



## EconoMag

The Show that demystifies Economics

### Megaprojects – part 3: The Nicaragua Canal ©

by Max Farrington and Michael Hirsch

Most of the time Megaprojects are huge, so big that some of them, for one purpose or another, actually modify the planet. The best example of this type of project is the canal. The first strategically important one was the Suez Canal. This canal, 193km long, was dug through Egypt between 1859 and 1869. The canal was built so that shipping routes could avoid having to go all around the Horn of Africa to reach Southeast Asia and the Far East. The Canal proved to be a complete success and became very profitable. It gave its French builders the idea to build one in Panama, which at the time was a province of Colombia. Digging a canal here would mean joining the Atlantic and the Pacific Oceans without having to go through the Strait of Magellan, at the southern tip of Argentina. Napoleon III even wrote an article about its feasibility in the mid 19<sup>th</sup> Century. The French started building the canal in 1881, however the costs and difficulties of construction in the tropical climate exceeded their expectations and their efforts went bankrupt after spending \$287 million and the loss of 22,000 lives. The plans for the Panama Canal were then purchased by the United States, who at that time then abandoned the Nicaragua Canal.

However, there is now good news for canal enthusiasts! The Nicaragua Grand Canal is actually going to be built. On June 15<sup>th</sup>, 2013, the Chinese billionaire, Wang Jing, and the President of Nicaragua, Daniel Ortega, signed the agreement allowing HKND, the privately owned Hong Kong Nicaragua Canal Development Group, to construct and manage the canal. Work began on 22<sup>nd</sup> December 2014 with a completion date by 2020.

Many questions have been raised, however, not on the feasibility of the project, but on the reasons to build such a waterway when we already have the Panama Canal, which does the same thing by connecting the Atlantic and Pacific oceans. Questions also arise about environmental issues. In all, this project is a political, financial, ecological, and engineering risk, as hectares of forests and ecosystems will be destroyed to make place for this Megaproject.

Financing this project is also complicated; and the estimated cost is between 40 and 50 billion dollars. Besides private money, Wang Jing can count on private investors and possibly on the Chinese Government, and there has been much speculation on whether the Chinese leaders are actually providing financial backing for the project. For obvious reasons these accusations have been denied by both Jing and the Chinese government. HKND estimates that the work force will be around 50,000 people, half of them from

Nicaragua, a quarter of them from China, and the rest from other countries. The working conditions will certainly be very hard, with a schedule of 12-hour shifts, seven days a week.

Even though it will tear apart villages, habitations, and the regional environment, there will be some benefits for the country. Other than creating 250,000 jobs, the project will bring enormous wealth to Nicaragua. Let's take the example of Panama: since the canal was built the associated tax revenue has been a major boom for Panama, which has managed to develop extremely well, bypassing its poorer neighbors such as Costa Rica and Nicaragua. Throughout the construction of the Grand Canal, the Nicaraguan state will receive \$10 million every year for 10 years. After those 10 years, shares will be handed over to Nicaragua so that after 50 years the country will become the majority shareholder. This canal is also being built to accommodate the larger modern tankers that the Panama Canal is too narrow to handle.

So, the Nicaragua Grand Canal will exist and will probably be controlled by the Chinese, whereas the Panama Canal is still under strong American influence.