



Transnationalism: North-to-South migratory flows and their developmental impact in San Juan del Sur, Nicaragua.

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Executive Summary

Globalization, along with technological advancements in transportation and communication, has stimulated the movement of people throughout the world. Furthermore as the middle class has grown and family sizes have shrunk in developed countries, the world has witnessed substantial growth in consumer-led migration, i.e. tourism and residential tourism. (McWatters, 2009) Tourism is the world's third largest industry after oil and car production, (UNWTO, 2010). According to the World Tourism Organization, the sector represents 10.3% of World Gross Domestic Product and 8.2% of global total employment (UNWTO, 2007)

As a result of its economic power, tourism and residential tourism have been heralded as an alternative method for development. They provide for diversification away from traditional exports and a method for attracting Foreign Direct Investment, whilst industrializing the country and providing new employment opportunities. (Canada, 2009) However, tourism has proven to be a risky pathway to development, as it can serve to reinforce societal dualism or neo-colonial structures, resulting in displacement of the local community without providing many positive benefits. Furthermore, both traditional and residential tourism are largely dependent on international arrivals, therefore the sector is especially susceptible to global shocks and recessions. (Brohman, 1996)

Seeking to capitalize on this market, Nicaragua has been actively courting Northern migrants. Since the late 1990's, Nicaragua has pursued a 'tourism for development' strategy and has seen a surge in tourism arrivals and investment in the sector. During the first 7 years of the millennium tourism grew by 70% in Nicaragua and is continuing to grow at an average rate of 10%-12% annually (WTTC, 2010). The country's most popular residential tourism destination, and one of its most popular traditional tourism locations, is the southwestern Pacific coast town of San Juan del Sur. The fourteen pristine beaches and inexpensive land surrounding the town has made it a prime target of residential developers and tourism investors.

The objective of this research was to understand how Nicaragua's active encouragement of consumption-based migration had led to a burgeoning transnational space and how tourism and residential tourism has affected the local community of San Juan del Sur. The central research question is:

How has increased international mobility due to globalization, manifested in a new transnational space and what impact has it had on local development in San Juan del Sur?

This was accomplished by using a variety of research methods including field visits, interviews with government and tourism officials, as well as real estate agents and residential development owners. Additionally, residential tourists and foreign business owners were surveyed to gain greater understanding on their motivations.

Tourism and residential tourism has surged in the last decade and the economic, cultural and social influence they have made on the town is undeniable. Growth in the sector has helped to stimulate the economy through the presence of new jobs, diverse opportunities, supplemental markets and an increase in the tax base. Furthermore, the presence of the transnational community has given



rise to a plethora of new businesses and services and has helped rebrand Nicaragua, making it an attractive place for foreign direct investment and developmental loans. It has transformed the once sleepy fishing village into a transnational space, where international migrants flow in and out, bringing with them business, cultural ideas and social relationships.

Tourism in San Juan del Sur is still small scale and there is a noticeable absence of large firms. The local population has been quick to offer informal services and to benefit from the incoming tourists. However, the tourism and residential tourism sector has become ever more dominated by foreigners and threatens to create neo-colonial spatial, economic and social dualism in San Juan del Sur. Large flows of foreign capital and foreign business owners have come to control many of the most profitable businesses and are capitalizing on the development of the tourism sector. Most of the local community has never travelled outside Nicaragua and do not possess the financial capacity, education or knowledge to start and maintain high quality businesses. As a result foreign investors own many of the most popular and profitable businesses.

Additionally, the real estate market in San Juan del Sur is essentially also controlled by the tourism and residential tourism market. The beginning of the century witnessed a buying frenzy, with speculators seeking to capitalize on the newfound location. However, as the sector is globalized and susceptible to shocks, the bottom fell out when the financial crisis struck in 2008. The effect of the crisis was positive for the land market in San Juan del Sur. It created a forced correction to prices and turned the corner from a speculative market into a residential development community and buying is again on the rise.

However, as foreigners control mass landholdings in and around San Juan del Sur, the local population is being systematically displaced from their traditional environment. Also, the economic disparity between the natives and foreign migrants has created a dual society, where the groups interact on a minimal basis, and usually only during economic transactions. If tourism and residential tourism continue to progress along their current paths, San Juan del Sur runs the risk of becoming another Central American Gringo Town.

Nicaragua opened its doors to tourism without having sufficient laws in place to safeguard against overbuilding, environmental degradation, land speculation or protecting the rights of the local population. Strong government input, regulation and strategy are needed in order to ensure the local community benefits from tourism and residential tourism growth. The government and tourism board must ensure the survival of local businesses and continue to provide training and actively embolden its citizens to invest in the town's future, while protecting them from large flows of foreign capital.

Moreover, a comprehensive tourism plan is needed to provide a clear vision for the future of tourism in San Juan del Sur. The industry is still maturing and is at a crucial stage, with thorough planning and continued capacity building of government and the local community, the transnational space could provide a viable economic backbone for southwestern Nicaragua. However if current deficiencies persist, tourism and residential tourism could instead marginalize the local population without reaping many of the benefits.



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List of Abbreviations

AL - Alianza Liberal

CAFTA- Central American Free Trade Agreement

FDI- Foreign Direct Investment

FSLN - Frente Sandinista de Liberación Nacional

IDB- Inter-American Development Bank

IMF- International Monetary Fund

INTUR – Instituto Nicaraguense de Turismo

OACI - Organization of International Civil Aviation

PCN - Partido Conservador de Nicaragua

SITCA- Secretaría de Integración Turística Centroamericana

SJDS – San Juan del Sur, Nicaragua

UN – United Nations

UNDP – United Nations Development Program

WB- World Bank

WTTC – World Travel and Tourism Council



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Chapter 1: Introduction

The intensification and escalation of globalization has flourished in the new millennium. Increased flows of capital, goods and people are moving across national boundaries, blurring traditional concepts of the sovereign nation-state. As the world becomes more interconnected economically, politically and socially, and the circumstances in one country will cause a domino effect that could ripple throughout the region or the world. The era of globalization and transnationalism in which we live has dramatically changed the methods of production, FDI flows and human capital.

Globalization, along with technological advancements in transportation and communication, has stimulated the movement of people throughout the world. Furthermore as the middle class has grown and family sizes have shrunk in developed countries, the world has witnessed substantial growth in consumer-led migration. (McWatters, 2009) These migrants, who are crossing national borders in the pursuit of leisure and the consumption of goods and services, are commonly classified to as tourists or residential tourists, based on the length of their stay and intent. Traditional sojourners or tourists are those who are travelling for pleasure and remain in a location for less than a month before returning to their country of permanent residence. Residential tourists, however, spend the entire or a significant portion of the year in a second location and typically own property or rent for extended periods of time. (Rodriguez, 2001) Countries in the Global South are vying to attract both groups of migrants as tourism grows in popularity as a strategy for economic development.

Throughout the Caribbean and Central America, countries have recognized their comparative advantage in terms of climate, natural resources and lower property costs, in addition to their location on the geographic periphery of core economies. Thus they have actively courted tourists, residential tourists and industry investors as a technique to bolster national export earnings, stimulate employment and supplement the domestic market. However, tourism has proven to be a risky pathway to development, as it can serve to reinforce societal dualism or neo-colonial structures, resulting in displacement of the local community without providing many positive benefits. Furthermore, both traditional and residential tourism are largely dependent on



international arrivals, therefore the sector is especially susceptible to global shocks and recessions. (Brohman, 1996) This handicap was evident in the global financial crisis of 2008, as international tourism arrivals dipped significantly and many countries experienced losses.

Observing the economic triumph of neighboring Costa Rica and Panama, Nicaragua too has embarked on mission to spur tourism and residential tourism growth. Since the late 1990's, Nicaragua has pursued a 'tourism for development' strategy and has seen a surge in tourism arrivals and investment in the sector. During the first 7 years of the millennium tourism grew by 70% in Nicaragua and is continuing to grow each year at an average rate of 10%-12% annually, welcomed one million tourists for the first time in 2010. (WTTC, 2010). The sudden growth in the tourism sector now makes it the second largest industry after coffee in Nicaragua. Due to its relatively proximity to the USA and Canada and its comparatively inexpensive cost, the country has become a popular tourist destination for both holidaymakers and residential tourists.

Nicaragua's tourism development has bucked the traditional evolution of the industry. Typically in tourism locations small and medium businesses dominate at inception and in the infancy years of the sector, and then are followed by large, established domestic and international firms and finally land developers who fabricate residential accommodations. (Canada, 2010) Nicaraguan tourism is unique in the respect that it has leapfrogged the second stage to produce a tourism town dominated by small and medium sized hospitality providers coupled with expansive residential tourism.

Research was conducted from February through May 2011, in conjunction with Alba Sud in the southwestern town of San Juan del Sur. The aim was to look at transnationalism and North-to-South migration and mobility due to tourism, residential tourism and relocation, as well as, the developmental impact of such migration. The main objective is to understand how this transnational space evolved and the effect it has had on the local community.

Central research question: *How has increased international mobility due to globalization, manifested in a new transnational space and what impact has it had on local development in San Juan del Sur?*



Thesis Layout

To answer this question the current and historical trends in southern Nicaraguan tourism and residential tourism were evaluated, in addition to FDI flows, employment figures and governmental budgets. The paper is broken down as follows: Chapter 2 provides geographical, historical and local context of Nicaragua and the town of San Juan del Sur. Chapter 3 lays out the theoretical framework for development through tourism, residential tourism, migration and transnationalism. Chapter 4 defines the main research question and breaks it down into three central sub-questions, as well as detailing the methodology and concepts used throughout the paper. Chapters 5-7 address the specific sub-questions and are divided into Characteristics of the Migrants, the Evolution of the Real Estate Market and the Development Impact. Chapter 8 gives a critical reflection and analysis of the research performed. Chapter 9 presents a conclusion of the findings and recommended actions for the future of tourism and residential tourism.



Chapter 2: Local Context

National Level: Nicaragua

Geographical

Nicaragua is blessed with beautiful natural resources and a warm climate year-round, making it an ideal tourist destination. It has an estimated population of 5,822,00, with approximately one-fifth of the people living in the capital city of Managua. It is the largest Central American country with territory covering 130,373 square kilometers, of which 119,990 square kilometers is land and 10,383 square kilometers is occupied by water. Nicaragua, located at 13 00 N, 85 00 W, is bordered by the Pacific Ocean on the west, the Caribbean Sea in the east, Honduras in the north and Costa Rica in the south. It has shares 1,231 kilometers of land boundaries with Costa Rica and Honduras and has over 910 kilometers of coastline along the Caribbean and the Pacific. (Encyclopedia Britannica, 2011)

2.1 Map of Nicaragua



Source: Encyclopedia Britannica



The country boasts 76 protected areas of rainforest, which comprises the largest rainforest north of the Amazon along with 7% of the world's biodiversity, including many endangered species. However, due to the lack of government and environmental regulations much of the rainforest has been polluted, misused and is in a derelict state. Western Nicaragua contains the country's mountainous region along with 40 volcanoes, which form a spine along the fault-lines that run through the west of the country. These active fault-lines leave Nicaragua at the mercy of tectonic shifts and as a result the country has experienced several devastating earthquakes and minor earthquakes are a regular occurrence (Gilbert, 2006).

As signified by the country's name, *agua* or water has a large presence in Nicaragua. Lagoons, lakes and rivers cover almost 10% of the territory and provide livelihoods for thousands of residents, as well as, tourist attraction opportunities. Unfortunately, as with the forested areas, the aquatic regions have a history of being heavily polluted and unregulated. However, the Nicaraguan government has embarked on a campaign to establish and enforce environmental laws, and has actively been working on cleaning up such areas (Gilbert, 2006).

Nicaragua can be split into three distinct zones, each with its own geographic features and tourism draws. The Caribbean Lowlands in the east comprise approximately 45% of the country. Throughout this region the soil is dry and infertile, thus not ideal for farming activities, however the system of lakes and lagoons that line the coast are picturesque and desirable for tourism. In the Central Highlands lies a majority of Nicaragua's forest, which contains a wide range of flora and fauna, as well as volcanoes. The western portion of the country has been the focus of a majority of tourism development in Nicaragua. Along the Pacific coast the climate is drier and warmer. It includes scores of pristine beaches, the largest lake in Central America, volcanoes and multiple colonial towns that serve as popular tourist attractions. (Encyclopedia Britanica, 2011) These three regions offer tourists and tourism firms a plethora of options to develop different tourism strategies and focuses.



Historical

Nicaragua has had a tumultuous history of foreign intervention since its inception. It was discovered by the Spanish in 1522, and remained under their rule for almost 300 years that were dictated by pillaging and subjugating or eradicating the local population. The mix of European and native peoples resulted in the creation of a mestizo population and Spanish as the dominate language in the almost the entire country. Nicaragua was the only Central American country to be ruled by two different colonizers; while the Spanish controlled much of the country, the British ruled the eastern Caribbean portion. The regions conquered by the British carry on this legacy by the continued prevalence of the English language and English names. Furthermore, the eastern coast has a strong Afro-Caribbean influence due to the presence of escaped slaves, and has maintained its cultural independence in part due to the regions autonomous status.

After gaining independence from Spain, Nicaragua was first a member of the Mexican Empire and then the United Provinces of Central America. Full independence was won in 1838 and for most of the next century the country was launched into a series of civil wars that resulted in American military intervention. With the help of the American created National Guard and political maneuvering, Anastasio Somoza Garcia assumed the Presidency in 1936. He embarked on a plan to consolidate power and silence his political opponents. Somoza moved quickly to extend his own term limits and reach of power, so that he had unfettered control of the state and the military.

The Somoza family continued to rule Nicaragua with support from the USA until the late 1970's, as his sons, first Luis Somoza Debayle and then Anastasio Somoza Debayle, succeeded Anastasio. During this time the local population suffered heavily. Many were landless peasants that survived by working on large plantations for less than \$1 a day or were forced to move east into the rainforest in search of land. Pollution and poor living conditions dominated the country to the detriment of the poor. The USA, in exchange for its support of the Somoza's, was able to gain favorable business access to Nicaragua and controlled large cotton plantations and cattle farming throughout the country.



A massive earthquake struck the country in 1972, leaving 10,000 dead and another 50,000 homeless. Large amounts of reconstruction aid flooded into the country that served to highlight the widespread corruption throughout the nation. Anger over corruption and the ineffective and unresponsive government helped the Sandinista National Liberation Front (FSLN), a leftist, student quasi-Marxist group originating from Leon and Managua, to gain popular support. The Sandinista's guerrilla groups launched continuous attacks on the government and government strong holds, and in response Somoza instituted a series of crackdowns on freedom and launched raids in search of the FSLN and their supports. The assassination of Pedro Charmorro, the editor of the opposition newspaper *La Prensa*, in 1978 was the final act that led the country into full blown civil war. The civil war lasted for about a year as the Sandinista slowly took control of more cities and survived the onslaught from the National Guard. Recognizing the repressive nature and the popular uprising it had sprung, coupled with turning public opinion in America, the United States pulled its military aid for the Somoza government.

In July of 1979, the FSLN had taken control of the government and Somoza and his regime were forced to flee. The first democratic elections were held in 1984, revealing Daniel Ortega from FSLN as the new President. The FSLN was based in the Marxist ideology and received mass amounts of military and economic aid from Cuba and the Soviet Union. As the Cold War heated up during the 1980's Nicaragua was put in the spotlight as a new, active front of the Cold War in America's backyard. The United States government, under Ronald Reagan, suspended all military and economic aid and eventually enacted a full-scale embargo against Nicaragua. In the early 1980's the American government began to fund and train former members of the National Guard in Costa Rica and Honduras, known as the *Contras*. During that decade the Contras launched repeated attacks on Nicaragua's ports, harbors, and other key infrastructure, in hopes of destabilizing the government. These efforts did not bring down the Sandinista government, and in 1988 the government and the Contras sign a ceasefire agreement and efforts were made to integrate the Contras into Nicaraguan society. (Bethell, 1990)



General elections were held again in 1990, and to the surprise of many, were won by the conservative National Opposition Union's candidate for President, Violeta Chamorro. The 1990's in Nicaragua witnessed the consolidation and enhancement of democratic institutions, economic stability, privatization, a focus on human rights and a trend of national reconciliation and unity. The military and police were reformed and brought under civilian rule and large infrastructure projects were launched. The government worked towards opening up the economy and improving the quality of life for the population, however it was still mired by accusations of corruption and bribery, which led to the downfall of the Conservative government. (Encyclopedia Britanica, 2011)

Modern Politics

Nicaragua's government operates as a Presidential system with four distant branches of government; the President, the National Assembly, Supreme Court and the Supreme Electoral Council. The country's first democratic elections were held in 1984, after Somoza's overthrow. Since then the country has seen a stream of regular elections, every 4 years at the municipal level and every 5 years for the national government. Historically the country has been spilt between left and right political forces. On the left the *Frente Sandinista de Liberación Nacional* (FSLN) is the eminent party, while by *Partido Conservador de Nicaragua* (PCN) and *Alianza Liberal* (AL) represent the right-wing. The Conservatives held power in the 1990's, however the FSLN has consistently proven to be Nicaragua's most influential party. The FSLN currently dominates the presidency, the municipal councils and a majority of mayoral positions throughout the country. (Encyclopedia Britanica, 2011)

Nicaragua is split into 15 administrative departments, as well as, two autonomous regions in the east, and then further into 153 municipal districts. This system was put in place originally by the Spanish colonialists and was traditionally used as a force of oppression by the national government to enforce top down policies on the population. However, in 1988, Law 40 was passed which effectively decentralized the Nicaraguan government and established the municipal government's right and responsibility over municipal issues and the



power to make decisions. (Anderson & Dodd, 2009)

In general, the municipal governments are viewed favorably by the population and have shown to be responsive to the needs of their constituents. In 2004, the Sandinista's embarked on a four-year plan to encourage popular participation in local government issues. The plan has been popular and taken up enthusiastically around the country. A March 2007 CINASE survey reported that 23% of urban residents and 20.5% of rural residents have taken part in a *cabildo* (a municipal level meeting with local government officials) and 22.2% and 26.7%, respectively, have taken part in an ad hoc local meeting to discuss a particular issue. (Anderson & Dodd, 2009)

The most recent municipal elections were held in 2008. The FSLN won a decisive victory, controlling 94 municipalities. However, these elections were marred with international accusations of irregularities, recounts and corruption. Two opposition parties were deemed illegal and unable to participate, opposition journalist saw their offices ransacked, voter ID cards were withheld and several NGO's were put under investigation. (The Economist, 2008) The accusations were so prevalent that it led to temporary suspension of aid from the US and the EU. (Caistor, 2009)

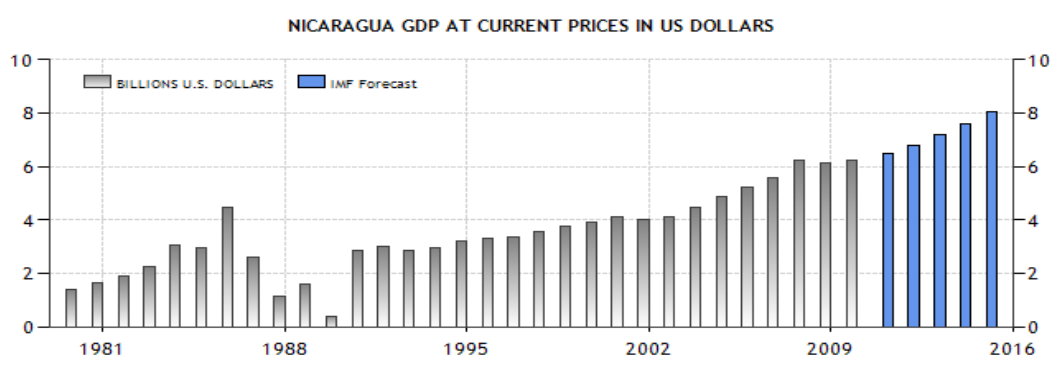
Fears of a repeat and assertions of fraud and corruption are already widespread for 2011's national elections. The current President, Daniel Ortega, was elected for a second time, after 18 years out of power, in 2005. According to the constitution, no President is allowed to stand for consecutive re-election or serve more than two terms; however, Ortega engaged in a systematic campaign replacing the Supreme Electoral Council with his allies and in 2009 the council overturned the term limits ban. Only FSLN party members took part in the vote, as opposition members did not participate in the vote out of protest. (The Guardian, 2009) Despite outcries of illegality and foul play, Daniel Ortega is expected to stand for re-election and win.



Economy

During the 1950's and 1960's, Nicaragua had one of the fastest growing economies in the region; nonetheless today it is the poorest country in Central America and one of the poorest in the hemisphere. From the 1940-1970 the Somoza regime initiated neoliberal reforms, land was privatized and taken away from traditional cooperatives and American companies were given free-reign to pollute and destroy the environment. The Somoza rule served to benefit only a small group of elites, while most of the country was living in a state of poverty. In the 1980's, when the leftist Sandinistas took control of the government, they initiated a series of reforms aimed at redistributing wealth, improving the quality of life, reversing environmental degradation, providing basic services to the population and enacting land redistribution back to collectives. (Bethell, 2009)

2.2 Nicaraguan GDP



Source: International Monetary Fund, 2010

However, after almost 30 years of civil war, several natural disasters and general instability, the reforms of the Sandinistas failed to curb inflation and during the 1980's it skyrocketed. Furthermore, aid from the USA and Europe were cut and a full embargo was enacted on Nicaragua by the USA because of its ties to the Soviet Union and Cuba. The USA had been the largest trading partner of Nicaragua and the embargo devastated the economy. When the conservatives took over in the 1990's, in an effort to rebuild the economy they enacted structural reforms with loans from the IMF and World Bank. Neoliberal economic policies were adhered to along with a strict austerity plan, resulting in land re-privatization, private business stimulation, cuts in public services, job



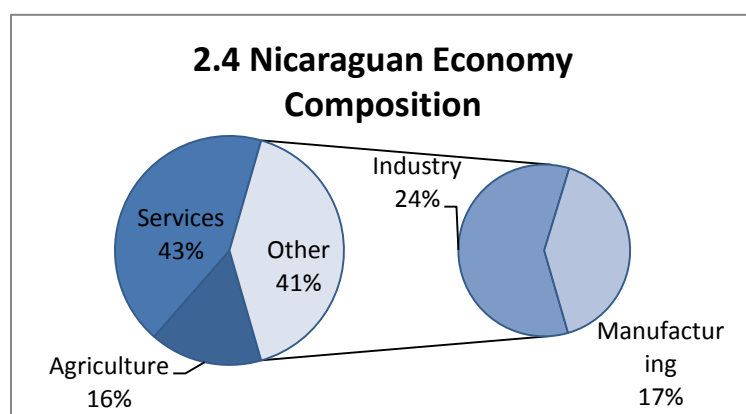
losses and a rise in prices. This coupled with Hurricane Mitch, which devastated the country in 1998, leaving 20% of the population homeless and billions in reconstruction costs, caused the GDP to plummet and resulted in the need for additional international loans. (World Bank, 2010)

The economy of Nicaragua has grown significantly in the past two decades; however, it still ranks as only the 134th richest country in the world (World Bank, 2011). Official estimates on unemployment are rather low at 9.5%, but as the majority of people work in informal professions, that number cannot be relied upon, and the true number is thought to be significantly steeper (IMF, 2010). In 2006,

Nicaragua signed on to CAFTA (Central American Free Trade Agreement), thus providing a large market for its exports. Additionally, Nicaraguan exports have also been boosted by its membership in the Central American Free Market and established trade relations with the European Union, Mexico and Japan. National exports have grown quadrupled over the last decade; despite this rise Nicaragua still experiences a significant trade deficit and is reliant upon imports for many

2.3 Nicaraguan Economy at a glance	
GDP	\$6.2 billion
GDP per capita	\$1080
Official unemployment	9.50%
Informal sector employment	65%
Remittances received	\$1 billion/yr
National Imports 2009	\$5,252 million
National Exports 2009	\$2,911 million
Primary Exports	coffee shrimp, beef, sugar, industrial goods like textiles

Source: World Bank 2011 & Agunias, 2006



Source: World Bank, 2011

dependent on the American market as 30% of Nicaraguan exports are destined for the US and provides an important source of remittances. Forecasts have

basic commodities and in 2009, imports totaled 60% of the country's GDP (World Bank, 2011).

The global economic crisis caused Nicaragua's economy to shrink by 1.5% in 2009. Nicaragua is highly

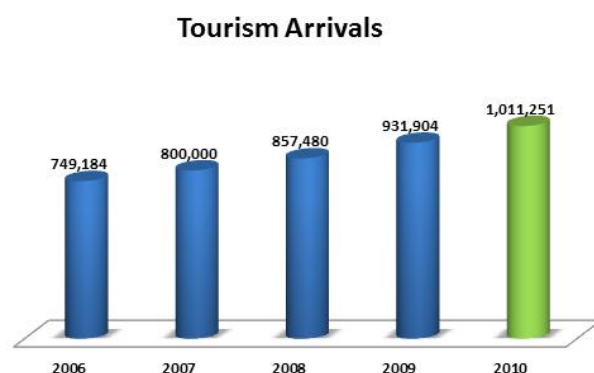


predicted that the country's economy will return to the growth figures from previous years and one should see GDP growth of 2%-4% in 2010 and 2011 (World Bank, 2010). This growth is the result of an economic structural shift away from traditional agricultural export products, such as coffee, bananas and sugar, to a more diversified and complex economy that is integrated with the global system. The strategy to diversify has ushered in a rise in remittances, non-traditional exports, *maquillas* industries and tourism (Canada, 2010).

Tourism

It was during the neoliberal reforms of the 1990's that Nicaragua's tourism industry began to develop. During the first 7 years of the millennium tourism grew by a total of 70% in Nicaragua and is continuing to grow each year at a steady rate. Tourism arrivals in 2009 totaled 931,904 persons, and

2.5 International Tourism Arrivals



Source: INTUR, 2010

Nicaragua crossed the one million-visitor threshold in 2010. Figures from the first half of 2010 compared to the same time period in 2009 show that arrivals have grown by 9.1%. Tourists are motivated to travel for holidays, family visits and business and stay in the country for an average of 7.7 nights. The majority of tourists, 63%, come to Nicaragua from other Central American countries, followed by North America with 25.8%. (INTUR, 2009) Surveys compiled by INTUR have shown that the typical tourist visiting Nicaragua from Europe, North or South America is between the ages of 26 and 40, and holds a university degree and come for vacation purposes.

Despite this growth, Nicaragua only ranks 103 out of 133 countries on The Travel & Tourism Competitiveness Report 2009. The country lacks a central feature around which to focus tourism, and the sector is more specialized based on region and shows signs of underdevelopment. In the European market recognition of Nicaraguan tourism is extremely low and in the US only 28% of Central America-bound travellers express desire to visit Nicaragua and only 9%



could name any tourist attractions.¹(INTUR, 2008) Furthermore, since a majority of tourists come from other low-income countries, dependency on these markets can be risky as global consumption patterns change, Also, tourists from low income countries tend to spend less money per day and are more likely to be visiting family or friends and thus not injecting as much money into the economy as someone on a pure leisure vacation. Tourists spend an average of \$325 per trip, the lowest in Central America, as compared with US\$1,107 in Costa Rica or \$1,122 in Guatemala. (SITCA, 2008)

Tourists enter the country either by air, land or sea. Nicaragua's main airport is Augusto C. Sandino airport in Mangaua receives 37.9% of the countries visitors, with seven flights daily from the United States, and several regional flights to El Salvador, Costa Rica and Panama. The Organization of International Civil Aviation has named Managua airport the safest in Latin America. Airports or new terminals have also recently been built on the Island of Ometepe, on the Atlantic coast at San Juan de Nicaragua, Corn Island and Bilwi and there is an airport project planned in conjunction with Barcelo Hotels for the Northern Pacific coast as well. Land crossing's with Costa Rica and Hondorus represent the largest points of entry, with 59.3% of arriving by car or bus. Cruise ships have also discovered Nicaragua's beauty and accounted for 2.8% of tourists arrivals in 2009, via the western ports of San Juan del Sur and Cornito. (INTUR, 2009)

The sudden growth in the tourism sector now makes it the second largest industry, after coffee, in Nicaragua. Travel and tourism now represent 7.2% of the national GDP, accounting for \$460 million in revenue for 2010, and 13.5% of all export earnings. The sector is also responsible for 5.8% of employment, or 1 out of 17.3 jobs in Nicaragua. These figures are all projected to rise steadily through 2020, thus the sector will continue to play a more important role in the national economy. (WTTC, 2010)



The government of Nicaragua has been promoting eight “Routes” throughout the country to accentuate the unique tourist offerings of each region:

- The Route of Volcanoes – travels through many of the volcanoes that line the Western half of the country
- The Colonial Route – consists primarily of the towns of Granada and Leon, where some of the oldest colonial architecture from the 18th century
- The Coastal Route – runs along the beaches of San Juan del Sur, Montelimar and those located close to Leon and Chinandega.
- The Route of Haciendas – promotes nine Agro-Ecotourism farms in the departments of Boaco and Chontales
- The Coffee Route – tours through the coffee-producing region in the North and west of the country where production of coffee beans can be witnessed.
- The North Caribbean Route and the South Caribbean Route- travel through beautiful nature and ecological sites of the Atlantic Coast
- The Route of Lake Nicaragua – shows off the beauty that exists in and around Lake Nicaragua, including the Isletas, 365 small islands in the second largest lake in the Americas and various water sports
- The Route of the San Juan River – focuses on the only castle in Central America and the area surrounding the San Juan River

In addition to traditional leisure tourism, Nicaragua is also actively courting Residential Tourists. Following regional examples, Nicaragua is interested in attracting second homebuyers and retirees as permanent and part-time residents. Nicaragua is being heralded as one of the top retirement destinations of 2011, and as popular second home destinations, such as Panama and Costa Rica, experience high saturation and rising costs, Nicaragua sees the opportunity to join the market. Retirees and homebuyers, mostly coming from the USA, Canada and Europe, are increasingly choosing Nicaragua as the site for their second-home or permanent relocation. However, land titling and ownership laws have a tumultuous history over the last 50 years in Nicaragua and lack of stability and clarity kept many foreign investors at bay. Recognizing this instability and its adverse effects on investment, over the last five years the national government has initiated numerous changes to foreign-owned property laws, retiree residence programs, FDI tax incentives and laws governing coastal development



in Nicaragua. This codification of property law and foreign rights has led to a surge in tourism development.

In an effort to promote tourism and grow the industry, the Nicaraguan government has passed incentive numerous laws:

2.6 Nicaraguan Tourism Related Laws

Law of Incentives for Tourism Industry, Law 306	<ul style="list-style-type: none"> • Pay no income or real estate tax for up to 10 years. • All imported and local supplies are also tax-free.
Foreign Investment Law, Law 344	<ul style="list-style-type: none"> • Foreigners have the same rights to own property and establish a business as local investors • Foreign investor has right to own and use property without limitation. • Lifts restrictions on the way foreign capital enters the country. • After three years, you can repatriate 100 percent of your profits, including the initial investment
Law of Resident Pensioners and Retirees, Law 628	<ul style="list-style-type: none"> • Eligible for retirement residency if over 45 years of age, a monthly income of \$400 (additional \$100 for each dependent family member). • Tax incentives, no taxes on out-of-country earnings, import up to \$10,000 worth of household goods for your own home
Coastal Land Law	<ul style="list-style-type: none"> • Sets official building limits at 50 meters for beach property & 5 meters for lakes • Commission for the Coastal Zone Development (CDZC) is created

Source: ProNicaragua

The Nicaraguan government's promotion and simplification of the process of obtaining residency, building permits and importing domestic goods and vehicles has attracted a large number of investors and new residents. The theory is that these residents will reinvest in the community economically and socially. Since residential tourists will spend a significant amount of time in the community it is hoped that they will become personally involved and feel a sense of community, which will stimulate more involvement with economic activities, either through investment, job creation or entrepreneurship and socially in the form of volunteering, knowledge transfers and community associations. The



country can expect the number of such residential tourists and tourism development projects to continue to rise. It is hoped that this boom will create numerous new jobs, increased development of land and infrastructure as well as a new revenue source for the country and the community.

Local Level: San Juan del Sur

Geographical

The town of San Juan del Sur is formed around the crescent bay of San Juan in southwestern Nicaragua. San Juan del Sur ($11^{\circ} 16' 00''$ N and $85^{\circ} 53' 00''$ W) is located in the department of Rivas, along the southern border between Nicaragua and Costa Rica. San Juan del Sur is connected by a main access road to the department capital of Rivas, where the Pan-American Highway affords easy travel to Managua (140km north) or to Peñas Blancas, the border crossing with Costa Rica (43km south).

2.7 Map of San Juan del Sur



Source: Nicaraguan Institute of Territorial Studies



The municipality covers 411.05 sq. km, and is 3.58 meters above sea level. It has a tropical climate, with temperatures averaging 26-35 degrees Celsius year-round. San Juan del Sur has two distinct seasons; rainy and dry. The dry season runs from December to April, when the transition to the rainy season occurs and runs from May until November. San Juan del Sur has 18,500 inhabitants, of which 8,000 (43.24%) live in the urban area and 10,500 (56.76%) reside in the rural surroundings. The population is young, with those under the age of 16 comprising over half the population, with 9,300 (50.28%) registered. (INIDE, 2008)

The municipality contains 14 beautiful beaches that stretch along the Pacific Coast, as well as rolling hills and shallow valleys where the population resides. Many roads have been paved in recent years, within the town limits almost all are, however once one leaves the center of San Juan del Sur paved roads are only found along the main routes north of south of town. Access to the beaches is made difficult by the lack of paved or maintained roads, and the absence of public transportation.

Historical

San Juan del Sur's history can be traced back to the Spanish explorers. Since 1522 it has served as one of the most important ports in Central America, however it did not become an official town until 1854. The city has played a vital transportation and historical role in Nicaragua. Under the Spanish colonizers, San Juan del Sur was used as a port of transfer for moving goods south to Peru and as a disembarking point to carry goods over land to reach the Atlantic Ocean and continue on to Spain from the New World. (Morini, 2004)

During the 1850's, the port again rose to prominence. Commodore Cornelius Vanderbilt used the port as a transportation hub during the California gold rush to move goods from west to east and vice versa. The boats would come south from San Francisco, unload in the port from where the cargo was transported via a system of rivers and lakes to the Caribbean port of San Juan del Norte and then on to New York. The town also played in a significant role in the civil war between Nicaragua and William Walker and his US filibusters. San Juan



del Sur was a Walker strong hold and used as a base for his operations and attacks. (Morini, 2004)

The twentieth century was less exciting in San Juan del Sur. The town spent most of the century as a quite fishing village. San Juan served as one of the main western ports of Nicaragua, exporting cattle, wood and agricultural products. However when the Northern city of Corinto revamped and reconstructed its port, San Juan del Sur lost much of its shipping business to the much bigger and more advanced port. (Morini, 2004)

Economy

The department of Rivas and the municipality of San Juan del Sur are among the richest regions of Nicaragua. When compared to other departments, Rivas is one of only five departments to get the label of “Low instances of extreme poverty”, with 26.8% designated as “extreme poverty”. (INIDE, 2008) Within Rivas, the municipality of San Juan del Sur also rates highly in comparison to other municipalities. San Juan del Sur also received the label of “Low instances of extreme poverty”, ranking as the 10th municipality with low instances of extreme poverty, with 20.6%. (INIDE, 2008) Despite these relatively high rankings, the population of San Juan del Sur is still missing a lot of basic infrastructure and services. In 2008, in a study by the National Institute of Development Information (of Nicaragua), out of 2,990 houses in the municipality, 1,512 did not have potable water, 691 were without light and electricity and 934 had dirt floors, as well as, either a roof or walls that were constructed using inadequate materials. (ASDJD, 2007)

The economy of San Juan del Sur had been dependant on the shipping the fishing industry for much of its existence. After the loss of a majority of the shipping trade to Corinto, San Juan del Sur’s economy plummeted. In 2000, the department of Rivas reported an unemployment rate of 68%. (La Prensa, 2000) While some fishing did persist, most people changed professions for agricultural work; growing rice, beans and corn. The civil war, which destroyed the national economy also reaked havoc on San Juan del Sur. The remaining shipping clients moved away, and constant fighting made even agricultural work difficult.



In the late 1990's, as part of the promotion of tourism as a method for development, San Juan del Sur was redesignated as a tourist town. Tourism provides both direct and indirect employment. In addition to lodging and restaurants, the town offers a variety of tourism related services; ranging from sun and water activities to wellness, beauty and fitness. Many informal businesses have been initiated by locals to capitalize on the influx of tourists. Locals have setup businesses such as laundry services, private tour guides, renting out rooms and Spanish language teachers. Today tourism forms the economic backbone of the local economy of San Juan del Sur.

Tourism

Tourism forms the main and most profitable industry in San Juan del Sur. San Juan is blessed with 14 beautiful beaches and a great surf break. Surfers began to flock here in the early 2000's. From there the word spread, and San Juan del Sur earned itself a spot on the 'Gringo Trail'. The busiest tourist weeks are those around Christmas and Easter, during these times tourists primarily come from inside Nicaragua. The main tourist season lasts from December to May, when the rainy season takes over. On average San Juan del Sur has seen its number of tourism arrivals increasing each year. It has launched campaigns in Europe and the States to promote itself as both a tourism and residential tourism destination.

San Juan del Sur is also one of the prime residential tourism destinations in Nicaragua. In the municipality alone there are between 40-50 active residential tourism projects. (Interviews: Fahey & Guanamuz) The untouched land surrounding San Juan del Sur has made it a prime target of residential developers. The landscape allows beautiful coastal views and vast amounts of unused space. Projects vary in form, size and style; there are condominiums, turn-key houses and lots for sale in abundance throughout the region. The town has also worked to profit from cruise travel and passengers. For the last 10 years, Nicaragua has been working to promote its seaside towns for cruise stops. San Juan del Sur is the prime location for cruise ships in Nicaragua. Passengers enjoy the town as well as taking part in excursions inland to places, like Granada and Masaya.



San Juan del Sur's natural comparative advantage as a sun and sand destination, makes it an ideal location for both leisure and adventure activities. Furthermore, its location close to the Costa Rican border offers it the opportunity to attract some market share away from the established tourism sector in the north of Costa Rica. The relative low cost and geographic proximity to other Central American travel spots and North America, has given San Juan del Sur the right set of circumstances to establish itself as a must see/go location for leisure, adventure and residential tourism. Moreover, the International Monetary Fund, in 2010, awarded southern Nicaragua a \$10 million loan to improve tourism offerings, these modifications are expected to raise the average daily expenditure of tourists by 35%. (IADB, 2010) Quality and infrastructure improvements, along with increased name recognition due to the filming of the popular US television series, *Survivor*, Paramount Picture's *Destination Wedding* and inclusion on lists of top destinations by such travel authorities as Lonely Planet, foretells a positive future for tourism growth in San Juan del Sur.



Chapter 3: Theoretical Context

Transnationalism and migration

Globalization and the related increased mobility of people have created a world with blurred boundaries, where the traditional definitions of citizenry, migration and residency have become muddled and are inadequate for describing the modern world's transnational population. As the world has delved more deeply into globalization, countries and people from the corners of the world have become interconnected and participants in the global economy. Improvements in transportation and communication have resulted in increased flows of business, finance and people across national borders, creating a new transnational space.

The stagnant definition of migration that focuses only on underdevelopment as the cause and views it as a uni-directional flow, have been fundamentally refuted. (Wise & Covarrubias, 2009) When a person moves from one place to another their entire life is not transferred to the new location. Migrants maintain social and business networks in their place of origin and can enact great influence through economic means, political involvement and cultural influence. (Faist, 2008) Migration is better viewed through the concept of transnationalism, in which people, goods and ideas cross national boundaries, connecting different physical, political, social and economic spaces. This movement results in engagement in two societies, the sending and receiving. Furthermore, as people move and expand their networks while creating new transnational identities in the process. They serve to further connect the two locations through personal and business networks, and participating in a transfer of knowledge, money and cultural traits. (Mazzucato, 2004)

Transnationalism highlights the new space that has been created internationally, where people can no longer be easily defined in terms of citizenry and residence. The movement of people is fluid, thus it does not fit into the antiquated, rigid roles that viewed migration as simply the movement from one place to another. A migrant brings his or her influence to the receiving country, and has the power to influence the culture and the economic and political environment. At the same time it is expected that they will assimilate



into the receiving country's culture, and adopt some of their practices. These newly learned practices will be directly or indirectly relayed to the home country through continued communication and interaction. (Faist, 2009)

The relationship between migration and development is known quantity in development studies. Looking at the most popular migration flows, from South and Central America to the United States, Africans and Eastern Europeans to Western Europe and Asians to Japan or Australia, the spatial pattern to migration is self-evident and logical. Those from periphery countries are moving into the semi-periphery and those in the semi-periphery are finding their way to central economies in hope of economic gains and better livelihood options.

Migration is not a new phenomenon, but today we are experiencing unprecedented levels of human mobility. Increased globalization and international interconnectedness has led to a significant increase in the numbers of migrants. As the world has become smaller and easier to navigate, especially through the invention of improved communications and transport, the flows of people across international borders has risen. Furthermore, national laws and international conventions have legally made migration easier. Regional blocs have formed in Europe, Central and South America and Africa in which free movement of people is allowed and even encouraged. (Wise & Covarrubias, 2009)

A majority of the migration-development nexus studies prioritize South-to-North flows and focus on labor-oriented or labor-seeking migrants. While migration from developing countries to more advanced countries continues to account for the majority of migration, other directional patterns are taking shape. In addition to South-North migration, the developing world is also experiencing a rise in South-South, and North-South migratory patterns. While these migratory flows may differ in direction, they share a common underlying mission, the thirst for a better quality of life.

Migration in relation to development is commonly based on labor-oriented migration, however consumption-oriented migration is also creating major ramifications for developing countries. Consumption-oriented migration best typifies North-to-South migratory flows, encompassing within it both tourism and residential tourism. This migration type is known by many aliases



in development literature, such as quality of life migration and lifestyle migration. It is characterized by the migrant's desire to seek out new locations in order to consume goods or services. This fundamentally differs from labor-oriented migration, which is rooted in the search for new forms of employment or livelihoods. Consumption-oriented migration, en masse, is a modern phenomenon born out of globalization and an increase in the discretionary income of the middle class. It embraces temporary migration in the form of tourism and (semi-) permanent relocation under the guise of residential tourism (McWatters, 2009); both of which have risen in prominence as alternative development strategies.

Tourism

Rise in International Tourism

Tourism is the world's third largest industry after oil and car production, reporting revenue of \$852 billion in 2009 (UNWTO, 2010). International tourism and travel has surged over the last three decades. In 1984 international tourist arrivals were numbered at 300 million, and the global industry was valued at \$100 billion. By 2008, the tourism industry had swelled to a value of \$7.5 trillion and in 2010 international arrivals numbered at 935 million (UNWTO, 2010). According to the World Tourism Organization, tourism represents 10.3% of World Gross Domestic Product and 8.2% of global total employment (UNWTO, 2007)

Increasingly affordable, convenient and safe transportation methods have made traveling to countries once seemingly a world away, now only a few hours journey. Improved infrastructure, health systems and stable social environments have converted countries throughout the Global South into desirable tourism destinations. Furthermore, as developed countries' economies have continued to grow, surplus amounts of discretionary income and smaller family sizes have made more travel possible. The result has been surging numbers of people traveling to far off places for leisure, adventure, cultural discovery and exploration. (Telfer & Sharpley, 2008)



Tourism for Development

In the post-Washington consensus era the focus is shifting away from traditional exports, to alternative methods of stimulating growth, such as tourism. It provides for diversification away from traditional exports and a method for attracting Foreign Direct Investment, whilst industrializing the country and providing new employment opportunities. Moreover, the stream of visitors and temporary sojourners creates a supplemental domestic market. This expanded, richer market is highly significant as developing countries generally lack the financial capacity to generate the growth needed for economic development. (Broham, 1996) Tourists tend to be wealthier than the average citizen in developing countries and they spend significantly more on a daily basis, which pumps money into the local economy. Furthermore, successful tourism requires a multitude of services and goods; filling these needs results in the emergence of new businesses, new jobs and entrepreneurial opportunities.

On a macro-economic level, the economies of many developing countries are based on traditional export products, natural resources and low-skilled labor. Tourism is considered an export, and tourist dollars are counted as export-services on the macro-economic balance sheets of a country. Tourism provides a source for foreign and hard currency procurement, which is in turn used to pay for needed imports. As tourism service expenditures are considered export earnings, they can represent a significant force in a nation's balance of payments and make a country more attractive for investment and loans. (Brida & Pulina, 2010)

Dangers of Tourism

However, tourism is not a foolproof development strategy. It can fall into the familiar traps of other outward-oriented development strategies; dependency on developed countries, overseas leakage of profits and domination by foreign corporations. (Broham, 1996) These pitfalls have the effect of reinforcing colonial power structures and marginalizing the local community and domestic market. Additionally, the tourism industry in the Global South is dependent on travellers coming from developed countries. Tourism is an elective expense and when financial hardships hit a family, it is one of the first budgetary items to be cut or reduced. Thus, the industry is very vulnerable to



global shocks and recessions. The financial crisis of 2008 catalyzed a worldwide dip in tourism for the second half of the year and continuing throughout 2009. In 2009, tourism arrivals were down 7% and tourism revenue contracted by 9%-10% globally. (UNTWO, 2009) Another fear is that the focus on FDI tourism development threatens to create a competition for competitiveness, wherein governments angle to make their country as desirable as possible to foreign interest and in doing so lower regulations regarding environmental standards, working standards, taxes and capital extraction. Furthermore, governments redirect funds to ventures such as infrastructure to entice greater FDI, which could have gone to programs that directly impact the local population. (Telfer & Sharpley, 2008)

However, the negative aspects of tourism can be mitigated by strong governmental policy and regulation that embeds the local community and the domestic market in the tourism sector. Government must weigh the needs of the population and their internal markets with the desire to attract FDI. It is the government's role to protect the environment, natural resources and the economic and social interests of the people. At the national level, broad policies and regulations should form a framework for the types and scale of tourism development, as well as, incentives to enhance multiplier effects, spillovers and domestic linkages. Moreover, programs to stimulate domestic industries, increasing capabilities and ensure an anti-enclavic nature to tourism development are of utmost importance. (Telfer & Sharpley, 2008)

For the population as a whole to benefit from tourism certain structures, institutions and mechanisms must be in place. Popular participation in the planning of projects should occur to ensure that local considerations are taken into account and livelihoods, access to land and services is guaranteed. Environmental considerations and regulations are required to protect the natural resources that make the country a desired tourism destination. In order for economic benefits to spread, domestic firms need to be embedded in the tourism framework, through training, linkages and joint projects. If these conditions are met, tourism could be a viable path to increased economic and social development in throughout the Global South. (Telfer & Sharpley, 2008)



Residential Tourism

In addition to the rise of international tourism, the world is also experiencing a significant increase in international second home purchases and relocation, known as residential tourism. The proliferation of affordable transport and enhanced communication technology has allowed pensioners from developed countries to buy retirement properties and affluent families to purchase second homes in developing countries. Second homebuyers often look to the less developed economies in region that can provide good investment opportunities and allow the migrant to enjoy a higher standard of living for a lower cost than their home country. This trend has been well documented in the case of Northern Europeans migration to Mediterranean destinations by Bourrat (2000), Calzada et al. (2004), Mateu and Lladó (2003), Huete and Mantecón (2010) and Northern Americans to Mexico and Central America by Janoschka (2011), Hiernaux (2005) and Bonilla (2008). A 2007 study has shown that there are currently 3 million US citizens living outside the United States, and another 17 million are considering doing the same. This survey, produced by New Global Initiatives and Zogby International, also declared that Central America was ranked as the second most popular destination for those Americans, age 55-69, who were planning on retiring abroad (Rodgers, 2011).

Defining Residential Tourism

Residential tourism is a major subset of consumption-led mobility. It has two chief characterizations; the first is that it is a lifestyle motivated by consumption and leisure with limited or no focus on the labor market. The second component is destination; residential tourism takes place on a semi- or permanent basis in a location other than one's traditional geographical environment. (McWatters, 2009) Vincente Rodriguez further defines residential tourists using four main criteria; as a *human group*, who shows *patterns of mobile behavior*, exhibits a *tourist motivation* and create *territorial effects*. (2001) I believe this interpretation is strengthened by McWatters' addition of *intention*, the intention to establish a continuous presence in the receiving country. The element of intent is what differentiates residential tourists from traditional tourists and illustrates the sustained engagement of making a home in a new destination and influences the way they view their surroundings. Residential



tourists will perceive their host location in a different light than their traditional tourist counterparts. (McWatters, 2009)

However, there is an ascertainable link between residential and traditional tourism, as the former spurs the latter. Consumer-oriented temporary migration, ie traditional tourism, has been found to inspire more permanent flows such as residential tourism. Temporary tourists learn about a destination and build enthusiasm for relocation while vacationing. Moreover, when temporary migration flows increase into an area, they in turn will foster a snowball effect and galvanize development. The creation of a primary tourism space in the developing world requires a basis of services and amenities offered. As these services grow in terms of abundance and quality they formulate the foundation necessary for residential tourism to take seed. (Williams, King, Warnes, & Patterson, 2000)

Developmental Benefits

Developing countries have shown keen interest in encouraging such residential tourists to choose their country as a relocation point. The supposed benefits of residential tourism closely align to those of traditional tourists; a supplemental market, increased spending potential, need for additional services and infrastructure upgrade requirements. However, unlike traditional short-stay tourists, residential tourists are unique in the fact that they spend significant portions of time in the community and develop a recurring relationship with the locale. It is hoped that residential tourists will become personally involved and feel a sense of community in the site of their new residency, which will stimulate more involvement with economic activities, either through investment, job creation or entrepreneurship and socially in the form of volunteering, knowledge transfers and community associations.

Residential tourists should have a greater economic impact than traditional tourists theoretically. Despite the fact that residential tourists have a lower daily expenditure when compared to the traditional tourists in lodging, food, transportation and entertainment (Torres Bernier, 2003), residential tourists still engage in these spending patterns plus they require additional goods for daily living, including appliances, domestic goods and clothing. (Motti,



2006) Therefore residential tourists contribute to a wide spectrum of the domestic economy than traditional tourists. They serve to deepen and stabilize the local market and also force levity of quality standards. Furthermore, residential tourists tend to reinvest in the country either through direct or indirect means, by improving infrastructure, paying taxes and creating new jobs.

Spatially peripheral countries have recognized the growing popularity of international residential tourism and are attempting to capitalize on it for the benefit and development of the country. Throughout central and south America numerous laws have been passed to encourage the flow from North to South and to entice foreigners into buying property or opening businesses. Central America's strategic location, only a few hours flight from the States and Canada, and relative cheap cost of living has made it a favorite second home and retirement destination. Costa Rica and Panama have been pursuing tourism and residential tourism as a development path for more than two decades and have been successful at establishing themselves as safe, fun and affordable tourist sites. Since the 1990's the Nicaraguan government has established its favorable position and desire to promote tourism, and residential tourism in particular, as a path to greater development.

Dangers of Residential Tourism

However, as with other forms of tourism, residential tourism can fall into the same trap of reinforcing colonial balances of power, where the large foreign and domestic companies are the winners and the local population is the loser. A race for competitiveness can quickly cause a race to the bottom effect when countries compete for residence and investors by offering tax incentives, infrastructure funds and relaxed environmental and building standards. If foreign residents take advantage of the laws that allow the import of domestic goods and vehicles and developers do not pay taxes due to tourism incentive laws, how much is truly reinvested in the community?

Moreover, as property values rise and prime location is demanded the local population can be territorially marginalized and removed from traditional spaces. Cultural practices can be threatened by the loss of space, as well as, the emergence of a dominant foreign culture that imposes itself economically.



Construction booms in housing and infrastructure can lead to environmental depletion and degradation if not properly monitored. In addition, the influx of residential tourists severely increases the usage of water and electricity and volume of trash generated. This puts a strain on insufficient utility infrastructure and scare government resources.

Residential tourists may chose to form their own associations and build a dualistic, rich expat community that is not engaged with the local community and interact only amongst each other while frequenting foreign owned businesses and not contributing much to the local community. As with traditional tourism, strong government regulations and active engagement by government institutions on a local and national level are needed to mitigate the negative impacts of residential tourism and maximize benefits to the local community. Furthermore, for the knowledge transfers and spillovers to take root, community projects, associations and events should occur to prevent the creation of a dualism state and encourage interaction between the native and expatriate communities.



Chapter 4: Methodology

This research was conducted in conjunction with Alba Sud, as part of that organization's continuous investigation into the impacts of tourism and residential tourism. Alba Sud was founded in 2002 in Barcelona, Spain, and operates throughout Spain and Latin America, including Nicaragua, El Salvador, Costa Rica, Mexico and Ecuador. Field research was carried out from February to May 2011, under the supervision of Ernest Canada, in the southwestern municipality of San Juan del Sur, Nicaragua. It is focused on the impact and views of expatriates and residential tourists, while complementary research on the perspectives of the native population will be carried out later in the year 2011 by Alba Sud to form a complete report.

The goals and objectives of this research will be laid out in this chapter, as well as, the detailed process by which the data was gathered, including methods which were discarded or modified because of on the ground realities. All methods were geared towards obtaining the most thorough information while operating within the practicalities of a developing country with limited governmental statistics and resources.

Research Area

San Juan del Sur, Nicaragua was chosen because of its unique position as a start up tourism-town that has only come to fruition in the 21st century. It has the opportunity to determine its future as a tourism and residential tourism destination and now is a critical time, as the sector rapidly develops, for the local and national government, as well as, local business leaders and the community to decide what direction tourism will progress. Nicaragua is mirroring a development strategy that has been tried with contested success in Costa Rica, Belize and Panama. Costa Rica plays an important role because the region bordering San Juan del Sur, Guanacaste is a mature tourism and residential tourism destination whose development is beginning to spread north. PhD research currently being completed by Femke van Noorloos on residential tourism in Nicaragua and Costa Rica will examine links forming between the two locations. This research aims to provide a foundation of knowledge for further understanding and study in the research area and topic.



Research Objective

The aim of this research is to provide a snapshot of a developing transnational space and North-to-South migration and mobility due to tourism, residential tourism and relocation, in San Juan del Sur, Nicaragua. The current and historical trends, particularly the impact of the global financial crisis, on southern Nicaraguan tourism and residential tourism will be evaluated, as well as, the emergence of foreign business owners in the former fishing village. The objective is to show how this transnational space evolved over the last decade and the impact it has had on the local community.

Research Questions

Main Question:

How has increased international mobility due to globalization, manifested in a new transnational space and what impact has it had on local development in San Juan del Sur?

Sub-Questions:

- Who are the migrants that comprise the transnational space in San Juan del Sur due to a rise in tourism and residential tourism?
- How has the real estate market in San Juan del Sur developed due to the rise in transnational migration?
- What have been the developmental impacts as a result of transnational migration in San Juan del Sur?

Research Methods

Multiple methods were utilized based on the type of information desired, the realities on the ground and the options available to the researcher. Secondary source statistics from government agencies and institutions were mixed with open-question interviews, surveys and field visits in order to gather a wide-range of information and perspectives. Interviews were conducted with residential development owners, residential tourists, current and former government officials a hotel owner, a land investor, real estate agents and expatriate entrepreneurs to gather input and perspective from as many views as possible. Field visits were conducted with a local real estate agent at fifteen



residential communities throughout the municipality, to see the different levels of maturity, community and housing options, as well as, price points. Field mapping was conducted in town to understand the array of tourism services offered and type of tourism manifesting in San Juan del Sur. Furthermore, an intense literature review was conducted to fully understand the paradigm of development theory encompassing tourism, migration and transnationalism, as well as, the historical and local context of Southwestern Nicaragua.

4.1 Interviews conducted in San Juan del Sur and Managua, Nicaragua		
Person	Position	Nationality
Chitto Santa Cruz Sanchez	President of Instituto Nicaraguense de Turismo, SJDS	Nicaraguan
Alcacia official	Urban Planning Department SJDS	Nicaraguan
Eduardo Hollman	President of Tourism Council of SJDS, Former Mayor, Investor in Lomos del Palmero Residential Development, owns land around Hermosa beach including access road hotel and beach facilities, owns tourism activity businesses like High-ropes course	Nicaraguan
Juan Sevilla	Former President and current member, of the Tourism Council of SJDS; Owner of Royal Chateau Hotel	Nicaraguan
Raul Calvet	CEO of Calvet Investments, first and largest Tourism Investment Consulting agency in Nicaragua. Help draft Nicaragua tourism incentive laws and advises INTUR.	Paraguayan
Jason Rice	Owner and developer of El Camino del Sol Residential Community.	American
Fred Goldfarb	Owner and developer of El Encanto del Sur, founder of Fundacion on de la Tierra	American
Gaspar Guadamuz	Real Estate Agent at Century 21 since 2005	Nicaraguan
Justin Fahey	Real Estate Agent at Aurora Realty since January 2008	American
Expatriate Business Owners	Ten owners of small businesses in SJDS; including owners of restaurants, a surf camp, a guesthouse, a bakery, a security and internet specialist, sailboat cruise operator, a bar, a fitness center	Americans, Italian, French, British, Canadians



Question 1 *Who are the migrants that comprise the transnational space in San Juan del Sur due to a rise in tourism and residential tourism?*

This question was aimed at investigating and understanding the different types of international migrants who come to San Juan del Sur as a result of the rise in tourism and residential tourism. Aside from socio-economic demographics and citizenry/residency characteristics, the intentions and motivations of the migrants was also of interest in order to discover how San Juan del Sur had succeed at attracting this growing group. Also, understanding the level of social, economic and cultural engagement sustained by these migrants with both their country of origin and in Nicaragua was vital, as this component of their lifestyle is what constructs a transnational space. Furthermore, another key aspect was impact of the global financial crisis on this group and their numbers. Since these migrants are international by nature and they provide inflows of cash from foreign earnings the effects of the crisis could not be ignored.

Multiple paths were tried and discarded to create an accurate description of the tourists and residential tourists. On the ground observations at hotels, guesthouses and hostels were coupled with interviews of residential tourists, real estate agents and tourism board officials to form a well-rounded description of the community. Interviews with residential tourists gave insight on to their motivations and their degree of involvement in their country of origin and San Juan del Sur. Due to limitations, interviews with real estate agents and development owners were used to supplement this information with broad demographical descriptions, as well as the evolution of the residential tourist over time. Tourism officials and secondary statistics issued by the government and international organizations were primarily used to gather data on tourism and the traditional tourists. Interviews with government and tourism officials, including the President of INTUR in San Juan del Sur, Mayoral staff and the current and former Presidents of the Tourism Commission were conducted to clarify what shifts they have witnessed.



Question 2 *How has the real estate market in San Juan del Sur developed due to the rise in transnational migration?*

The goal of this question was to understand the evolution of the real estate market in San Juan del Sur. Multiple methods were used to gather information on tourism growth. First, on the ground inspections of the developments were carried out in fifteen different housing communities. A local real estate agent was contacted in San Juan del Sur to show me a variety of residential developments in different stages of maturity. A real estate agent was chosen because they should be the most knowledgeable about the property market and its history. Real estate agents are also an ideal interview opportunity, and a relator from each of the agencies was contacted and interviewed about the development and history of the real estate sector, especially the residential tourism market.

As the number, size and current status of residential developments is unknown because of a lack of government statistics, data collection using online resources was needed. The personal websites of many developments contain their current status in terms of sales and houses built. To supplement this information digital surveys were sent to development management companies and owners, as the geographic location of many owners is not Nicaragua. Additionally, interviews were conducted with two residential development owners in order to get an understanding of the market, its aspects and the local context.

Also, the interviews conducted with real estate agents and residential development owners provided a thorough comprehension of the market changes and served to form a timeline of the burgeoning market. This was particularly important in understanding the reach and scope of the financial crisis' impact on the land market in San Juan del Sur. As in question 1, because of the nature of the land market and tourism and residential tourism's susceptibility to global shocks, the international crisis proved to be an integral factor in the land markets evolution.



Question 3 *What have been the developmental impacts as a result of transnational migration in San Juan del Sur?*

The third and final sub topic, developmental impact, was answered by combining the methods, including interviews, surveys and statistical information, as well as, on the ground observations. Extensive interviews were conducted with the head of the local tourism office, the president of the tourism council, who was also the former mayor, and the former president of the tourism council, who is also a hotel owner. Each of these gentlemen is very connected and influential in the tourism sector, and has been since its inception. They provide insight that coupled with figures obtained from the local government paint a full picture of the developmental impact of tourism and residential tourism, as well as, where San Juan del Sur is headed in terms of tourism development. Additionally, short interviews were conducted with eight expatriate business owners in understand their views on running a business in Nicaragua, why they chose San Juan del Sur, Nicaragua, and their role to the local community. The business owners were not strategically chosen, however as the expat community is quite centralization

Secondary sources were required to supplement the qualitative information gained form the interviews. Governmental and international organizations' statistical data was obtained directly from the local government or via the Internet. Moreover, budget figures and municipal project lists were obtained from the former mayor and are used as a basis to look at the impact of residential tourism on the economic position of the town by taking into account the tax structure in Nicaragua and how residential tourism adds to the municipal budget. Statistics from the WTO, IMF, IDB and WTTO were analyzed and compared to national and local statistics to identify any inconsistencies and to gather information not which was not readily available from the national or local government.



Critique & Reflection on the Methodology

The aim of this research was to gather as much information on the transnational community of San Juan del Sur. As northern migrants appear for the first time in southwest Nicaragua understanding their perceptions, motives and connection to both their country of origin and within the community of Nicaragua is crucial. Originally fifty residential tourists were to be surveyed on these various aspects. Over the course of three weeks visits were made to eleven residential developments, and approximately 40 houses. However, two problems were quickly discovered due to the immature nature of the residential tourism market in San Juan del Sur. First, most residential developments are gated communities thus require invitation to enter and due to the small number of completed houses gaining access without a formal invitation proved nearly impossible. (Also, because of the topography of SJDS access was only possible through guarded entries.) When access was gained the second problem was discovered, the absence of the homeowners. In addition to the small numbers of completed homes, many were either vacant or had weekly renters staying in them. In a further effort to reach this demographic, digital surveys were sent to 55 homeowners that advertise renting their San Juan del Sur homes or condominiums on VBRO.com. Unfortunately, due to the low response rate statistical analysis was not possible. Instead those surveys were combined with the descriptions given by real estate agents to form buyer profiles in Chapter 5.

The Residential Developments themselves also proved difficult on which to collect data. The numerous fraudulent deals and competitive nature of the market made development owners and real estate agents hesitant to provide figures on the number of sales, numbers of houses built and even the number of developments still operating. This secretive nature was only an issue because of the lack of data from the government. Upon several trips to the Town Hall and the Land Register's offices, it clear that no data has been collected and the municipal offices do not have the manpower or funds to do so. Digital surveys were sent to land owners based on email contact lists obtained from local real estate agents. This, combined with digital research on residential development and real estate websites, was used to form the list of current developments, sizes, costs and number of houses. Calvet & Associates is only firm to my



knowledge that has this complete, updated information, they provided some data from 2006, but were unwilling to handover more current information as this is what there are purchasing.

Fortunately, Mr. Calvet granted me an interview en lieu of this data. He is possibly the most informed person about the growth of tourism and residential tourism in the country, and because of his years of international dealings and time spent in the United States he speaks fluent English. Most of the interviews I conducted were in English because the interviewees were native speakers or spoke English as a result of time spent abroad. However, I also conducted two interviews in Spanish; 1. Chitto Santa Cruz Sanchez , President of the INTUR San Juan del Sur 2. A governmental official in the Urban Planning Department of the Municipal government. My Spanish level at the time of these interviews was not fully sufficient to understand the respondents' answers fully. I had to listen to the recordings a few times at home to comprehend all of the answers. Although I fully understood the answers eventually, I was not able to ask follow up questions based on the respondents answer.

Each of these challenges forced me to think of alternative methods to gather information in line with realities on the ground. While difficult to handle and frustrating at times, this experience taught me to think on my feet and installed a level of flexibility in my work. Although some data was not collected, I believe the alternative strategies allowed me to accurately describe the transnational space and its impacts.



Definitions

Dualist society– Two separate societies co-existing in the same physical space, however having little social or economic interaction.

Economic Development – “Qualitative change and restructuring in a country's economy in connection with technological and social progress.” (World Bank, 2004)

Expatriate - A person who has chosen to reside in a country and culture different from that of their origin on a full-time basis

Foreign Direct Investment – “Foreign Investment that establishes a lasting interest in or effective management control over an enterprise. It can include buying shares of an enterprise in another country, reinvesting earnings of a foreign- owned enterprise in the country where it is located, and parent firms extending loans to their foreign affiliates.” (World Bank, 2004)

Globalization – “The development of an increasingly integrated global economy marked especially by free trade, free flow of capital, movement of people and the tapping of cheaper foreign labor markets” (Merriam Webster, 2011)

Gringo Town – A term used to refer to towns in Latin America where the local population and culture have been displaced the emergence of a typically American, but includes all Caucasians, expatriate community.

Knowledge transfer – the dissemination of knowledge from more experienced or mature actors to local groups and those unfamiliar modern techniques.

Neocolonialism- The reemergence of colonial economic and social structures in which a foreign group dominates and controls the most profitable pieces.

Neoliberalism – An economic theory that believes in the openness of market, trade liberalization and the efficiency of the private market. It stresses the market's ability to regulate itself and pushes for the removal of government interference with the free market.



Residential Tourism - "Economic activity dedicated to the development, construction and sale of homes that make up the extra hotel industry, which users use as housing for summer or reside, permanently or semi outside their places of residence, and respond to new forms of residential mobility and advanced societies."² (Mazón & Aledo, 2005)

Residential Development - A large piece of land divided into several home building sites, known as 'lots' or multiple turnkey homes or condominiums. Usually the developments are defined by a clear border and have a degree of privacy from the outside community.

Second Home - "A house or an apartment temporarily occupied by the owner or tenant, alone or with family or friends for recreation no matter what time of year."³ (Vles, 2004)

Snowball effect - A phrase that signifies a small occurrence, which in turn builds momentum within itself and drives continuous growth of that phenomenon.

Sustainable development - "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (United Nations, 1987)

Traditional Tourist - A person who is visiting a location other than their place of origin on a temporary basis, usually less than one month, for leisure purposes.

Transnational Space - A geographical location where there is a constant flow of international migrants, who maintain social, cultural and economic connections both within the locality and in their country of origin

² Translated from "La actividad económica que se dedica a la urbanización, construcción y venta de viviendas que conforman el sector extra hotelero, cuyos usuarios las utilizan como alojamiento para veranear o residir, de forma permanente o semipermanente, fuera de sus lugares de residencia habitual, y que responden a nuevas fórmulas de movilidad y residencialidad de las sociedades avanzadas"

³ Translated from "Une résidence secondaire est une maison ou un appartement occupé temporairement et à n'importe quel moment de l'année par son propriétaire ou locataire, seul ou avec sa famille ou des amis, à des fins de loisirs."



Chapter 5: Transnational Migrants

Transnational migration has several faces in San Juan del Sur. The transnational space consists of three major international groups; tourists, residential tourists and foreign business owners. These groups are intertwined and connected through their economic and social interaction with each other and the local population. They share common traits of transnationalism; foreign citizenship and simultaneous social and economic involvement in more than one country. However, they can be separated by the degree of their engagement in the community of San Juan del Sur and their country of origin. Traditional tourists stay in a place for less than a month per year and have only a temporary physical presence, while residential tourists and expatriates invest much more time in the community. The existence has significant influence over the economic, cultural and social composition of the town.

Furthermore, the transnational community has given rise to a slew of new businesses, restaurants and services. Tourists and foreign residences demand such services and recreation activities, which has pressured their creation. The creation of services and a transnational space tend to reinforce each other; i.e. one cannot have a successful tourism space without offering such services, moreover the growth of that tourism in turn stimulates further service growth and diversification. The rise of such an international community in the small seaside town has irreversibly changed the culture and economy of San Juan del Sur.

Tourism & Temporary Migrants

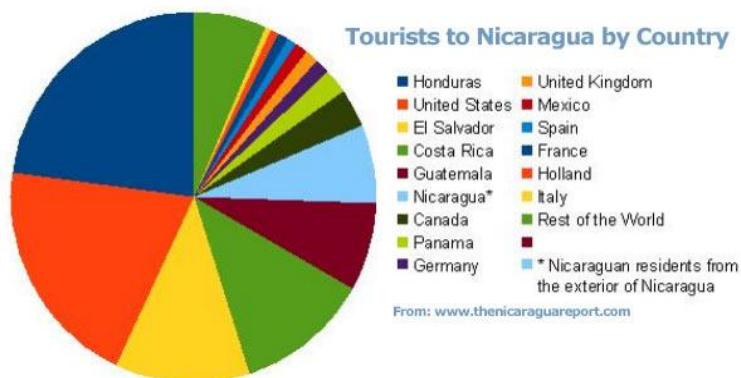
Nicaragua was one of the only countries to witness an increase in tourism in 2009. This success is owed to a couple of key factors, the first of which is Nicaragua's attractiveness to budget travellers. The tourism industry in Nicaragua is still quite underdeveloped and generally offers lower quality services, which is reflected in its prices. San Juan del Sur's fame amongst surfers and backpackers has earned it a place on the 'Gringo Trail', the colloquial term given to the popular route young travelers take when travelling through Latin America. Furthermore, Nicaragua is an inexpensive country for holiday and



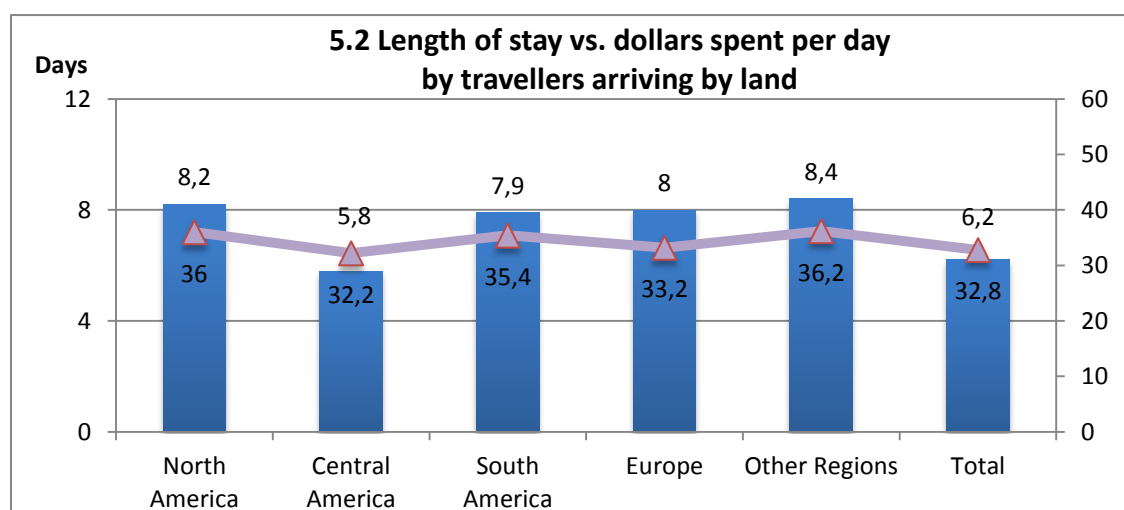
thus ideal for those sojourners looking cheaper alternatives to regional heavy weights like Costa Rica, Panama and the islands of the Caribbean.

5.1 International Arrivals by country

The numbers of tourists visiting San Juan del Sur each year is only known via approximation. These numbers have steadily increased over the past decade, from 280,000 in 2003 (Carcache, 2003)



to 400,000 in 2009 (Interview: Sanchez). Travelers generally arrive via air in Managua or the land borders with Costa Rica. A majority are young adult males, under the age of 35, with a university or graduate education (INTUR, 2009). Travellers typically stay in San Juan del Sur for two to three days, before moving on to other destinations in Nicaragua or Central America. The average tourist spends approximately \$45 a day on accommodation, food, services and entertainment (Interview: Sanchez).



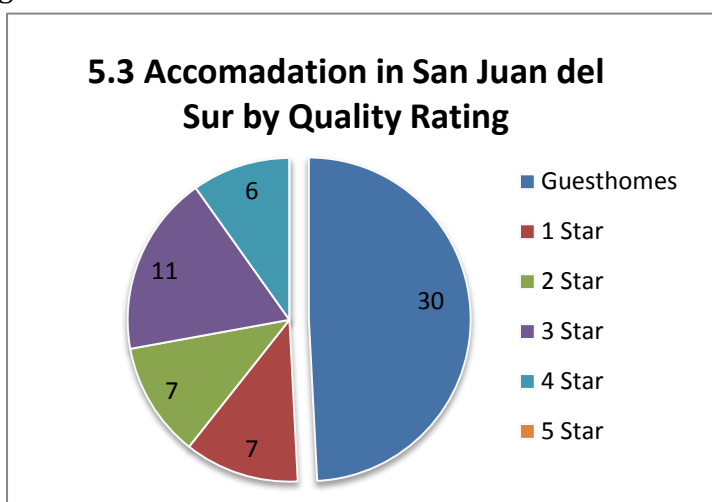
Source: INTUR, 2010

Tourism in San Juan del Sur is predominantly low budget and low quality. Most accommodation and restaurants do not even qualify for one star status. As a result of the low quality levels, San Juan del Sur has attracted budget travellers,



surfers and backpackers. These types of tourists spend much less on a daily basis and thus inject less money into the economy than travellers looking for luxury accommodation and services. In the high-class division, hotels ranked as having 3-5 stars, accommodation averages 77% occupancy rate, with an average night costing \$210. According to ProNicaragua in 2009, occupancy rates are the second highest in the country and cost per night is more than 100% the nearest competitor, Granada. However, San Juan del Sur only has eleven three-star and six four star hotels, while nearly 50% of the 61 registered accommodation providers are *Hospedajes*, or guesthouses in which local families rent out rooms to travelers. The rate for a double room ranges from \$12-\$30 depending on the quality of the accommodation.

This lack of quality accommodation was cited by E. Hollman, when asked what San Juan del Sur



Source: INTUR San Juan del Sur

needed most he response was “more quality rooms in San Juan Del Sur. If you don’t do that, we’ll never have the volume. You can do a lot of promotion, but if they come here and they find nowhere to stay, very difficult.” Mr. Sanchez also noted this problem as one of the impediments to raising the daily expenditure of tourists. With a loan granted by the IDB and future investments in accommodation, Mr. Sanchez hopes to raise that expenditure to \$80 per day. The increase in quality would in turn have the effect of injecting more money into the local economy, as it would attract higher spending travellers.

Additionally, Nicaragua has been keen on promoting itself via cruise companies since 2000 when the first ship docked at the Port of San Juan del Sur and has entered into agreements with Princess and Windstar Cruises to bring tourists into ports on both the Caribbean and Pacific Coasts. The majority of ships dock in San Juan del Sur, in 2005 it received 27 cruise ships, carrying 11,058 passengers and by 2009, that number was up to 47 ships (out of the 60 that landed in Nicaragua), with 34,184 passengers disembarking. (INTUR, 2009)



Cruises bring roughly 1,200 visitors at a time, who spend an average of eight hours in San Juan del Sur. These visitors are predominately from the United States or Canada and are typically over the age of forty. (Interview: Sanchez)

Semi-/Permanent Migrants

Nicaragua's newness to the market is one of its biggest assets in its bid to attract Northern migrants. Nicaragua has suffered instability in its relations with the United States and still is trying to shed its notorious reputation. However, political and civil stability in congruence with business and foreign friendly policies have opened the eyes of people looking for a relocation point with good value. The semi-/permanent foreign community of San Juan del Sur, consisting mostly of North Americans, Europeans and Australians, has been estimated at approximately 300-400 people. San Juan del Sur attracts several different types of semi-permanent or permanent foreign migrants; including expatriates, as well as retirement migrants and those seeking investment and second home possibilities. (Interviews: Fahey & Guadamuz)

Residential Tourists

Residential tourists come from either the middle or upper class in developed countries with disposal income enabling them to purchase property in a foreign location; however generalizing beyond this would be inadequate, as buyers come from a variety of professional backgrounds such as executives, entrepreneurs, and the military. (Interviews: Fahey & Guadamuz) The residential tourists in Southwest Nicaragua are 90% Americans, 8% Canadians, and 2% others (Interview: Calvet). They generally spend one to four months a year in San Juan del Sur, while residing in their country of origin for the remainder. They maintain a transnational lifestyle through continued physical presence, social relationships, political affiliations and economic ties in their home country (Survey: Residential Tourists). Most often residential tourists occupy their home in San Juan del Sur for holidays over Christmas, Easter and summer. During the times of the year when they are not residing in the house rental management companies, either provided by the development or through private agencies that rent and administer the property. In this way not only is



the property a second home but also seen as additional revenue. (Interview: Fahey)

San Juan del Sur is unique from the more mature residential tourism communities in Costa Rica in that it attracts a younger clientele, with most buyers ranging from 30 to 60 years of age (Interviews: Fahey & Guadamuz). Despite the government's encouragement of retirement migration to Nicaragua, this group lacks in numbers in San Juan del Sur. Tourism there is highly focused on sun and surf and adventure activities and has not developed activities that would interest to an old age group. Furthermore, Nicaragua is missing a key component in medical and clinical facilities that are required by a wealthy, aging population. Costa Rica has been such a successful destination for retirement migration because of the high quality of health care facilities and services offered. There is only one internationally accredited hospital, *Vivan Pellas*, in Managua, which is a three-hour drive from San Juan del Sur. Real estate agents, R. Calvet and E. Hollman have all noted the serious disadvantage of these missing services and cited it as one of the most important hurdles to attracting retirees who will build homes and spend copious amounts of time in the community. However, there are talks in process to bring a private medical clinic to the town in hopes of relieving that barrier. (Interview: Calvet)

Expatriates

In addition to residential tourists, the international community also includes a number of young families and entrepreneurs, who have chosen to relocate to San Juan del Sur on a permanent basis and earn a significant portion of their income in Nicaragua. The business opportunities of San Juan del Sur's burgeoning tourism and residential tourism market has attracted a number of young couples and singles looking to expand or start a business. The main economic activities of this group of residents take place in Nicaragua and they spend more than six months a year in the country. Foreign migrants come with disposable income from former or additional economic activities, which combined with relatively low start up costs, makes entrepreneurship possible. Many of the goods and services that expatriate entrepreneurs sell are not grown or made locally and thus have to be imported to the country. Items like complex



computer systems, building materials and food items must be brought in from foreign sources. Expatriate entrepreneurs have the advantage of transnational lifestyles with established international contacts that supply goods and knowledge. They have developed numerous businesses such as restaurants, hotels, surf shops, camps, and construction and security companies.

Motivations

In interviews with residential tourists and expatriates it was revealed that foreign residents who chose San Juan del Sur did so because of largely because its unexplored nature, non-Gringo-town status, and perception of good investment and business opportunities. Many respondents cited the overbuilt nature of Costa Rica and Panama, both in terms of price and Americanization of the market and the communities. Nicaragua offers a foreigner-friendly environment, while for now retaining much of its own culture. This factor is especially telling, as many respondents across age groups site dissatisfaction with the political, social and cultural situation in their country of origin as an important factor in their decision to acquire property in another country. Other import factors were the climate, the proximate of the coast, improved transport to the United States and the cost of living. According to the CIA Fact Book, in 2009, \$1000 in the United States had a purchasing power equivalent to \$2800 in Nicaragua. Such a large increase in purchasing power has served to attract not only the very wealthy, but has made Nicaragua an ideal location for middle class citizens of developed countries. Northerners are able to enjoy comforts not affordable to them in their country of origin, such as much larger houses, pools and domestic house workers. (Surveys: Residential Tourists & Expatriates)

Social Interactions

Residential tourists and expatriates spending significant periods of time in the community form social and economic relationships with others. These relationships may take many forms, one of employers/employee, buyer and seller of goods and services, social and friendship. Upon observation as a researcher I noticed distinct social circles in San Juan del Sur, consisting of primarily either natives or foreigners that rarely intertwine. This is primarily due to three factors; the language barrier; i.e. the inability of foreigners to speak



Spanish and of the local population to speak English, spatial seclusion and an economic barrier. Most residential tourists and foreign residents questioned spoke at least a minimal amount of Spanish, however the numbers of fluent speakers is quite low. This inhibits meaningful social interaction with the community, in which English is not widely spoken, and causes a natural schism between the groups. Additionally, while most locals live in the town's different barrios, foreign residents tend to live in residential developments and gated communities that not only prevent outsiders from entering, but also remove the residential tourists from the local community, so that daily interaction between the two groups is limited. Moreover, a basic economic barrier stands between the two groups. Locals simply do not have the financial resources to go out for drinks or dinner on a regular basis, particularly to places that are favored by foreigners.

Both the residential tourists and the expatriates have formed activities in town that dominate the social schedule. Regularly you can find the expatriate community at El Gato Negro for breakfast and lunch, at Pau Hana on Tuesday nights for open-mic night, Thursday's nights there is live music and Saturday morning there is a "market" at Bid Wave Daves. Additionally, there is a ladies night, by invitation only, every Monday that rotates between the houses of foreign women. While there have not been official clubs or organizations created the residential tourists community is quite close-knit. They keep close contact with each other and are welcoming to new members.

Residency

Although the Nicaraguan government offers an easy path to official permanent residency, a majority of expatriates opt to stay in the country on a tourist visa. These visas are good for three months and can be renewed easily in Managua for an additional three months. After this time period one is required to leave the country, but a 24 hour trip over the border to Costa Rica is sufficient to fulfill the requirement. Northern expatriates chose this route generally due to a policy in which residents of Nicaragua are required to obtain permission to exit the country. Politically, Nicaragua has been stable for twenty years, however lingering doubts regarding President Ortega and the fear of being denied exit has



caused a sense of trepidation in the foreign community. However, much of this fear is no longer applicable because the request can now be made in the airport upon departure. Despite this fact, a majority of the foreign residents still chose to maintain their tourist status throughout the country. Unfortunately, not only does this practice hinder statistics on foreign residents and the true size of the residential tourism community, but also it skews statistics on traditional tourism.



Chapter 6: The Real Estate Sector

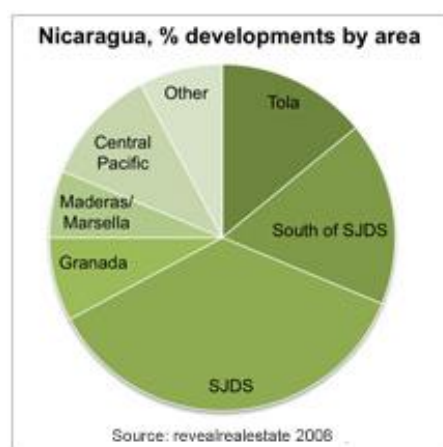
The Real Estate sector in San Juan del Sur has been dominated by the surge of Residential Developments due to the influx of particularly semi-/permanent transnational migrants. The municipality first came to be a residential tourism location in the early 2000's and has experienced a roller-coaster cycle of boom and bust within its short lifespan. Today the signs of this boom are quite evident. The hills surrounding San Juan del Sur, once bare, are now littered with gorgeous houses and cut lots. The roads to the south and to the north of SJDS are lined with for sale signs and the guarded entrances to private gated residential communities. These communities are varied in their size and offerings, encompassing a ranging of options to prospective buyers.

Residential Developments

Today there are between 40-50 residential developments in the municipality, as there is no official registration for residential communities exact figures are not available. Development owners consist of North Americans, mostly the United States, and wealthy Nicaraguans, native to the department of Rivas or Managua, along with a few notable Central American investors and the Nicaraguan

military. (Interviews: Fahey & Guadamuz) Residential developments in San Juan del Sur encompass a variety of investment and housing options, including cut lots, turn-key homes, eco-farms, condominiums, planned communities and hotel-condos. Developments are specializing and diversifying to attract different types of buyers by marketing themselves as Yoga communities, eco-friendly, exclusive or community participation. Several development owners have stressed the importance of giving back to the community via volunteering, financial and material donations or by starting the community development organization. (Interviews: Rice & Goldfarb)

6.1 Residential Developments by Region



6.2 Residential Development Locations



Source: Local Real Estate Agency

Depending on the project residential developments vary in size and characteristics. The most wide-spread and popular form are cut lots, ranging from 0.5-3 acres, on which buyers will construct their own home. These lots are offered typically with basic infrastructure, such as roads and electricity and water hookups. The Residential Development contracts with or recommends a construction company, who offers pre-set home designs or custom planning. Constructing a home typically takes one year to complete, but can vary depending on when ground is broken in correlation to the rainy season and the efficiency of the bureaucratic process.

Additionally, there is also a growing share of condominiums and turnkey houses in the market today due to the ease of the purchasing process and the sense of immediately gratification. Condominium projects have been especially successful because of the physical and financial security and community atmosphere. Turnkey homes options are increasing to offer a multitude of styles, amenities, size and price. Furthermore, both of these market segments offer furniture packages, at various price points, to ease in the relocation process. (Interviews: Fahey & Guadamuz)

6.3 Land Prices in San Juan del Sur

Residential developments and communities have caused land prices along the Pacific coastline to skyrocket, from \$300 a *manzana* (0.7 acres) in the mid-1990's to \$280,000 currently (Canada, 2009). Such developments span the municipal borders of San Juan del Sur

Property Prices without Infrastructure (US\$ / m ²)	
San Juan del Sur	
Beachfront	215 - 430
Beach View	115 - 360
Property Prices with Infrastructure (US\$ / m ²)	
Near San Juan del Sur	2,150 up to 65,000

Source: Local Real Estate Agency



and forming an almost continual chain with the northern Costa Rican department of Guanacaste, which already has a mature residential tourism market, which continues north to the municipality of Tola, in northern Rivas. (See Appendix 1) Land prices per square meter vary greatly depending on whether the property is oceanfront, oceanview or removed from the sea and its proximity to the town of San Juan del Sur. The range of prices, sizes and types of properties available offer prospective buyers a multitude of options.

Real Estate Market Shifts

Land Market: 2000-2007

During the early and mid-2000s the Nicaraguan residential development market exploded with an influx of Northern and newly wealthy Nicaraguan investors. Countless investors and land developers scarfed up huge chunks of land surrounding the town of San Juan del Sur. Land prices were known to jump by 50% within a week and the market was extremely volatile. Such a land rush attracted a rash of land speculators, who had hoped to capitalize on Nicaragua's growing fame as a traditional and residential tourism destination. The housing boom in the United States was also directly linked to the land boom in SJDS. Those with excess capital, looking for investment opportunities and standard of life improvement, saw Nicaragua as the 'next Costa Rica' and flocked to buy land. The government of Nicaragua had passed the Foreign Investment Law #344 to encourage foreign investment. This law offered many incentives to investment, essentially granting foreigners the same rights as locals to buy and own property.

However, it did not set standards for regulating the land market, environmental protection or building standards, nor did the government at the time have the capacity to create and enforce such legislation. From 2005 to early 2008 the land market in San Juan del Sur experienced a buying frenzy. Buyers, from the United States, Canada and Europe were purchasing land often times without every visiting the property or even Nicaragua. Most land purchasers were speculators whose only goal was to resell the land in order to make great profits, and therefore promises made to buyers to install infrastructure and offer community amenities within the residential development, such as a pool or



clubhouse, went unfulfilled. This was not always intentional; many developers banked on the continuing boom of the market and were crushed when the bottom fell out of the market and cash flow dried up. Many developments fell into states of disrepair or were simply neglected, leaving property owners with unviable properties, lacking all basic infrastructure and a continuously dropping property value. Developers, who promised buyers basic infrastructure, such as electricity, water and roads, and the perks of a community with plans for a clubhouse or private pool, quickly went under with the crash leaving many investors and property buyers with rapidly depreciating land value. Additionally, due to insufficient laws and regulations many phantom sales and fraudulent deals took place, without an avenue for legal recourse.

Nicaragua's own erratic political history regarding land titling left foreign buyers exposed. Moreover, there was such a frenzy and strong belief in high profits that many buyers never set eyes on their property or set foot in the country before purchasing. Buyers from developed countries saw southern Nicaragua, and its strong links to northern Costa Rica, as an assured investment and did not take the time to investigate what they were buying or the conditions on the ground. While land developers may have had experience operating in a developing country, most property and homebuyers did not. This had the predictable result of exaggerated expectations and miscomprehension of legal realities. Stories of mismanagement, duplicitous dealings and unscrupulous illegal tactics run rampant throughout the expat community.

Financial Crisis Impact on the Real Estate Market

In 2008, the financial crisis hit the United States and the effects were immediately felt in San Juan del Sur's real estate market. As those in the United States became financial strained they stopped buying foreign property and the bottom dropped out of the residential development market in SJDS. Before the crisis real estate agents were selling an average of five to six properties a month, however when the crisis hit agencies were lucky to have one sale every five to six months. The residential development sector saw at its peak 14 real estate offices open in SJDS, as demand shrunk and the market stabilized only two companies survived, Century 21 and Aurora Realty. (Interview: Guanamuz)



Although the market went bust as a result of the crisis, the crisis actually had quite a few positive side effects that served to stabilize and standardize the market, as well as, allowing time for the government to catch up with much needed regulation. The global financial crisis was the catalyst for a needed self-correction of land prices in San Juan del Sur, with prices dropping by 25%-50%. Furthermore, as fire sales on property became more frequent, as buyers were defaulting, it improved the land market by increasing transparency and openness of the process. As the bottom fell out of the market and land speculators realized that the days of prices doubling over night was over and the land rush had passed. The crisis served drive out the land speculators and made room for the building of a residential tourism community. (Interview: Fahey) However, the land boom and following bust left many residential developments undeveloped or and promised projects unfulfilled. The remnants of un/under-developed residential projects line the countryside.

6.4 Financial Crisis Impact on Central American Tourism

The countries of Central America were particularly hard hit by the global downturn, as a large percentage of tourists to this region come from the US or Canada. As the crisis settled in, a poll by Travel Industry Association of North American tourists, in October 2008, show the effect of the downturn on travel plans. The tourists response to the crisis was to stay closer to home, search for cheaper alternatives, spend less money while on holiday and take shorter vacations. (Hosteltur, 10 Nov. 2008) Central America's dependency on tourism as a large chunk of the economy, and in turn dependency on North America for a steady supply of money wielding tourists, has inevitably tied their economic outlook to that of the United States. Furthermore, a report from the Economic Commission for Latin America and the Caribbean "among the FDI areas most affected will be the real estate sector, in particular that related to tourism and construction of second homes for foreigners, (...) because of lower international demand, particularly from the United States" (CEPAL, 2009: 26) This reality has been echoed by reports from the International Monetary Fund and Central American Monetary Council (CAMC), in November 2009, both stating that the economic improvement of their countries was dependent on that of the US. (Canada, 2010) Nicaragua has not been immune to this trend and it has forced developers to reevaluate their investments and amend projects. The president of the Calvet & Associates investment firm in Nicaragua, Raúl Calvert has stated, "residential tourism is very depressed, especially when comparing it to 2006 or 2007 levels. (...) Sales at almost all projects are at a minimum and some have not sold anything for six or seven months. (...) [Contract] closings have dropped almost 60%" (El Observador Económico, 18 Dec. 2009)



Today's Real Estate Market

The land boom and following bust left many residential developments undeveloped or and promised projects unfulfilled. The remains of un/under developed residential projects line the countryside. Developers, who promised buyers basic infrastructure, such as electricity, water and roads, and the perks of a community with plans for a clubhouse or private pool, quickly went under with the crash, leaving many investors and property buyers with rapidly depreciating land value.

Since the crisis the land market in San Juan del Sur has stabilized and development of land has begun. The developments that either made it through the market crash or that have appeared since have shown a more mature sense in dealing with the market. Today development owners, both individuals and corporations coming mostly from North America or Nicaragua, are more knowledgeable than during the pre-crisis era. They generally are experienced in land development and often own other land in Nicaragua, Central America or their country of origin. These developers are looking to make a sustained profit from their investment, rather than a quick buck. In order to survive and excel now in the market, developers have to offer proper land titles, property with infrastructure and a community environment. Residential developments are now focusing on offering a community atmosphere and are promoting home construction. To do so building time limits have been initiated on lot purchases and personal interviews have been introduced to target individuals and families who plan on engaging with the community and spending a portion of the year on site. (Interviews: Rice & Goldfarb)

Moreover, the type of properties being purchased has changed since the crisis. In 2007, an estimated 90% of real estate sales were purely for lot purchasing and while turn-key homes accounted for only 10%. By 2008, those numbers had shifted to 70% and 30% respectively and within the last two years the lots versus home sales have evened out at 50%-50%. Within lots sales the market has changed as well. Buyers are looking for more economical purchases and developments have responded by redrawing lot borders to offer smaller parcels of land. (Interviews: Fahey & Guanamuz) The rise in turn-key homes and condominium highlight the shift away from speculation into a more mature



residential market. Residential tourists are interested in easier property management, quick results and a second home experience that does not involve extensive bureaucratic hurdles and hassle of organizing construction from afar.

6.5 Pelican Eyes, Piedras y Olas

The story of Pelican Eyes is indicative of the land frenzy that took place in SJDS. An American, Chris Berry, came to town where met a wealthy woman with money who financed his dream of building a resort and bought up the mountain overlooks the bay of SJDS. He bought land from the locals at an extremely low rate in the late 1990's and early 2000's, however due to ever-changing land registration laws in Nicaraguan recent history many deals were not official. Naïve buyers did not investigation Nicaraguan land ownership laws and bought land without having a title or with a fraudulent one. One resident of Pelican Eyes told me that as of Jan 2011 only eight of the sixty homeowners had the legal title to their houses and many title battles are currently taking place.

Berry wanted to expand and began financing new phases with money from homebuyers, instead of building their homes. It was also revealed that he had been selling the same homes three or four times over. When buyers dried up with the onslaught of the financial crisis so did the flow of money. Pelican Eyes defaulted on multiple lines of credit and owed the bank \$2 million, bills to the municipality, as well as, millions to buyers. Berry fled the country in 2009, believed to Costa Rica, with missing funds and leaving Pelican Eyes on the brink of disaster. Court documents have recently shown that Chris Berry's Pelican scam resulted in \$23,250,000 worth of houses that got built but not delivered, meaning the houses are finished but vying legal claims prevent any owner from taking fully ownership. Another roughly \$13,500,000 of houses simply did not get built.

Additionally, since the crisis and with the growing maturity of the market, laws regarding the ownership of land have been codified and financial services have improved. Land title insurance is now readily available through American Title and has afforded buyers the protection against territorial claims and a sense of security on their investment. Furthermore, other services have appeared such as soil test and land surveying that serves to ensure the quality and caliber of the property deal. (Interviews: Rice & Goldfarb) There are still countless territorial disputes and cases of illicit land-titles, however these occurrences are decreasing through greater knowledge and better governmental standards. Buyers are now smarter and demand to see evidence of infrastructure, land tiles and soil tests instead of relying on the word of the seller. (Interviews: Fahey)

Despite the positive affect that the financial crisis had in stabilizing a volatile market, only approximately 7% of purchased lots have actually been developed and built upon. Approximately 13,800 units have been sold, however



the actual number of homes built is only 1,500-1,800. (Interview: Calvet) Many foreign property purchasers have had to put building plans on hold due to a loss of funds during the crisis. (Interview: Goldfarb) Thus, the market has yet to reach its full potential and it is expected that it will be many years before it does. (Interview: Calvet)



Chapter 7: Local Developmental Impact

Tourism manifested itself in San Juan del Sur due to favorable geographical positioning and harsh economic realities. Tourism has created a flow of thousands of people in and out of the once insular local community, with relatively large sums of disposable income, and who demand a basic level of services and amenities. The rise of traditional and residential tourism has had both positive and negative effects on the native community of San Juan del Sur. It has helped to stimulate the economy through the presence of new jobs, diverse opportunities, supplemental markets and an increase in the tax base. Furthermore, it has helped rebrand Nicaragua, making it an attractive place for foreign direct investment and developmental loans. However, all the effects have not been so positive. When asked about the contribution by the residential tourists to the economy Mr. Sanchez (President INTUR SJDS) bluntly stated

"Only by employing the locals, nothing more. Usually pay their taxes to the municipality, they have to pay, but no more...all they do is to employ local people and at minimum wage, bad, low, sometimes they do not want to pay the minimum for workers, they want to pay less than minimum wage."

The tourism and residential tourism sector has become ever more dominated by foreigners and threatens to create neo-colonial spatial, economic and social dualism in San Juan del Sur. Large flows of foreign capital and foreign business owners have come to control many of the most profitable businesses and are capitalizing on the development of the tourism sector. Furthermore, as foreigners control mass landholdings in and around San Juan del Sur, the local population is being systematically displaced from their traditional environment. Also, the economic disparity between the natives and foreign migrants has created a dual society, where the groups interact on a minimal basis, and usually only during economic transactions. If tourism and residential tourism continue to progress along their current paths, San Juan del Sur runs the treat of becoming another Central American Gringo Town.



Foreign Direct Investment

“Without foreign investment, there would be basically nothing.” Raul Calvet

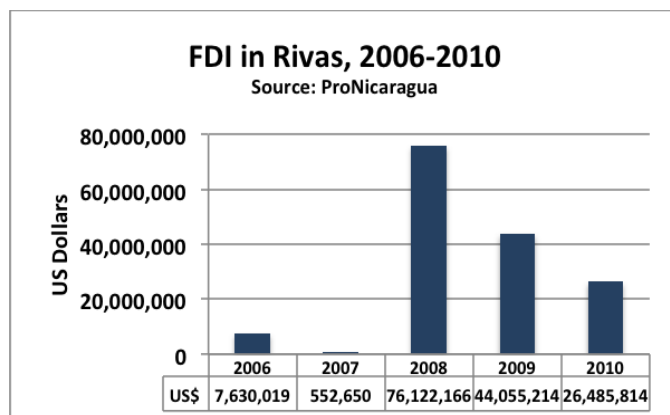
The government’s promotion of tourism as a pathway to economic development included several incentive laws to stimulate foreign investment in the tourism sector, as noted in Chapter 2. Foreign Investment Law and Tourism Incentive law offered extremely favorable tax

7.1 Rivas FDI US\$ By Sector 2006 - 2010*	
Agriculture and Forestry	13,116,459
Commerce and Services	8,641,153
Energy	110,773,938
Construction	314,680
Tourism	21,999,634
Total	154,845,863

Source: ProNicaragua

incentives and repatriation of profits. Foreign investment in the country has steadily increased throughout the last decade and tourism has been one of the biggest investment sectors. San Juan del Sur’s natural assets, proximity to Costa

7.2 FDI investment in Rivas



Source: ProNicaragua

Rica and comparably cheap land and cost of living has made it an attractive location for investors looking to get in early on a burgeoning tourist destination. The government and investment consultants have encouraged Foreign

Direct Investment to stimulate economic development and inject capital into the community.

FDI injections have helped to develop the tourism sector in San Juan del Sur. Investors have provided capital for numerous accommodation and tourism services, as well as, infrastructure development, without which the tourism sector would not have expanded. As a result of this investment, San Juan del Sur has seen tourist and residential tourist number increase dramatically over the last decade. This in turn creates the conditions for greater investment as the image of Nicaragua changes, and investors witness the success of others.

However, large inflows of foreign capital threaten the standing and position of small businesses within the community. Their needs are being pushed in favor of large injections of cash from abroad. The government’s keenness to attract investment has led to the reallocation of funds towards



performing projects that make the area more attract to investors, but that do not directly impact the local population. (Interview: Sevilla)

Employment

The influence of tourism on the local economy is evident upon first glance in San Juan del Sur. The streets are lined with accommodation, service and activities providers, as well as, a host of shops aimed at tourist needs and purchases. While the tourism industry in SJDS is still in an infancy stage, the changes it has contributed to the town are clear. The economic focus of the town has completely shifted away from its former fishing activities and now the local economy is almost completely based on the tourism industry. As northern migrants move in to the area they demand additional services and expect a higher quality of products. The increase in demand has created the opportunity for diversification in employment, entrepreneurial possibilities and has given rise to dozens of new businesses.

Today there are 113 registered tourist related businesses; mostly made up of accommodation, restaurants and transportation services, directly employing 913 people. (INTUR SJDS, 2011) However, this number cannot accurately reflect the number of jobs tied to tourism, as not all related services are included in this total, nor is the informal sector accounted for, which contributes heavily to the economy of San Juan del Sur. (Interview: Sanchez) In the formal sector, San Juan del Sur offers 61 hotels with a total of 650 rooms for hire and 43 restaurants, (INTUR SJDS, 2011) offering a variety of cuisines from traditional Nicaraguan to Italian, Hawaiian and American. Furthermore, the growth in residential tourism has fueled employment in the construction industry and stimulated building material purchases, as well as providing a demand for more advanced financial, insurance and medical services.

However, employment in the tourism sector revolves around construction and service industries. Service occupations available to the community like housekeeping, waitressing and bartending, are low skilled and low-paid, without offering much chance for advancement. Housing and construction booms serve to employ a large number of people, unfortunately as was seen with the global financial crisis, this industry is very susceptible to



global shocks, and when the market crashed in San Juan del Sur construction workers went months without work or pay. The general nature of the construction business adds to the instability, since without a building contract there is no work. Once growth in the tourism location has slowed or the destination has been saturated, jobs dwindle and disappear.

Table 7. 3 Breakdown of Tourism Related Businesses in San Juan del Sur

Activity	Category	No. Total	Foreign Investor	National Investor	Personal			No. Rooms
					M	F	Total	
Accommodation	D	30	5	25	1	1	2	167
	1 Star	7	3	4	14	14	28	50
	2 Star	7	0	7	25	26	51	63
	3 Star	11	7	4	48	53	101	131
	4 Star	6	5	1	204	136	340	250
	5 Star	0						
61			20	41	292	230	522	661
Food & Beverage	D	18	5	13	23	3	85	
	1 Star	11	2	9	7	5	12	
	2 Star	1	0	1	4	6	10	
	3 Star	1	0	1	10	5	15	
	4 Star	2	0	2	22	14	36	
	1 Cup	7	2	5	34	32	66	
	3 Cup	1	0	1	7	2	9	
	1 Taza	2	1	1	8	5	13	
43			10	23	115	72	226	
Other Activities	<i>Tour Operators</i>		1	1	15	12	27	
	2							
	<i>Transport by Land</i>		3	5	28	7	35	
	8							
	<i>Transport by Water</i>		3	0	0	8	8	
	3							
	<i>Tourist Guides</i>							
	28							
Total Jobs Generated					913			
Female					329			48%
Male					450			52%
Grand Total of Companies					113			

Source: INTUR
SJDS



Residential Housing market

In addition to providing employment through construction and services, the residential tourism market in particular was supposed to encourage the creation of infrastructure and boost the tax base. However, in the frantic years prior to the financial crisis of 2008, most land purchasers were speculators. Their goal was to resell the land in order to make great profits, instead of building homes and establishing themselves in the community. This had multiple effects on the market and the municipality; 1. Land prices in the town of SJDS, as well as, in the countryside surrounding it, skyrocketed 2. A rapid turnover of land 3. Rise of shady private deals, scams and fraudulent activity 4. Disincentive to develop land 5. Foreignization of land. (Interviews: Fahey & Guadamuz)

During this phase of residential tourism development the benefits to the local economy and community were extremely low, as there was no incentive to develop and improve the land that had been purchased because it was more profitable to resell the land for a steep profit than to actually build a residential development. There was very little home construction or land development, thus basic infrastructure investments were forgone and the tax base was not what had been foreseen.

“If you don’t have a building, you don’t have people, you don’t have taxes; you have nothing. So that is a very bad situation. At the beginning people started to, because it was very cheap land – You know, they thought it wasn’t taxed! ... We need to build what is right for the place. If we do that we will have a good residential tourism. I don’t think it’s bad. I think it’s good, but it has to be balanced. If you go only for residential tourism, you wouldn’t have a development because volume is what gives you a development. And if you have residential, with people there that own those places - They come once a year. And they disappear, and two or three people are renting the places keeping the garden and looking after the house. You always have to have it, but I don’t find it - The way to develop a place is not through residential tourism.” Mr. Hollman, President of Tourism Council

It can be said that the financial crisis had positive effects on the residential tourism market and generally the economy of San Juan del Sur. As the market rebounded in late 2009, and buyers began to return to San Juan del Sur, the type of properties desired had shifted. The demand for condominiums and turnkey homes lead to an increase in construction in the residential market, as well as, infrastructure. New jobs were created to fill the demand and as demand has remained steady construction companies have been able to expand.



The appetite for immediate homes also signaled the coming of a more permanent residential tourism community. Consequently, the expansion of the supplemental, wealthier market should be a positive for the community, as these residents will inject money into the local economy.

Additionally, since the crisis the type of residential development investor has especially changed. The developments which survived the crisis or started since have a stronger set of community ideals. Many now feel personally invested in the community and want to give something back. International investors have started numerous programs aimed at improving the lives of the local communities through support for established community groups and non-governmental aid and development organizations. (Interviews: Rice & Goldfarb)

"If you have one hundred and sixty developers from abroad...and you put them in front of one hundred and sixty Nicaraguan business people, I can assure you that maybe 98% of the foreigners have a social program in place and they are actually really considered about the communities. That is how committed they are. They provide school supplies. They teach kids English. They have boy scouts and girl scouts programs. They take them out to the sea for sailing. They have programs for the elders. They bring books. They bring many things....the list of things that the developers have done for this country is incredibly long. It has no comparison with what the locals do." Raul Calvet

7.4 Fundacion de la Tierra

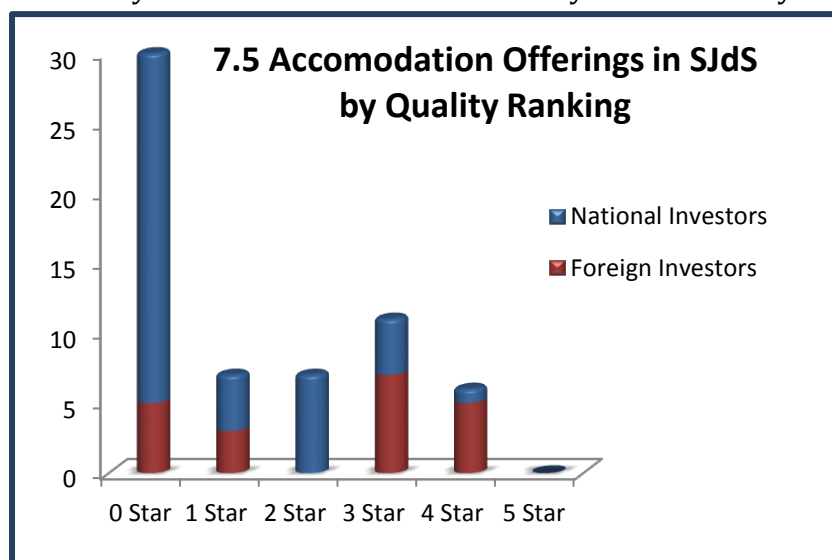
Fundacion de la Tierra was started by Fred Goldfarb and the owners of El Encanto del Sur, a residential development located just outside of San Juan del Sur, along the Chocolate Road. They believe strongly in reinvesting in the community and have made it a priority to include the community in the development and to donate time and money locally. The development has sponsored and held various sporting and community events. From El Encanto's inception it donated a portion of all sales to the local NGO Comunidad Conect. However, wanting to do more the owners decided to start their own community organization, Fundacion de la Tierra. FdIT has a staff of 4 and independently goes out into the local communities and identifies needs and works with the community to fulfill them. They firmly believe in sustainability not only in their business practices, but also in their community projects. Projects are joint ventures with the community and are designed to have long-lasting efforts with the Fundacions continuing support.

Business Quality and Ownership

In response to the surge in traditional and residential tourism there has been not only an increase in formalized tourism businesses or services, but also a large informal sector has appeared eager to fill in the gaps created by missing services and capitalize on San Juan del Sur's new position as a tourism capital in Nicaragua. The informal sector includes an array of businesses such as laundry services, guest houses, beauty treatments, Spanish teachers and local guides. Locals, especially those with property in the town proper, have impressively been diversifying and identifying needs of tourists in a bid to improve their financial position.



However, the businesses started by local entrepreneurs have begun to be overtaken by foreign owned businesses and economic growth driven by large flows of foreign direct investment that endangers the benefits to the local communities. As noted previously, tourism and residential tourism have created a snowball effect in the growth of services offered in San Juan del Sur. Northern migrants, both temporary and permanent, demand the presence a certain quality of life based on the availability of services and comforts. They want diversity in their food choices, fitness and beauty treatments, and technological, insurance and banking services. Furthermore, because a high percentage of Northern migrants



Source: INTUR San Juan del Sur

are not fluent in Spanish, they want such services to be available in English. However, as most of the local community has never travelled outside Nicaragua, they do not possess the capacity, education or knowledge to start and maintain such businesses. Neither do they have access to the capital or contacts needed to start a business, especially high quality services. Expatriates seen the gap in amenities and have started numerous businesses responding to the demand created by the expanded transnational space that has grown due to an influx of tourists, residential tourists and Northern expatriates.

While locals still own and operate a majority of establishments in San Juan del Sur, foreign investors own the highest quality businesses and thus some of the most popular and profitable. These businesses offer more variety and higher-valued products and services that cater to the transnational community. The emergence of the high quality businesses could be a benefit for local entrepreneurs in that it could facilitate a spillover effect and encourage knowledge transfers. Unfortunately, the local and foreign communities seem to view each other with a degree of distrust and as a result there are no foreign



members of the local business group, CANTUR. When foreign owners were surveyed about their affiliation or lack of it in CANTUR, their response was overwhelmingly that they were not welcomed and that local people regarded them as thieves. (Surveys: Foreign Business Owners) When I spoke with Mr. Calvet about the situation he explained

“that is very difficult to change. And it will change with education and generations, and probably the Sandinista ideology has a lot to do with this, on one side. The other one, with a very low level of education of the people has to do also a lot. ... It’s a result of many things before.... And, it would be better for them if they start changing that, because they don’t have the resources to deal with the balance by themselves. Not only the resources....They’re still blaming every single foreigner that comes and does the things that they could do. They have the money between all of them. They know better than anybody the local culture. They know better than anybody the price of the land. They knew better the places – Now it’s too late. It’s all over. But they have a competitive advantage above, above every investor. And the only reason that they still are blaming everybody that of their fortune, is because of themselves. Because they could have incorporated themselves, and ah, they would be rich developers now. And, and restaurants, and cruise ships, and managing the port, and they are still managing their own little single restaurant, and blaming Americans or the government or the rich in every single meeting that they have. So it’s ah, it’s a very complex situation. So the only way is to continue pushing for the government...and hoping that with the growth of middle-class and more education that the bad examples will fade away, and new generations will come.”

Over the last decade the number of foreign owned businesses has steadily increased, if this trend continues local businesses will soon be marginalized and the result will be the domination of the sector by foreigners. This would result in a neo-colonial economy in San Juan del Sur, where foreign migrants and investors are benefiting from the growth of tourism and residential tourism, while the local community is kept in low paying jobs, without the opportunity to capitalize on the economic boom. There have been numerous programs initiated, most notably from Centro Pellas, that aim at improving the lot for small and medium sized businesses, as well as, national programs geared towards women, that hope to stimulate and increase the number of small businesses and their profits. However, as the knowledge capacity is so extremely low these businesses far have been unable to compete on the same level or realize the same profits.



Social and Cultural Dualism

In addition to growing domination by foreign owned businesses and large FDI inflows, San Juan del Sur is risking social and cultural dualism. As addressed previously, due to the low-quality and lack of diversity in locally owned businesses, both temporary and semi-/permanent migrants favor internationally owned restaurants and bars. This phenomenon has had a two-pronged social and cultural impact on San Juan del Sur.

First off, the preference for Northern-types of social entertainment, in the form of music, food and activities has created a reinforcing effect in which to attract clientele, establishments need to cater to these cultural desires. Unfortunately, this had led to a decline in the presence of local cultural attributes. Music played in most bars is strictly from North America and Europe, while Nicaragua or Latin music is difficult to find. Furthermore, aside from a couple notable examples, Nicaraguan restaurants are sinking and are being displaced by a variety of international cuisines. Moreover, the calendar of social activities within the town is also culturally northern. The economic dominance of northern migrants will continue to drive this trend without intervention by the local tourism board or community groups to preserve and promote local culture.

The second, and perhaps more dangerous threat, is the growth of social dualism. The prices in establishments frequented by northern migrants, while still low by developed country standards, can be double to quadruple the prices of locally owned, traditional eateries and bars. Northern migrants come with large amounts of disposable income and engage heavily in social gatherings. Unfortunately, due to the relative high cost of these establishments typical Nicaraguans are not able to afford the same social gatherings. This phenomenon has led to facilitate and strengthen northern migrants' ties with each other, while alienating the local population.

Spatial Displacement

The social and cultural dualism is also being enhanced by the slow spatial displacement of the local population. This displacement is not the result of the proverbial "stick", but instead a product of the "carrot". Residential developments have swallowed swathes of land throughout the municipality,



especially around the town of San Juan del Sur and along the Pacific coastline. Furthermore, foreigners and tourism related businesses have slowly eaten up the land within the town of San Juan del Sur. Foreigners and wealthy Nicaraguans have come offering relatively exorbitant amounts of money to local families, who may have lived in the same house for generations.

In the face of such large sums of money the native population has been selling off its property and relocating to newly formed neighborhoods on the outskirts of town. This process started roughly ten years ago with the first families in town selling to foreigners and starting Nuevo Barrio along the main road out of town. (Interview: Sevilla) The eventual impact of these mass sell offs is the emergence of a Gringo Town, where the Nicaraguan population is only seen during in town proper for employment. The loss of traditional space will again serve to reinforce the growing dualist nature of the town and further the rise of a neo-colonial atmosphere.

“There is suffering. There’s poverty. There’s a lot of things that shouldn’t be like that. People should not live the way they live. So these alternatives, that we maybe don’t like, at the end, provide an improvement in the way of living of those people, that now they are workers of the stores...before they were just sitting down waiting for the next day to see if they have something to eat. The, the answer comes not from that side. The answer comes from, in context, is the country creating enough middle-class and wealth so that locals will go there, come there and be consumers? And they have a mix of locals and foreigners...That’s the question. And how do you start that? By bringing in investment and maybe having, for a few years, Gringo-towns until locals, they have the money and they start mixing and mingling.”

- Raul Calvet

In addition to territorial displacement, Nicaraguans are fighting another battle for access to their coastlines. One of the most important and anticipated tourism related laws, The Coastal Law, came into effect in 2010. This law states that all land up to 50 meters from high tide and five meters for lake properties is public property to be administered by the state. An additional 200 meters from this mark requires state approval of land use and new infrastructure. It also guarantees public access to the beaches; however in an inspection of 54 costal communities by the Commission on Population, Development and Municipalities of the National Assembly found that many public access points are in fact closed to the public. This is complicated by the fact that 45 kilometers of coast in Rivas



had previously been privatized (Marshall, Apr 12 2011) and that developers have privately constructed access roads where there had never been because of topographical restrictions. Many of these roads, like the access to Playa Hermos, which is owned by Mr. Hollman, charge an access fee or forbid public access. This access fee makes visiting these beaches unaffordable for the native population, and effective bars local Nicaraguans from enjoying their beaches.

However the issue is not as cut and dry as one may think. Coastal access opens raises several problems; 1. Security 2. Maintenance 3. Environmental contamination 4. Harm to development. The municipal governments do not have the budget or resources to create or maintain these access roads nor infrastructure such as bathrooms or showers at the beach. Furthermore, the police do not have the manpower to provide security from thieves or prevent usage by drug traffickers, who utilize the already opened beaches to bring drugs in from South America. Also, the beaches with public access have been severely environmental degraded due to pollution and have been closed multiple times by the Health Office. Opening access to all beaches would hurt investment and development in the area, as those who are investing hundreds of thousands or millions of dollars expect a certain level of security and cleanliness. (Interviews: Hollman & Calvet) If the goal is to attract more investors and with it hopefully fuel job creation and deepen the tax base, then there will need to be a balance reached with the private owners until the government is able to provide security, maintenance and environmental standards.

Municipal Budget

The residential and traditional tourism markets have help bolster the coffers of municipal government budgets, allowing for more government sponsored development projects. San Juan del Sur owes many of its town rehabilitation projects to revenue collected by the government from taxes due to traditional tourism and residential tourism. Property taxes, in particular, collected by the municipal government before building may commence have played an import role in swelling the municipal budget. In 2004 the municipal budget was approximately \$250,000, with 20% coming from tourism revenue and 30% from property tax. (Plan Estratégico, 2006) By 2007, it was about



\$2,000,000 and now the budget 2.5 million. (Interview: Hollman) This increase has allowed the municipal government to make substantial improvements in the living of its citizens. Infrastructure projects like street pavement and lighting, regular trash pickup, working sewer systems and running water for all of the town residents have been made possible in part by tax funds coming from tourism revenue. (Alcudia, 2008)

However, this potential revenue stream is not fully realized due to insufficient bureaucracy and monitoring systems. In 2004, San Juan del Sur had only recorded 496 taxpayers, of which only 4% were real estate transaction. All property is registered with the municipal Cadastral office, but loose regulations that allow land to be registered through intermediaries and phantom foreign companies leaves much of owed property taxes unpaid. Due to the immaturity of San Juan del Sur's residential market and the as a result of the financial crisis, the bulk of land allotments have not been built upon and remain empty. With the owners of the land parcels abroad in their country of origin or residing elsewhere in Nicaragua, having entered as a tourist and thus unregistered, tracking them down is a task for which the local government has neither the funds nor personnel. (Municipio SJDS, 2006)



SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • New Employment Opportunities • New Businesses • Employment Diversification • Foreign Direct Invest Attraction • Wealthier Supplemental Market • Increased Tax Base 	<ul style="list-style-type: none"> • Low paid, low skilled jobs • Insufficient government regulations • Insufficient government bureaucracy • Corruption • Low quality/ Budget destination • No Tourism Plan • Reinforce Neocolonial structures • Dualist society emerging
Opportunities	Threats
<ul style="list-style-type: none"> • Raise Profile of San Juan del Sur and Nicaragua • Rebranding Nicaragua • Investors with good intentions • Attracting Loans 	<ul style="list-style-type: none"> • Foreign cash flows • Global Shocks and fluctuations • Money redirected for investor attraction • Loss of Culture • Gringo Town • Saturation



Chapter 8: Conclusion

“Eighteen years ago? It was a shame. It was nothing. People were surviving eating cockroaches and lizards.” Raul Calvet

The increase in consumption-based transnational mobility through tourism and residential tourism has provided the decimated economy of San Juan del Sur a realizable path to development. Revenues from tourism and residential tourism have greatly expanded the national and municipal budgets and provided a plethora of diverse jobs. This has allowed the municipal government to enact a multitude of projects aimed at improving the daily lives of its citizens. San Juan del Sur is one of the few towns that can boast almost all paved roads, regular trash pick-up and street lighting. Furthermore, a current project is underway to ensure that all residence have potable water and electricity. The increase in tax revenue due to tourism and especially residential tourism, has allowed the municipal government to allocate additional funds to poorer communities and lift the departments standard of living.

The new jobs and business diversification in San Juan del Sur has offered the citizenry new livelihood methods. Additionally, the Nicaraguan government and Centro Pellas are offering business training and loans for small businesses. The training programs encompasses skills related to starting and running a business and are urging the community to take advantage of new opportunities. Centro Pellas is involved in the largest tourism improvement project, offering training to tourism service employees in job related tasks, such as waitressing, cooking and bartending.

As with tourism in all developing countries, tourism and residential tourism in San Juan del Sur can fall into the familiar traps of other outward-oriented development strategies; dependency on developed countries, overseas leakage of profits and domination by foreign corporations. San Juan del Sur is a town where the economy is almost solely dependent on tourism and as such is extremely vulnerable to global shocks and recessions. Furthermore, the presence of residential tourism and expatriates is creating neo-colonial dualist structure in town. Despite the current prevalence of small businesses in San Juan



del Sur, there are increasing flows of big capital coming into the municipality from international and wealthy domestic investors that threaten the position of these small businesses. Moreover, foreign owned businesses are some of the most successful at reaching the northern migrant population and thus the most profitable. Foreign travelers flock to these establishments in large numbers as they offer familiar options and English friendly atmosphere. The price of these goods and services, while lower than in developed countries, is still beyond the reach of the average local resident. This has served to reinforce the growing social and cultural dualistic society that is being created in San Juan del Sur, where the local population and foreign migrants interact on a minimal basis.

Moreover, as the town's popularity continues to rise the property value in town has skyrocketed. Local families have begun to sell off their property for large sums of money relative to Nicaragua's purchasing power and move to one of the new neighbors forming on the outskirts of town. This trend endangers the cultural consistency of San Juan del Sur and puts local customs in jeopardy. The outflow of Nicaraguans would leave behind a "Gringo-town", with the local population spatially marginalized in the periphery.

The government of Nicaragua, while keen on stimulating tourism for economic development and encouraging residential and retirement migration, did not have the institutional capacity to effectively regulate and direct the swell of growth it created. Nicaragua opened its doors to tourism without having sufficient laws in place to safeguard against overbuilding, environmental degradation, land speculation or protecting the rights of the local population. Strong government input, regulation and strategy are needed in order to ensure the local community benefits from tourism and residential tourism growth. Unfortunately, the Nicaraguan government has been chasing to catch up with the sector's rapid growth and does not have the institutional capacity to effectively regulate the sector. Although a slew of laws have been passed that aim to codify building, investment and environmental regulations, understanding and enforcement are still lacking. Investors complain about the red-tape surrounding projects and the corruption that is engrained in the local, regional and national governments.



Additionally, in congruence with the rise in tourism, San Juan del Sur has experienced a swell in pervasiveness of drugs, crime and prostitution. Robbery is the most persistent crime, and amongst travellers it is a notoriously frequent occurrence. The municipal police appear to lack the capacity to deal with these increasing problems, however failure to do so will cause continual cultural decline, resentment by the local population and will be detrimental to the reputation of tourism in San Juan del Sur.

In order for tourism and residential tourism to continue expanding and increase its profitability, an upgrade of existing hospitality services is necessary. San Juan del Sur has deficits in terms of quality accommodation, infrastructure stability and medical services. Low quality accommodation and restaurants will need to be improved if the country hopes to fulfill its reputation as the next Costa Rica and attract wealthier tourists, who will in turn spend more in the community. Moreover, the absence of accredited medical facilities in southern Nicaragua threatens to stifle attempts to woo retirees as residential tourists. There are no private clinics in San Juan del Sur, and the only internationally accredited hospital is in Managua, a three-hour drive away.

Sustainable success as a tourism destination would mean heightened living standards and an expanded market. Currently, San Juan del Sur has experienced some positive results from its role as a tourism town. If it wishes to continue this course and extract maximum rewards from the industry, the government and tourism board must ensure the survival of local businesses and continue to provide training and actively embolden its citizens to invest in the town's future, while protecting them from large flows of foreign capital. Moreover, a comprehensive tourism plan is needed to provide a clear vision for the future of tourism in San Juan del Sur. The industry is still maturing and is at a crucial stage, with thorough planning and continued capacity building of government and the local community, the transnational space could provide a viable economic backbone for southwestern Nicaragua. However if current deficiencies persist, tourism and residential tourism could instead marginalize the local population without reaping many of the benefits.



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Appendix

1. Maps of Residential Development Locations



Source: South Pacific Developers Association

