end aid to Nicaragua (U.S. Dep. of State “Nicaragua”). In 1985, the Reagan administration placed a complete trade embargo on the country, claiming that Nicaragua posed a national security threat (Executive Order 12513).

In addition, President Reagan funded the “contras,” or counterrevolutionaries, to fight a guerrilla war against the Sandinistas and overthrow the government. These contras would be armed and trained in Honduras by the CIA and would be composed of former Somoza National Guard members (Vanden 548-549). Even after the end of legal U.S. funding of the contras, President Reagan risked impeachment by continuing under-the-table funding the contras in what became known as the Iran-Contra affair, in which money from the sales of arms in Iran were transferred to the contras. Although the contra war did not successfully overthrow the Sandinista government, it did result in over 30000 deaths and hurt the economy enough to convince Nicaraguans to vote the FSLN out of office (Vanden 292-295).

Since the 1990 presidential election, the U.S. has been slightly more supportive of Nicaragua. Assistance to the country has varied greatly. In total, the U.S. has given 2 billion dollars since 1990 in aid to the state. Some of the aid has gone to help Nicaragua after suffering through hurricanes Mitch and Felix in 1998 and 2007 respectively. Most of the funding is for “strengthening democratic institutions; stimulating sustainable economic growth; supporting the health and basic education sectors; and increasing the effectiveness of Nicaragua's efforts to combat transnational crimes” as stated on the U.S. Department of State website for Nicaragua. In spite of the amount of aid given to Nicaragua in the past two decades, the website notes that support had been prohibited for many years under the Foreign Relations Authorization Act until

Nicaragua settled the outstanding claims of U.S. citizens in Nicaragua with confiscated property (waived in 2011). In addition, other forms of funding have been limited due to concerns over corruption and fraud. Finally, the U.S. has expressed disdain over the most recent democratic elections in 2011 citing “significant irregularities” and questions concerning the “constitutional legitimacy” of Daniel Ortega’s reelection (of the FSLN) (U.S. Dep. of State “Nicaragua”). The relationship between the two countries for now continues to be less than stable.

Conclusion

Nicaragua is a country that has had one of the worst economies in Central America. Historically, it is a country that has frequently traded between dictatorships and liberal governments, but has, nonetheless, consistently been extremely dependent on the agriculture industry. As Nicaragua slowly progresses in other industries, its economy should improve some, as can be seen in the rise in GDP for 2010. Nevertheless, compared to its neighbors Costa Rica and Panama, Nicaragua still has the largest dependency on agriculture of the three.

In addition, since the early 20th century, Nicaragua has had troublesome relations with the United States. The U.S. directly installed dictatorships and eventually supported the Somoza family dynasty. Through the Somozas, the U.S. retained indirect influence in Nicaraguan politics. Once the Sandinista revolution occurred, however, the U.S. became antagonistic, leading to efforts to overthrow the FSLN government. Although improvements have been made, the relationship still is not amicable-independent. As a result of this less-than-desired relationship, along with the historic agriculture dependency, Nicaragua has also experienced the least amount of economic success among the three countries analyzed.

Chapter 5: Conclusion

The three previous chapters presented a set of case studies comparing the Central American countries Costa Rica, Panama, and Nicaragua. The three were chosen carefully to minimize extraneous variables and differences. These countries are all located in Central America and as such have a shared history of colonization, language, and cultures. Politically, the three countries are democracies (some more transparent than others) and are relatively similar in terms of population size.

In the Costa Rican chapter, the political history of the state was discussed. Similar to other states in Central America, Costa Rica was a Spanish colony and achieved independence in the 1800s. It was classified as an agriculture driven state in the 19th and the better part of the 20th century. Specifically, the economy relied on the cultivation and export of coffee and bananas. The United Fruit Company, a U.S. owned company, controlled much of this industry keeping Costa Rica as a “peripheral” country. Class tensions spawned from income inequality and unemployment in the 1930s contributing to the 1948 Costa Rican civil war. In the war, a controlling government with its labor union followers fought against anti-communist forces. As a result of the war, the anticommunist forces, called the New Liberation Army, installed a constitution calling for democracy and prohibiting a standing army. As one of the oldest Central American democracies, Costa Rica has consistently held free elections since 1948.

The chapter showed that Costa Rica engaged in agriculture dependency for much of the 20th century, relying on coffee beans and bananas for a majority of GDP. The economy fluctuated wildly and created income inequality. Following the 1948 civil war, agriculture would decline in importance for the Costa Rican economy due to improvements in education,

social services, and import substitution industrialization allowing Costa Rica to engage in other industries besides agriculture. Over time, much of the economy has transferred focus to the tourism sector. As a result, agriculture over the last ten years has only accounted for about 8% of GDP, a low number compared to Nicaragua.

In terms of relations with the U.S., the chapter emphasized that shared ideologies and commitments to democracy and human rights have brought the two countries close together. Costa Rica has allowed the U.S. to train “contras” on its land in return for a financial assistance. In addition, during the 90s, the U.S. sent more financial assistance to Costa Rica as it suffered economic problems as a result of neoliberal policies. U.S. consumers offer a large potential market for Costa Rican goods and exports. In fact, Costa Rica has recently relied on the U.S. for half of its exports, imports, and tourism. All in all, the relationship between the two countries is much more amicable than the relationship between the U.S. and Nicaragua. Yet, the relationship lacks the feature of direct U.S. control that is seen in Nicaragua with the Somoza regime in the 40s, 50s, and 60s.

The Panama chapter provided background on the political history dealing with the Panama Canal. After breaking away from Colombia, Panama allowed the U.S. to obtain land rights to the Canal Zone as repayment for their help in the secession. Panama chose to have a constitutional democracy and for many years alternated between liberals and conservatives. Beginning in 1931, Panama experienced its first coup by Arnulfo Arias who put his brother, Harmodio into power. Once Arnulfo was elected president, the U.S. supported the National Police in their coup against him. In 1968, Arnulfo became president again and was ousted by the National Guard and replaced by a military dictatorship, led by Omar Torrijos. Torrijos and then

Manuel Noriega would lead a military dictatorship in Panama for about twenty years until the U.S. government in 1989 intervened militarily. After Noriega surrendered, Panama returned to democratic elections and regained support from the U.S.

Economically, Panama has relied less on agriculture than the other two countries compared here. Panama has relied on U.S. assistance and a constantly improving services sector. The Panama Canal has aided Panama greatly, particularly once control over the Canal was transferred to Panama. Recently, Panama has relied on the services sector for over 77% of its GDP. Agriculture has averaged about 7% of GDP over the last ten years.

In terms of U.S. relations, Panama went from having direct involvement by the U.S. in its affairs, to being a close ally. The U.S. had direct influence by gaining control of the Panama Canal. In addition, the U.S. encouraged coups when they felt control over the canal was threatened. This culminated with the 1989 ousting of President Noriega. Following the intervention, the return to democratic elections encouraged the U.S. to improve relations with Panama. With the transfer of the canal to Panama in 1999, the U.S. became an ally playing a role similar to its role with Costa Rica: a non-interventionist ally role.

Finally, in the Nicaraguan chapter, it was shown that Nicaraguan political history throughout the 20th century was characterized by U.S. intervention. Early on, the U.S. intervened militarily to overthrow the liberal administration of José Zelaya in 1909 to install President Adolfo Diaz. Then, after combating guerrilla warfare at the hands of Augusto Sandino and his supporters, Anastasio Somoza came into power with the help of the U.S. The dynasty continued with his sons Luis and Anastasio Jr.

The dynasty lasted until 1979 when the revolutionary group, the Sandinistas, successfully overthrew the regime. This political group, named the FSLN, had ties to Soviet communism and tried to alter the Nicaraguan government under Daniel Ortega to a mixed economy. The FSLN group remarkably allowed democratic elections in 1990 and peacefully stepped out of office when Ortega was voted out in favor of Violeta Chamorro. The following three presidents of Nicaragua engaged in neo-liberal policies, which did not help the economy grow. Most recently, Daniel Ortega was reelected president twice since 2006.

It was explained in this chapter that throughout most of Nicaraguan history in the 20th century, it has engaged in agriculture dependency. Specifically, the cultivation of coffee and cotton became important industries for Nicaragua. The Somoza family, along with the U.S., continued to benefit from the agriculture economy and therefore did not attempt to change the economy to improve Nicaragua. The Sandinistas, on the other hand, attempted to reform the economy by converting to a “mixed economy.” Nonetheless, the dependence on agriculture was still present in the economy throughout this time. Following Sandinista rule, the Nicaraguan government relied on neoliberal policies, which did not improve the economy. Since then, Nicaragua has relied on agriculture for about 20% GDP over the last ten years, which, although still a decrease from previous decades, is significantly more than the percentage for Costa Rica or Panama.

The chapter showed that 1979 marked an important year for Nicaragua, not only in terms of the transition of governments, but in the relationship with the U.S. Up until that year, the U.S. had helped install authoritarian leaders, including the Somozas. In this way, the U.S. had direct influence in the policies of Nicaragua. In 1979 with the revolution, the Sandinistas threatened

U.S. interests with their communist-rooted political ideology and their desire to have government control of industries. The U.S., in response, attempted to overthrow the FSLN and protect national interests. Although the Sandinistas lost power for the most part since 1990, their reelection in 2011 with Daniel Ortega (returning as FSLN leader) has weakened relations with the U.S. once more. Unlike in Costa Rica and Panama, the U.S. has engaged in directly influencing policy and leadership decisions in Nicaragua and then was antagonistic immediately following the FSLN revolutionary victory.

Analysis

	Type of Government	Agriculture Dependency (as % of GDP)	U.S.-relations	Economic Status: GDP between 2005-2010 (in billions of dollars)
Costa Rica	Democratic Republic	9%	Amicable-independent relationship	20 to 35.8
Panama	Constitutional Democracy	7% ¹	Shift from U.S. intervention to amicable-independent relationship	15.5 to 26.7
Nicaragua	Democratic Republic	20%	Improving, but unstable relations ²	4.9 to 6.6

1. Panama Canal construction caused Panama to be least dependent on agriculture.

2. U.S. intervention, antagonism towards Sandinistas, etc.

Table 5: Analysis

The original question posed in this thesis was what accounts for the seemingly higher economic successes of Costa Rica and Panama as opposed to Nicaragua? The two explanations presented here are agriculture and relations with the U.S. Based on the research of the three countries, it seems that the three variables are correlated in these three cases.

Costa Rica has relied much less on agriculture in recent years, relying more on its service and tourism sectors. In addition, due to shared values of democracy and human rights, Costa Rica has the support of the U.S. as an ally. Importantly, the U.S. doesn't intervene or interfere in the affairs of the Costa Rican government which has allowed Costa Rica the freedom to engage in prosperous industries to improve its economy. Costa Rica and the United States,

therefore, exhibit an amicable-independent relationship. These two features have led to greater economic success for Costa Rica. The higher rates of GDP, GDP per capita, and other economic factors compared to Nicaragua demonstrate this correlation.

Panama, although being involved in agriculture, began seeing a decline in agriculture dependence since the construction of the Panama Canal. The canal brought in foreign investment from the U.S. and would eventually help stimulate the service sector to account for 77% of GDP it accounts for currently. As for U.S. relations, Panama initially had direct U.S. interference. This included military intervention and direct ownership of the Panama Canal. This limited the development of Panama economically. Nonetheless, since the overturn of the canal to the Panamanian people, the U.S. became a non-interventionist ally, engaging in the same desired amicable-independent relationship as Costa Rica. This seems to be related to the similar levels of success exhibited by Costa Rica.

Nicaragua has historically been dependent on agriculture for its economy. Although this dependency has been reduced significantly, it still depends on agriculture more than Costa Rica and Panama over the last ten years. Further, following decades of direct U.S. intervention in Nicaragua, the Sandinista Revolution in 1979 has strained relations between the two and, although the Sandinistas were out of power by the 90s, the U.S. has still been hesitant in its relations with the Nicaraguans. This has been catalyzed by the reelection of Daniel Ortega (of the Sandinista party). These features seem to have led to less economic success than Costa Rica and Panama.

Assuming these variables do have some relation to the economic status of each country, what are the implications of these connections? In terms of agriculture, one could argue that a

country that relies too heavily on agriculture will have trouble developing its economy. As mentioned, agriculture is a rapidly fluctuating sector due to the unpredictability of weather, disease, and demand of crops. In addition, agriculture seems to foster income inequality, which certainly does not help an economy. In order to avoid agriculture dependency, reallocation of resources to the service and industrial sectors seem to be a more favorable policy, as shown by Panama and Costa Rica. Another way to hinder the unpredictability of agriculture would be to utilize the labor force to cultivate a wide variety of crops rather than in one or two. Ideally, this would decrease the chances of weather and disease affecting the economy because the variety of crops would have different resistance levels.

In terms of relations with the U.S., it may be reasonable to conclude that a nation wishing to improve or develop its economy should pursue amicable-independent relations with the hegemon, in this case the United States. A key piece of advice that states should follow, though, is that they should ensure that the relations do not allow the hegemon to have direct interference in domestic politics. Nicaragua experienced this during the Somoza period. The U.S. supported the government but directly influenced Nicaragua and helped maintain its status as an agriculture dependent state. The U.S. neglected the interests of the native citizens who suffered in a weak economy. The preferable relationship would be one in which the U.S. would support a country politically, militarily (only if threatened), and financially (if necessary). Under normal circumstances, however, the country would retain freedom to choose its own policies without direct intervention.

Theoretically, the implications of this conclusion help reinterpret the Dependency Theory. The Dependency Theory claims that states in the periphery suffer from relations with

core states because the core will only drain and exploit the periphery of its natural resources. This can be seen in Nicaragua during the Somoza regime, when Nicaragua suffered a poor economy while the U.S. benefitted from its agricultural products. The theory implies, however, that states in the periphery should avoid interactions with core states and be completely autonomous and isolated. When looking at Costa Rica and Panama, however, it seems that, based on these two cases, the theory should be refined to prescribe the non-interventionist relationship described earlier. This type of relationship, in which periphery states would remain friendly with core states but avoid allowing direct interference from foreign nations, would allow the autonomy necessary to improve an economy while also ensuring the safety of a country during times of crisis, be it during times of war, financial crisis, or natural disasters. To completely disconnect from the core states, as implied in the Dependency Theory, would be to miss out on the security and financial assistance offered by the hegemon and other core states.

As a qualitative study, the conclusions made here are very limited in their usefulness without further investigation. An essential question that must be answered in future research is whether the conclusions can be extended to other countries in Latin America as well as other regions in the world. Do the trends shown in these three case studies present themselves in countries that are not democracies? In non-Latin American countries? Further studies must be done in this area.

Another issue raised is whether the variables used to explain economic success in this case study are causal or merely correlated. What could be some other variables used to explain economic status? Perhaps the geographies of Costa Rica and Panama are better in that they have more valuable and profitable resources and better strategic positioning (Panama's

connection between Atlantic and Pacific Oceans). Perhaps the amount of privatization in each economy contributes to the amount of success a country could achieve. Has corruption been more prevalent in Nicaragua than in Costa Rica and Panama and therefore limited development?

Finally, an important issue with the data is (as with all economic analysis) how to define economic success. Not only must one make value judgments on whether some economic factors are more important than others, one must qualitatively assess whether a numerical difference between countries on GDP, for example, is significant. In subsequent studies, it may be important to analyze other factors such as unemployment, poverty rate, and income inequality to determine whether Nicaragua is less successful than Costa Rica and Panama.

In conclusion, this case study offers a small step towards the goal of international development. Through international development, it is hoped that the lives of people across boundaries can improve their lives. Using the ideas in this research, other researchers will hopefully be able to approach more definitive conclusions of how to improve economies.

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