



Preliminary Report

# UNDERSTANDING THE STRATEGIC CHALLENGES OF THE PORT OF CHANCAY IN THE REGIONAL CONTEXT

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# The PRC's Transformative Acquisition of Chancay Port

The [inauguration of operations in Chinese-controlled mega container port of Chancay](#), Peru on Nov. 14, 2024, likely represents a transformational moment in global supply lines and the correlation of Great Power forces in the Western Hemisphere. Its importance is perhaps matched only by the 2018 initiation of the PRC's autonomous, military control deep space station in Neuquén, Argentina, in displacing the United States' strategic influence, military power and economic interests.

The magnitude of the impact of the hemisphere's newest mega container port in the PRC's global strategy of economic and technological dominance is hard to overstate. In the strategic hemispheric and global contexts, the port will reshape global supply chains, solidify China's control of key choke points in those supply chains—particularly crucial links to the United States—while directly challenging vital U.S. hemispheric interests.

The \$1.3 billion investment by PRC state owned COSCO Shipping in Chancay, with more than \$2.2 billion more to be injected in the next three phases of the port construction over the next six years, is the PRC's most important strategic port acquisition in Latin America and is the crown jewel of its Belt and Road Initiative (BRI). This is part of a concerted effort by the PRC to not only expand its dominance of global trade, but is likely to become a preferred hub of illicit trade, as BRI projects, particularly ports, are noted for being hubs of criminality, trade-based money laundering, strategic corruption and malign influence operations.

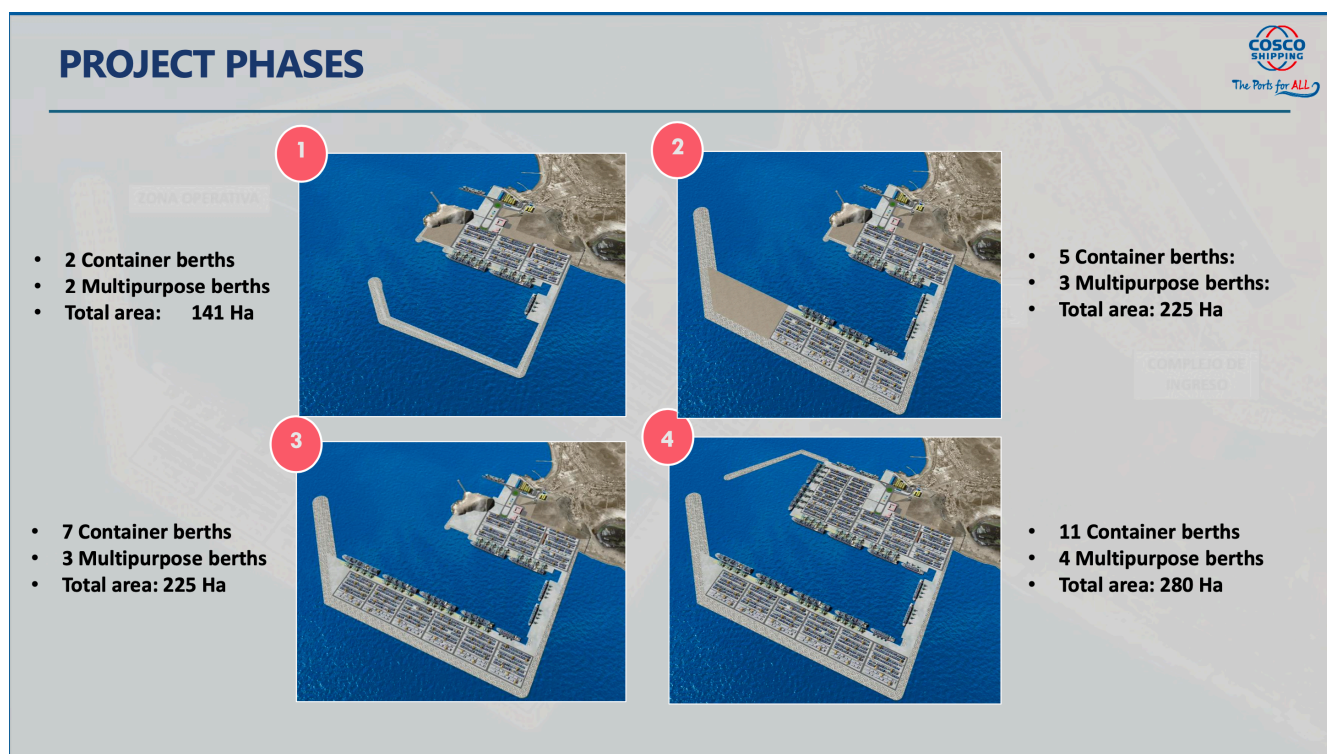


Figure 1: COSCO depiction of the four phases of Chancay development

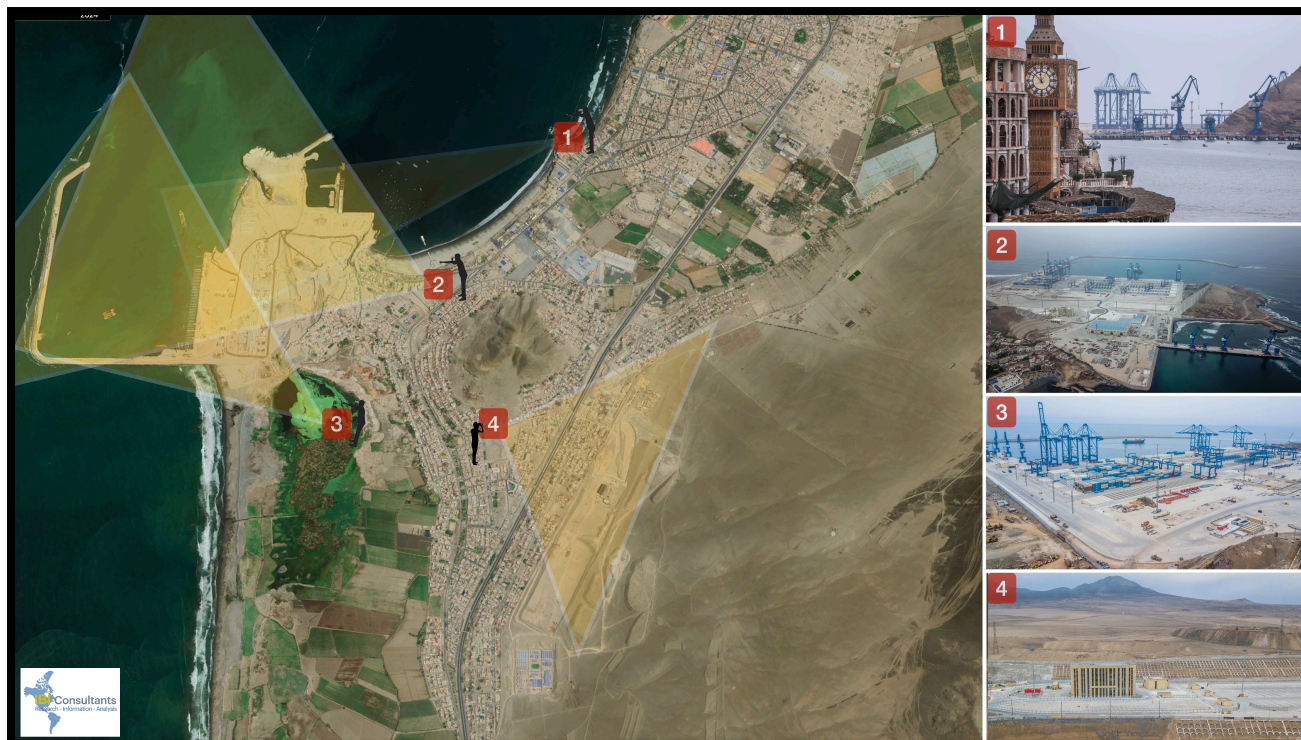


Figure 2: Port's geographic layout, provided by Ojo Público and IBI Consultants

We assess that the port's operations – set to expand from the current four container berths to 15 berths (11 exclusively for container traffic and four multipurpose piers) on completion– will significantly realign the region's economic and political balance in favor of the PRC and away from the United States.

The Chancay port, like the Neuquén deep space station, is operating under a cloak of secrecy and largely beyond the reach of the host nation while giving the PRC a clear strategic advantage in the hemisphere. And like Neuquén, the opaque agreements for the operations of the strategic asset is riddled with irregularities, vague language and loopholes that could give the PRC military access to a major port in the Western Hemisphere.

Chinese President Xi Jinping made no effort to underplay the magnitude of the port's operational Phase 1 launch, [saying during its inauguration](#) part of a new maritime-land bridge that would position Peru as “a vital land and maritime transport hub connecting Asia with Latin America and the Caribbean.”

A full analysis of the impact of the completed port is not possible at this time but will become measurable when Chancay is fully operational and must include an analysis of the changing logistics of the multiple illicit economies that are likely to move operations to the same pipelines built to move legal trade.

A [2020 U.S. Treasury Department study](#) concluded that “The Chinese enterprises behind the BRI projects have several things in common: their leadership has links to criminal networks or actors involved in illicit activities in other parts of Southeast Asia, as well as China; they have pre-existing organizations engaged in casinos and crypto currencies; they advertise themselves online to be

associated with Beijing’s BRI and flaunt connections with key Chinese government agencies; and all of them have established associations that actively seek to assist Chinese nationals.”

## The PRC’s Roads to Connecting the Continent

COSCO promises the [massive operation](#) will be powered entirely by renewable energy, operate 24/7 with almost fully automated service, and use U.S. scanners given to the Peruvian government to inspect 100 percent of the cargo moving through the port. When fully operational it is projected to move up to 5 million TEUs – the measure for 20-foot containers – or some 570 containers an hour through its facilities.

Taken together, this means the port will offer shorter transit and wait times for offloading cargo and be more secure than other ports in the area. The savings in shipping costs will make it feasible to use Chancay as a regional, not just a national hub, likely making it difficult for other regional ports to compete economically and logistically for container traffic.

However, the port, some 40 miles north of the capital of Lima, is strategically important not solely for the autonomous deep port foothold it gives the PRC in the Western Hemisphere, but is a vital and visible milestone in implementing China’s broader strategic investment strategy to compete with and then isolate the United States in the Western Hemisphere.

Within less than a decade the port will likely link China to Chancay then onward to a network of trans-Amazon highways now under construction through Bolivia, Brazil and Paraguay. This road network will connect with the Brazilian port of Santos and other vital Atlantic ports, fundamentally changing the continent’s economic axis and trade routes.

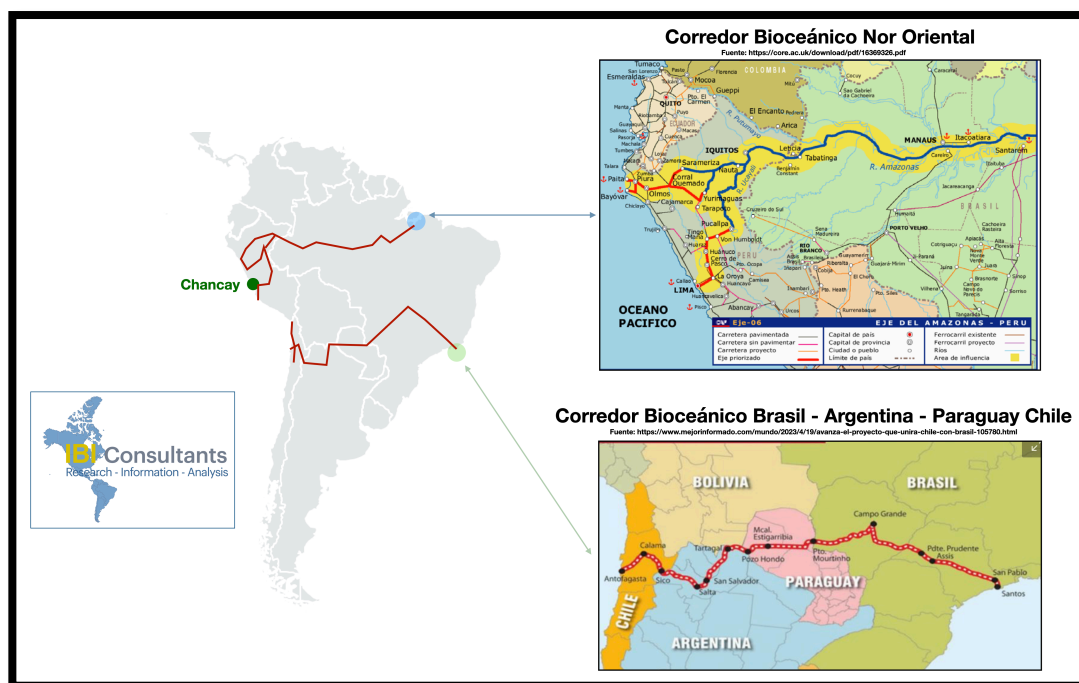


Figure 3: IBI Consultants depiction of emerging, PRC-built road and rail links to Chancay

Through the key logistical hub in Chancay, China will likely cement its position as the region's economic partner of choice, primary source of foreign investment and primary strategic ally, a position it has worked steadily to attain for more than two decades.

## Pushing the United States into A Strategic Blind Ally

The United States, after more than two centuries of regional dominance and preferential access, will be relegated to second tier standing and a bystander in the exploitation of strategic minerals, the consolidation of authoritarian regimes, and left without guaranteed access to key sea lanes and ports.

The withdrawal of U.S. engagement in the region across the board, which never recovered following the massive reallocation of resources undertaken after the 9/11/01 terrorist attacks, means U.S. access and alliances in a strategic region close to the Homeland will no longer be taken for granted.

With Chancay as the premiere container port in South America, PRC-linked corporations now control all or parts of more than 40 ports in Latin America, including ready access to the hemisphere's maritime chokepoints.



Figure 4: Map and data by IBI Consultants

These include both the Atlantic and Pacific entrances of the Panama Canal, Caribbean ports that control access to the strategic Mona Passage in the Caribbean, and a base in Ushuaia, Argentina that gives significant control of access to the Antarctic region. Many of the companies operating in key port areas are directly linked to the People's Liberation Army (PLA) –that country's military– and this will greatly reduce the ability of the United States to influence trade and guarantee access to vital maritime lanes.

The utility of the Panama Canal, already under stress due to drought and limited size, will be further diminished as demand for its use drops and with Chancay being able to handle the world's largest mega container ships carrying 18,000 TEUs. This is bigger than can fit through the Canal, and will also help ships avoid the costly multi-day waits now necessary to make the Panama crossing.

In economic terms, this means cutting shipping times from China to Chancay from more than 40 days to about 30 days and cutting shipping costs by at least 25 percent for goods arriving from China.

Operating entirely on renewable energy will mean lower energy costs and having few workers physically present except to run the automated system means the elimination of often militant labor unions. Containers will move from ship to shore on massive cranes, then through a 2-kilometer tunnel on automated trucks at a speed of 40 miles per hour, then to a cargo distribution center. The costs of moving cargo through Chancay will likely be far below those of other ports, who will be unable to compete on many fronts.

### Crime, Surveillance, Displacement and Environmental Destruction

Chancay was built on the promise of decongesting Peru's major port of Callao, long a hub of inefficiency and corruption, and offering a cost efficient alternative to Asian exports and imports to the region without having to move products through the Panama Canal or navigating the Straits of Magellan. This requires creating a secure environment for the port and separation from the local population that could pose a threat.



*Figure 5: The newly operational container cranes in Chancay, close to the soon to be displaced traditional local fishing fleet. (IBI Consultants, November 2024)*

In a recent IBI visit to the port, the level of surveillance by the Chinese in the surrounding town is visible and designed to intimidate and has the local population on edge. The security measures do

not only entail physical surveillance but the ability to jam and down drones some local residents have tried to fly near the air space of the port facility.

There is also the widespread perception by the residents of the town that their communications are constantly monitored and “they,” meaning the Chinese, know and monitor their every move. It is not clear there is any basis in fact for these broad based fears and concerns or if the perception of an all seeing entity is a narrative created intentionally to instill a deep sense of unease in the town.

Surveillance is not the only concern of Chancay residents. The massive environmental destruction underway, with no ecological impact studies done or long-term assessment of the PRC’s actions, could be devastating. The official Chinese media praised the transformation of the landscape, [quoting He Bo](#), the deputy director of COSCO in Chancay, as saying the “progress” over the past three years meant that “hills have been leveled, beaches turned into storage yards, breakwaters and docks stand tall in the water, port cranes are on land, and buildings for production and office purposes have sprung up.”



*Figure 2: View of the COSCO operations cent and transportation infrastructure in Chancay (IBI Consultants, November 2024)*

There are other factors that will make Chancay both a strategic and practical challenges for the United States and much of the region. The primary issue will be illicit economies and market flows. Given the near absolute control COSCO will have over the port and the traffic entering and exiting the facility, there is unlikely to be any outside verification of what COSCO reports.

The handful of Peruvian nationals working in COSCO port administration and security are almost all former senior Navy officers who, according to one source with direct knowledge of the operations, “are more concerned with their personal benefits in their current positions in COSCO, where they have more power than they ever had in the Navy.”<sup>1</sup> It is likely the PRC will provide the operational security for the port, not Peruvian companies.

This lack of oversight could offer unfettered access for shipping the massive, illicit fishing harvests directly from the massive Chinese fleet hovering in international waters to the port to be shipped back to China undetected through the port.

<sup>1</sup> Author interview, November 2024.

Many other products, from contraband cigarettes to fake pharmaceuticals to precursors for synthetic drugs could flow through the port if sanctioned by COSCO and the PRC government. Given that [more than 80 percent of the precursor chemicals](#) used in South America to manufacture the booming synthetic drug trade originate in three Chinese provinces and are exported unimpeded by the government, it is highly likely much of those products could enter the region through Chancay under the protection of the Chinese state.

There is also a high level of concern over the township of Chancay becoming a hub for illicit economies in the region, voiced repeatedly during our field work. Already, according to interviews with law enforcement experts and local residents, Chancay has become prey to multiple types of local criminal activity, from the stealing and selling of land for port use to a sharp increase in violence and homicides.

And so far, few of the promised benefits of the port to the local population have materialized, in part because COSCO has sharply limited the number of workers that could be hired, and the few skilled personnel will largely be brought over from China. Many in the town expect the Chinese to buy up most of the town's properties and that the traditional fishing village will largely disappear under the weight of COSCO's expansion over time.

This buy out has happened to a degree but without the profits many of the residents dreamed of. There was also hope the port would bring a wave of jobs to build hotels, restaurants and stores used by the Chinese who were expected to arrive in droves.

This has not happened, and no hotels have been commissioned. This is likely because, like Neuquén, the number of actual workers in a highly automated setting, is likely to be far less than the hundreds or thousands of new residents that locals believed would be arriving.

This has created a sharp rift in the local community, many who believed – and many who still hold out hope – that COSCO's whispered promises of cheap, easy access to Chinese vehicles, electronics and other products flooding the area and available on a preferential basis to Chancay residents once the Chinese take over is complete. It is unclear if this was wishful thinking by community residents or part of an orchestrated narrative by COSCO and its proxies to keep friction with the town while the port was being built.



Figure 6: Areas where the port construction is displacing residents, and the port construction visible from these areas (IBI Consultants, November 2024)



In this climate of uncertainty and lack of law enforcement presence, criminal groups are likely already positioning themselves for the coming economic changes with an ample pool of potential recruits, given the unfulfilled expectations of the local population.

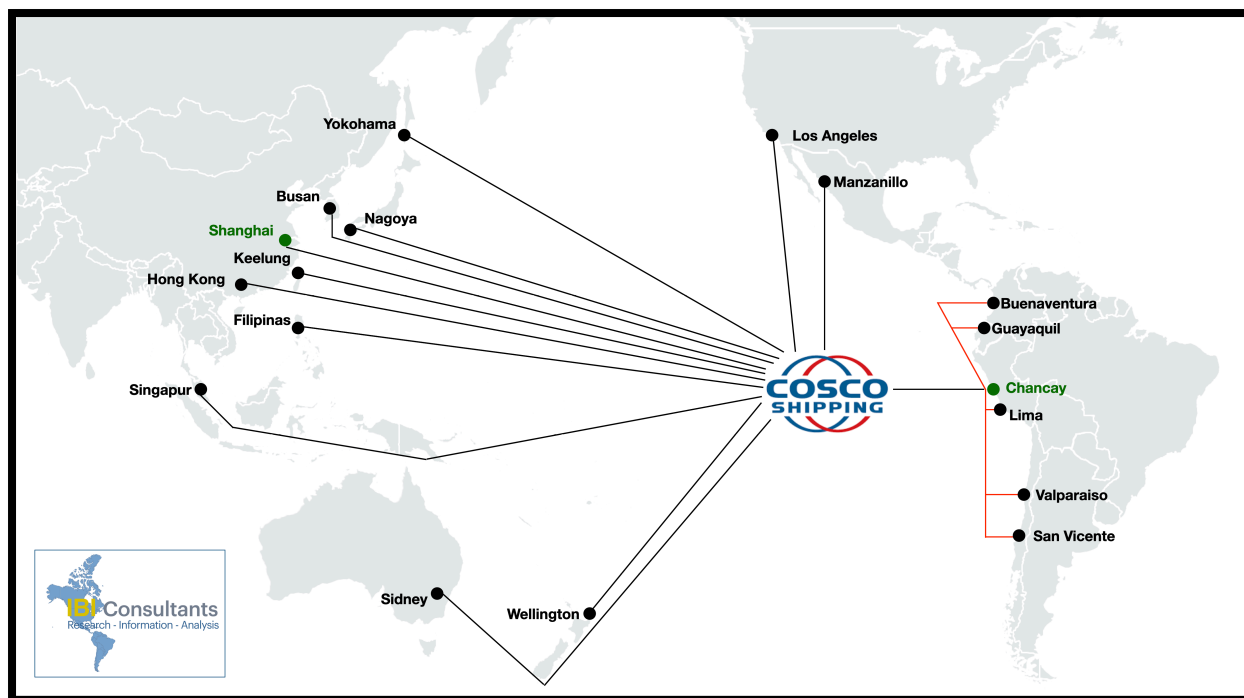
This is coupled with the expanding presence of local criminal groups sensing opportunities on the periphery of the port, such as the soon to be constructed infrastructure for special trade zones, casinos, transportation companies and others. This indicates the violence, driven by conflicts over territorial control will likely continue.

Among the groups most likely to emerge are semi-autonomous local groups operating under the banner of the *Tren de Aragua* structure, which franchises out the use of its name in exchange for a share of the profits from the illicit economies the local groups generate. As we have documented in Ecuador and Chile, the *Tren de Aragua*, born in Venezuela, has a demonstrated capacity to encircle ports, control illicit activities from prostitution to casinos to street sales of drugs. Semi-autonomous local groups often operate under the banner of the *Tren de Aragua* structure, which franchises out the use of its name in exchange for a share of the profits from the illicit economies the local groups generate.

This will likely grow in and around Chancay, where the law enforcement structures are weak, the state largely absent, and the economic benefits of the port not being shared with the community.

Of further concern, as noted, is the fact that [PRC-tied criminal groups](#), including major triad structures, are particularly active in and around projects that are part of the BRI, often as part of port security systems.

Given Chancay is the premiere BRI project, it is highly likely the PRC triads and other groups will be active in and around the port and the multiple opportunities it will afford. In addition to synthetic drugs, other illicit economies include illegal cigarettes, fake pharmaceuticals, electronics, weapons and other products. These criminal structures will likely have access to the port through the casinos and other non-port activities being built in the region to launder money and carry out other activities.



However, COSCO and the PRC are extremely sensitive to accusations of ties to organized crime, and will keep the port itself free of non-Chinese criminal actors, such as the Sinaloa Cartel, Cartel Jalisco Nueva Generación, or *Tren de Aragua*. These groups would be too prone to violence, too visible and too difficult to control.

History has shown, however, that port leadership would likely be willing to facilitate multiple state sponsored criminal or gray area activities that are less visible, and perhaps even use Chinese organized crime groups to make sure local criminal operations do not penetrate the port. This would allow the illicit flows that would be nearly impossible to detect, including precursor chemicals, cigarettes, or the export of fish illegally harvested.

Chancay will also have other collateral regional effects. The Chilean ports of San Antonio and Valparaiso, among the most efficient in the hemisphere now, are likely to be particularly impacted if Chancay delivers on its promise of multiple greater efficiencies, greater capacity and ready access to transportation hubs to other parts of South America. The ports in Ecuador's center of Guayaquil and dozens of other smaller ports will likely feel the impact of rapidly shifting the whole supply chain handling PRC and other Asian cargo.

With economic activity focused on Chancay and the Chinese-supplied security to the COSCO operation, other ports on the Pacific would likely be economically desperate and much easier for transnational criminal groups to access. Officials familiar with port operations in Chile, Ecuador and Argentina said that, if legitimate port activity dropped precipitously, as is likely, many would attempt to cut costs to remain competitive, and among those costs would likely be security measures. Lowering the already precarious security protocols would be an inviting option to transnational criminal organizations cut off from the Chancay operation.

Chile is in the most fragile situation. Because it is known globally for its efficient, well run ports, Valparaiso and other crucial ports will remain attractive to many smaller shippers. However, if security grows more slack, these ports will be ideal for transnational criminal organizations who need to continue to have port access with the highest level of impunity available.

## Chancay's Opaque Legal Structure and Standing

While the leaders of China and Peru celebrated the opening of Chancay during the Asia-Pacific Economic Cooperation (APEC) summit, neither Xi nor Peruvian president Dina Boluarte who hosted meeting, mentioned that the Peruvian sovereignty extends only to the periphery of the port.

The operational parts of the enormous complex are under exclusive control of the Chinese state owned COSCO Shipping. This is rational from the PRC's vantage point, given that Peru is one of the most politically unstable nations in the hemisphere, facing permanent political and social upheaval that has led to a series of short-lived presidencies, street protest and rising criminal activity tied to cocaine production and other drivers.

Field interviews and a review of official documents by IBI Consultants found that there are numerous legal anomalies in COSCO's acquisition of the port through its subsidiary company, COSCO Shipping Ports Chancay Perú S.A. (CSPCHP), as well as legal loopholes that would allow the PRC to use the port for military and other purposes beyond trade.

The "private initiative for public use" designation, for example, gives the PRC companies operating in Chancay exclusive power over essential services, including security, and control within the port's current 141 hectares (372 acres), which will expand to 280 hectares (739 acres) by completion.

It also allows for Chinese state actors, such as the military, to use Chancay in case the "humanitarian operations." As one source noted, while the port agreement does not authorize the installation for military use, "there is no agreement or legislation that would impede the port's use in a humanitarian mission in case of a catastrophe, not only in Peru, but anywhere in the region. The Chinese military would be able to act more efficiently and more quickly from that port. A humanitarian operation with military support would allow them to measure their naval capacities."<sup>2</sup>

Perhaps even more telling is that this legal status makes Chancay, unlike every other Peruvian port, not designated a concession for a specific period of time but rather a private entity outside the regulation and supervision of the state entity (OSITRAN by its Spanish acronym). This opens the door for COSCO to operate as a sovereign entity in a foreign land.

This is the same basic construct as the agreement between the PRC and Argentina for the operation of the deep space station of Neuquén, where the entire outpost is off-limits to anyone, even Argentine government authorities, who visit without permission of the PRC and the base operator, the People's Liberation Army (PLA).

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<sup>2</sup> Author interview, Chancay, November 2024



Figure 7: Construction of new roads for the port at Chancay (left); view of the COSCO administrative offices as residents are displaced (IBI Consultants, November 2024)

There are other areas where the lack of transparency in the dealings between the governments of the PRC and Peru leave open the possibility of further, undeclared PRC interests.

While COSCO owns 60 percent of the Chancay port through CSPCHP, it remains unclear who the real owner of the remaining 40 percent is. On paper, the owner is a company called Inversiones Portuarias Chancay S.A.A. , but that company's tangled history indicates the investors in the holding company may also be friendly to Chinese interests.

In 2008 a retired Peruvian admiral, Juan Ribaudo de la Torre formed a company called Chancay Port S.A, which in 2011 partnered with a company named Minera Volcán, which at the time was closely allied with the mining giant Glencore, which in turn has long standing ties to Chinese mining interests in Peru and elsewhere. In 2014 Glencore sold one of its mining assets in Peru to a Chinese company.

Over the next several years there was a series of ownership turnovers, changes and buy outs. An Argentine company, Transition Metals AG, a subsidiary of Integra Capital led by José Luis Manzano, eventually bought Glencore's shares and acquired most of Minera Volcán. Manzano, a former minister of interior of Argentina. Manzano and Integra Capital are also the major investors in Argentina's lithium production – mostly sold to China – along with investments in uranium and copper.

All three natural resources are top priority targets for acquisition by the PRC in Latin America and Manzano has a long history of both business and social relationship with leaders of the PRC and is [a sponsor of the Chinese House of Culture](#) in Buenos Aires, among many international relationships.

According to multiple sources familiar with the Chancay project, there was concern in COSCO and the Peruvian government that giving a Chinese company full ownership of the project outright was bad optics and one that could be avoided by having a friendly minority stake holder that would draw little scrutiny.



*Figure 8: The juxtaposition of the traditional fishing activity being overtaken by the COSCO port in Chancay (IBI Consultants, November 2024)*

## Conclusions

The port of Chancay, operating with numerous anomalies that characterize strategic Chinese investments, will likely be the catalyst for a profound realignment of South America's licit and illicit supply chains and commerce. It also signals the ascension of China as the region's primary partner of choice for economic, political and strategic development, displacing the United States, which has not matched China's recent investment and commercial activities in Latin America or globally. This realignment will have multiple collateral effects and likely create new illicit economies and ecosystems around those economies that will pose strategic national security challenges to the United States and its allies in the hemisphere and beyond, in a world of interconnected threats.