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THEDIALOGUE

FEATURED Q&A

How Will Blockchain Affect Businesses and Consumers?

Financial technologies such as blockchain can provide investors protection against low and negative interest rate policies by central banks, billionaire bond fund manager Bill Gross said in an investment outlook released Oct. 4. // File Photo: Janus Capital Group.

Q Blockchain, the technology that underlies Bitcoin and a host of other electronic transactional activities, "could profoundly alter the way banks do business worldwide" by reducing operating costs and making financial services more secure and more accessible, the World Economic Forum said in a report released in August. What should financial services companies operating in Latin America do in order to position themselves to adopt and benefit from blockchain technology? What are the main benefits banks can realize from the technology? What are the main advantages and drawbacks for consumers? What do governments need to do to regulate the industry most effectively with regard to blockchain?

A Juan Llanos, global compliance advisor for multiple start-ups: "Whoever ignores the blockchain technology mega trend is making a huge strategic mistake. Blockchains are distributed computing systems that contain shared ledgers for the secure registration and exchange of value, whether it is the representation of a currency, a stock, a diamond, a plot of land or an original work of art. The fact that they are shared across participants and geographies hints at the potential cost savings vis-à-vis current systems, which are siloed and redundant, and require constant reconciliation within each company. There is a groundswell of blockchain innovation happening around the world right now. Most early adopters trade speculatively with the cryptocurrency bitcoin, as a new, digital asset class. Dozens of companies utilize the Bitcoin blockchain, the first, largest and, so far, most secure blockchain, primarily as an alternative, more efficient payments network

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Venezuela Delays Gubernatorial Vote Until Next Year

The head of the country's electoral council said the elections of governors, which had been planned for December, would be delayed until the middle of next year.

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Codelco Workers Considering Strike

Unionized workers of Chile's state-run copper company may go on strike by mid-November. Workers are seeking a permanent capitalization for the world's top copper producer and also the overturning of a law that allocates 10 percent of the company's revenues to the country's defense budget.

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POLITICAL

Colombia's Uribe Open to Talks With FARC

Former Colombian President Álvaro Uribe has been the driving force against the peace deal between the government and the FARC rebels, which voters rejected earlier this month.

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Uribe // File Photo: Colombian Government.

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POLITICAL NEWS

Venezuela Delays Gubernatorial Vote Until Next Year

Venezuela's National Electoral Council on Tuesday said it was delaying the country's gubernatorial elections, which had been planned for December, until next year. The move came two weeks after President Nicolás Maduro said the vote was not a "priority," Agence-France Presse reported. "The priority in Venezuela is economic recovery, it's helping the people,"

> **"The priority in Venezuela is economic recovery, it's helping the people."**
>
> **— Nicolás Maduro**

Maduro said at the time. In a televised statement announcing the delay, Tibisay Lucena, the head of the electoral council, or CNE, said governors would be elected "at the end of the first half of 2017." She gave no reason for the delay. The announcement came as Venezuela is grappling with severe economic problems, including shortages of several basic goods, such as food and medicine. The country's rate of inflation is expected to surpass 700 percent this year, and opinion polls show that seven in 10 Venezuelans want a change in government, AFP reported. In the most recent regional elections, in 2012, Maduro's allies won election in 20 states. However, polls show they would currently fare poorly, and government sources told Reuters that they are hoping that oil prices rise and boost the economy. The country's opposition coalition blasted the electoral council's decision to delay the gubernatorial election. "This decision by the election board is part of a dangerous trend by a regime clearly acting outside the Constitution," the Democratic Unity Roundtable coalition said in a statement, Reuters reported. The opposition has been pushing for a referendum to recall Maduro, but the electoral council announced in August that the vote would happen no earlier than next year. If a vote happens after Jan. 10 and Maduro is ousted, his handpicked vice president would take over. A vote to recall Maduro before that date would trigger a new presidential election. On Monday, Venezuela's Supreme Court ruled that the opposition would have to gather the signatures of 20 percent of the electorate of every state, rather than 20 percent of the entire electorate, over a three-day period later this month in order to proceed with a recall vote.

Peru's Kuczynski Launches Anti-Graft Crackdown

Peruvian President Pedro Pablo Kuczynski said in a televised statement Monday that he has launched a crackdown on government corruption, saying that corruption is a historical structural problem for the country, BBC News reported. The announcement came after a leaked tape appeared to show health advisor Carlos Moreno plotting to "mine" the system

Kuczynski // File Photo: Peruvian Government.

for personal gain. Moreno denies wrongdoing and says he was framed. He has resigned from his post. Measures in the anti-corruption program include barring employees convicted of corruption from returning to state jobs. The president said he would also create a council of state, in which the president, the president of Congress and the head of the judiciary would join in overseeing the crackdown on corruption across various government institutions. Kuczynski's approval rating has fallen in the wake of the leaked tape, from 63 percent to 55

NEWS BRIEFS

Colombia's Uribe Open to Talks With FARC

Former Colombian President Álvaro Uribe, who led the national campaign against the peace deal between the government and the FARC rebel group, has said he may now be open to talks with the FARC, reversing his previous stance on initiating talks with the group, BBC News reported today. Following voters' rejection of peace deal on Oct. 2, Uribe said his group might take part in the "national interest." "We think that at this time, in the interest of a national deal, spokespeople from 'No' could at some point speak with the FARC," he said Tuesday.

Argentina Keeps Key Reference Rate Unchanged

Argentina's central bank held its reference rate at 26.75 percent for the fourth week in a row on Tuesday in a bid to lower inflation expectations, Reuters reported. The four weeks of a steady reference rate come after eight straight weeks of cuts after market expectations for inflation this year and next began to exceed official forecasts. A poll of economists this month showed inflation expectations at 39.6 percent for this year and 20 percent for next, higher than the Argentine central bank's targets of between 12 and 17 percent next year.

Ecuador Acknowledges Restricting Assange's Internet Access

Ecuador has acknowledged that it has restricted WikiLeaks founder Julian Assange's Internet access since Saturday, saying Assange's organization in recent weeks released information that could affect the result of the U.S. presidential election, BBC News reported. Ecuador said its decision was not due to pressure from the U.S. government. Assange has been living in asylum in Ecuador's embassy in London since 2012.

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percent, according to an Ipsos poll last Sunday. The poll showed that of the 1,289 respondents, only 39 percent believed the government was committed to fighting corruption.

BUSINESS NEWS

Pemex Approves New Joint Venture in Gulf of Mexico

Mexican state-run oil company Pemex announced Tuesday that it approved a joint venture for two shallow-water oil fields in the Gulf of Mexico, Reuters reported. The venture marks the second time that Pemex has looked to outside partners in order to boost crude oil output. The partner in the venture for the Ayin and Batsil oil fields off the coast of Campeche State may be announced in March, the company said. The announcement would come at the same time that 15 other oil fields would be open to bids in the first round of the second set of oil auctions. The two fields contain 46 million barrels of oil equivalent in proven reserves. The same two fields also contain estimated proven, probable and possible reserves of approximately 281 million barrels of oil equivalent, according to Pemex. Mexico's energy reform in 2014 ended the state oil company's monopoly over the exploration and production of oil and gas, and it permitted the company to enter into joint ventures, in the hopes of boosting the country's lagging oil output. "[Pemex] is promoting the formation of alliances as a strategic route to improve its operations and generate profits for the benefit of the country," the company said in a statement. So far this year, Mexico's oil output is approximately 2.19 million barrels per day, down from a peak in 2004 of 3.38 million barrels per day.

Pemex said it may announce the partner for the venture in March.

Codelco Workers Considering Strike

Unionized workers at Chilean state-run copper mining company Codelco may go on strike by mid-November, Reuters reported Tuesday. The umbrella group for Codelco's unions, the Copper Mining Federation, is seeking a permanent capitalization for the company and also wants the overturning of a law that allocates 10 percent of the company's revenues to Chile's defense budget, the wire service reported. "By [mid-November] we could be organizing a strike if we don't have a response from the government," said Marcelo Pérez, director of the Caletones union at the company's El Teniente mine. Liliana Ugarte, the head of a union at the Chuquicamata mine, said a work stoppage could begin with a 24-hour strike. "We're going to get in touch with the Senate, Finance Ministry and the president of the republic, and following all those conversations, we will again meet no more than 15 days later and see if our demands have been met. If not we will call for a 24-hour national strike, as a warning," said Ugarte. Codelco, the world's top copper miner, is funded by a mixture of capitalization and debt. The company has been forced to scale back its ambitious plans for expansion due to the recent sharp drop in copper prices.

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perfectly suited for cross-border payments, which benefits both consumers and businesses. One of the most fascinating aspects of this technology is its programmability, and its ability to add business logic, automate processes and build additional functionality on top of it. Bitcoin has inspired the creation of other open and closed shared ledgers and networks such as Ripple, Ethereum, Eris, R3-Corda and Hyperledger. The technology itself and most projects building around it are still experimental, but they promise to revolutionize the way assets and processes are recorded, stored, traded and transferred. Risks for users and implementers are still high but manageable. Regulators should take an enlightened approach and avoid imposing old regulation to a completely new and evolving technology that may end up self-regulating electronically."

Lindsay Lehr, senior director at Americas Market Intelligence: "The most immediate application for blockchain technology in Latin America is international remittances, which is a $25 billion dollar business in the U.S.-Mexico corridor alone. The current offering for international money-sending globally is outdated, expensive and opaque, subjecting senders and receivers to high fees, long lines and a terrifying lack of transparency. Blockchain technologists are seizing the opportunity to improve this process; the wisest players will do so in conjunction with local networks to facilitate remittance payouts. Australian blockchain company DigitalX has partnered with mobile operator Telefónica in Latin America to offer AirPocket, a cross-border remittance service that is cheaper and simpler than traditional remittance services. Abra, a blockchain-based remittance company offering free money-sending via smartphones from the United States to the Philippines, plans to launch in Latin America in 2017. Banks and mobile operators in Latin America stand to benefit from the blockchain if they invest

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> **"The most immediate application for blockchain technology in Latin America is international remittances...."**
>
> **— Lindsay Lehr**

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in the right partnerships—or else have their remittance business cannibalized if they fail to adapt. Mobile operators can provide the mobile wallets and cash-out networks that blockchain-based money senders need to be viable in Latin America. Banks can leverage the blockchain to provide cheap, fast, smartphone-based P2P payments for their customers. In the long term, blockchain technology could supply telecoms, banks and governments with the solution to affordably providing financial inclusion to the region's unbanked. For the moment, bitcoin and the blockchain remain woefully misunderstood by the private and public sectors in Latin America, and a lack of regulation around bitcoin frightens investors. It will be a long road before the blockchain becomes mainstream in the region—perhaps 10 years or more—but it will eventually become a global reality. Instead of bracing against the blockchain, banks and other players had best determine how to embrace it."

Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "Blockchain already is present and making a dent in diverse economic activities in Latin America. To be sure, it currently is behind the smart contract created by a major bank in Brazil to automatize part of the tasks involved in placing a company on the exchange market. It is also behind the efforts of a Nicaraguan financial institution to develop a secure identity system based on Ricardian contracts. But this is just the tip of a huge iceberg that is about to hit worldwide financial services. Blockchain, through its unique ability to create digital assets that can travel on the network but cannot be copied, will certainly destroy today's compliance departments in every financial institution. Because the registry of these assets is unique, public and cannot be replicated, every financial activity is carried out in the realm of transparency. But perhaps the greatest contribution to be made by blockchain is that of opening the doors of financial systems to the economically active population that does not have bank accounts. Approximately two billion people in the world are being excluded from financial services because they lack banking information, which is tantamount to lacking identity.

> **"Blockchain will produce an initial shock in the rigid banking structures that predominate in Latin America."**
>
> **— Beatrice Rangel**

This is common in Latin America, where many people lack records to demonstrate their reliability and are denied the benefits of credit from banks. Blockchain has the ability to create databases that enable banks to have information about unbanked individuals and grant them credit. Like any time when technology has disrupted economic activities, blockchain will produce an initial shock in the rigid banking structures that predominate in Latin America. However, as inroads are made in compliance, thereby reducing operating costs, attracting customers and improving earnings, it will take over financial systems while enticing regulatory interest. But regulating blockchain will need to be a collaborative exercise between authorities, financial institutions and beneficiaries. Otherwise, by the time regulations are written, they will already be obsolete. Because in the era of semantic networks in which we live, knowledge is created by communities and so is regulation."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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