How a Chinese Billionaire Got Invested in Nicaragua's Canal Plan

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HKND Group Chairman and CEO Wang Jing (L) during the inauguration of the canal in Tola, Nicaragua, on Dec. 22. (INTI OCON/AFP/Getty Images)

Summary

The idea of a canal across Nicaragua, easing transit flows between the Pacific and the Atlantic, is as old as the country itself. But despite numerous surveys and plans across the centuries, no Nicaraguan canal has ever been shown to be economically viable for the investors. The United States, European and numerous Asian countries and companies have explored both "wet" and "dry" canals — the latter utilize rail between ports on both sides of the isthmus.

Lately a Chinese businessman has been exploring the idea. His efforts have raised similar questions to previous attempts: Is a canal in Nicaragua economically sound, environmentally responsible or even necessary, particularly given the near completion of the widening of the Panama Canal? The answers are mixed and often depend who is doing the assessment and from what perspective. The man behind the attempt, Wang Jing, may no longer be sure of the answers himself.

Analysis

Questions aside, the Nicaraguan government has approved the plans and is promoting the construction and affiliated investment. As the man at the forefront of the operation, Wang is preparing not only to have the canal dug (and managed) but also to build the affiliated infrastructure — port expansion and telecommunications projects as well as tourism and real estate deals along the canal route. Money is already flowing, environmental studies are underway, Western public relations and accounting firms have been hired, and early assessments and visits are being made to determine the cost and difficulty of buying up land along the route, often meeting opposition from locals. All the while, the cost estimates for the canal construction continue to rise; they are currently at upward of $50 billion and by some estimates are likely to reach $100 billion.

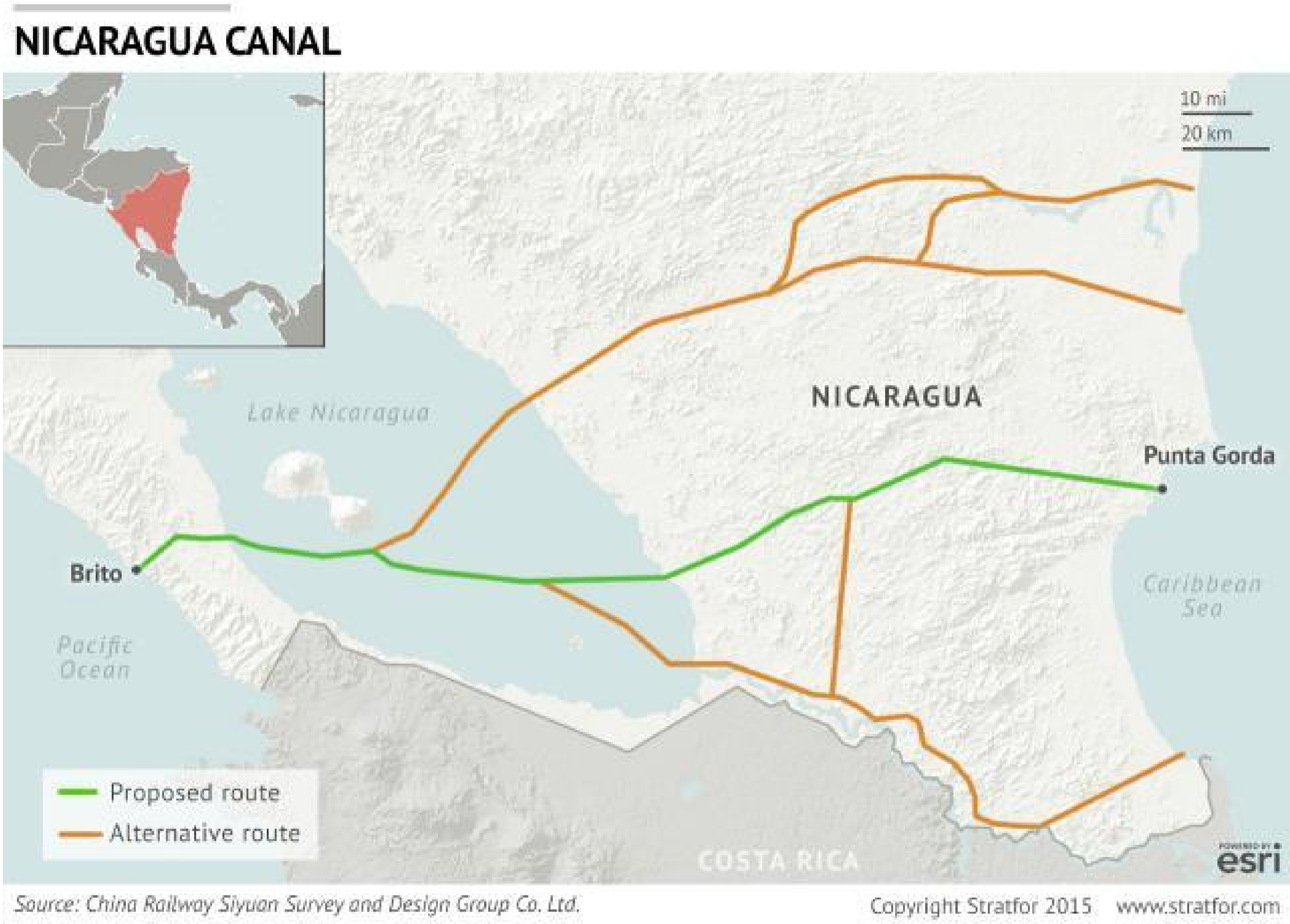
Money spent upfront on surveys and even early moves to purchase land do not mean the canal will be completed, just as the economic and environmental obstacles do not necessarily mean the canal will stall out before completion. The world is littered with hero projects that, in retrospect, perhaps would have been better left unbuilt or at least proved more costly for their investors than anticipated. But the construction and plans have raised numerous questions about who is really behind the canal project.

The Investor

Wang Jing, chairman and CEO of the Hong Kong Nicaraguan Canal Development Group (HKND), which has the contract to build, develop and manage the Nicaraguan canal, is one of China's richest men, worth some $6.6 billion according to Forbes. He has been involved in telecommunications and mineral operations, though by most accounts he owes his fortune more to good luck and timing than through connections with Beijing.

Wang established HKND in August 2012, one month after the Nicaraguan government established its Grand Interoceanic Canal Authority, which paved the way for realistic investment into a canal project. A month after it was established, HKND had a memorandum of understanding with the Nicaraguan government to conduct the feasibility study for the canal project. In June 2013, the Nicaraguan legislature formally voted to approve the construction of the canal, and within days the contract was awarded to HKND.

Wang's involvement in the canal appears to stem from a meeting with the son of Nicaraguan President Daniel Ortega, whom he met with either in Nicaragua or Beijing. Wang was looking to expand his telecom business into Nicaragua as part of broader global expansion, and his company, Xinwei, acquired contracts in 2013, though there has been little work reported toward fulfillment of those contracts. Rather, amid discussions with Ortega's son, Wang became enamored with the opportunity for a Nicaraguan canal that, he hoped, would carry massive bulk cargo ships from Brazil to China — ships that were too big for the Panama Canal and, incidentally, were in some cases blocked from Chinese ports because of their size and Chinese concerns for maritime shipping competitiveness.



A Nicaraguan canal may make more sense for international traders than it does for its potential investors. Though most studies argue that investors are guaranteed to lose in the canal construction, if the canal is built and managed efficiently, it does offer complementary routes for trade between Asia and the East Coast of North America, something that could interest shipping companies given the perception of unreliability of United States' West Coast ports. It also could provide speedier passage of bulk cargoes from Latin America, particularly Brazil, to Asia (read China), and as a redundant route, may ease congestion in the Panama Canal.

But the canal itself is not the only prize. Wang's vision includes the expansion of Nicaraguan ports, the establishment of new tourism venues to rival nearby Costa Rica, and the creation of new free trade zones in Nicaragua to take advantage of its location for manufacturing and distribution. With China slowly losing its place as the primary source of international low-end manufacturing, a Chinese-backed free trade zone in Nicaragua could take advantage of regional low labor costs and the nearness to larger Mexican, South American and U.S. markets. Stratfor counts Nicaragua among our so-called Post-China 16 countries, those positioned to take advantage of the changes in global manufacturing supply chains. The canal fits with the desires of Nicaragua's president, but the add-ons are potentially the more significant prize for Wang and his fellow investors.

Funding Troubles

Wang has not had an easy time drawing in the financial backing that a project of this magnitude needs. Already he has spent by some estimates more than $5 billion of his own money as well as that of his family and friends, whom he solicited early to capitalize the project. Some major state-owned enterprises have steered clear of the project, including major Chinese shipping companies (COSCO for example already has a stake in the Panama Canal). But others, particularly construction companies looking for large projects overseas, have expressed interest or engaged in a partnership with HKND, and HKND is urging those companies to become partners, bringing with them their own financing. In this way, HKND can spread the cost and potentially still profit from a canal project that others before had determined would not turn a profit.

Interestingly, despite the obvious questions about Wang and Chinese involvement, the Chinese government does not seem to be involved directly. Wang has worked somewhat outside the normal channels of Chinese political networks, and Beijing has been cautious about the project from the start. Beijing has no formal diplomatic relations with Nicaragua; rather, Nicaragua is one of the few nations left that maintains formal recognition of Taiwan. In 2012, as news of the canal construction heated up, the Chinese Ministry of Commerce cautioned Chinese companies, noting the lack of diplomatic ties in addition to border issues between Nicaragua and Costa Rica. Beijing is not interested at this time in drawing Nicaragua to alter diplomatic relations to the mainland, since that would undermine Beijing's management of the Taiwan issue.

Furthermore, though Beijing has backed many economic projects in Latin America and has special economic and political relations with countries such as Venezuela, Chinese leaders are cautious about engaging in a project that clearly appears to challenge U.S. interests in the region — particularly given the high cost and minimal rewards of the Nicaraguan canal. Wang himself purportedly tried to gain U.S. backing and investment through contact with former U.S. officials, but found little support. Publicly serving U.S. officials have actually raised concerns about the project, though primarily for environmental reasons.

One of the reasons the Chinese government was cautious was the belief that the canal project would not be viable without U.S. support, or at least without avoiding U.S. opposition. With Beijing facing difficulties at home regarding its overall economy and the parallel anti-corruption campaign and consolidation of power under President Xi Jinping, there is little appetite among China's leaders to pick a fight with the United States in its own backyard over a project that appears to bring little gain while being fraught with political risk.

According to some people familiar with the situation, Wang is now having second thoughts about the entire project as well. Having already thrown in some $5 billion, however, it would be difficult for Wang and HKND to back out. Without the more active backing of the Chinese government, or at least a surge in interest by potential partners, HKND is likely to find it increasingly difficult to raise the money for the canal project. Environmental opposition will probably grow and may draw in international organizations to support the local population. And this does not even consider some of the physical obstacles of such a massive undertaking.

The Nicaraguan government has based a lot of its future economic projections on the projects related to the canal construction and affiliated investments, and that is riding on Wang's company and his ability to raise the funds and support necessary to bring the project to completion. But by most accounts, Wang does not have the political or economic backing of Beijing, certainly not formally and perhaps not at all. Perhaps the attention will shift to the affiliated development — the ports, the free trade zones and the tourism facilities. But whether the entirety of the project itself is ultimately completed, the renewed attention to a Nicaraguan canal, and to Nicaragua itself, emphasizes the changes in international attention to areas of the world picking up as the next manufacturing hubs.

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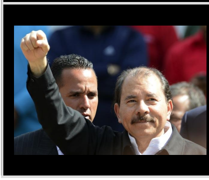

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