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FEATURED Q&A

What Does the Use of Bitcoin Mean for Latin America?

Q Use of the Bitcoin digital currency is expected to expand in Latin America after the Tokyo-based Mt. Gox exchange in December announced a partnership with AstroPay, a prepaid card processor, which will allow users in Mexico and several South American countries to trade dollars for Bitcoins. Over the past year, the value of one Bitcoin has spiked to more than $1,000 as the virtual currency has raised concerns about its lack of regulation and possible use in illicit activity. What are the implications of Bitcoin use in Latin America for areas such as commerce, remittances and money laundering? Will it gain in popularity in the region? Is the notion of a global "virtual" currency here to stay?

A Juan Llanos, co-founder, executive vice president and compliance officer of Unidos Financial Services, Inc.: "Bitcoin would definitely help enable commerce, as it would allow both online and offline merchants of any size to receive payments for their goods and services from anywhere in the world. Remittances are ripe for disruption too. They are considered the primary use case for Bitcoin both in Latin America and globally due to the low costs and the peer-to-peer nature of the transfers. An additional use is as an alternative store of value and even medium of exchange in countries with high inflation. With respect to money laundering, the potential for illicit movements of funds exists, as with any other payment system. However, the nature of the technology—a distributed network and database where every transaction gets recorded and is publicly viewable, makes it unattractive to individual financial criminals, as they would leave a digital, albeit anonymous, audit trail that could eventually be linked back to them. Of the three use cases: payments, remittances and asset/currency, I'd venture to say that what's most attractive today to Latin Americans is the last one, as an alternative asset and cur-

Continued on page 3

Hernández Takes Office as Honduras' President

Conservative Juan Orlando Hernández took office Monday as Honduras' president. In his inaugural address, he urged the United States to continue helping the Central American country fight drug traffickers. See brief on page 2.

Photo: juanorlando.com.

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NEWS BRIEFS

Hernández Takes Office in Honduras

Juan Orlando Hernández took office Monday as Honduras' president and in his inaugural address urged the United States to continue assisting the Central American country in fighting drug traffickers, the Associated Press reported. "Let me be clear: time has run out for criminals," said Hernández, a conservative lawyer. The vast majority of killings in Honduras are connected to drug trafficking as narcotics move from South America through Central America and to the United States.

Foreign Ministers Meet in Havana as CELAC Summit Begins

The foreign ministers of 33 countries in Latin America and the Caribbean began met Monday in Havana for the second summit of the Community of Latin American and Caribbean States, or CELAC, the Associated Press reported. Some topics of discussion were the farming of traditional crops such as quinoa, historic disputes among countries and regional initiatives such as promoting literacy. Heads of states from Western Hemisphere nations, minus the United States and Canada, plan to meet today and Wednesday.

Mexico Legalizes Vigilante Groups, Captures Cartel Leader

The Mexican government announced Monday that it reached an agreement with vigilante leaders to incorporate the groups into quasi-military groups, essentially legalizing the movement, the Associated Press reported. The government also said it captured one of the four top leaders of the Knights Templar drug cartel, which the vigilantes have been fighting.

Political News

World Court Sets Peru-Chile Maritime Border

The United Nations' International Court of Justice on Monday set the maritime boundary between Peru and Chile, awarding Peru a larger piece of the Pacific Ocean, but keeping rich fishing areas in Chilean hands. Outgoing Chilean President Sebastián Piñera called the ruling "a lamentable loss," but President-elect Michelle Bachelet, who takes office March 11, said "most of the fishing occurs inside the area that the court ratified as belonging to our country," the Associated Press reported. Peruvian President Ollanta Humala said in a televised address that he was pleased by the outcome, saying the court recognized the argument that Peru had made, saying that the neighboring countries did not previously have a maritime border. The ruling ends a dispute that was centered on approximately 38,000 square kilometers (14,670 square miles) of fishing grounds that are among the most rich in the world. The annual catch in the area is estimated at some $200 million. The biggest winners in the ruling appear to be Chilean fishing fleets, according to analysts. Peru had argued in the case that its maritime territory extended perpendicular to the coast and headed roughly southwest. Chile, however, argued that its boundary ran parallel to the equator. In its ruling, which cannot be appealed, the World Court struck a compromise. It said the border extended parallel to the equator, 80 nautical miles from the coast, and then extended southwest to the edge of the countries' 200-mile territorial waters. Both countries have pledged to abide by the ruling, which is not expected to affect the countries' cordial ties. Annual trade between Chile and Peru has grown from $500 million in 2006 to $4.3 billion currently. Peruvian investment in Chile amounted to $11 billion last year, while Chilean investment in Peru stood at $13.5 billion.

> "Most of the fishing occurs inside the area that the court ratified as belonging to our country."
>
> — *Michelle Bachelet*

Economic News

Economists Expect Declining Profitability at Ecuadorean Banks

Economists are expecting the profitability of Ecuadorean banks to continue declining this year as President Rafael Correa's administration eyes stricter regulations, *The Wall Street Journal* reported Friday. Banks in the South American country had a return on equity of 10.15 percent last year, as compared to 12.79 percent in 2012 and 18.91 percent in 2011, according to the Private Banking Association of Ecuador, or ABPE. Since Correa took office in 2007, there have been at least 50 government actions that have affected Ecuadorean banks. The measures include new regulations and taxes as well as constitutional changes. Following a referendum in 2011, the board members, legal representatives and some shareholders of financial institutions were barred from conducting business outside the financial sector and were forced to shed their stakes in brokerages, insurers and other types of holdings. Economist Alberto Acosta Burneo at private consulting firm **Grupo Spurrier** said government regulations on the banking sector are expected to increase under Correa. "It is likely that we'll see banks lose their legal power to issue loans, with the power being passed on to monetary authorities," he said. Ecuador's minister coordinator for economic policy, however, said such controls are necessary. "Too much liberty for capital is a sure recipe for a crisis," he said, *The Wall Street Journal* reported.

Correa

File Photo: Ecuadorean Government.

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Company News

Pemex Expects to Sign Exploration & Production Contracts by Early 2015

Mexican state-run oil company **Pemex** anticipates signing its first exploration and production agreements with international companies at the end of this year or early next year after the passage of an energy reform in December that ended Pemex's decades-long monopoly, Bloomberg News reported Monday. Pemex will first focus on establishing ventures at mature and deep-water fields, company CEO Emilio Lozoya said in a Jan. 25 interview in Davos, Switzerland on the sidelines of the World Economic Forum. After Congress passes secondary legislation, which Lozoya expects to occur by the end of April, the company can begin making associations in refining, transportation and petrochemicals. "We expect that in exploration and production, by the end of 2014 or beginning of 2015 we achieve the first investments or associations," Lozoya said. "The quickest way to monetize the investments that Pemex already made in exploration is through joint ventures. This means increasing output and oil income." It will take about two years for foreign companies to be able to bid on exploration and production fields without Pemex participation, Deputy Energy Minister Enrique Ochoa said earlier this month. The secondary legislation that Mexico's Congress has yet to develop will determine the framework and contract terms for foreign participation, and Pemex must determine which producing fields it wants to develop itself. Also in Davos, Lozoya and the president of Russian oil giant **Lukoil**, Vagit Alekperov, signed a cooperation agreement Jan. 24 for the sharing of knowledge and experience in the areas of exploration and production activities, as well as environmental protection, the Mexican oil company said in a statement.

Lozoya

File Photo: Pemex.

Featured Q&A

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rency to hedge against the debasement of the local currencies. Bitcoin is particularly attractive for this reason in countries like Argentina or Venezuela. Bitcoin is also poised to become popular as a payment medium in Latin America, where only 10 percent of the population has credit cards and where payment services are expensive and slow. However, whether Bitcoin gains popularity in the region is in the hands of governments. An unregulated environment like Latin America may seem like a good culture for alternative currencies and payment services, but it's in countries with weak democracies or strong presidential regimes where Bitcoin could be perceived as a threat to the status quo, and therefore be tightly restricted if not banned outright. There may be a rocky evolution toward a set of stable, reliable, widely-accepted solutions, but I have no doubt that the future of payments lies now with cryptography- and math-based technologies."

Adam Stradling, founder and CEO of Coin4ce.com, a Chile-based Bitcoin company: "Bitcoin is definitely growing in Latin America in terms of awareness and adoption. There are numerous start-ups now located in the region. For commerce, accepting credit cards in Latin America can be quite a hassle and very expensive for the merchant. By accepting Bitcoin, merchants will be able to quickly reach a global customer base at vastly reduced rates. Another area where Bitcoin will have a large impact is with remittances. Remittances in Latin America are very expensive and slow. The region needs a better inter-country money transfer system. Bitcoin will replace some existing business models while actually leap-frogging other payment technologies all together. Historically, Bitcoin has been singled out by the media as a hot-spot for illicit activities because of its 'anonymous' nature. The majority of these opinions are uninformed, mainly because Bitcoin is not anonymous and the vast majority of early Bitcoin adopters are technologists, payment and financial professionals, and other forward-thinking enthusiasts; not criminals. First, Bitcoin is the most transparent monetary system in the history of man since all transactions are public via the Blockchain. Second, although there is clear evidence of Bitcoin being used for illegal activities, on a percentage basis compared to cash, you'll find that fiat cash still dominates black-market transactions. Just compare the scandals at HSBC and other banks where alleged monies laundered were astronomical to the closure of Silk Road, which had a marginal long-term effect on Bitcoin's daily transaction volume. Yes, virtual currencies are here to stay, and we're just getting started."

Sebastien Galy, senior currency strategist at Societe Generale: "Bitcoin should gain significant interest in Latin America as it has in Asia and other regions. Much of it has to do with the structure of the product. Bitcoin offers a very limited supply of virtual coinage. As the product develops and reaches a new continent, its price rises in anticipation of the increased demand. This demand should be strong in countries with a history of high inflation. Lack of liquidity in this narrow market increases the price swing as does the fact that many professional traders are now involved in this market. Once the new demand is priced in, the price of Bitcoins collapses. From a commercial point of view, a peer-to-peer system is the latest improvement in the technology of payment, a technology steadily spreading. This will challenge financial intermediaries where they are deeply inefficient, forcing them to provide more efficient offerings and as such will eventually benefit all. From a legal point of view, Bitcoins offer the perception that they can be used to evade the heavy regulatory controls over the financial system. The coin is said to be untraceable and has been used for illegal activities in the United States, to circumvent capital controls in troubled countries, and its gains are far more difficult

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Featured Q&A

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to tax. As usual, regulators and central banks are likely to react to such developments. Historically, such private monies eventually collapse as their underlying drivers, mainly wars and extremely lax monetary policy, disappear. The technology stays and evolves to the next stage."

Carlos M. Parra, clinical professor in the College of Business at Florida International University: "Hopefully, global virtual currencies are here to stay, especially in Latin America, where ill-conceived macroeconomic policies have led to excessive and harmful inflation rates in the past (such as in Peru and Brazil) and currently (as in Argentina and Venezuela). Arguably, inflation is the most expensive and burdensome tax on the poor. If an electronic currency like Bitcoin is able to provide stability and protection for the purchasing power of those at the bottom of the pyramid, then a plausible social policy for an embattled but truly concerned and progressive public-finance regulator could be to suggest that the poor receive welfare program benefits or government subsidies such as conditional cash transfers in Bitcoins instead of that country's increasingly volatile and/or devalued currency. Also, remittances, which for many developing countries constitute a significant portion of GDP, could be sent and received in Bitcoins (once again for senders to protect the purchasing power of receivers). The challenge is at least twofold: first, we do not yet know exactly how much more stable, and for how long, Bitcoins will be in comparison to Venezuelan bolívars or Argentine pesos; and second, there's no widespread acceptance of Bitcoins in local markets, so individuals at the bottom of the pyramid cannot be expected to easily find vendors willing to accept Bitcoins for their products or services. Notice, however, that these two conditions are fundamentally related to each other; widespread Bitcoin acceptance would reduce their volatility. But by the time all this happens, a change in government and of regulatory approach could end it all."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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