Bitcoin Sanctuaries

JORGE E. CUÉLLAR

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In early June, President Nayib Bukele of El Salvador announced to the Anglophone world his plan to make bitcoin legal tender. Days later, El Salvador's Legislative Assembly – now stacked with Bukele loyalists – passed the proposal, and on 7 September the currency was officially adopted. Bukele promised that the country would soon be awash with bitcoin ATMs, facilitating conversions, transfers, and purchases of tokens. Fielding questions from an adoring audience at the Bitcoin 2021 conference in Miami, Bukele explained how cryptocurrency would alleviate his nation's economic problems and help Salvadorans escape poverty. He said nothing of its darker uses, from untraceable money laundering to anonymous transacting on the black market to priming the country for illicit profiteering.

Bukele was quick to identify his antagonist for the Miami crowd: the predatory wire transfer services and traditional banks that extract commissions from remittance dollars sent by Salvadoran emigres. Bitcoin, he said, would reduce the reliance on expensive dollars and keep more money in the pockets of Salvadorans. At the same time, the President hoped that the move would prompt a new round of tech investment in the country, expanding the prototype crypto-community set up in the small surf town of El Zonte, now known as 'Bitcoin Beach'. He touted the availability of cheap oceanside real estate, entrepreneurial opportunities, development projects such as geothermal volcano mining, and the inevitable growth of other tourist-friendly industries.

Together, these would turn El Salvador into a tropical crypto sanctuary, reinventing the Panama model of a deregulated offshore financial service center for the 2020s. Citing blockchain's growing adoption in Europe, the US and Canada, Bukele presented it as a beacon of hope for ordinary Salvadorans struggling to get by in the informal economy.

Beyond El Salvador, other Latin American states are beginning to view cryptocurrency as a worthwhile enterprise. They regard it variously as a path towards financial sovereignty, the basis of a successful platform economy, a means to jumpstart the post-pandemic recovery or renovate the region's decayed financial sector. These dreams of empowerment, deregulation and financial inclusivity hark back to the year 2000, when Ecuador and El Salvador abandoned their national currencies, the sucre and colón, for the US dollar. Prompted by hyperinflation and devaluation, and intended to stimulate global investment, the process of dollarization in fact resulted in extreme income disparity plus stagnating or declining wages across sectors, followed by waves of outmigration. In practice, the US dollar now circulates across almost the entirety of Latin America as a second, unofficial currency – an arrangement that Bitcoin may upend.

In Paraguay, bitcoin and other cryptocoins are swiftly becoming part of mainstream political discourse, with laws mooted to encourage their use and applicability. In Mexico and Panama, new legislation will soon be introduced to increase Bitcoin's mobility. Bitcoin ATMs and exchanges are scattered across Panama City's shopping centers and strip malls, granting easy access for crypto traders, who have operated in a legal gray area for many years. Uruguay, now considered the 'Silicon Valley of the Americas', continues to make inroads into global fintech, recently launching its own cryptocurrency called the ñeripeso. In Puerto Rico, bitcoin entrepreneurs have taken advantage of liberal taxation laws to create an investment hub known as 'Puertopia'.

It is no coincidence that Latin America is home to so many crypto havens. 'Banking the unbanked' has played a key role in the economic strategies of many Latin American countries striving to synchronize their informal economies with the rhythms of global accumulation circuits. In the 1980s, microfinance emerged as part of IMF-backed neoliberalization programmes to confront this challenge across the developing world. Accelerating in the 1990s, microcredit institutions began to crop up across Latin America – Argentina, Brazil, Costa Rica, Haiti and Venezuela – offering small-risk loans to the poor. As the region became a site for economic experimentation, its population was used to stress-test incipient financial instruments including early forms of 'fintech'. The countries' raw materials – bananas, palm, rubber, ore – and, by extension, their entire economies, became objects of market speculation. Meanwhile, trade liberalization policies precipitated recurrent debt crises which kept their governments trapped in fiscal bondage.

The turn towards Bitcoin is the latest of these experiments, which is likely to produce a kind of fiduciary colonialism. For bitcoiners, El Salvador's reforms will provide valuable data on the social utility of cryptocurrency, demonstrating its function as a viable fiat currency. Yet the primary focus is on developing crypto infrastructure which can be exploited by Silicon Valley risk entrepreneurs. For the street vendor who worries about daily earnings, or the families reeling from the hardship of the pandemic, the influx of these techno-capitalists will inject yet more volatility into economic life. By creating unconventional markets of digital coins, blockchain essentially brings regular people into the speculative crypto bubble, where many will end up trading their subsistence wages for overvalued satoshis (the component cents of a Bitcoin).

Crypto use will likely continue to spread across the region as traditional banking introduces new Bitcoin credit products – from cards to rewards programmes – into the market. Yet El Salvador's policy innovation, which could become a regional paradigm, is to use crypto for all state dealings, giving it official parity with the dollar for domestic transactions. The Bitcoin Law mandates that every business equip itself to accept crypto: a measure that threatens to create new forms of technological apartheid, given the unequal access to internet and smartphone technology across the country. Bitcoin will also increase the risk of cybercrime and petty theft (since people hold the currency in insecure 'hot wallets'), as well as devastating local ecology by using volcanic energy to mine coins. Since its adoption, the cryptocurrency's take-up has been patchy and contested, prompting Bukele's government to launch propaganda campaigns to enroll citizens in the glitchy government cryptowallet, Chivo app. Almost 70% of Salvadorians oppose Bukele's reform, and a movement to repeal it has been seen in the #NoAlBitcoin protests in the capital city. But the government, which grows more repressive by the day, has shown no signs of backing down.

If the Dollar Diplomacy of the early twentieth century led to imperialism by investment, forcing Latin American nations to put US interests above their own, then today's turn to cryptocurrency will perpetuate this dynamic. Instead of offering community-responsive development, crypto diplomacy will pry open economies for super-rich investors searching for fiscal wildernesses to tame. Some risk-entrepreneurs are already receiving transaction commissions, earning on wallet and service adoption. Governments, too, will be able to acquire key information on the financial habits of crypto users by simply reviewing the public ledger – streamlining the mechanisms of state surveillance. For El Salvador, this is pure capitalism delivered through cryptography, where the daydream of laissez-faire decentralization masks an unsettling authoritarian creep.

Read on: Tony Wood, 'Latin America Tamed?', NLR 58.