

BY CHARLES CASTALDI

**MANAGUA, NICARAGUA** — If Daniel Ortega, Nicaragua's well-entrenched president, has his way, the Panama Canal will soon be facing some competition. In a country in which there are only two buildings taller than 10 stories, a plan to build another canal linking the Atlantic and Pacific oceans seems a stretch. A Nicaraguan canal, announced with much fanfare last January, would be the largest construction project ever undertaken in Latin America, creating a waterway able to accommodate ships too large for the Panama Canal, along with an inter-ocean oil pipeline, two deep-water ports, airports and a railroad, all bolstered by free-trade zones. In short, the \$50 billion-plus project would yank Nicaragua, the second-poorest country in Latin America, out of obscurity – and perhaps out of poverty.



Daniel Ortega and his mysterious new friend, Wang Jing

AFP/GETTY IMAGES

## TRENDS

### SNAP DECISION

The decision to move forward on a project of this scale – one with immense economic, environmental and geopolitical implications – took a lot of time to make, of course. Well, not really; arguably the most fantastical aspect of the plan is the speed with which the concession to build the canal was granted and chiseled into law. It would make those who have been struggling to obtain approval to build the 36-inch Keystone XL pipeline for the last six years green with envy.

The decision-making process combined efficiency with a complete lack of transparency, a duality that has become the hallmark of Ortega's government. The idea was hatched in 2012 when Ortega's son, Laureano Ortega Murillo, made contact with a Chinese entrepreneur, Wang Jing, apparently for the purpose of attracting an investment in telecommunications. But soon, larger dreams took hold, and when Wang made his first visit to Nicaragua, the canal was the first item on the agenda. Then, quicker than you can say "pipe dream," the president presented Wang to the Nicaraguan people as the master builder. Within a week of being handed a draft law, Nicaragua's Ortega-friendly National Assembly had rubber-stamped the exclusive franchise.

### NICARAGUA'S COMEBACK KID

Ortega couldn't always get things done so easily. He headed the Sandinista movement that, in 1979, overthrew Anastasio Somoza, a West Point graduate and U.S. protégé who was a caricature of a corrupt, tin-pot dictator. On the heels of that victory, Ortega found himself at war with the Reagan administration's

illegally funded Contra guerillas – remember Oliver North's secret arms-for-cash trip to Iran, complete with chocolate cake (baked in Tel Aviv) as an icebreaker?

In 1990, exhausted after nearly a decade of fighting and a U.S.-imposed economic embargo, Nicaraguans handed the Sandinistas an electoral defeat that caught them completely off guard. The lesson for Ortega seems to have been deep mistrust of electoral free-for-alls. He failed to get re-elected twice, until his wife, Rosario Murillo, became his campaign manager in the 2006 election. She kept him on a tight leash – no press conferences, no hamfisted, off-the-cuff remarks. She also reinvented him as a devout Catholic. Ortega managed to adhere to her script. And they had the good fortune to face an opposition that, in its typical maladroitness, went into the election divided.

Since then – we're talking seven years and a number of fraud-stained elections – Ortega has only given two one-on-one interviews – one in 2009 to TV journalist David Frost in his Al Jazeera English phase, the other (in 2012) to Russian television. This is a president who is never seen meeting with his cabinet, never seen in his office, never seen doing anything that isn't carefully choreographed.

Is he sick? Is he in Cuba? Is his wife running the day-to-day affairs of the country? There's much speculation, but that's about it.

### MATCH MADE IN HEAVEN?

But back to the canal story. Who better to serve as partner to Nicaragua's version of the Wizard of Oz than Wang Jing? You're probably not familiar with Wang and his company, Xinwei – which is understandable, since no one really was until last year. That, however, hasn't stopped Xinwei from bragging on its website that the company "possesses huge strength and sublime eminence in the global commu-

---

**CHARLES CASTALDI** is an American journalist and filmmaker who covered Central America for National Public Radio during the Contra war. He lives in Nicaragua.



nications industry” and that “Xinwei is creating history! Xinwei will become a legend!”

Wang’s life is shrouded in even more mystery than Ortega’s. He is a billionaire (number 1,210 on *Forbes’* current list of the globe’s wealthiest people) who appeared on the entrepreneurial stage out of thin air in 2009 with deep enough pockets to buy the financially distressed Xinwei, which had begun existence as a state-owned enterprise. Although Wang insists he is “a very ordinary Chinese citizen” who lives with his mother, his younger brother and his daughter in Beijing, there seems little doubt he has connections into the more rarefied reaches of the ruling elite.

The Xinwei website has a section with snaps of a who’s who of powerful apparat-

chiks doing the mandatory factory visits. And many of Wang’s statements about the canal read like either naive enthusiasm or double-speak reminiscent of a pep talk from Chairman Mao: “We will change the world. Making this dream a reality will bring more happiness, more freedom, and more joy to the world.”

According to Wang, he’s also closed billions of dollars of telecommunications deals around the world. But journalists who have sorted through the self-aggrandizement have found that the reality falls short. Xinwei has been successful in selling proprietary telecommunications systems to the Chinese government. However, all the purported deals to sell similar equipment to governments in foreign countries from Cambodia to Zimbabwe

## TRENDS

seem to have gone nowhere.

In Nicaragua, Wang had promised to build a cellular network worth \$2 billion by 2013. Now, in 2014, the figure has been reduced to \$300 million and the first shipments of equipment are just trickling in.

However obscure Wang might be, there's little doubt he got a very favorable deal from Ortega for the canal concession. The Hong Kong Nicaraguan Canal Development Investment Company, which he created to manage this project and which he fully owns, will pay up to \$10 million a year for 50 years, a term that is renewable for another 50 years. Each year, Nicaragua will be granted an additional 1 percent of the development company's shares, so that it will own 100 percent at the end of the 100 years. The fees collected by the canal and ancillary projects will be divided proportionally.

### A LONG AND WINDING ROAD

There's still the matter of finding investors willing to pony up the \$50 billion or more that the canal is expected to cost. Again, Wang had promised to make some of these investors known by the spring of 2014. But so far, the Hong Kong Nicaraguan Canal Development Investment Company has only reiterated that "many investors from all over the world are interested."

The issue of bringing investors on board may not be a stumbling block, however. While Wang purports to be a private businessman who says he "has nothing to do with the Chinese government," there's reason to believe that the Chinese state is ready to provide financing. Paul Oquist, Ortega's private secretary for public policy, recently told a diplomat who wondered where the money was going to come from: "Don't worry, the Chinese are fully behind this." Further evidence: the state-

owned Chinese Railway Company, the second-largest construction company in China, has been designated the lead engineering and construction firm.

The idea of building a canal through Nicaragua dates back to 16th-century Spanish colonists. It resurfaced when Napoleon III of France sent surveyors to study possible routes – routes that, to this day, are on the table. And it entered American consciousness before the Civil War, when the California gold rush created a market for an alternative to the traditional routes.

Before the U.S. transcontinental railroad was built, the trip to California required either an arduous journey across America's Wild West by stagecoach or covered wagon, or a 14,000-mile sea voyage from New York around Cape Horn and up to California. The rail mogul Cornelius Vanderbilt provided an alternative by establishing a land and water route across Central America using Nicaragua's San Juan River, which flows from the Atlantic Coast into Lake Nicaragua, the second largest lake in Latin America. After crossing the lake, it only took an overland journey of 12 miles on a plank road to reach the Pacific. Passengers then boarded Vanderbilt-owned ships for the coastal run up to California.

Vanderbilt obtained an exclusive contract to build a canal along this route, but arduous lobbying by interests favoring the shorter (though arguably more daunting) Panama route proved a major distraction. When the French started construction in Panama only to run out of money, the United States picked up the project in mid-construction for a song. So the inter-ocean canal ended up in Panama.

### NEW LIFE TO AN OLD IDEA

Still, the hopes of building a Nicaraguan canal were never fully extinguished, even as the Panama Canal seemingly rendered the case



Lake Nicaragua, above. The Brito Inlet (right), the likely Pacific coast outlet of the canal

moot. And many decades later, the combination of economies of scale in ocean carriage and the exponential growth in demand for long-haul shipping have brought it to the fore. Humungous ships are the way to go these days because they are proportionately cheaper to operate. But they are generally too big to pass through the Panama Canal.

The Panamanians, who have owned the canal since the United States turned it over in 1999, have undertaken a \$5 billion expansion that promises to accommodate ships carrying as many as 14,000 standard containers. But Maersk, the world's largest shipping company, has already taken delivery of new ships 1,300 feet long and almost 200 feet wide that can carry 18,000 containers. Meanwhile, the most efficient bulk-commodity transports – ore carriers, supertankers and liquid-natural-gas carriers – have all outgrown the soon-to-be-improved Panama Canal.



That's not to say a Nicaraguan canal is necessarily viable in economic terms. There are already alternatives to the Panama route. At present, three-quarters of the cargo from Asia to the United States is unloaded in West Coast ports and then moved east by rail – all told, an 18-day journey to the Eastern Seaboard. Going through the Panama Canal takes about three days longer. Going west from Asia through the Suez Canal to the East Coast also takes about 21 days. And, for those who like to look on the brighter side of environmental disasters in the making, global warming may open up an Arctic shipping route that would be considerably shorter than any of these.



## TRENDS

In a presentation to Nicaraguan businessmen last November, the Hong Kong Nicaraguan Canal Development Investment Company projected a tripling (to 9 percent) of the annual growth in global shipping tonnage over the next six years. It pointed out that the Chinese are now the second-largest clients of the Panama Canal, after the United States. And it paid McKinsey & Co. to do a study the development company isn't making public, which reportedly confirmed the economic viability of a canal that can handle bigger vessels.

**Talk to the average Nicaraguan, and you get the sense that if the canal can deliver jobs, concerns over the project's environmental impact or the pervasive lack of transparency around it fade into insignificance.**

In any event, economic viability may not be necessary if the Chinese government is, indeed, backing the project and has geopolitical goals in mind. The Chinese have explored a number of smaller transportation projects in Guatemala to the north and Colombia to the south. A project of the Nicaraguan canal's dimensions would secure a foothold in the hemisphere for the Chinese and great influence over a key global shipping route.

Here in Nicaragua, there have been newspaper articles suggesting that the Russians – Ortega's patrons in the 1980s – have also taken an interest in the canal and have been in conversations with the Chinese. The best guess now, though, is that Russian participation would be limited to construction and engineering.

For the moment, U.S. diplomats are taking a wait-and-see approach to the whole thing, leaving the impression that they think the project is pie in the sky. But if the canal is to

be built, they say, they want U.S. companies to have a fair shot in the bidding. And while memories of U.S. intervention may still burn, the United States has more leverage with the Ortega regime than one might think. At present, it is Nicaragua's largest trading partner, and Washington enjoys a cordial working relationship with Managua on what interests it most: drug interdiction and antiterrorism.

### RESISTING THE RUSH TO JUDGMENT

Opposition to the canal has come primarily from environmentalists and intellectuals,

many of whom were Sandinista supporters in the 1980s. Sergio Ramirez, a noted author who also happened to be Ortega's vice president during that period, puts it bluntly: "The whole thing is a fiction," he said, "the sort of malicious dream that separates us from others to drag us toward an eternal panacea hidden in an opium haze. Poverty, ignorance, marginalization, economic injustice, all of this gets conveniently covered over by this magic veil."

Some of Ortega's opponents note that he has had to look for new patrons now that aid from Venezuela, which has averaged over \$500 million a year over the last seven years, is diminishing as the Venezuelan economy and polity implode. China might fill the void in one way or another.

Arguably the biggest naysayers are those concerned with what this gigantic project would do to Nicaragua's environment. Jaime Incer, a former minister of natural resources

and Nicaragua's leading environmentalist, points out that the canal company has hired the British firm ERM to study the environmental impact. "Even if the firm that does the environmental-impact studies has a good reputation," (ERM qualifies), Incer argues, "the simple fact that it's been hired by the same company that is going to build the canal" implies that "it will not produce impartial results."

The release of these studies was originally planned for the beginning of the year. Officials say they'll now be ready by midyear. But both Ortega and Wang insist that the route

cutting important bio-corridors near the Atlantic Coast, damaging species habitat, and changing the water level of the San Juan River. The area around the Panama Canal, however, attests to the fact that the construction of a canal need not lead to environmental catastrophe. Under American tutelage, Panama created vast protected areas to insure the watershed could provide the huge amounts of water the canal needs to function. "I have no doubt the Chinese can build first-class infrastructure that would be long-lasting," Alvarez says. "What I'm not sure is whether they'll do it in a responsible manner, because neither Nicara-

## **The backers of the canal play to these sentiments with plenty of hyperbole.**

for the canal will be chosen and construction will begin by the end of 2014, which hardly seems enough time for anyone to analyze ERM's findings – especially given the scope of the project.

Pedro Alvarez, a Nicaraguan who chairs the Department of Civil and Environmental Engineering at Rice University (and who, ironically, holds an honorary professorship at the Chinese Academy of Sciences in Beijing) is not sanguine about the environmental consequences. He says constant dredging would be required to keep Lake Nicaragua, which is quite shallow, navigable for large ships. That and the lake's natural tendency to form sediment could wreak havoc on water quality, which for the moment is nearly pristine. "One of my greatest concerns," he adds, "is that we would have supertankers crossing the lake with millions of barrels of oil, and even the slightest spill would forever doom such a delicate and closed ecosystem."

There are other potential environmental pitfalls to worry about, including the risks in

gua nor China have been exemplary when it comes to environmental and social impacts."

### **MONEY TALKS, LOUDLY**

Talk to the average Nicaraguan, and you get the sense that if the canal can deliver jobs, concerns over the project's environmental impact or the pervasive lack of transparency around it fade into insignificance. It's not hard to understand why; with almost half the population subsisting below the poverty line and one adult in four living abroad in search of work, the canal's perceived bounty is attractive, indeed.

The backers of the canal play to these sentiments with plenty of hyperbole. Ronald MacLean-Abaroa, a spokesman for the Hong Kong Nicaraguan Canal Development Investment Company, said that if Nicaragua builds the canal, "this country becomes the richest in Central America." Meanwhile, Oquist, Ortega's private secretary for public policy, talks about tripling the pace of economic growth to 15 percent, doubling the GDP and creating as many as a million jobs by 2018.

## TRENDS

The job-creation numbers are based on the rule of thumb that every \$25,000 worth of investment puts another person to work. But one must ask how many of those jobs would go to a work force that ranks among the least-educated and least-productive in Latin America.

Again, Panama offers a point of reference. During the decades in which the United States controlled the Canal Zone, the average Panamanian reaped few benefits beyond the eradication of yellow fever and malaria.

have something to gain from the canal; many business leaders seem eager for construction to begin as well. Indeed, Ortega's rapprochement with the private sector marks one of his more surprising and savvy transformations.

Gone is the anti-capitalist rhetoric of the 80s, not to mention the property expropriations and flat-footed central planning. Ortega has formed an alliance with big business. And since the Sandinistas already control the unions, a form of creeping corporatism is taking shape – one in which important policy

## **The biggest challenge facing the canal may be the inherent instability of a nation with top-down government.**

Now, however, 15 years after Panama took control of the canal, its economy has become a Latin American success story. Panama's growth has been fueled by banking, a free-trade zone, container ports, and even tourism, all of which benefit from the presence of the canal. Where Panama serves as more of a cautionary note is in its pervasive income inequality, which is among the highest in the hemisphere.

In part, Nicaraguans support the idea of a canal because they support Ortega – his approval ratings hover around 50 percent, with another 25 percent on the fence. One reason Ortega is popular is Venezuelan aid; he's used the half-billion dollars in yearly discretionary spending to provide housing, food subsidies and "patriotic bonuses." Health care, basic municipal services and access to education have all improved since Ortega's return to the presidency in 2007. So it's no surprise that in a country in which the large majority of citizens would be considered poor by developed-country standards, Ortega's focus on improving their lot has given him a solid base of support.

But it's not just the poor who think they

decisions are made after negotiations with labor and capital.

### **ORTEGA 2.0**

Not surprisingly, then, many of Nicaragua's business oligarchs seem content to look the other way as Ortega dismantles the checks and balances on his administration. Boundaries between the Sandinista Party and the government are mostly gone. The constitution has been amended, eliminating term limits for the presidency and giving Ortega direct control of the military and the police. The Supreme Court has been stacked with Sandinista acolytes who have yet to question a single law proposed by Ortega. Meanwhile, Ortega's wife appears to exert almost complete (if unofficial) control over domestic policy.

One of Nicaragua's richest men, Carlos Pellas, whose companies are the biggest players in almost all facets of the Nicaraguan economy, recently came out of a meeting with Ortega, declaring that "here, everybody has the right to free association, the press is free to express opinions, so I think that here we're living in an open society."



Pellas was right about the government's tolerance of press freedom. Compared to the 1980s, when the opposition press was censored and most media were simply Sandinista propaganda machines, the heavy hand of government is far less visible. But Ortega is methodically eroding the practical value of press freedom by buying up broadcast channels and withholding government advertising from media deemed unfriendly.

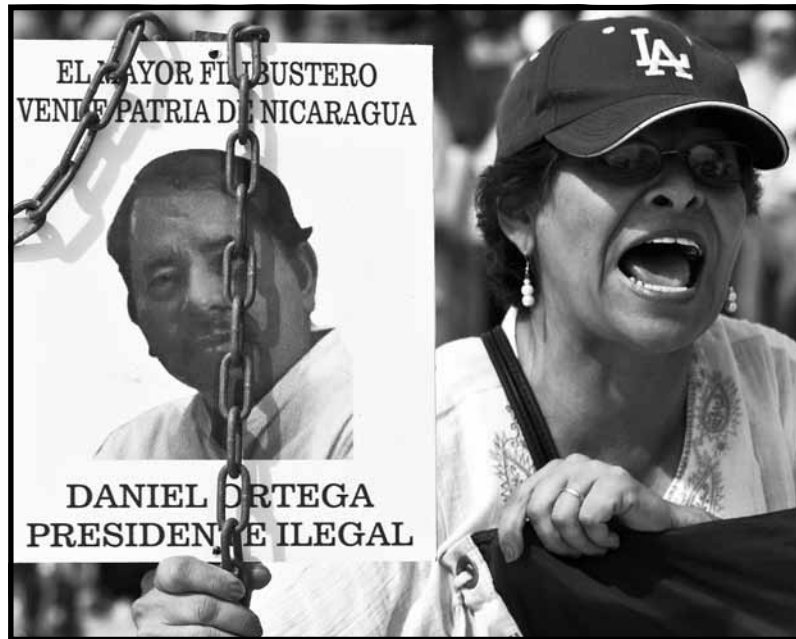
As to free association, that depends entirely on whom one is freely associating with. If it's young people demonstrating solidarity with retirees protesting low pensions – as happened in June 2013 – then things don't seem quite so open. The Sandinistas bused in unofficial shock troops (identifiable by their Sandinista T-shirts advertising “good government”) to chase and beat the teens and 20-somethings as the police stood by.

This raises an interesting point: arguably, the biggest challenge facing the canal may be the inherent instability of a nation with top-down government. In the short term, Ortega and his Sandinista Party look like they have the popular support – not to mention the control of the electoral process – to remain in power for at least another election cycle. But canal investors need assurances about the continuity of a business-friendly climate decades down the road, when others will be governing Nicaragua.

“How are we going to transition out of Daniel Ortega?” asks Antonio Lacayo, who was a close advisor to Violeta Chamorro when she defeated Ortega in the 1990 presidential election. “He has used all the means at his disposal to ensure the opposition cannot

win. So how will the end of *Orteguismo* come? Peacefully, or will there have to be another war? Each time the country undergoes violent change, its economy loses any momentum it has built up.”

For the Chinese, the idea of stability achieved at the cost of democratic rights must seem, at the very least, familiar, if not outright desirable. And if the Chinese are



willing to underwrite the cost of construction of the canal themselves, the issue of political uncertainty should be a non-issue. But if Wang is truly going to bring in investors from all over the world, then the Sandinista propensity for amassing power to the point that peaceful transition becomes next to impossible is likely to give private investors pause. Ironically, then, it might be Ortega himself, whose disregard for due process has brought the century-old dream of a Nicaraguan inter-oceanic canal within shouting distance of reality, who becomes the very reason why it never gets built. **M**