

Small Countries and Major Global Economic Players – the Nicaraguan Channel

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ABSTRACT:

We often use terms such as ‘small countries,’ ‘poor countries,’ and third world countries to describe countries that, regardless of their size, natural resources, and even location, occupy a negligible place in the world economy. Simply put, they are relatively poor. Often, there is no international interest in these countries, or it is focused on protecting human rights. But what would happen if such a country tried to appear on the world map and improve its economic situation by creating new infrastructure comparable to or surpassing similar projects? And how her attempt to be noticed would affect the current political formations?

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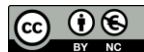
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Introduction

Let's look at a small Central American country defined as democratic. It has its own capital but is one of the poorest countries in the world. In the region, it ranks second in poverty after Haiti. It is a presidential republic. The President is the head of state and head of government, directly elected for a term of 5 years. The country is divided into 15 departments and two autonomous regions. In the last census in 2005, 5.46 million people were counted. About 93 % of the population are Catholics, and 5 % are Protestants. 72 % of the population are mestizos, 20 % are descendants of the Spanish conquerors of the country, and 8 % are Indians. The black population lives mainly on the Caribbean coast and are descendants of formerly enslaved people from Jamaica. This part of the country

is also the least populated. Due to high unemployment and poverty, tens of thousands emigrate each year, mostly to the United States and Costa Rica. According to rough data, every sixth citizen of this country (i.e., nearly 1 million people) lives abroad.

The economy of this country is agrarian, based on three crops: bananas, coffee, and tobacco. Following an economic embargo imposed by the United States in 1985, inflation in the country skyrocketed. In 1985 it was 220 %, to reach in 1988 the monstrous 13,000 %. Since the end of the civil war almost two decades ago, more than 350 companies have been privatized, inflation has been curbed to 10 %, and foreign debt has halved. However, it is again one of the poorest countries in Central America, with an average monthly salary of \$ 100 (while in other countries such as Honduras, it is \$ 290 and in Costa Rica, \$ 237). Or, as it has already become apparent, this is a very poor country named Nicaragua.¹

A little further south of Nicaragua is Panama, which is not much better off economically. But there is one element that is extremely important for world shipping, thanks to which many countries' economic and political stability has depended for many years – the Panama Canal.

Built in the early 20th century with prospects for expansion, the Panama Canal can no longer cope with the sharp increase in maritime trade. According to experts, even with its ongoing modernization, it will not be able to significantly change the situation, as even after expanding to the limit of the region, its capacity will be insufficient for dry cargo ships, container vessels, and supertankers, whose number continues to increase. Under these conditions, the attention of business and political circles is focused on finding opportunities to build an additional overseas route. Therefore, in 2012, the Nicaraguan government proposed to the world community the idea of building the Nicaraguan Canal.

1. Solution for the Construction of the Channel

The decision to grant an international concession to build a new canal in the country was announced by the President of the Republic of Nicaragua, Daniel Ortega, in June 2012 as the main arguments are:

1. The Panama Canal, an exceptional engineering achievement, was built and put into operation almost 100 years ago, which is why it is physically and morally obsolete and does not meet the requirements of dynamic world trade (especially after China's foreign trade expansion).

2. The ongoing reconstruction of the Panama Canal will make it possible for ships with much larger displacements (up to 170,000 tonnes) to cross. Still, hundreds of ships will not be able to use it today. In the future, with the inevitable development of shipbuilding technology, the number of high-capacity ships should only increase.

3. New ships and the growing volume of maritime traffic require a new, modern sea route, a 21st-century canal;

	PANAMA AMPLIADO	SUEZ	NICARAGUA
Canal (Profundidad)	13.8 mts*	21 mts	22 mts
Canal (Longitud)	80 km	195 km	286 km
Buques (Capacidad)	120-130,000 dwt**	200,000 dwt	250,000 dwt
Buques (Calado)	12.3 mts*	19 mts	20 mts
Esclusas (Largo)	427 mts	Sin esclusas	466 mts
Esclusas (Ancho)	55 mts	300-365 mts	60 mts

* Estacional: Profundidad 16.1 mts, Calado 14.6 mts
 ** Según Panamá

Figure 1: Comparison between the three channels.

4. The construction and subsequent operation of the canal in Nicaragua will make it possible in a record short time for Nicaragua’s GDP to increase unprecedently (by 15 % in 2015 and almost double in 2018);

5. The implementation of the megaproject will help solve many of Nicaragua’s long-standing social problems, as it will increase the employment of the local population and provide significant revenues to the state treasury in the form of tax and other deductions from the operation of the canal.²

Thus, proposing the idea of building the Nicaraguan Canal, which has already received the official name of the Grand Canal (GMC), the Nicaraguan government sees the implementation of this project as a way to overcome socio-economic backwardness and an effective tool for modernizing the country.

The Beginning of the Project

In Nicaragua, construction plans have come to the attention of all governments. As early as 1999, a special government commission was formed, which by 2006 had developed a detailed construction project. Its estimated cost has been set at \$ 18 billion (2006 prices), and alternative routes for building the canal have been outlined (Figure 2).

According to experts, route № 3 is optimal, as this option provides the best geological, topographic, hydrological, and environmental characteristics, as well as the lowest costs. Despite the advanced work, for various internal and external political reasons, the moment to announce the beginning of this grand project is in 2012.



Figure 2. Alternative routes for the Nicaraguan Canal.

Announcement of the new project

On July 4, 2012, the National Assembly (Parliament) of Nicaragua approved the Law on the Legal Status of the Grand Nicaraguan Inter-Oceanic Canal (GNMC) and the Establishment of a Channel Management Structure.

A new organization has been created – Service of the Great Nicaraguan Inter-Oceanic Canal, designed to represent the Nicaraguan state in the future company, which should be engaged in the construction of the canal and its subsequent operation. The management of the service is engaged in the international presentation of the idea of building the canal in order to its promoting. As a result, an investor was found – the company “Empresa Desarrolladora de Grandes Infraestructuras S.A.” (EDGISA).³

The management of GNMC and EDGISA started a process of searching for an investor, opening one in the face of the Chinese company HK Canal Development Investment, with which a cooperation agreement was signed on October 31, 2012. According to this document, HK Nicaragua Canal Development Investment receives the exclusive right to develop the project and manage the canal and all related facilities.

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But right after that, the problems with this partnership began. At that time, the only information about HK Canal Development Investment was that it was registered shortly before the signing of the contract with the status of a private company - a limited liability company in the Hong Kong companies database.⁴



Figure 3: location and ratio between the two channels.



Figure 4: Nicaraguan President Daniel Ortega and HKND Group Director Wang Jing are shaking hands after the June 14, 2013 agreement to build a canal through Nicaragua.

According to the cooperation agreement with HK Nicaragua Canal Development Investment, the establishment of a special legal entity as an operator of the project for interaction with shareholders is envisaged. As a result, HKND Group Holdings Limited (HKND Group) was established and registered in the Cayman Islands on November 7, 2012.⁵

Even then, the media tried to study the activities of the two companies, receiving very interesting information. It turns out that HKND Group is a private international company created for the development of infrastructure based in Hong Kong and offices in Managua. According to official information at the time,

its staff “... has significant experience in infrastructure development and construction management.”

HKND Group is led by Chinese entrepreneur Wang Jing,⁶ born in 1972, who lives in Beijing and, according to the Nicaraguan government, has twenty years of experience in building successful companies. However, according to the Nicaraguan press, Wang Jing is a lawyer by profession, not a businessman, and currently holds the position of director of the mobile communications company Xinwei Telecom Enterprise Group.⁷

It recently received a license from the Nicaraguan state telecommunications regulator TELCOR⁸ for operations in Nicaragua after officially winning a non-transparent tender. According to news agencies that are working to investigate Xinwei’s activities, no traces of large and successful business projects have been found in 12 of the 20 countries listed as sites for its business.

The information received about the company shows the opposite. In Cambodia, for example, Xinwei’s work is frozen; in Zimbabwe, it is linked to a local company that has been legally deprived of its license and property.⁹

Therefore, the prevailing opinion in the press is that Wang Jing received the concession to manage the construction of the Nicaraguan Canal thanks to the patronage of the son of Nicaraguan President Laureano Ortega Murillo. However, in 2013, President Ortega submitted two more documents to the National Assembly, which included projects for developing relations between Nicaragua and the HK Nicaragua Canal Development Investment, which were approved by a majority in the National Assembly.

Many analysts (both Nicaraguan and foreign) note that from the point of view of Nicaragua’s national interests, these actions represent a step backward. This is because so far, the laws have guaranteed 51 % of the shares of the Nicaraguan state, while under the new laws, the implementation of the project will be entirely in the hands of private investors.

Terms of the Contract

This project is the most ambitious construction and infrastructure project in history, not only for the Central American countries but also for the Latin American region. The future canal is expected to connect the Atlantic and Pacific Oceans and be more than three times longer and much wider than the Panama Canal. The canal is planned to be 286 km long (including 80 km across Lake Nicaragua), 520 m wide, and 22 m deep, which will allow ships with a large displacement to pass.

Not to be overlooked is the fact that Nicaragua has granted an exclusive concession for the benefit of the investor and his partners for 50 years, which can be extended at the request of one party—the investor—for another 50 years. The concessionaire HK Canal Development Investment receives the right to assign, replace one obligation with another, and transfer or encumber all or certain rights and obligations in connection with subprojects.

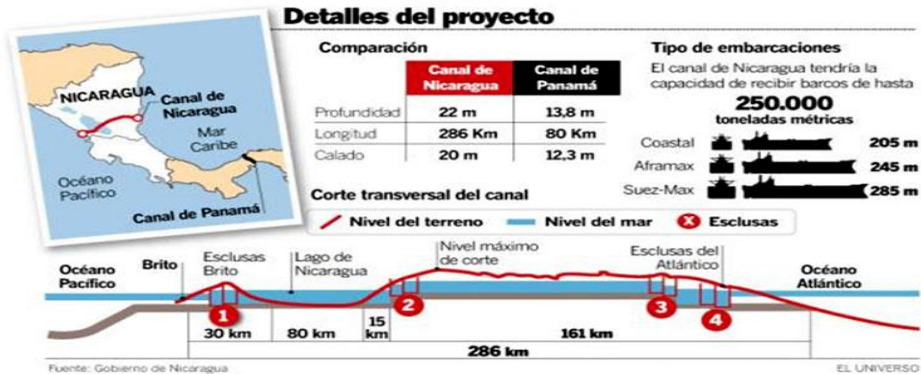


Figure 5: Details for Both Channels.

However, the framework agreement stipulates that over ten years, the investor will transfer the equipment and infrastructure of the subprojects (after the end of the concession period), as well as the shares of the company under the scheme of successive increases from 1 to 99% throughout the maximum allowable period of concession (one hundred years). Thus, the Nicaraguan state will not invest its own funds in the implementation of the project, but in 50 years, it will have 51 % of the concession, and in half a century, it will become almost a full owner of the canal.

In addition to building the canal itself, the project envisions the construction of two ports and two free trade areas (Pacific and Atlantic), an international airport, and an oil pipeline, with an estimated project budget of about \$ 40 billion.

2. Opinions of Opponents and Supporters

As always, when it comes to political views and a lot of money, opinions about the construction and implementation of the project are mixed. The reason for this is that there have been repeated violations of the provisions of the Constitution of Nicaragua in determining the contractor. There are also fears that the construction of the canal and adjacent infrastructure facilities may cause irreparable material damage to the population living in these areas.

Environmental organizations concerned about the damage that will be done to the environment, such as Lake Nicaragua, through which a significant part of the canal's route is planned, make no exception. It is considered a "national drinking water reservoir and a priority object of national security."¹⁰

International Views

Plans to build a new inter-oceanic canal in Nicaragua with the above opportunities and planned financial results will have a strong impact on relations between Nicaragua and neighboring countries, as well as with major foreign economic players. The Central American countries neighboring Nicaragua are rightfully

beginning to fear that the Nicaraguan canal will halt major investment flows to this region of Latin America. For example, according to Venezuelans, the construction of the canal will allow a significant part of oil exports to be diverted from the US to the Asian market. Mexico says it will suffer significant losses from its role as an international hub, as its Pacific and Gulf seaports are used to move trade from Asia to Europe. According to Mexican economist Alejandro Diaz Bautista, the construction of the canal will have a negative impact on the development of Mexico's port infrastructure.¹¹

Plans for the Canal and the Great Powers

The United States has long played a dominant role in the construction and operation of the Panama Canal and is naturally concerned about plans for the new facility. They remain relatively calm on the issue, despite the expansion of Sino-Nicaraguan economic relations. Professor Arturo Cruz Sequeira of the Central American Institute of Corporate Governance (INCAE) attributes this calm to the common interests of the United States and China. "Relations between China and the United States are intimate, much more connecting them than opposing them."¹²

Russian-Nicaraguan relations

In the international context, Russia seeks to stabilize its dominant position in Latin America by providing economic and military assistance to countries in the region. Some authors also describe the action as an "imperialist act," especially since Moscow provided a large grant to Managua in 2006, which eased Nicaragua's difficult economic situation and boosted Russia's prestige in Central America. In 2009, during a visit to Nicaragua by the Deputy Prime Minister of the Russian Federation Il Sechin, the Russian side expressed interest in the possibility of participating in the construction of the new canal.¹³

Indeed, relying on the level of interstate cooperation already achieved, Russian business structures would have a good chance of receiving contracts and orders for the construction of a new inter-oceanic canal. The economic and political dividends that Moscow can receive from such participation are obvious. At the same time, the various risks associated with the underdevelopment of the project and the existence of problems that do not yet have a clear solution cannot be eliminated.

At first glance, Russia is not very interested in the channel itself. However, by contributing to the realization of the idea, Russia will reaffirm its commitment to a multipolar world that is not conducive to monopolization. In November 2013, the Nicaraguan government formally invited Russia to participate and invest assets to build the megaproject. At the moment, Russia's attitude towards the construction of the canal is not clear, but in 2013, government officials readily agreed to the proposal, announcing that they could take over the supply of specialized equipment, structures, and construction materials.

Many economists attribute Russia's commitment not only to the high cost of the project – \$ 40 billion. But as it turned out, the essence of the partnership is

much more complicated. It was Nicaragua that supported the country and was on the list of 11 countries that voted for Russia's position at the UN on the issue of holding a referendum in Crimea. The UN General Assembly at the time passed a resolution declaring the Crimean referendum illegal. As a result of the vote, only 11 countries supported the meeting, 100 voted against the referendum, and 58 abstained. This laid the groundwork for close cooperation between 11 countries that opposed the majority: Belarus and Armenia, Syria and Cuba, North Korea and Sudan, Zimbabwe and Bolivia, Venezuela, and Nicaragua.¹⁴

Conclusions and summary

There are great risks in building such a megaproject. However, it is about 40 billion dollars to be given for one project, provided that there are doubts about the future transparency of finances. This is because in 2013 Nicaragua was ranked 124th in the World Bank's investment attractiveness rating. For this reason, many experts consider it possible to build the Nicaraguan Canal only if its price is reduced and it is proven that it is more profitable to cross it than through the Panama Canal.

But what are the future challenges for small countries in today's economic and political reality? The task before them is to get out of the intellectual and economic weight of the great powers. According to political scientists, if their political and economic presence in international relations is strengthened, conditions would be created for a more dynamic and harmonious world.

As major players on the international political scene, Russia and the United States have their own vision of politics and security in the region, which they are trying to develop in a way that suits them. But with China's intervention, analysts and experts agree that the big game is beginning, and the future Nicaraguan Canal is already another Cold War battlefield.

Nicaraguan Foreign Minister Dennis Moncada says the Nicaraguan Canal is a historical project for his country, and it will never give up the right to build it.

Last but not least, the decision to implement it will be made after lengthy and complex international negotiations, in which major political players and international banks must participate.

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