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FEATURED Q&A

Do Cryptocurrency Exchanges Need Tighter Controls?



Several banks in Chile recently closed the accounts of cryptocurrency exchanges. Banco del Estado de Chile was among the ones ordered to reopen the accounts, at least for now. // File Photo: Banco del Estado de Chile.

Q Some of Chile's largest banks have closed the corporate accounts of cryptocurrency platforms in recent weeks, forcing companies such as Orionx and CryptoMarket to find alternate ways to operate in the South American country.

Chile's anti-monopoly court later ordered Banco del Estado de Chile and Corpbanca to reopen cryptocurrency exchange Buda's accounts while its lawsuit continues against those two banks and eight others. Executives from some of the exchanges assert that the account closures were arbitrary and risk choking out a growing and vital new industry. What is behind the dispute over the closed accounts, and which side will prevail? What regulations and policies need to be put in place so Chile's banks and cryptocurrency firms have more clarity and predictability? How are these concerns playing out in other countries of Latin America and the Caribbean?

A Juan Llanos, independent global compliance advisor: "There are valid concerns about risks, but a blanket reaction such as this is disproportionate and unwarranted. Over the past few decades, banks have operated as de facto, discretionary enforcers of the law, with no transparency or accountability with respect to why they close accounts. What should really matter is the long-term impact on consumers and society at large. It is also very unfortunate that consumers and marketplace participants tolerate governments and regulators always lagging behind technologies. We can put a man on the moon but are not able or willing to design adaptable policy-making and governance mechanisms so that regulatory regimes are able to more

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TODAY'S NEWS

POLITICAL

U.S. Expels Two Venezuelan Envoys

The State Department's move followed Venezuelan President Nicolás Maduro's expulsion of two U.S. diplomats from Caracas and new U.S. sanctions on Venezuela following the country's disputed presidential election.

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ECONOMIC

Mexican Economy Gains Strength in First Quarter

Mexico's gross domestic product grew 1.1 percent in the first quarter as compared to the previous three-month period, according to the country's National Statistics Institute.

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POLITICAL

Nicaragua Talks Break Down Amid Lack of Progress

Talks between the government of Nicaraguan President Daniel Ortega and the country's opposition and civic groups broke down, said the archbishop of Managua, who has been helping to mediate the talks.

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Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

U.S. Expels Two Venezuelan Envoys in Tit-for-Tat

The United States on Wednesday ordered the expulsion of two Venezuelan diplomats in a tit-for-tat measure that followed Venezuelan President Nicolás Maduro's order to expel two U.S. envoys from Caracas the day before, Agence France-Presse reported. The State Department said that it had given the chargé d'affaires at the Venezuelan Embassy in Washington and the deputy consul general at the Venezuelan consulate in Houston 48 hours to leave the United States, The Hill reported. On Tuesday, Maduro expelled the chargé d'affaires and deputy chief of mission at the U.S. Embassy in Caracas, accusing them of "conspiring" against his government. The State Department rejected those allegations. Maduro's move followed new U.S. sanctions on Venezuela and criticism for the United States and other critics calling Venezuela's presidential election on Sunday, which Maduro won, a sham. [Editor's note: See related [Q&A](#) in Tuesday's Advisor.]

Talks Break Down Between Nicaraguan Gov't, Opposition

Nicaraguan Cardinal Leopoldo Brenes announced on Wednesday that talks between the government and civic and opposition groups over weeks of deadly protests against President Daniel Ortega's administration would be adjourned indefinitely due to lack of progress, the Associated Press reported. The talks, which began last week and were mediated by the Roman Catholic Church, reached a breaking point when the opposition reportedly called for changes in electoral laws that moved up the next election and barred presidential re-election. "The agenda leads us to one point: a coup d'état, because it is a map to change the government outside of the constitution and the

law," said Foreign Minister Dennis Moncada, who led the government delegation at the talks, the AP reported. The announcement came as a new wave of violence against demonstrators by state police swept the streets of León and Madriz, Nicaraguan daily La Prensa reported on Thursday. The National Police used tear gas against protesters maintaining roadblocks, defying at least one of the recommendations submitted by the Inter-American Commission on Human Rights (IACHR) on Monday, according to La Prensa. The IACHR concluded that President Daniel Ortega's government gravely violated human rights in a crackdown response to mass protests that began in April.

ECONOMIC NEWS

Mexican Economy Gains Strength in First Quarter

Mexico's economy saw a seasonally adjusted 1.1 percent uptick in gross domestic product in the first quarter of 2018, compared to the previous quarter, the National Statistics Institute announced Wednesday. The figure represents the largest increase in GDP that Mexico has experienced in a year and a half, according to The Wall Street Journal, though it still lags behind the 1.3 percent growth estimated by Bloomberg analysts earlier this year. The service sector continues to be the main driver of economic growth, expanding 1.1 percent from the previous quarter. Agricultural and industrial production grew by 0.9 percent each, compared to the last quarter of 2017. The results mark the sixth consecutive month of expansion for the industrial sector, which includes mining, gas and manufacturing, Mexican newspaper El Financiero reported. "In the future, we hope that the engines of growth will rebalance, with higher contributions from manufacturing exports and less from services and private consumption," Alberto Ramos, Latin America economist for Goldman Sachs, told El Financiero on Wednesday. Ramos added that the Mexican economy has proved to be more

NEWS BRIEFS

At Least Three Killed in Collapse of Movie Theater in Northern Argentina

At least three people were killed Wednesday when an old movie theater collapsed in the city of Tucumán in northern Argentina, BBC News reported. The building was under renovations when it collapsed. Workers were inside the building at the time, and some were trapped beneath rubble, authorities said. Local residents reported hearing an explosion when the building caved in, but firefighters said they were still investigating the exact cause of the collapse.

Four Former Guatemalan Military Officers Sentenced for War Crimes

Guatemala's highest court on Wednesday sentenced four former military officers to prison over war crimes committed during the country's civil war, Guatemalan newspaper Prensa Libre reported. The high-ranking officers were accused of rape and torture against Emma Molina Theissen, and the forced disappearance of her brother, Marco Antonio Molina Theissen, who is still missing. A fifth officer was found not guilty due to lack of evidence. The prison sentences range from 33 to 58 years.

Amazon Web Services Eye Long-Term Investments in Chile: Executive

Teresa Carlson, Amazon Web Services vice president for the worldwide public sector, announced new investment in Chile after meeting with President Sebastián Piñera on Wednesday, Reuters reported. "You're going to see us here for the long-term," Carlson said. These plans are part of a larger strategy to expand the company's cloud and data services in Latin America. Carlson had also referenced Amazon's desire to increase its presence in the region at a conference in Argentina on Monday.

robust than expected in the context of the NAFTA renegotiation and upcoming presidential elections in July.

BUSINESS NEWS

Peruvian Gov't Cancels Contracts With Tullow Oil

Peru's government on Wednesday canceled the approval of five offshore oil contracts awarded to London-based Tullow Oil, Reuters reported. President Martín Vizcarra cited insufficient consultations with coastal residents for canceling the contracts, which were approved by his predecessor, Pedro Pablo Kuczynski, shortly before he resigned earlier this year under pressure over a corruption investigation. Locals and international environmental groups worried that potential pollution from drilling would have put fisheries and whale breeding grounds at risk. "We want a country that develops investments with peace and tranquility, and that's done with a good start to a project," Prime Minister César Villanueva told reporters. Despite Kuczynski's approval, the contracts themselves were never signed, state energy promoter Perupetro said, but Tullow executives told Reuters the decision was "deeply disappointing." The company's shares fell 5 percent in London trading Wednesday. Pro-business groups in Peru also criticized the move. Jessica Luna, the head of Peru's Foreign Trade Association, or COMEX, said the government's decision was "a serious blow to the legal security of investments" in the country, El Comercio reported.

Latin America Fuels Profits of Hong Kong's Lenovo

Hong Kong-based technology company Lenovo said today it earned \$10.6 billion in revenue during its most recent fiscal quarter, up 11 percent year-on-year, with net income of \$33 mil-

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easily adapt to fast advances in technology. There are risks in any emerging technology, including and especially in the nascent blockchain technology. Yet governments and markets have the strategic choice to be open-minded, enlightened and future-focused, or conservative, protectionist and past-focused. Some get it, but most don't.

“There are valid concerns about risks, but a blanket reaction such as this is disproportionate and unwarranted.”

— Juan Llanos

Initially, the latter will prevail, but not for long. Open and massively supported technologies always win. And blockchain is such a technology. Regulation, like nature, abhors a vacuum. Either the marketplace will find ways to self-regulate and operate responsibly, or governments and legacy players will do anything in their power to mitigate real or perceived risks. Derisking, unbanking and denial of banking services has already reached global epidemic proportions. It started in the early 2000s, and intensified after 9/11, with money transmitters, then with prepaid debit cards and mobile payment systems. More recently, Operation Choke Point, a coordinated effort against certain merchant categories considered unaccept-

lion. In a financial statement, Lenovo singled out Latin America for its strong performance. The company's mobile business group reported volumes were up 40 percent for the full year in Latin America, with revenue from the region amounting to \$7.2 billion. Executives said that "exceptionally strong performances" in the mobile business group in Latin America, as well as cost cutting measures, "are expected

able by the Department of Justice under U.S. President Barack Obama, caused a new wave in Jamaica and Somalia. And now it's happening on a global basis against bit, crypto and blockchain businesses. Unless seriously addressed once and for all, this will continue to harm innovation and society at large in Latin America, the Caribbean and globally."

A Michael Carter, director, and Larry Iwanski, managing director, both at Alvarez & Marsal Disputes and Investigations: "Chile's banks are likely concerned with the risks associated with banking cryptocurrency platforms. The concerns may revolve around the internal controls of their cryptocurrency customers, specifically with customer due diligence, transaction monitoring and suspicious activity reporting. It is possible that Chilean bank compliance leaders are concerned about being designated as 'high risk' by their global banking partners; maintaining business customers in an emerging industry without validated compliance controls could contribute to that risk. The outcomes of these disputes will likely rely on the regulatory clarification from governments, implementation of financial crimes compliance controls by the crypto platforms and verification of those controls by the banks. Specifically, crypto platforms benefit from implementing strong anti-money laundering, consumer protection, data and information security, and anti-fraud controls in their programs. Their licensed U.S. counterparts have generally been proac-

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to yield substantially improved results" through 2019. The company's CEO, Yang Yuanqing, has set a goal to transform Lenovo from a PC hardware company into multi-business innovator in smart devices, data centers, the Internet of Things and artificial intelligence. For the full fiscal year, the company's overall revenue was more than \$45.3 billion, up 5 percent year-on-year.

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tive in mirroring compliance practices from established financial institutions, as well as partnering with regulatory agencies for guidance. Digital currency exchanges serve as on/off ramps to the traditional financial systems, and therefore should be diligent in knowing, monitoring and evaluating their

“Digital currency exchanges serve as on/off ramps to the traditional financial systems...”

— Michael Carter & Larry Iwanski

customers and activity in order to maintain those important banking and vendor relationships. Ironically, South American financial institutions may be hesitant to risk exposure to the ‘de-banking’ trend that has shrunk global financial connectivity over the past decade, to which digital currencies have somewhat served as a market gap filler. That real and perceived risk of dealing with under-regulated crypto platforms is unlikely to subside without prescriptive regulatory guidance and disciplined compliance initiatives by the exchanges.”

A **Rodrigo Sainz, co-founder and CIO of mifutu.ro:** “Due to issues related to money laundering and know-your-customer regulations, banks in Chile decided to close the accounts of some exchanges. The banks’ point of view is not against the cryptocurrencies’ underlying blockchain technology and its potential. Rather, it’s all about origins of funds and regulation around cryptocurrencies. Different initiatives are already being put in place in Chile, including from the central bank, the economy ministry and market regulators as well as private companies such as banks and other financial players including the Santiago Stock Exchange. Banks that closed exchanges’ accounts say that the exchanges are not rigorous enough in their internal controls, so a minimum standard is needed in order to identify each client of the exchange. Banks in Colombia and Argentina are still doing business with cryptocurrency exchanges, but in Brazil, some exchanges have had their accounts closed, and it differs from one state to another. Most of the rest of Latin America operates mostly on U.S. exchanges through the use of credit cards.”

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