

# NICARAGUA'S DREAM TO BUILD ITS OWN CANAL

## CHINESE INVESTOR BEGINS MEGA PROJECT – OUTCOME UNCERTAIN

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### INTRODUCTION

Crises, wars and conflicts are focusing Germany's political attention on Greece, Ukraine and Islamist terrorism in the Middle East. This is understandable given the challenges associated with these regions. The difficulty is that at the same time, new developments are taking place in seemingly remote corners of the world. Carefully observed by Germany's foreign policy actors, these issues are as yet unknown to the wider German public.

One such region is Latin America. Generally ignored by the media in Germany, state and non-state actors from Mexico's borders to southern Cape Horn are pursuing their own interests. Many of these are linked with trade and security issues of great significance to Germany, as a decision-making power and export nation. One prominent example: a Chinese investor has plans to develop a trade route between the Atlantic and the Pacific in Nicaragua, the poorest country in Central America. This article discusses this development, placing the construction of what is often called the 'Nicaragua Canal' in historical context, and examining the bidding process and the relevant stakeholders. The project's economic, social and environmental impacts are addressed, and we present some conclusions are presented for discussion.

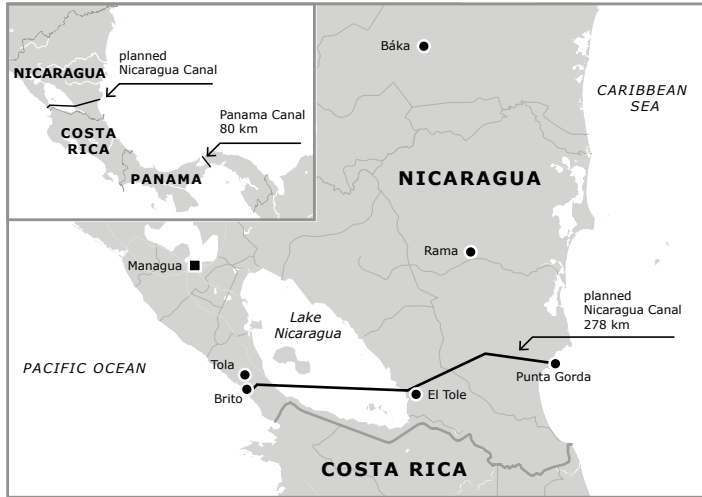


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Fig. 1

**Planned route of the Nicaragua Canal**

Source: Own illustration. | © mapz.com, racken.

### **THE NICARAGUA CANAL: REVIVING AN ALMOST FORGOTTEN IDEA**

The search for a sea route between the Atlantic and Pacific, and the accompanying dream of an interoceanic waterway, entranced even the first conquerors to arrive in Central America. Ever since then, the land that forms present-day Nicaragua has been coveted as a possible site to facilitate and expand maritime world trade via a transoceanic shipping lane. Nicaragua seems to be inching ever closer towards this dream, most recently, with the aid of a Chinese investor. Construction work began a few months ago on a truly “mega” project.<sup>1</sup> Were the project to be completed, the Nicaragua Canal created as a result would be three times as long as its more famous “brother”, the Panama Canal, and much, much larger (see Fig. 1).

Government representatives close to current Nicaraguan President José Daniel Ortega Saavedra, of the “Frente Sandinista de Liberación Nacional”, expect the investment to provide a developmental boost to Nicaragua’s currently weak economic perfor-

1 | “Nicaragua presenta su proyecto de Canal como complementario al de Panamá”, *El Nuevo Diario*, 29 Jan 2015, <http://elnuevodiario.com.ni/nacionales/340499> (accessed 31 Jul 2015).

mance<sup>2</sup> present the project as the realisation of an almost forgotten dream of national significance on the world stage; something, which would make Nicaragua another hub for global trade. The country's 5.8 million inhabitants are, by contrast, divided regarding the plans. Some citizens welcome the Chinese involvement, and hope it will bring jobs and prosperity. However, human rights activists and environmentalists are apprehensive about the project's high social, environmental and economic costs and the profound transformations it may create in the country. The doubts raised by opponents of the canal appear to have some justification: the concession process for the construction and operation of the Nicaragua Canal was organised without a public invitation to tender, and laws were changed to allow the operating licence to be granted to a Chinese billionaire. Critics also lament the fact that they have not been sufficiently informed about the project, let alone consulted.<sup>3</sup> All of these are strong arguments for taking a more detailed look at events in the Nicaraguan capital, Managua.

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## THE CANAL AND ITS HISTORICAL SIGNIFICANCE

Even during the early colonial period, Spanish conquerors pondered a possible canal route in Nicaragua for transporting gold and silver to Europe. They quickly rejected this idea as technically unfeasible. Following Nicaragua's newly won independence from Spain, in 1821, the idea of constructing a canal was however reconsidered, this time with all the possibilities offered by the technologies of the dawning Industrial Age. The project's planners found motivation in the California gold rush. People were looking for new routes to transport the resources unearthed there to the East Coast, avoiding the long and dangerous sea journey southwards around Cape Horn. Nevertheless, the plans never got beyond the drawing board.

In the mid-19<sup>th</sup> century, Louis Napoléon Bonaparte once again brought the idea of a shipping route through Nicaragua into play. His aim was to facilitate French trade with China and Japan while

2 | Claudia Casal, "Nicaragua – Gran Canal: tiempo de 'canalizar' sueños y cortinas de humo", *Alterinfos América Latina*, 28 Jun 2013, <http://alterinfos.org/spip.php?article6233> (accessed 31 Jul 2015).

3 | Alejandro Aguilar, "Aspectos jurídico-contractuales de la concesión canalera", in: Academia de Ciencias de Nicaragua, "El canal inter-oceánico por Nicaragua, Aportes al Debate", *Academia de Ciencias de Nicaragua*, 2014, p. 105 ff.

simultaneously weakening U.S. influence in Latin America. But, once elected French President in 1848, Bonaparte simply never had the time to implement his canal project. The idea of trans-oceanic trade lived on: in the late 19<sup>th</sup> century, then President of Nicaragua José Santos Zelaya wanted to strengthen his country economically and militarily. He negotiated with the U.S. government over the construction and concession of the canal. At the time, the Americans were investigating alternative ways of crossing Central America. However, investors and the corporate conglomerate intent on building the canal did not favour construction through Nicaragua: for various reasons, they planned to use the Panama route. U.S. lobbyist William Nelson Cromwell got involved: a report was published warning of possible volcanic activity along the Nicaragua route, in order to convince the U.S. Congress of the merits of building the canal in Panama instead. The U.S. legislature enshrined its firm commitment to the construction of a canal in Panama in the form of the "Spooner Act", adopted in 1902.

**Military interventions in Nicaragua between 1909 and 1925, intended to secure U.S. trade interests in the region, succeeded in preventing the construction of another canal.**

Despite the U.S.'s decision, Zelaya could not be dissuaded from attempting to construct his own waterway. This led to serious conflicts with the U.S. Subsequent U.S. military interventions between 1909 and 1925, intended to secure U.S. trade interests in the region, were sufficient to prevent the construction of another canal. That project was considered a rival to the Panama Canal, and the U.S. moreover feared that it could potentially fall into the hands of other major powers. As the Americans had previously supported Panama's secession from Colombia, they were able to secure their interests in the region. Nicaragua looked on, humiliated, as the Panama Canal was opened in 1914.<sup>4</sup> The project idea was left to gather dust, but was never quite forgotten.

## **THE QUESTIONABLE CONCESSION TO A CHINESE INVESTOR**

Today, Nicaraguan President José Daniel Ortega Saavedra is appealing to history, as did his predecessors before him. With the revival of the canal project, Ortega, a Sandinista who was president from 1985 to 1990 and regained power in 2006, aims to compensate for the perceived past humiliation of his country. On 21 February 2012, in a speech commemorating the assassination

4 | Volker Wunderlich, "El nuevo proyecto del Gran Canal en Nicaragua: más pesadilla que sueño", *Encuentro* 97, 2014, p. 27.

of General Augusto Sandino, he announced the construction of the “Gran Canal de Nicaragua”. Sandino led the rebellion against the U.S.’s military occupation of the country. Ortega has therefore deliberately positioned the canal as a patriotic project continuing Sandino’s legacy, because Sandino too dreamt of a waterway as a strategic project for Latin America and one that could limit the influence of Europe and the U.S.<sup>5</sup> In 2010, the Nicaraguan National Assembly even proclaimed Sandino a national hero. He is seen by the majority of Nicaraguans as a resistance fighter, a symbol of national identity and a champion of Latin American interests.<sup>6</sup>

President Ortega’s party has held the majority in the country’s National Assembly since November 2011, after general elections in which Ortega was also re-elected as president. In fact, according to the Constitution as it then stood Ortega, now 69 years old, should not have been eligible to stand for re-election. His candidacy was however allowed by an extremely controversial court decision.<sup>7</sup> Once re-elected, he introduced a constitutional amendment in 2014 that would allow him to run for unlimited re-election.<sup>8</sup> International organisations point out that the country’s democratic institutions (the judiciary, legislature, executive) have been weakened under Ortega,<sup>9</sup> while his family has gained political influence. Ortega’s children own several television channels, and his wife, Rosario Murillo, is the government’s spokesperson.

Just one year after Ortega’s inauguration, the National Assembly approved Law 800, which established the ownership structure with respect to the future canal.<sup>10</sup> Under this law, a legally guaranteed

5 | Ibid.

6 | Auxiliadora Rosales, “Sandino declarado héroe nacional, por diputados”, *La Prensa*, 2 Oct 2009, <http://www.laprensa.com.ni/2009/12/02/nacionales/9337-s> (accessed 31 Jul 2015).

7 | Carlos Salinas Maldonado, “Debaten ‘fraude’ de Ortega en congreso EE.UU.”, *Confidencial*, 4 Dec 2011, <http://confidencial.com.ni/articulo/5510/debaten> (accessed 31 Jul 2015).

8 | “Reforma constitucional que permite reelección de Ortega logra entrar en vigor en Nicaragua”, *La Tercera*, 11 Feb 2014, <http://latercera.com/noticia/mundo/2014/02/678-564941-9-reforma-constitucional-que-permite-reeleccion-de-ortega-logra-entrar-en-vigor-en.shtml> (accessed 31 Jul 2015).

9 | Ivan Briscoe, “El Estado corroído en Nicaragua”, FRIDE Comentario, 2006, [http://fride.org/download/COM\\_EstaNica\\_ESP\\_nov06.pdf](http://fride.org/download/COM_EstaNica_ESP_nov06.pdf) (accessed 31 Jul 2015).

10 | Asamblea Nacional de Nicaragua 2012: “Ley No. 800. Ley del Régimen Jurídico de el Gran Canal Interoceánico de Nicaragua y de Creación de la Autoridad de el Gran Canal Interoceánico de Nicaragua”, came into force on 3 Jul 2012, Managua, [http://legislacion.asamblea.gob.ni/SILEG/Iniciativas.nsf/0/1c79b32dfa494db906257a14007fb07f/\\$FILE/Ley%20No.%20800%20El%20Gran%20Canal.pdf](http://legislacion.asamblea.gob.ni/SILEG/Iniciativas.nsf/0/1c79b32dfa494db906257a14007fb07f/$FILE/Ley%20No.%20800%20El%20Gran%20Canal.pdf) (accessed 31 Jul 2015).

51-per-cent equity share would remain in state hands. Nonetheless, a subsequent resolution contained in the "Special Law for the Development and Infrastructure of Nicaraguan Transport Related to the Canal" (Law 840)<sup>11</sup> completely privatised the project entirely privatised on 13 June 2013, while overriding or modifying individual articles of Law 800.<sup>12</sup> These two laws together established a legal foundation to facilitate infrastructure expansion and the granting of a concession being granted to an operating company.

Next, in June 2013 the president awarded the concession to large-scale Chinese manufacturer Wang Jing, the owner of one of the fastest growing telecommunication companies in the world (Xinwei). This was done without parliamentary or public consultation. Jing founded the private sector holding company

**Ortega granted the HKND Group a concession to operate the canal, set at 50 years. Once the original term expires, the Group has the option to renew for a further 50 years.**

Hong Kong Nicaragua Canal Development Group (HKND)<sup>13</sup> in 2012 to finance the mega project. The company has no previous experience in canal construction or the implementation of other infrastructure projects.

The company is registered in the Cayman Islands, with a registered office in Hong Kong. Ortega granted the HKND Group a concession to operate the canal, set at 50 years. Once the original term expires, the Group has the option to renew for a further 50 years. In addition to the operator's licence, the agreements provide the HKND Group with extensive rights of disposal and rights of use.<sup>14</sup> By law, the Nicaraguan government will be issued a one per cent shareholding annually in the form of shares. This means it would take half a century for the government to acquire a majority stake in the Canal company.<sup>15</sup> Critics therefore accuse the president of once again making the country dependent on

11 | Asamblea Nacional de Nicaragua 2013: "Ley No. 840. Ley Especial para el Desarrollo de Infraestructura y Transporte Nicaragüense Atingente a El Canal, Zonas de Libre Comercio e Infraestructuras Asociadas", came into force on 14 Jun 2013, Managua, [http://legislacion.asamblea.gob.ni/SILEG/Gacetas.nsf/5eea6480fc3d3d90062576e300504635/f1ecd8f640b8e6ce06257b8f005bae2/\\$FILE/Ley%20No.%20840.pdf](http://legislacion.asamblea.gob.ni/SILEG/Gacetas.nsf/5eea6480fc3d3d90062576e300504635/f1ecd8f640b8e6ce06257b8f005bae2/$FILE/Ley%20No.%20840.pdf) (accessed 31 Jul 2015).

12 | Fernando Bárcenas, "Simbiosis parásita", *Confidencial*, 18 Jul 2014, <http://confidencial.com.ni/articulo/18528/simbiosis> (accessed 31 Jul 2015).

13 | HKND Group/Nicaragua Canal Development Project, <http://hknd-group.com> (accessed 18 Aug 2015).

14 | Wunderlich, n. 4, p. 28 ff.

15 | Mónica López Baltodano, "25 verdades sobre la concesión del Canal", *Confidencial*, 12 Aug 2013, Managua, <http://confidencial.com.ni/articulo/13199/25> (accessed 31 Jul 2015).

external actors – in this instance, China.<sup>16</sup> Ortega however describes the awarding of the concessions to Chinese operators as a development opportunity.<sup>17</sup> It may very well be that his ideological proximity to the People's Republic of China is a deciding factor here.

If we examine the concession agreement according to criteria set out by Transparency International, the results are sobering. As a matter of principle, criteria to measure economic efficiency and transparency should be established when granting large public contracts. Public participation should also be possible.<sup>18</sup> In the case of the Nicaragua Canal, these conditions have not been met. The concession and planning process took place without a public invitation to tender, the public was not sufficiently informed about the project, and no independent experts were been consulted. As of 2013, more than 30 lawsuits had been filed in the Nicaraguan Supreme Court against Law 840. The complaints cite, inter alia, the lack of public tendering. Judges however rejected all the objections in a single judgement, thereby giving canal construction the green light.<sup>19</sup>

On 7 July 2014, Wang Jing and the Nicaraguan government announced that the Nicaragua Canal would run from the mouth of the Río Punta Gorda on the Caribbean coast, inland through Lake Nicaragua to the mouth of the Río Brito. Other project plans were announced at the same time.<sup>20</sup> In addition to the right to build, operate and use the canal, the HKND Group is permitted to implement additional projects. These include the construction of deep-sea ports,

**In addition to the right to build, operate and use the canal, the HKND Group is permitted to implement additional projects, such as deep-sea ports, railways, oil pipelines and an international airport.**

16 | Cf. Judith Muñoz, 2015: "La construcción del Canal de Nicaragua, una decisión con muchos claroscuros", *Mundiaro*, 24 Mar 2015, <http://mundiaro.com/articulo/a-fondo/futuro-canal-nicaragua-lleno-claroscuros/20150324185100028542.html> (accessed 31 Jul 2015).

17 | Cf. Parlamento Centroamericano 2013: "Canal interoceánico de Nicaragua: Oportunidad de desarrollo para la región", Parlamento Centroamericano, 26 Sep 2013, <http://www.parlacen.int/Prensa/Prensa/tabid/145/EntryId/728/Canal-interoceanico-de-Nicaragua-oportunidad-de-desarrollo-para-la-region.aspx> (accessed 31 Jul 2015).

18 | Cf. Transparency International, "Curbing Corruption in Public Procurement, A Practical Guide", 24 Jul 2014; [http://issuu.com/transparencyinternational/docs/2014\\_anticorruption\\_publicprocurement?e=2496456/8718192](http://issuu.com/transparencyinternational/docs/2014_anticorruption_publicprocurement?e=2496456/8718192) (accessed 31 Jul 2015).

19 | Wunderlich, n. 4, p. 28 ff.

20 | Leonor Álvarez, "HKND presenta ruta del Gran Canal", *La Prensa*, 7 Jul 2014, <http://www.laprensa.com.ni/2014/07/07/nacionales/202195-hknd> (accessed 31 Jul 2015).

railways, and oil pipelines; the establishment of a special economic zone and the construction of an international airport.<sup>21</sup> The HKND Group was also granted tax exemptions for foreign employees and overall canal trade. It remains to be seen what obligations, if any, were placed on the construction company regarding working conditions or environmental protection.<sup>22</sup> The overall picture nonetheless seems to indicate that the HKND Group has acquired no obligations to the Nicaraguan state or public other than to build the canal.



In 2014 Chinese investor Wang Jing met with Laureano Ortega Murillo, one of President Ortega's sons, to discuss the future of the canal construction project. | Source: César Pérez, picture alliance/dpa.

It is worth noting that the Nicaragua Canal was approved before publication of any feasibility or impact studies. Consultancy firm Environmental Resources Management is shortly expected to publish studies on the project's environmental impact. These studies, commissioned by the HKND Group, will be submitted to the National Commission for the Development of the Canal (Comisión Nacional de Desarrollo del Canal) for review and approval.<sup>23</sup> To

21 | Ismael López, "La lotería de sub proyectos", *Confidencial*, 9 Nov 2014, <http://confidencial.com.ni/articulo/20102/loteria> (accessed 31 Jul 2015).

22 | Guillermo Áreas Cabrera, "Responsabilidad por delitos contra el medio ambiente", *La Prensa Opinión*, 17 Mar 2015, <http://www.laprensa.com.ni/2015/03/17/opinion/1800048-responsabilidad> (accessed 31 Jul 2015).

23 | Brianna Lee, "Nicaragua's Canal Project Pushes Forward Despite Economic, Environmental Questions", *International Business Times*, »



date, however, no feasibility studies have been placed in the public domain. Notwithstanding these wide-ranging social concerns, the Ortega government announced in late December 2014 that the construction of the canal had begun.<sup>24</sup> Investor Wang Jing promised to make the Nicaragua Canal the “Silk Road of the 21<sup>st</sup> century”, claiming that the canal would be completed in just five years’ time, i.e. by 2019.<sup>25</sup> For the sake of comparison, the 80-kilometer Panama Canal took ten years to build, at a cost of 386 million U.S. dollars at the time. Some 75,000 labourers worked on the canal, an estimated 20,000 of whom died during the process. The construction of the Nicaragua Canal today is set to devour this amount of money many times over, which is why the HKND Group is planning a stock market flotation.<sup>26</sup> In view of the risks and returns involved, however, it is likely to prove difficult to win over additional private investors for the project.

### **ECONOMIC, SOCIAL AND ENVIRONMENTAL CONSEQUENCES OF CANAL CONSTRUCTION**

All ships that are currently unable to pass through the Panama Canal’s locks (i.e. ships more than 32 metres wide and/or 275 meters long) are called Post-Panamax ships. These large vessels can each transport more than

18,000 standard shipping containers. The world’s largest shipping companies are increasingly manufacturing ships of this size, leading to considerable investments in capacity expansion along sea routes in port cities and on the world’s major waterways. The Panama Canal has been undergoing expansion since 2007 to enable the super-sized freighters to transit its route in future. The expansion, due for completion in 2014, was delayed by spiralling costs and industrial action. Strikes sought better working

**The expansion of the Panama Canal, under way since 2007, should have been completed in 2014. It was delayed by spiralling costs and strikes for better working conditions.**

15 Aug 2014, <http://ibtimes.com/nicaraguas-canal-project-pushes-forward-despite-economic-environmental-questions-1655176> (accessed 31 Jul 2015).

24 | “Nicaragua comenzó histórica construcción de canal interoceánico”, *Emol*, 22 Dec 2014, <http://www.emol.com/noticias/internacional/2014/12/22/695833/nicaragua-comenzo-historica-construccion-de-canal-interoceanico-con-protestas.html> (accessed 31 Jul 2015).

25 | Rezaye Álvarez, “Wang Jing: Gran Canal de Nicaragua es la ruta de la seda del SXXI”, *La Prensa*, 22 Dec 2014, <http://www.laprensa.com.ni/2014/12/22/nacionales/1668709-wang-jing> (accessed 31 Jul 2015).

26 | Rezaye Álvarez/Lucía Navas, “HKND se financiará en Bolsa”, *La Prensa*, 24 Dec 2014, <http://www.laprensa.com.ni/2014/12/24/nacionales/1669438-hknd> (accessed 31 Jul 2015).

conditions and wage increases.<sup>27</sup> Plans are now in place for the work to be completed in 2016. Even after the expansion, the Panama Canal will nevertheless still be too narrow to accommodate giant container vessels such as the CSCL Globe (400 meters long, 58 meters wide). Here is where supporters of the Nicaragua Canal see a business opportunity: they believe the two projects will not be in direct competition because only the Nicaraguan canal aims to accommodate the container giants. Only around four per cent of the world's current freighter fleet has structural dimensions that exceed the capabilities of the Panama Canal. HKND Group planners estimate the costs of the Nicaragua Canal mega project in the range of 30 to 50 billion U.S. dollars,<sup>28</sup> although their calculations cannot be verified readily. If this is really the amount involved, and if it is genuinely currently available, entrepreneur Wang Jing (possibly together with co-investors) is planning to invest a sum approximately three to four times the current gross domestic product of Nicaragua (11.8 billion U.S. dollars). Against this backdrop it is clear that there is a significant imbalance between private and public (political) decisionmaking power. Many observers are unclear as to how the costs are to be recouped, even in purely economic terms. Whether Nicaragua as a whole will truly benefit is even less clear.

After a trip to China, Panama Canal manager Jorge Luis Quijano announced that Chinese state enterprises in China would not be interested in investing in the Nicaragua Canal. He predicted that the project would be unable to compete economically with the Panama Canal, due to the latter's high costs.<sup>29</sup> However, Francisco J. Miguez, finance and administration vice president of the Panama Canal, stressed that the construction of the Nicaragua canal was being taken seriously, to the point where Panama was willing to invest in a fourth set of locks should there be a sharp increase in the demand for freighters exceeding the dimensions of the Panama Canal.<sup>30</sup>

27 | "Panamá retrasa a 2016 conclusión de obras de Canal", *La Estrella*, 9 Sep 2014, <http://laestrella.com.pa/panama/nacional/23803258> (accessed 31 Jul 2015).

28 | "Canal de Nicaragua será presentado en foro latinoamericano de infraestructura", *El Economista*, 21 May 2015, <http://eleconomista.net/2015/05/21/canal-de-nicaragua-sera-presentado-en-foro-latinoamericano-de-infraestructura> (accessed 31 Jul 2015).

29 | "Quijano dice que China no quiere financiar el Canal de Nicaragua", *La Estrella*, 13 Apr 2015, <http://laestrella.com.pa/panama/nacional/23858122> (accessed 31 Jul 2015).

30 | Tim Johnson, "A skeptical Panama pays heed to possible rival Nicaraguan canal", 9 Feb 2015, McClatchy DC, <http://mcclatchydc.com/news/nation-world/world/article24779869.html> (accessed 31 Jul 2015).

President Ortega predictably continues to stress the economic benefits the project offers his country. According to the president's predictions, gross domestic product will double in just a few years, economic growth will triple,<sup>31</sup> and unemployment will fall.<sup>32</sup> This kind of a boost in economic modernisation would certainly be highly desirable to Nicaragua, where 40 per cent of the population are currently living below the poverty line and where economic activity is mainly centered around agriculture. However, in reality it is unlikely that the country will see this level of development through the construction of the Nicaragua Canal. Such a large project requires trained specialists, which Nicaragua does not have. Much expertise will therefore have to be recruited from abroad, although the government has promised to invest in training professionals over the coming years. It has initiated the development of new degree programs focusing on some of the skills needed for canal construction.<sup>33</sup> However, this will not solve the problem of a lack of specialist expertise in the short term. According to government figures, canal construction will initially create one million jobs,<sup>34</sup> though these figures have been revised downward in recent months. A total of approximately 50,000 workers are needed immediately, although only half of these posts are to go to Nicaraguans.<sup>35</sup> Even basic issues such as providing these workers with sufficient amounts of food are currently the object of controversy and debate.<sup>36</sup>

**According to government figures, the canal construction will initially create one million jobs, though these figures have been revised downward in recent months.**

- 31 | "Ortega defiende Canal para salir de la pobreza", 14 Oct 2014, *Milenio Internacional*, [http://milenio.com/internacional/Ortega-defiende-Canal-salir-pobreza\\_0\\_390560955.html](http://milenio.com/internacional/Ortega-defiende-Canal-salir-pobreza_0_390560955.html) (accessed 31 Jul 2015).
- 32 | "Dudas ambientales sobre Proyecto chino del canal de Nicaragua", 7 May 2014, *El Comercio*, <http://elcomercio.pe/ciencias/planeta/dudas-ambientales-sobre-proyecto-chino-canal-nicaragua-noticia-1727853> (accessed 31 Jul 2015).
- 33 | Jeniffer Castillo Bermúdez, "Promete duplicar carreras por Canal", 2 Oct 2014, *La Prensa*, <http://www.laprensa.com.ni/2014/10/02/nacionales/214043-aun> (accessed 31 Jul 2015).
- 34 | Jose Nain Jara Castellanos, "Canal de Nicaragua dará un millón de empleos", 29 Jun 2014, *La Prensa*, <http://laprensa.hn/economia/laeconomia/724302-98/canal-de-nicaragua-dará-un-millón-de-empleos> (accessed 31 Jul 2015).
- 35 | Génesis Hernández Núñez, "Mejores trabajos del Canal para extranjeros", 7 Jan 2015, *La Prensa*, <http://www.laprensa.com.ni/2015/01/07/nacionales/1693632-mejores-trabajos> (accessed 31 Jul 2015).
- 36 | Carlos Salinas, "¡Fuera de Nicaragua, Chinos!", *El País Internacional*, 15 Oct 2014, [http://internacional.elpais.com/internacional/2014/10/14/actualidad/1413318757\\_518678.html](http://internacional.elpais.com/internacional/2014/10/14/actualidad/1413318757_518678.html) (accessed 31 Jul 2015).



"Ortega sells out the nation": Demonstrations like these reflect the population's displeasure. | Source: Jorge Mejía Peralta, flickr ©<sup>1</sup>.

In addition to the issue of how to feed and house labourers, a further source of explosive social contention is the resettlement of indigenous peoples along the canal route that the project will require. Law 840 stipulates that it is in the public interest to expropriate any land HKND deems necessary for the implementation of the canal project.<sup>37</sup> The Canal Commission estimates 30,000 people will have to be resettled, though alternative sources state that 100,000 people will be directly affected by the construction.<sup>38</sup>

These threats of resettlement sparked numerous civil demonstrations protesting against the construction. The slogan "Fuera chinos!" ("Chinese, out!") was often heard. These protests were not always peaceful: as the government set up roadblocks, and protesters from affected villages were prevented from passing through to join the marches. 50 Nicaraguans were injured, and dozens were arrested, during protests in December 2014.<sup>39</sup> The 47<sup>th</sup> protest march, the largest to date, took place on 13 June

37 | Asamblea Nacional de Nicaragua: "Ley No. 840", in: La Gaceta – Diario Oficial, 14 Jun 2013, [http://legislacion.asamblea.gob.ni/SILEG/Gacetitas.nsf/5eea6480fc3d3d90062576e300504635/f1ecd8f640b8e6ce06257b8f005bae22/\\$FILE/Ley%20No.%20840.pdf](http://legislacion.asamblea.gob.ni/SILEG/Gacetitas.nsf/5eea6480fc3d3d90062576e300504635/f1ecd8f640b8e6ce06257b8f005bae22/$FILE/Ley%20No.%20840.pdf) (accessed 31 Jul 2015).

38 | "Audiencia sobre el canal en la CIDH de la OEA", *Confidencial*, 14 Mar 2015, <http://confidencial.com.ni/articulo/21210/audiencia> (accessed 31 Jul 2015).

39 | Carlos Salinas, "Hasta 50 heridos en Nicaragua en las protestas contra el canal oceánico", *El País Internacional*, 24 Dec 2014, [http://internacional.elpais.com/internacional/2014/12/24/actualidad/1419444251\\_610241.html](http://internacional.elpais.com/internacional/2014/12/24/actualidad/1419444251_610241.html) (accessed 31 Jul 2015).

2015. An estimated 15,000 Nicaraguans taking part. The protests were primarily organised by the non-governmental organisation the “National Council for the Defence of the Land, the Lake and Sovereignty”, which was founded by farmers. The majority of protesters come from rural areas directly affected by the canal route.<sup>40</sup>

Yet it is not only local people who would have to make way for canal construction. The environmental consequences of an intervention on this scale will be enormous. Plans specify that the canal will be 278 kilometers long, between 200 and 530 meters wide, and 27 to 30 meters deep.<sup>41</sup> The European Union in general, and Germany in particular, strive to promote environmental protection and sustainable development efforts internationally (both issues were on the agenda at the G7 Summit in Elmau). In this respect, the approach taken in Nicaragua is giving cause for concern. The Nicaragua Canal will wind its way through a biological corridor that is home to both indigenous populations and fragile ecosystems, such as rainforests and wetlands. Although the government promises to engage in reforestation efforts, environmentalists worry that clearing approximately 400,000 hectares of rainforest will negatively impact biodiversity on Lake Nicaragua and the Caribbean coast.<sup>42</sup> Lake Nicaragua is the largest drinking water reservoir in Central America and plays an important role in the country’s water supply. The country’s predicted population growth alone may lead to a water shortage in the country, a situation which could only be exacerbated by the construction of the canal.<sup>43</sup> Until now the lake has been protected under the general law on national waterways and water supply. This stated that the “Gran Lago Cocibolca”, Lake Nicaragua, is vital to national security.<sup>44</sup> This

40 | “Miles marchan en Nicaragua contra el proyecto de canal interoceánico”, *El Confidencial*, 14 Jun 2015, [http://elconfidencial.com/ultima-hora-en-vivo/2015-06-14/miles\\_607156](http://elconfidencial.com/ultima-hora-en-vivo/2015-06-14/miles_607156) (accessed 31 Jul 2015).

41 | “Canal Interoceánico de Nicaragua tendrá 278 kilómetros de longitud”, *Deutsche Welle*, 8 Jul 2014, <http://dw.com/p/1CY7r> (accessed 31 Jul 2015).

42 | Pedro J. Alvarez/Jorge A. Huete-Perez/Axel Meyer, “Rethink the Nicaragua Canal”, *sciencemag*, 22 Jan 2015, [http://researchgate.net/profile/Axel\\_Meyer/publication/271335181\\_Rethink\\_the\\_Nicaragua\\_Canal/links/54d0fe150cf28959aa7a51ca.pdf](http://researchgate.net/profile/Axel_Meyer/publication/271335181_Rethink_the_Nicaragua_Canal/links/54d0fe150cf28959aa7a51ca.pdf) (accessed 31 Jul 2015).

43 | Salvador Montenegro Guillén, “Aprovechamiento óptimo y protección del gran lago Cocibolca”, in: Academia de Ciencias de Nicaragua, “El canal interoceánico por Nicaragua, Aportes al Debate”, *Ciencia, Técnica y Sociedad*, 2014, p. 50 ff.

44 | “Canal en Nicaragua podría dejar a Centroamérica sin agua potable”, *Noticias Caracol*, 25 Oct 2014, <http://noticiascaracol.com/mundo/canal-en-nicaragua-podria-dejar-centroamerica-sin-agua-potable> (accessed 31 Jul 2015).

protection clause was however repealed in 2013 with the adoption of Law 840. Scientists fear that the freshwater lake, which has an extension of over 8,000-square-kilometers, will gradually fill with salt water as a result of the two oceans being joined. This would have unknown and unpredictable consequences for the natural landscape.<sup>45</sup> Because the lake is only approximately 15 meters deep, whereas the canal will need to be 30 meters deep if it is to accommodate Post-Panamax ships, excavations will be necessary. This, coupled with the introduction of salt water, will pose a major threat to the flora and fauna in and around the lake and therefore a real threat to habitats and food sources.<sup>46</sup> The channel will constitute an insurmountable barrier for wildlife, and will therefore cause a change in migration patterns and a shift in ecological dynamics.<sup>47</sup>

### THE GEOPOLITICS OF WATERWAYS

Increasing globalisation, the associated trade growth, and the rising purchasing power of emerging markets all tend to drive infrastructure projects on the massive scale currently planned for Nicaragua. In the first place, governments expect these prestigious projects to stimulate economic growth, especially if they succeed in attracting foreign direct investment. Secondly, Latin American countries are far from playing a mere walk-on role in the globalisation process. They are political partners, trading centers, suppliers of resources, and sales markets.

We should not, in other words, lose sight of geostrategic aspects of present trends. Latin America has a history as the setting for numerous geopolitical conflicts between superpowers: a history that now seems to be in danger of repeating itself under a new guise.

The remarkable engagement of the Chinese in the region is striking in itself. Latin American trade with the People's Republic of China has risen from 120 billion U.S. dollars, in the year 2000,

45 | Jean-Michel Maes, "Canal interoceánico: impacto sobre la biodiversidad", in: Academia de Ciencias de Nicaragua, "El canal interoceánico por Nicaragua, Aportes al Debate", *Ciencia, Técnica y Sociedad*, 2014, p. 76 f.

46 | Axel Meyer, "Importancia de los ecosistemas acuáticos y la potencial amenaza del canal interoceánico", in: Academia de Ciencias de Nicaragua, "El canal interoceánico por Nicaragua, Aportes al Debate", *Ciencia, Técnica y Sociedad*, 2014, p. 39.

47 | Jorge A. Huete Pérez, "Canal Interoceánico: una visión anacrónica del desarrollo", *Revista Envío*, 8 Apr 2014, <http://envio.org.ni/articulo/4821> (accessed 31 Jul 2015).

to 262 billion U.S. dollars in 2013.<sup>48</sup> Furthermore, China has invested more than 100 billion U.S. dollars in the region and has granted generous credit terms to leftist governments. The Chinese president announced last year that China would massively expand its trade with Latin America over the next decade, a project that would be impossible without upgrades of the region's ports and shipping routes. For this reason, partnership agreements between China and Latin America are not simply limited to energy and commodity agreements, significant as these are. Such agreements deserve further attention and analysis: German and other European industrial companies are dependent, like their Chinese counterparts, on prized Latin American resources, including rare metals, for their manufacturing processes. The Chinese commitment to major projects in Latin America is evident, with involvement in railways, ports, canal construction, and exploration projects. These could certainly be seen as providing a strategic counterweight to Western-located, owned or controlled infrastructure.<sup>49</sup> Such projects also form the necessary basis for an intensification of South-South trade.



Lake Nicaragua: Conservationists predict catastrophic consequences for the country's fragile ecosystem, if the canal is constructed. | Source: Ary Chst, flickr ©.

48 | Jan D. Walter, "Neuer Partner, altes Problem", *Deutsche Welle*, 18 Apr 2014, <http://dw.com/p/1BkUY> (accessed 31 Jul 2015).

49 | Ralf Streck, "China mischt den Hinterhof der USA auf", *heise online*, 25 Jan 2015, <http://heise.de/tp/artikel/43/43935/1.html> (accessed 31 Jul 2015).

It is probably safe to conclude that the impetus behind the Nicaragua Canal should be read as part of this trend. Current resource supply routes from Latin America to China, transporting fundamentals including Venezuelan oil or Brazilian pig iron pass through the Panama Canal.<sup>50</sup> Chinese investors are also represented quite prominently in the Panama canal expansion project. Nevertheless, Chinese investment in Nicaragua would be a welcome alternative because the Panama Canal, still considered part of the American sphere of influence, is therefore deemed a factor of uncertainty for Beijing. President Ortega is undoubtedly well aware of this fact and the potential geopolitical conflicts it implies. This may explain the fact that he has also openly and publicly approached the U.S. about possible American participation in the construction of the canal.<sup>51</sup> As early as July 2013 Walter Bastian, Deputy Assistant to

**In early January 2015, the American Embassy in Nicaragua drew attention to the fact that the project was still suffering from a lack of information and transparency.**

the U.S. Secretary of Commerce, made clear during a visit to Nicaragua that American companies are interested in investing in the project.<sup>52</sup> However, Bastian almost immediately went on to stress the importance of transparency and legal certainty guarantees for any possible U.S. participation. In early January 2015, the U.S. Embassy in Nicaragua drew attention to a continuing lack of information and transparency, affecting all of the important aspects of the canal project. This criticism was rejected by spokespersons for the Nicaraguan authorities, who described the construction of the canal as a national project and contended that no other country was therefore owed or entitled to any right of disclosure.<sup>53</sup>

The offer to participate in the Nicaragua Canal was not extended to other Central American countries. The fact that Nicaragua is attempting to carry out the project single-handedly is however unsurprising, given the various conflicts of interest that exist between the country and its neighbours. Ortega, who sees himself as a champion of the ALBA countries and the CELAC community,

50 | Constantino Urcuyo, "Chinas Engagement in Costa Rica und Zentralamerika", *Zentral: Amerika*, No. 1, 2014, p. 2, [http://kas.de/wf/doc/kas\\_39984-544-1-30.pdf](http://kas.de/wf/doc/kas_39984-544-1-30.pdf) (accessed 31 Jul 2015).

51 | Christian Galloy/Pilar Valero, "Canal de Nicaragua: logro estratégico de China en América", *Latin Reporters*, 9 Feb 2015, <http://latinreporters.com/nicaraguaeco09022015kbes.html> (accessed 31 Jul 2015).

52 | "EE.UU. interesado en el canal interoceánico de Nicaragua", *La Prensa*, 30 Jul 2013, <http://www.laprensa.com.ni/2013/07/30/nacionales/156777-ee-uu> (accessed 31 Jul 2015).

53 | "Críticas de EE.UU. a canal de Nicaragua genera reacciones encontradas", *La Página*, 7 Jan 2015, <http://lapagina.com.sv/internacionales/102760/2015/01/07/Criticas-de-EEUU> (accessed 31 Jul 2015).



shows no interest in involving neighbouring countries in the project. On the contrary, a protracted territorial dispute is currently ongoing between Costa Rica and Nicaragua is currently before the International Court of Justice in The Hague, in which Costa Rica has accused its neighbour of invading its border via the San Juan River. Nicaragua, for its part, claims that a Costa Rican road construction project has caused serious environmental damage along the river which forms part of the border.<sup>54</sup> Ortega had previously announced that the Nicaragua Canal will run at a reasonable distance from the Costa Rican border, as a preventative measure.<sup>55</sup> The significance of these kinds of such intergovernmental conflicts in border areas should not be underestimated: they may become a destabilising factor in the region, which is already known for its drug transit routes.

With respect to the influence of Chinese officials, the Nicaraguan president has pointed out that the investor, Wang Jing, is not a political actor, but an independent, private entrepreneur, and, that the project would moreover be open to investors from around

**So far, no direct links between the Chinese investor and the government in Beijing have been detected, although Wang's company received funding from the Chinese Development Bank.**

the world.<sup>56</sup> As yet, no direct links between the Chinese investor and the government in Beijing have been detected, beyond the facts that Wang's telecommunications company has received funding for overseas projects from the Chinese Development Bank, and the Chinese government is a co-owner of the telecommunications group Xinwei. As one might expect, the Chinese government has so far remained resolutely silent on the Nicaragua Canal. Any assumption that private companies hailing from the Hong Kong Special Administrative Region of the People's Republic of China are not subject to political interference must, however, be questioned. Observers have suspected for some time that Beijing is looking to increase its influence in Central America. Nicaragua, Cuba and Venezuela form important cornerstones of these plans (Cuba harbours the Mariel deepwater port, while China holds shares in Venezuela's largest port Puerto Cabello). This interest is logical not only from an economic standpoint, but also because

54 | "Corte de La Haya celebrará nuevas audiencias por la disputa limítrofe entre Costa Rica y Nicaragua", *La Tercera*, 13 Apr 2015, <http://latercera.com/noticia/mundo/2015/04/678-625277-9-corte-de-la-haya-celebrara-nuevas-audiencias-por-la-disputa-limitrofe-entre.shtml> (accessed 31 Jul 2015).

55 | "'Construcción del Canal no afecta a Costa Rica', dice Kamilo Lara", *Confidencial*, 16 Jul 2015, <http://confidencial.com.ni/articulo/18488> (accessed 31 Jul 2015).

56 | Galloy/Valero, n. 51.

the U.S. is deliberately excluding China from trans-Pacific free trade negotiations, seeking to enforce its own Pacific claims with Asian partners virtually on China's doorstep.<sup>57</sup>

## CONCLUSIONS

Whether the Nicaragua Canal will in fact be completed and opened within the next five to ten years, as planned, remains highly ques-

**Dozens of experts, including some from Nicaragua, doubt the Canal will in fact be completed and opened since the technical feasibility and long-term financing are dubious.**

tionable. Dozens of experts, including some observers in and from Nicaragua, doubt this will be the case. Domestically, the project is highly controversial. Its technical feasibility and long-term financing are also dubious.<sup>58</sup> It is likely that the Nicaraguan government will

do all it can to secure the project, given the president's extensive powers, and the fact that the project's wealthy Chinese investor, Jing, is apparently guaranteeing the necessary start-up funding. The reaction of the population however remains unpredictable, particularly if the bulldozers do indeed roll into action, the initial effects become clear and the impacts on prosperity Nicaraguans were hoping for fail to materialise. The Nicaragua Canal has so far been only a pipe dream, or a promised future horizon.

However, the plans of the Chinese investors – whose preparatory construction work has, after all, already begun – deserve greater attention. This is so on the one hand because of the high environmental and social impacts this mega project may have in Nicaragua.<sup>59</sup> On the other hand, the project has significant geostrategic components and associations. The widespread assumption that this project will ultimately fail should be tempered, as the ambitions of the Chinese should not be underestimated. Whether this project will pay off economically may therefore be of secondary importance.

Regrettably, the issue of the Nicaragua Canal was not addressed during the CELAC-EU Summit in June 2015. If the European Union and Germany are to meet their own standards of global

57 | Daniel W. Drezner, "The Trans-Pacific Partnership is about more than trade", *The Washington Post*, 7 May 2015, <http://wapo.st/1NnPLim> (accessed 31 Jul 2015).

58 | "Aumentan dudas sobre canal de Nicaragua con financiamiento chino", *Gestión*, 27 Dec 2014, <http://gestion.pe/economia/aumentan-2118641> (accessed 31 Jul 2015).

59 | "Sin estudio ambiental empiezan obras de Canal", *La Prensa*, 22 Nov 2014, <http://laprensa.hn/mundo/770107-410/sin-estudio-ambiental-empiezan-obras-de-canal> (accessed 31 Jul 2015).

responsibility, they must take a clear position must be taken on this issue. The purposes and rationale of the canal should be questioned, particularly as the negative impacts of its high costs and civil society resistance are likely to greatly outweigh potential gains, whether in terms of prosperity for Nicaraguan state and society or for Chinese investors in the short and medium term. Is the canal project an example of Chinese long term interests being secured, with all the foresight and the “long view” that comes more easily to a planned economy? In this regard it is interesting to reflect that the project dovetails neatly with a whole series of announcements made by Chinese investors or government officials over the past few months regarding Latin America. These include the announcement of a railway line between Brazil and Peru.<sup>60</sup>

In order for the Nicaragua Canal to truly pay off and be competitive, global cargo volumes would have to increase significantly.<sup>61</sup> The World Trade Organization assumes a quite moderate growth in trade between the national economies, of three to four per cent in 2015 and 2016.<sup>62</sup> These projections are unlikely to significantly change in the medium term. One may assume that the share of world goods passing through the Panama Canal will therefore continue at around its current level of approximately five per cent of world trade. The Panama canal transit route will likely therefore remain the most economical, time-saving route between the Atlantic and Pacific for the foreseeable future. Its utility has been tried and tested over the past 100 years. The modernisation of the Panama waterway, competitive toll charges, and the existing expertise there ensure that a second route will not provide realistic competition in the medium term. Construction of a second route does not therefore seem advisable in that light. Closer examination of the history of the “project of the century”, the construction of the Panama Canal, makes it if anything even harder to believe that Nicaragua will manage in the medium term to realise its dream of building its own canal. Even if it does, there is every indication that Managua faces a rude awakening.

60 | Raúl Mendoza, “El tren que China quiere”, *La República*, 24 May 2015, <http://larepublica.pe/impres/politica/2267-el-tren-que-china-quiere> (accessed 31 Jul 2015).

61 | The main cargoes are crude oil, oil products, coal and iron ore.

62 | “Modest trade recovery to continue in 2015 and 2016 following three years of weak expansion”, press release of the World Trade Organization, 739/2015, 14 Apr 2015, [https://wto.org/english/news\\_e/pr739\\_e/pr739\\_e.htm](https://wto.org/english/news_e/pr739_e/pr739_e.htm) (accessed 31 Jul 2015).