

Hindsight

How China is Buying the Rivals of the Panama Canal

The Panama Canal keeps receiving bad news.

[“a historic drought at one of the world’s largest trading routes”]
[“the wait time to get through? Now up to 3 weeks”]

It is undersized, [1] too expensive, [2] and wait times are getting frankly ridiculous. [3]

[“and we see ship after ship just waiting”]

Last year, Mexico finished construction of an interoceanic railway that’s marketed as a faster and cheaper alternative. Plans for building similar railways through Honduras and Colombia are now gaining momentum, [4] and there have even been talks of a rival canal through Nicaragua. [5]

The United States is by far the canal’s biggest user, and they count on this waterway to connect to their Pacific Fleet, [6][7] making it even more worrisome that China is establishing a strategic presence. [8] They already own 2 out of the 5 main ports, and they’re working on a third. Near all these alternative routes, they’re buying port facilities and supporting industries, and in some cases they are even building the railroads themselves. [9][10][11]

Can these routes actually rival the Panama Canal? How is China establishing a presence? And what does this mean for U.S. dominance in the Western Hemisphere?

This is how China is Buying the Rivals of the Panama Canal. ... with Hindsight.

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Body

The Panama Canal has played a vital role in global trade since its opening in 1914, as one of the world’s shipping choke points. And when such a choke point gets disrupted, it has far-reaching consequences. Like in 2021, when a grounded container ship blocked the Suez canal, and about \$9.6 billion dollars of trade was held up each day. [12]

The Panama Canal is extremely vulnerable to droughts, and during periods with little rainfall, the number of ships that's allowed to transit is lowered. [13][14]

During some months last year, the number of ships that was allowed to transit was more than 50% lower. Shipping companies, who pay on average about \$100,000 to transit the canal, were faced with a dilemma: risk waiting for days or weeks, or to take a longer route and pay \$20,000 to \$30,000 per day on fuel. [15]

The United States, with over 200,000 long tons of cargo per year, is by far the biggest country of origin or destination. China, with 64,000 comes in second. [16]

China wants to protect its strategic and economic interests, and in 1999, they made their opening move. [17]

They signed a long-term contract to manage port facilities at both ends of the canal. [18] 2 out of the 5 main ports were now controlled by China. On the Pacific side, this port serves as a hub to transfer cargo from large ships onto smaller vessels. Their port on the Atlantic side is much smaller and has facilities for cruise ships, but 90% of port services are provided by the two other ports. [19]

But this was just the start.

In 2016, China-based Landbridge Group acquired control of Margarita Island for \$1 billion, started construction on a new deep-water port for megaships. [20][21]

Then Panama made a surprise turnaround.

Panama **cut ties with Taiwan in favor of China**, [22] and they became the first country in Latin America to join China's Belt and Road Initiative. This was later followed by Mexico, Colombia, Venezuela, and a number of other Latin American countries. [23]

Construction on the port started a week later, and Panama announced that a consortium of Chinese state-owned companies was going to build the **fourth bridge over the Panama Canal**, [24] and a number of diplomatic agreements. [25]

Today, nearly 40 Chinese multinationals from different sectors have set their headquarters in Panama. [26] It took them just a few years to achieve all of this.

The Panama Canal is owned and operated by the Panamanian government. All countries are guaranteed to have fair access, and only Panama may maintain military installations, but the United States has the right to use military force in defence of the canal's neutrality. [27]

But then, **China's winning streak** was cut short. [28]

There was a growing pushback from the United States and from the Panamenian people which ultimately led to the government's decision to scale back and cancel some of China's plans. [29]

But China is playing the long game.

More than any other country in the world, they're searching for alternative commercial routes. They have led official expeditions through all Arctic shipping passages, something that no other country has done, [30] and in Central America they're the main foreign investor in routes that could rival the Panama Canal.

OC: Last week, as I was rewriting the script for this video, I was in one of my favorite shops in Barcelona and I found this map. This is an original map from 1829, and it was commissioned by the French to study the possibility of digging a canal through Mexico. You can see the Atlantic Ocean, and the Pacific Ocean, and a maze of rivers through Veracruz. But near Oaxaca, there are not that many. The Mexican canal was never built, but 50 years later, they started construction on the canal through Panama.

A canal through Mexico was never built, but a railway through the Isthmus of Tehuantepec has existed since the days of Porfirio Diaz. Prior to the canal, this railway was used to transport hundreds of thousands of tons of sugar from Hawai'i to the United States' West Coast, and this led to an economic boom for Mexico. [31][32]

But the railway lost business to the Panama Canal and over the years was poorly maintained. Mexico's President, Lopez Obrador, in 2020, started rebuilding the line, and in late 2023 it was reopened for operations. [33]

The railway runs from the port city of Salina Cruz on the Pacific side, to Coatzacoalcas on the Caribbean side, and has the capacity to transport 1.4 million containers every year. [34]

This turned the region into a strategic asset for global trade, and both the U.S. and China began investing in supporting infrastructure. The Chinese helped modernize the Salina Cruz port, and built new railroads in the region, and in Honduras they took it even farther. [35]

They invested billions in the acquisition of two ports [36] Puerto Cortés, on the Caribbean side, is already the busiest port in Central America by volume, [37] and there are now high-level talks between the governments of China and Honduras to build a connecting railroad. The construction would be completed in 10-15 years, and would have the capacity to transport 3.6 million containers per year. [38]

In Colombia, China proposed building another railroad from the deep waters near Cupica, through the dense jungle up to Urabá on the Caribbean coast. [39][40] The railroad would primarily serve to transport coal, but it would be capable of moving 300,000 containers per year between oceans. [41][42]

China is eagerly investing in all these projects, either directly in its construction, or in supporting infrastructure and industries that service these lines. But even if you add up Mexico's 1.4 million, Honduras' 3.6 million, and Colombia's 300,000, these rivals would still not come close to the capacity of the Panama canal, which was used to transport well over 8 million containers in 2023, and that's even before mentioning the existing transport infrastructure that already exists in Panama. [43]

But these routes should be seen as complementary rather than competitive, and for some ships that are waiting to transit the Panama Canal, it might be another route they can take into consideration.

The only plan that could actually outcompete Panama is a canal through Nicaragua.

The idea is to build two locks, each with 3 consecutive chambers, on each side of the country. These would be used to raise ships to the country's large freshwater lake. These plans have existed for decades, but in 2014, the government of Nicaragua announced that they had found an investor. [44]

[archival clip Ortega]

President Ortega, signed an agreement with a company from Hong Kong to finance and build the canal. [45] The face of this project was Wang Jing, a mysterious Chinese businessmen who is considered to be one of China's richest people, but much is unknown about how he amassed his fortune. [46]

The proposed size of the canal is about three times larger and much wider than the Panama Canal. It would require excavating hundreds of million of cubic meters of dirt, and placing millions of cubic meters of concrete. [47]

Meanwhile, Ortega was cozying up to Iran, Venezuela, and Russia, and he openly promoted the canal as an option against U.S. dominance over global trade. [48][49]

But after months of official acts and ceremonies, deals and meetings, [50] the Chinese billionaire Wang Jing suddenly lost nearly his entire fortune and disappeared, and quickly as it started, the hopes of building this canal faded away. [51]

China has well documented intentions to secure its grip on global trade and the chokepoints that connect the Pacific and Atlantic Oceans are of strategic importance to have dominance in the Western Hemisphere. The Panama Canal will likely continue to suffer periodic droughts and its transit capacity will occasionally lower. This heightens interests in alternative routes, which are unlikely to outcompete Panama, but they can take on some of the traffic.

China is creeping into strategic position, but they're also facing the harsh realities of Latin America, which go beyond the hardship of building through rainforest. Amongst them are corruption, political instability, the presence of armed gangs, opposition from environmental groups, and a general wariness of Chinese influence. But they have time, and they're making progress. [52]

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