



Folly or destiny?

By Derek Sambrook, FIB(SA), TEP
Managing Director, Trust Services, S.A.,
Panama



Will Nicaragua and Panama soon have something more in common with each other besides a history of strong Spanish and American influence?

In last month's column (The Retailer of Panama) I mentioned the plans Nicaragua has to have its own trans-oceanic canal to compete with Panama's, but, before any further comment about that, let's first look at the country's history of hardships since it gained independence in 1838.

It was an American buccaneer, William Walker, who had ruled the country from 1855 to 1857 following a civil war between the Conservatives and the Liberals. In support of the Liberals, together with perhaps 100 Americans and around 250 others (mostly Nicaraguans), he had marched on Grenada, held by the Conservatives, which he captured at the end of 1855. He was already regarded as the supreme army leader and, human frailties being what they are, promptly declared himself Nicaragua's president. In May 1856, the United States of America's President Franklin Pierce officially recognised the Walker government.

In those days most shipping went through Nicaragua along a route up the San Juan River in the Caribbean, across Lake Nicaragua, and then overland to Rivas in the southwest of the country, located on the Rivas Isthmus which is a narrow strip of land 12 miles wide separating the lake from the Pacific Ocean. Lake Nicaragua is the largest one in Central America (110 miles in length with an average width of 36 miles) and was central to the plans for a canal talked about since Nicaragua became independent, with a great deal of encouragement from private US interests. The route envisaged was to run up the San Juan River, cross Lake Nicaragua, and be completed by a channel dug through the Rivas isthmus to the Pacific.

Nicaragua, therefore, has been here before and in the early 20th century it was almost chosen over Panama by the US government. There were many factors behind the final decision (generating some apocryphal stories) and which included artful political lobbying by Panama. But, crucially, US relations with Nicaragua had deteriorated after General José Santos Zelaya, a Liberal, seized power in 1893 and established a dictatorship. Before this the US had enjoyed a good commercial relationship with the country for some 30 years, but when the general took power he rejected a US proposal to build a canal; and when the US was finally committed to constructing one in Panama, the distressed dictator made fruitless overtures to the British, Germans and Japanese to take on the task.

His reforms had alienated the upper classes and he was politically weak when US troops in 1909 helped to depose him. There followed two decades, as opposed to William Walker's two years, of US control and between 1912-1925 US military bases were built. As a postscript to the canal that never was: in 1914, the year Panama's canal opened, the US entered into a treaty with the Nicaraguans granting the US exclusive rights to build a canal, one which, of course, it had no intention of building but which effectively prevented any foreign power from doing so; in terms of the treaty USD3 million was paid to Nicaragua.

The country virtually became an American protectorate, with the US controlling customs and excise, the national bank and the railway. The US marines finally left in 1933 after guerrillas led by Augusto César Sandino (who gave his name to the Sandinista National Liberation Front) campaigned against the US military presence; he was subsequently assassinated by General Anastasio Somoza García, the National Guard commander.

Ever since the Mexican-American war (1846-48) when Mexico lost so much of its territory, America had increasingly involved itself in Central America and the growing strength of its navy supplanted the European powers' Caribbean, Central American and South American influence, once unrivalled before the use of steam-powered ships. Panama's canal, which, coincidentally, opened in the same month that war broke out in Europe, provided the

US with a short passage between two great oceans, greatly enhancing its navy's reach. In the 1880s the US had begun a journey that would eventually lead to it being a dominant power and which would see its marginal involvement in foreign affairs change into the development of a foreign policy.

Anastasio Somoza García and his two sons, Luis and Anastasio Jr, would individually rule the country until 1979 and between them owned the main port, the main brewery, huge ranches, the biggest hotel, a cement company and the national airline – not to mention other interests. The father had enjoyed good relations with the US; he was anti-communist and even assisted the US in 1961 when it launched the Cuban Bay of Pigs fiasco. Although he had been weaned on American ideology (having graduated from West Point Military Academy) his rule was oppressive and following his assassination Luis succeeded him only to die from a heart attack. His brother, Anastasio Jr, who succeeded him, was overthrown by the pro-Marxist Sandinista rebels in 1979.

Daniel Ortega, a Sandinista, first took power in 1979 as comandante-in-chief of the nine ruling comandantes and was elected the country's president in 1984, two years after the US had sponsored attacks against the Sandinistas by former members of the now defunct and discredited National Guard who were known as the Contras. Eventually, following thousands of deaths and atrocities, (some 80,000 people died during the Sandinista Revolution and the Contra War), talks were held between the opposing forces. Daniel Ortega was defeated in elections held in 1990 but he returned to power in 2007 and won re-election in 2011. The next elections will be held in 2016 and a reform recently passed by Nicaragua's National Assembly allows him to run for a third term.

No such uncertainty surrounds Nicaragua's 50-year renewable canal concession which has been given the green light by the government; whether it is built, however, is another matter. A 40-year-old Chinese entrepreneur, Wang Jing, is behind the 170-mile waterway (Panama's is 48 miles long) to be built by his HKND Group, with additional infrastructure that will include ports, an airport and railway at an initial estimated cost of USD40 billion. Legal and environmental

experts, however, have warned that the canal is unfeasible, ecologically risky and a bad deal for Nicaragua. Commencing from when the canal begins operations the government will be paid USD10 million a year for 10 years and state ownership will be in stages with the country owning the canal outright (as well as having a stake in HKND) after 100 years. Significantly, the agreement allows the Chinese businessman to not only shelve the canal project and still develop the other related projects, but to also petition the state to confiscate any land needed.

Mr Wang acknowledges that the waterway will be well over three times the length of Panama's, but says it will be able to accommodate ships that are already too big to transit the Panama Canal – even after the latter's expansion project has been completed – because it will have twice the draught. He assumes the demand is there whereas shipping experts argue that his canal would need to earn USD1 billion annually in order to be profitable (on that basis it is estimated that it would have to immediately attract half of Panama's current traffic).

Daniel Ortega has been surprisingly pro-business, enjoying a generous degree of public support even although Freedom House, an independent organisation dedicated to the expansion of freedom worldwide, describes Nicaragua as only being "partly free". His enthusiasm for commercial enterprise, although contrary to his Marxist roots, is why he is firmly behind Mr Wang's canal. Just like those whom I have often called, collectively, the (political) awkward squad, Nicaragua's president rules with a combination of populist rhetoric plus welfare and infrastructure spending. The canal could either shower his name with glory or link it forever with one of his country's supreme follies. Then again, if there is a change in government in two years time perhaps the canal will never materialise, just as the one planned by the US never did.

As I wrote in my professional blog, Panama and Nicaragua are, in reality, a tale of two polities: one autocratic and the other democratic. Democracy has a greater distance to travel in Nicaragua, like any ships would, before reaching open waters.

www.trustservices.net

European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast, BT1 1BW, United Kingdom • Tel: +44 (0) 28 9032 8777 • Web: www.offshoreinvestment.com

PUBLISHER AND CEO
Barry C Bingham
barry@offshoreinvestment.com

EDITOR-IN-CHIEF
Charles A Cain
editorial@offshoreinvestment.com

EDITOR
Jenny L McDonough
editorial@offshoreinvestment.com

CONTRIBUTING EDITORS
Fabiano Deffenti
Vadim Fedchin
Derek Sambrook
Urs Stirnimann
Yongjun Peter Ni
editorial@offshoreinvestment.com

COMMISSIONING EDITOR
Claire Mulgrew
editorial@offshoreinvestment.com

ADVERTISING
Keith I Robinson
advertising@offshoreinvestment.com

CONFERENCE
Eva M Toal
conference@offshoreinvestment.com

SUBSCRIPTIONS
Sarah E S Goodwin
subscriptions@offshoreinvestment.com

DESIGN & PRODUCTION
Dave Johnston
Gillian Devenney
administration@offshoreinvestment.com

FINANCE
Rosalind A Maguire
accounts@offshoreinvestment.com

MEDIA MANAGER
Gillian M Abernethy
administration@offshoreinvestment.com

International Bureau

Anguilla - **Claudel V V Romney**
Antigua - **Brian Stuart Young**
Australia - **David Russell QC**
Barbados - **Wayne Fields**
Bermuda - **Lynda Milligan-Whyte**
Brazil - **Fabiano Deffenti**
British Virgin Is. - **Ralph Nabarro**
Canada - **N Gregory McNally**
Cayman Is. - **Michael L Alberga**
Cyprus - **Christos Mavrellis**
Dubai - **Andrew De La Rosa**

Gibraltar - **Nigel Feetham**
Greece - **George Economou**
Hong Kong - **James A F Wadham**
Hungary - **Dr Gabor B Szabo**
India - **Nishith Desai**
Ireland - **Peter O'Dwyer**
Isle of Man - **Prof Charles A Cain**
Labuan - **Chin Chee Kee**
Liechtenstein - **Andrew J Baker**
Luxembourg - **Paolo Panico**
Malta - **Dr Max Ganado**
Mauritius - **Suzanne Gujadhur**
Nevis - **Mario Novello**

Samoa - **Graeme Briggs**
Seychelles - **Simon J Mitchell**
Singapore - **David Chong**
St. Vincent - **Alex Jeeves**
S. Africa - **Prof Christian Schulze**
Turks & Caicos - **Jonathan M Katan**
United Kingdom - **Matthew Cain**
United Kingdom - **Floyd Ronald Jenkins, Jr.**
Uruguay - **Geoffrey Hooper**
USA - **Susanne R Wadsack**
USA - **Howard S Fisher**
US Virgin Is. - **Marjorie Rawls Roberts**
Vanuatu - **Lindsay D Barrett**

ems European Magazine Services Limited. © 2014.
ISSN 0954-0628 US PS 002-273.
All worldwide rights reserved. Reproduction in whole or in part by any means without written permission of the publisher is strictly prohibited. Printed by Pensord Press Limited, Pontllanfraith, Blackwood, Wales, UK. *Offshore Investment* has tried to ensure that all information contained within this publication is accurate, however, the publisher would emphasise that he cannot accept responsibility for any mistakes or omissions. No legal or investment instruction is intended. The opinions expressed are strictly those of the authors. *Offshore Investment* **USPS 002-273** is published monthly except July and December by Offshore Investment, Lombard House, 10-20 Lombard Street, Belfast, BT1 1BW, United Kingdom. The 2012 US annual subscription price is 930.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

US POSTMASTER: Send address changes to Offshore Investment, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA. Subscription records are maintained at European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast BT1 1BW, United Kingdom. Air Business Ltd is acting as our mailing agent.

SUBSCRIBE! Subscription includes the print edition and FREE unlimited downloads from the online archive. **One Year (10 issues)**
INPRINT • ONLINE Tel: +44 (0) 28 9032 8777 **UK & Europe GBP370**
 Email: subscriptions@offshoreinvestment.com **US Mainland USD930**
Rest of World GBP499

NEXT ISSUE **Asset Protection**
 Jurisdictions in focus: Mauritius, Seychelles, Bermuda, Bahamas, Turks & Caicos