

Global Americans Report

Strategic, Political, and Economic Implications of the Chancay Port Development

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Executive Summary

Peru's Chancay Port project marks a significant shift in South America's and the Pacific's maritime logistics and economic landscape. Launched in 2008 and accelerated by COSCO Shipping Ports' investment in 2019, this public-private partnership is set to begin operations in November 2024. With an initial investment of USD 1.3 billion and a total projected investment of USD 3.5 billion¹, the port aims to handle over 1 million TEUs annually, establishing Chancay as a key maritime hub for South America and the Pacific Ocean. This development has wide-reaching impacts:

- **Economic Impact:** The Chancay Port is expected to drastically reduce logistics costs and transport times for Peruvian exports to the Asia/Pacific region, significantly enhancing Peru's trade and investment prospects.
- **Geo-economic Impact:** The port will bolster Peru's political influence in South America, offering an alternative to the congested Callao Port and potentially diverting business from the Panama Canal.
- **Geopolitical Impact:** China's investment underscores its growing influence in Latin America, raising strategic concerns for the U.S. as it seeks to balance this influence regionally.

Methodology

This analysis is divided into two key sections: the first examines the economic, geo-economic, and geopolitical impacts of the Chancay Port, while the second provides strategic recommendations for Peru, neighboring South American countries, and the U.S. to maximize the port's potential while mitigating associated risks.

Recommendations

To maximize the strategic potential of the Chancay Port and mitigate associated risks, Peru must focus on enhancing supporting infrastructure, such as road and rail connectivity, and implementing policies to attract complementary industries. Neighboring South American countries should coordinate with Peru to streamline regional trade, while the U.S. should engage with Peru to maintain a strategic balance in the region amid increasing Chinese influence. Specific recommendations include:

- **Strengthening Infrastructure:** Prioritize the development of road and rail links to the Chancay Port to ensure seamless logistics.
- **Attracting Industries:** Establish special economic zones (SEZs) around the port to attract foreign direct investment and boost economic diversification.
- **Regional Collaboration:** Encourage neighboring countries to align logistics and trade policies with Peru to enhance regional trade connectivity.
- **U.S. Engagement:** Promote U.S.-Peru partnerships through favorable trade agreements and infrastructure investments to balance Chinese influence.

¹ <https://elcomercio.pe/ecdata/megapuerto-chancay-radiografia-de-la-inversion-portuaria-con-capital-chino-mas-importante-peru-empresas-constructoras-obras-infraestructura-capacidad-portuaria-contenedores-hectareas-especdis-noticia/?ref=ecr>

1. Introduction

The Chancay Port project is a landmark development in Peru's maritime infrastructure, envisioned to transform the logistics landscape of the country and the South American region. The idea of establishing a new port at Chancay originated in 2008, driven by the need to diversify Peru's port capacity and reduce dependency on the congested Callao Port.

The project gained significant momentum in 2019 when COSCO Shipping Ports, a subsidiary of China COSCO Shipping Corporation, acquired a 60 percent stake in the port. This investment was pivotal, bringing in not only financial resources but also advanced technology and expertise in port operations. Construction of the port began in earnest in 2016 with preliminary works, and by 2024, the first phase is set to be operational. The initial phase involves an investment of USD 1.3 billion, out of a total projected investment of USD 3.5 billion. Once completed, the port will boast a capacity to handle over 1 million TEUs annually, making it one of the most significant ports in Latin America. The port's strategic location is designed to serve as a direct link between South America and Asia, reducing shipping times by approximately 10 days. This connection is expected to enhance Peru's role in international trade, particularly with China, its largest trading partner. Additionally, the development includes the Chancay Park, a comprehensive logistics and industrial complex aimed at fostering economic growth and diversification.

The primary objective of this policy analysis is to evaluate the strategic and economic implications of the Chancay Port development on Peru, the broader South American region, and global trade dynamics. This analysis aims to provide a comprehensive understanding of the potential benefits and challenges associated with this significant infrastructure project.

Key questions addressed in this analysis include: How will the Chancay Port impact Peru's economic growth and logistics sector? What are the potential benefits in terms of trade efficiency, cost reduction, and job creation? What are the political implications for Peru, both domestically and within South America? How will the port influence Peru's standing and influence in regional geopolitics? How will Chinese investment in the port affect geopolitical relations, particularly with the US? What strategic considerations should Peru and its partners take into account to balance these influences? What strategic actions should be taken by Peru, neighboring countries, and the U.S. to optimize the benefits of the Chancay Port and mitigate any potential risks?

2. Economic Impact and Infrastructure Development for Peru

The Chancay Port project is a standout investment in Peru's infrastructure landscape, with a total projected investment of USD 3.5 billion. This investment dwarfs those of other major Peruvian ports being the final investment almost 70 percent larger than the expenditure on the other 8 Peruvian ports, such as the Terminal Norte del Callao at USD 465 million and the Terminal Portuario de Paita at USD 286 million.² The magnitude of the Chancay Port investment underscores its importance and the high expectations for its transformative impact on Peru's maritime infrastructure. The Chancay Port will significantly enhance Peru's logistic capabilities by alleviating the congestion at the Port of Callao, which currently handles the bulk of the country's maritime traffic. This new port will introduce state-of-the-art logistics technologies, increasing the efficiency and capacity of container handling and other port operations. Additionally, the integration with the Chancay Park, a planned logistics and industrial complex, will create a seamless logistics ecosystem, further boosting Peru's role as a key player in international trade.

² <https://elcomercio.pe/ecdata/megapuerto-chancay-radiografia-de-la-inversion-portuaria-con-capital-chino-mas-importante-peru-empresas-constructoras-obras-infraestructura-capacidad-portuaria-contenedores-hectareas-espedis-noticia/?ref=ecr>

2.1 Trade and Commerce

Once operational, Chancay Port will significantly increase Peru's capacity for container movement, with an estimated annual handling capacity of over 1 million TEUs³. This will not only meet the current demand but also provide ample capacity for future growth in trade volumes. The strategic positioning of Chancay Port will reduce shipping times between Peru and Asia by approximately 10 days, bypassing traditional routes through North American ports. This reduction in transit time will lead to lower logistics costs, making Peruvian exports more competitive in international markets and providing cost savings for importers and exporters alike. China is Peru's largest trading partner, accounting for 34 percent of its exports and 20 percent of its imports. The direct maritime link provided by Chancay Port will strengthen this trade relationship by facilitating faster and more cost-effective transport of goods. This enhanced connectivity is expected to increase trade volumes between the two countries and attract further Chinese investment in Peru.

Table 1: Peru's Top 5 Trade Partners (2020)

Rank and Country	Exports in USD billions	Rank and Country	Imports in USD billions
1. China	10.3	1. United States	8.9
2. United States	4.7	2. China	6.7
3. Korea, Rep. of	2.3	3. Argentina	2.2
4. Japan	1.9	4. Brazil	2.0
5. Netherlands	1.4	5. Mexico	1.8

Source: International Monetary Fund.⁴

2.2 Job Creation and Economic Growth

The construction phase of Chancay Port has already generated approximately 7,500 jobs, providing a significant boost to the local economy. Once operational, the port is expected to create thousands of additional jobs in various sectors, including logistics, transportation, and ancillary services. This employment generation will contribute to economic growth and development in the region. The establishment of Chancay Park, an expansive logistics and industrial zone adjacent to the port, presents a substantial opportunity for economic diversification and growth. This complex will house industrial, commercial, and residential areas, attracting a range of businesses and fostering the development of new industries. The seamless integration of the port with these zones will create a vibrant economic ecosystem, driving further investment and innovation in Peru.

3. Political and Geopolitical Impact

The development of the Chancay Port is poised to significantly enhance Peru's standing as a major logistics and trade hub in South America. By offering a modern, high-capacity port, Peru can reduce its reliance on the congested Callao Port and provide a strategic alternative for maritime trade routes. The port's advanced infrastructure and strategic location will position Peru as a pivotal point for trade between South America and Asia, particularly China. The port is located 56km away from Lima, in the province of Huaral.⁵ The Chancay Port's capacity to handle large volumes of trade and its strategic location will

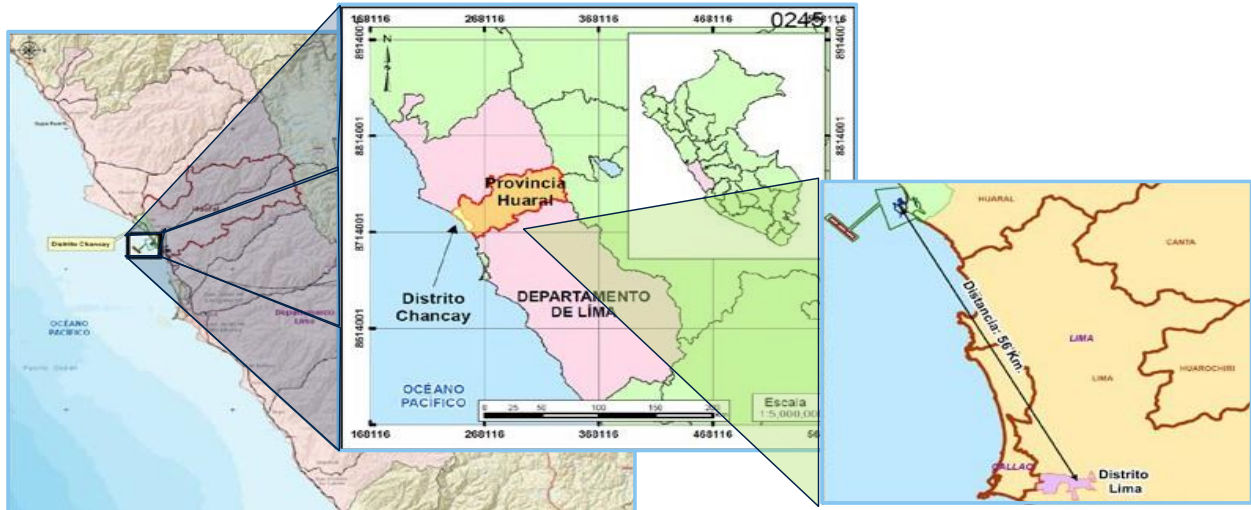
³ <https://sim.macroconsult.pe/desarrollo-de-vias-es-clave-para-aprovechar-potencial-de-puerto-de-chancay/>

⁴ <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491>.

⁵ <https://athenalab.org/wp-content/uploads/2022/03/D15-Puerto-Chancay.pdf>

likely increase Peru's political influence within South America. As a new major port destination, Peru can play a more prominent role in regional trade discussions and negotiations. This shift may lead to stronger bilateral and multilateral relationships with neighboring countries, fostering a more integrated and collaborative regional trade environment.

Figure 1: Location of the Port of Chancay



Source: Athena Lab.

3.1 Regional Dynamics

Chancay Port will influence regional trade routes by providing an efficient alternative to traditional routes that currently pass through North American ports. This shift is expected to enhance trade relationships with neighboring countries, particularly landlocked nations like Bolivia, which can utilize Chancay for their maritime needs. Enhanced regional cooperation on logistics and infrastructure projects will further solidify these relationships. Additionally, the province of Huaral is expected to become a key entry point to Peru from Asia, acting as a hub for redistributing cargo to Ecuador, Chile, and Colombia. The geopolitical impact at local, national, and regional levels will be significant, transforming Huaral into a major area of exchange and interconnection in South America. The emergence of Chancay Port will introduce new competition to other major ports in South America, such as San Antonio and Mejillones in Chile. The port's ability to receive megaships could potentially shift trade away from these established Chilean ports. Furthermore, Chancay's proximity to the multimodal Amazonian corridor of the northeastern bioceanic route, which connects Brazil with Peru, positions it as a critical distribution center on the Pacific coast. This corridor integrates Peru with the Manaus industrial park, enhancing connectivity with the entire Mercosur region. However, this development could significantly impact the Chilean ports of Antofagasta, Mejillones, Tocopilla, and Iquique, which are part of the bioceanic corridor connecting Brazil with Chile through Paraguay and Argentina.⁶ If surpassed by Chancay, these ports may lose their status as primary redistribution centers, and the connection with Brazil may shift from northern Chile to Peru.

⁶ <https://athenalab.org/wp-content/uploads/2022/03/D15-Puerto-Chancay.pdf>

3.2 Global Perspective

Chancay Port is strategically located to serve as a direct maritime link between South America and Asia, bypassing traditional routes through North America. This direct connection will enhance global maritime routes by reducing shipping times and costs. The port's ability to handle large vessels and significant cargo volumes will make it an essential player in the global supply chain, particularly for trade between Latin America and Asian markets. The significant Chinese investment in Chancay Port underscores China's growing influence in Latin America, which has strategic implications for the US. To counterbalance this influence, the U.S. may need to strengthen its economic and diplomatic engagements with Peru and other Latin American countries. This could involve increased investment in regional infrastructure projects, the promotion of free trade agreements, and enhanced cooperation on security and governance issues. By fostering strong partnerships and supporting regional development, the U.S. can help ensure that Latin America remains a stable and open region for trade, balancing the influence of external powers such as China. Strategic initiatives, such as the Blue Dot Network, could be employed to promote high standards and transparency in infrastructure projects across the region.

4. Chinese Influence and its Implications

COSCO Shipping Ports, a subsidiary of China COSCO Shipping Corporation, plays a pivotal role in the Chancay Port project. Holding a 60 percent stake, COSCO's involvement has brought substantial financial investment, technological advancements, and operational expertise to the port. This investment is part of China's broader strategy to expand its maritime and logistical footprint globally, aligning with its Belt and Road Initiative (BRI). The port is not only a significant financial commitment but also a strategic move to enhance China's influence in Latin America. Chinese investments in Latin American infrastructure projects have been substantial over the past decade. The Chancay Port, with its projected USD 3.5 billion investment, stands out as one of the largest Chinese-funded infrastructure projects in the region. Comparatively, other significant projects include the development of ports in Brazil and Argentina, as well as various energy and mining projects. However, the scale and strategic importance of Chancay Port are particularly notable due to its direct connection to Asian markets and its potential to become a key logistics hub in South America.

4.1 Geopolitical Strategy

China's global port strategy is centered around securing key maritime nodes to support its economic and strategic interests. By investing in ports worldwide, China ensures secure and efficient supply chains for its imports and exports. The Chancay Port fits into this strategy by providing a direct maritime link between South America and Asia, enhancing China's ability to influence regional trade routes and logistics networks. This strategic positioning helps China to not only secure its economic interests but also extend its geopolitical influence in regions traditionally dominated by Western powers.

The substantial Chinese investment in Chancay Port raises several security and political concerns for the U.S. and other Western countries. Firstly, the increased Chinese presence in Latin America could shift the geopolitical balance, potentially reducing the influence of the U.S. in its traditional sphere of influence. This could lead to a realignment of regional alliances and economic partnerships, with countries becoming more dependent on China for trade and investment. Moreover, the strategic control of key infrastructure by Chinese entities could pose security risks. The potential for Chinese state-owned enterprises to influence port operations and logistics could lead to vulnerabilities in supply chains, espionage, and other security threats. This is particularly concerning given the dual-use nature of ports, which can serve both commercial and military purposes. To address these concerns, the U.S. and its allies may need to enhance their economic and diplomatic engagements in the region. This could involve

offering alternative investment and trade opportunities such as the Americas Act, promoting transparency and high standards in infrastructure projects, and strengthening regional security cooperation.

5. Implications for the U.S. and the Region

The development of the Chancay Port presents both opportunities and challenges for U.S. businesses. On the one hand, U.S. companies can benefit from improved logistics and reduced shipping times when trading with Peru and other South American markets. The port's advanced infrastructure and strategic location can facilitate more efficient supply chains and lower transportation costs, making it an attractive option for U.S. exporters and importers.

However, the increased presence of Chinese investment and influence in the region may pose challenges. U.S. businesses might face stiffer competition from Chinese companies that benefit from preferential access and relationships facilitated by the Chinese involvement in the Chancay Port. Additionally, the geopolitical landscape may become more complex, requiring U.S. businesses to navigate new regulatory and diplomatic considerations.

The Chancay Port's ability to handle large volumes of trade and its direct shipping routes to Asia will likely lead to shifts in regional trade patterns. South American countries may increasingly route their exports and imports through Chancay, bypassing traditional North American ports. This could result in reduced logistics costs for regional trade, benefiting both exporters and importers.

For the US, this shift could mean a reduction in cargo volumes handled by its ports, particularly those on the West Coast. Consequently, U.S. ports may need to adapt by enhancing their competitiveness, investing in infrastructure upgrades, and improving operational efficiencies to retain their share of international trade.

The substantial Chinese investment in the Chancay Port underscores the need for the U.S. to formulate strategic policy responses to Chinese influence in Latin America. One approach could be to increase American investment in the region through infrastructure projects, trade agreements, and economic partnerships. Initiatives such as the Blue Dot Network, which promotes high-quality infrastructure investments, can be leveraged to offer alternatives to Chinese-funded projects.

Additionally, the U.S. can strengthen its diplomatic engagements with Latin American countries, emphasizing shared values such as transparency, sustainability, and good governance. By fostering closer economic and political ties, the U.S. can provide a counterbalance to Chinese influence and ensure that Latin American countries have diverse options for development partnerships. Collaborating closely with Peru and other regional partners is crucial for the U.S. to maintain a strategic presence in Latin America. This collaboration can take various forms, including enhancing bilateral trade agreements with Peru and other countries to facilitate increased U.S. investment and trade. Investing in regional infrastructure projects that complement the Chancay Port, such as road and rail networks, will ensure a balanced development landscape. Strengthening security ties through joint training exercises, intelligence sharing, and capacity-building initiatives will address potential security concerns related to Chinese investments. Additionally, actively participating in regional organizations and forums will promote a cooperative approach to development and security challenges in Latin America. These strategies will help the U.S. counterbalance Chinese influence and ensure stability and openness in the region's trade environment.

By pursuing these strategies, the U.S. can help ensure that Latin America remains an open and competitive region for trade, mitigating the risks associated with excessive reliance on Chinese investments and fostering a stable geopolitical environment.

6. Strategic Recommendations for Peru

The Chancay Port project represents a transformative development for Peru, with significant economic, political, and geopolitical implications.

The Chancay Port is set to become a major logistics hub in South America, with an investment of USD 3.5 billion. It will enhance Peru's logistic capabilities, reduce transportation costs and times, and increase the capacity for container movement. The port will also create thousands of jobs during and after construction, stimulate economic growth, and attract new industries through the establishment of the Chancay Park logistics and industrial complex.

The development of the Chancay Port will strengthen Peru's position as a regional hub, potentially shifting political influence within South America. By providing an efficient alternative to the congested Callao Port, Peru can play a more prominent role in regional trade and politics, fostering stronger bilateral and multilateral relationships with neighboring countries.

The significant Chinese investment in the Chancay Port underscores China's growing influence in Latin America, raising strategic concerns for the U.S. and other Western countries.⁷ The port's strategic location will enhance global maritime routes by reducing shipping times between South America and Asia, impacting global trade dynamics and geopolitical relations.

6.1 Enhancing Economic Development

To fully harness the economic potential of the Chancay Port, Peru should implement policies that encourage trade and foster economic growth. Key measures could include offering tax incentives for businesses that utilize the port, creating special economic zones (SEZs) to attract foreign direct investment, and streamlining customs procedures to expedite the flow of goods. Additionally, investing in digital infrastructure and adopting smart port technologies will enhance operational efficiency, making the port more competitive on the global stage.

The success of the Chancay Port hinges on the development of robust supporting infrastructure. This includes improving road and rail links to the port, ensuring seamless connectivity to major industrial and commercial centers within Peru and neighboring countries. Key projects like the Chancay-Callao logistic corridor must be prioritized to facilitate efficient cargo movement. Furthermore, developing auxiliary facilities such as warehousing, distribution centers, and value-added service hubs will create a comprehensive logistics network, enhancing the port's attractiveness to global shipping companies and traders.

6.2 Enhancing Political Influence

Peru can leverage the Chancay Port to assert itself as a regional leader in logistics and trade. By fostering regional collaboration, Peru can strengthen ties with neighboring countries and create a cohesive economic bloc. This can be achieved through regional trade agreements, joint infrastructure projects, and coordinated logistics policies. For example, initiatives to harmonize customs procedures and reduce trade

⁷ <https://cecep.mil.pe/2023/05/10/chancay-megaport-repercussions-on-south-american-trade-and-geostrategic-impact/?lang=en>

barriers can enhance regional trade efficiency. Additionally, hosting regional trade forums and summits can position Peru as a central player in South American trade discussions.

While Chinese investment in the Chancay Port is significant, Peru should aim to balance this influence by fostering diverse international partnerships. Diplomatic initiatives that promote engagement with other major economies, such as the US, the European Union, and Japan, can diversify Peru's economic dependencies and enhance its strategic autonomy. Engaging in multilateral forums and trade organizations can also help Peru build a network of allies and collaborators.

Specifically, Peru can engage in bilateral and multilateral trade agreements to strengthen economic ties with a broad range of countries, ensuring diversified trade relationships. Additionally, promoting transparency and high standards by collaborating with international partners will help implement best practices in port management and operations, ensuring both transparency and sustainability. Investing in public diplomacy is also crucial; enhancing cultural and educational exchanges can build stronger people-to-people connections with other countries, fostering goodwill and mutual understanding. These initiatives will collectively bolster Peru's political influence and economic resilience while mitigating risks associated with over-reliance on any single foreign power.

By adopting these strategies, Peru can enhance its political influence, maintain a balanced geopolitical stance, and ensure that the economic benefits of the Chancay Port are maximized while mitigating potential risks associated with excessive reliance on any single foreign power.

7. Conclusion

The long-term outlook for the Chancay Port is highly promising. As it becomes operational, the port will play a crucial role in global trade, particularly between Latin America and Asia. Its state-of-the-art infrastructure and strategic location will attract significant international interest and investment, positioning Peru as a key player in global logistics.

To fully realize the benefits of the Chancay Port, Peru must continue to develop supporting infrastructure, implement policies to attract complementary industries, and engage in diplomatic initiatives to balance Chinese influence. By fostering strong regional collaborations and maintaining diverse international partnerships, Peru can leverage the Chancay Port to drive economic growth, enhance political influence, and secure a strategic position in the global trade network.

For the U.S. and other Western countries, the Chancay Port highlights the need for strategic engagement in Latin America to counterbalance Chinese investments and influence. By investing in regional infrastructure projects, promoting high standards in governance and sustainability, and strengthening diplomatic and security ties, the U.S. can help ensure a stable and open trade environment in the region.

The Chancay Port project is not just an infrastructure development; it is a strategic asset that will shape the economic, political, and geopolitical landscape of Peru, South America, and the broader international community for years to come.