Chapter 24

Operational Proposal for an EU-CELAC Strategic Alliance

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Abstract This chapter proposes the strengthening of the bi-regional cooperation EU-Latin America and the Caribbean (LAC) based upon a bottom-up exchanges across experts and officials through an innovative two-leg strategy of bi-regional dialogues.

Introduction

The European Union (EU) economies and other regions of the world are affected by the Global Financial Crisis (GFC) and its continuation and prolonged effects. Starting from the identification of the unsustainable character of the present economic system for intertwined macrofinancial and environmental reasons (see Chaps. 2 and 3 in this volume), the purpose of this chapter is to propose a costless formula of bi-regional cooperation between the EU and the Latin America and the Caribbean (LAC) region for tackling the unsustainable aspects of their economies. The basic assumption upon which relies our Network “Crisis – Democracy – Equity” is that in spite of huge differences between the EU and LAC regions from a structural and socio-institutional point of view, the GFC and its consequences deserve to be analysed in a comparative way in order to identify not only common elements and interests but also differences with the view to formulate concrete proposals for resolving the systemic crisis in a cooperative way.

Economic growth in the LAC area as in the EU is not sustainable. In particular productivity growth is very low in the EU and even negative in LAC. The solution is to recover a higher sustainable path of growth for productivity in both regions. The argument advanced in this chapter is that this urgent requirement could be better satisfied by an acceleration of the bi-regional cooperation EU-LAC especially

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based upon an innovative two-leg strategy of bi-regional dialogues among stakeholders and experts: (i) one between stakeholders from academic, scientific and firms cooperation in order to reduce their gaps with the SMEs and accelerate the diffusion of innovation and technologies in the whole economies, and (ii) a complementary one for interconnecting experts dedicated to macroeconomic aspects for anchoring stability through a mutual scrutiny of policy mixes in a macroeconomic mutual monitoring spurring regional and bi-regional cohesion and increasing the common EU-LAC voice on financial markets and inside multilateral organizations.

The Method: Fostering a Dynamic Bi-regional Cooperation with a Bottom-Up Exchanges Across Experts and Officials Through a Two-Tier System of Networks Intra- and Inter-regions

We propose a Plan with simple mechanisms for triggering new dynamics in the bi-regional relations. The proposal consists in a set of two complementary exchange initiatives able to change the routine and to free innovation capacities, and is based upon the concrete experiments of the EU,¹ of REDIMA² - Red de Dialogos Macroeconomico, ECLAC-CEPAL (Ghymers 2005), for Latin America as well as equivalent cases in other regions:³

1. To propose to all Bi-regional Summit participants the development of a “bottom-up method” for broadening the process of defining the content of the Strategic Alliance and the inputs for selecting cooperative ideas and projects to the Summit agenda. This “peer pressure” method consists in launching a two-leg (macroeconomic and industrial dialogue networks), two-sector (public policies and private firms) and two-tier (regional and bi-regional levels) system of broad informal networks (internet) gathering basic actors for expressing their views and needs of regional and bi-regional cooperation:

- 1.1. First, to create (with incentives) in CELAC and EU civil-servant networks between national administrations and experts, one network per technical

¹Not for importing the EU model, but only the method which proved to be useful for stimulating regional cooperation by breaking the prisoner dilemma between national governments (see Ghymers 2005).

²Although conceived for macroeconomic policy monitoring, the REDIMA experiment is valid for spurring regional cooperation in any key area since it tackles the obstacles due to situation of prisoner's dilemma (see Ghymers 2005).

³The move from West African Monetary Union (UMOA) to West African Economic and Monetary Union (UEMOA) in the Western CFA Franc monetary Union and the move from the Monetary Union (UMAC) to Central African Economic and Monetary Community (CEMAC) in the Equatorial CFA Franc monetary union. See: Ghymers (1997).

- issue or policy; each participant acts on his own, without committing his administration or minister in confidential exchanges under “Chatham rule”;
- 1.2. Second, to do the same for the business sectors, using the national Chambers of Commerce and SMEs’ associations as well as company or sector representations;
 - 1.3. Third, to connect each regional network (public policies and private firms) for developing at bi-regional level a direct mean of free exchanges and cooperation, giving so a direct voice channel to the peers in charge of policies and Trade/investment/production/employment;
 - 1.4. Fourth step is to collect the results at official level for processing them with transparency at ministerial level for bringing them in the Summit agenda and taking actions in bi-regional cooperation programmes.

These autonomous networks managed by the basic actors allow for direct trans-regional consultations first, followed by extending consultations and exchanges to the bi-regional level between these basic actors from each regions. Autonomous networks permit a genuine technical democratization which gives a voice and stimulate initiative and innovation from civil servant experts and private firms. Experiences in Africa and Latin America show that encouraging and warranting the informal and free nature (open competition between participants speaking on their own and not in the name of their institution) of the exchanges ensure a powerful dynamics and an endogenous development of structured networks beneficial for the policymakers. An emulation among technicians spurs the use of this tool in the own interest of the participants and their hierarchies, with a mechanism of self-selection from them to the EU/CELAC procedures, through incentives created by each country (and/or sub-region) in favour of the people in charge of each national administration (regional rewards, scholarships, missions, etc.).

By organizing incentives for making each separated technical network to report systematically to the decision-maker levels (ministers of both regions and Summit participants), they provide them with a spontaneous generation of ideas and projects which offer an extraordinary flow of innovations and efficient contributions to regional integration and bi-regional cooperation. In exchange, the participants can express their voice and transmit their views and advices to policymakers for reaching consensual positions successively at regional and bi-regional levels, about the main issues for which these actors consider that regional cooperation would be beneficial for them.

The need to maximize the interests of basic actors in the bi-regional cooperation moves them in favour of cooperative actions, both among peers in the public sector and for SMEs or for other interested firms. Thus, these networks—if sufficiently autonomous—have the potential to decentralize and to trigger a competition among actors which stimulates the efforts for identifying and selecting concrete bi-regional cooperation in their own interests in their area of technical responsibilities but limited by the scrutiny of their peers. Not for taking decisions but just for emulating regional and bi-regional cooperation at technical levels of public policies and firms. This “peer selection” mechanism is very powerful when it enjoys sufficient

autonomy for freeing technical competences in a competitive run for identifying common interests according to pure technical or scientific criteria by the technicians who participate in each network. The role of governments is only active at the two ends of the networks: at the starting point by deciding their administrations to launch the networks allowing civil servants to participate actively on their own (not as their delegates) since national administrations and ministers are the direct beneficiaries of the works of the networks, and at the end of the works for decision making after collecting the results with conclusions, proposals, ideas or merely information on what the partners think, are doing or planning to do (exchanges of best practices or failures).

The final step of this “REDIMA⁴ recipe” for renewing the bi-regional agenda and working methods is to organize at official level (Ministers and Heads of State or Government) a decision-making process. It would merely consist in creating “Bi-regional Minister Councils” for deciding the ranking of priorities for common action and cooperation, as well as the organization and monitoring of the implementation of the Summit decisions. This method should be applied for dealing with four different issues by exchanging best practices and analysis on: (i) policies for restoring a sustainable growth path for productivity, (ii) social policies, (iii) decarbonization and environmental policies, and (iv) implementing a Mutual Macroeconomic Monitoring for anchoring macroeconomic stability and mutual confidence.

Restoring Sustainable Productivity Growth

Most of the lagging productivity in both regions comes from the insufficient diffusion of technology (mainly in the service and logistic sectors) rather than at the technological frontier, and adopting a bi-regional approach allows for exploiting differences and triggering fast synergies to close the gap between the frontier firms and most other firms and sectors inside each economy, a much easier task if an adequate EU cooperation allows for wrapping together the productivity increases. Contrary to superficial views, EU and LAC respective productivity weaknesses are additional reasons for spurring a deeper Strategic Alliance between the two regions. This chapter advocates for using the existing Bi-regional Summit Diplomacy as a catalytic tool for generating a new dynamic in these EU-LAC relations by formulating an operational method for decentralizing the preparation of the Summits and taking charge of dynamizing the follow-up with cooperation tools. This broadening of the bi-regional Summit is presented as an “EU-LAC Monnet Plan” for defining and executing the “Strategic Alliance” which was declared in 1999 in Rio by the EU and the LAC countries but with a too timid content and few realizations in two decades.

⁴See footnote 2, the purpose is to extend the REDIMA approach to key aspects of the EU-LAC cooperation.

The Economic Deadlock of the LAC Economies According to Their Productivity Performance (TFP)

It is an amazing phenomenon that productivity progress—the driving engine of socio-economic prosperity—is in trouble and about to stop in the advanced economies—especially in EU economies—and has even turned negative in LACs ones. The adequate concept to use is that of “total factor productivity” (TFP) (or multi-factor productivity), i.e. the difference between the rate of growth of output and the rate of growth of the factors and inputs used for producing that output. It therefore provides a simple but powerful indicator of economic efficiency or “cost reduction” for an economy as a whole. It is the only sustainable source of long-term economic growth and social progress. Without productivity growth, an economy will slowly grind to a halt and to social and financial troubles. It is the only growth factor that does not suffer from diminishing returns as homogeneous inputs typically do. TFP growth represents the so-called “positive externalities” which arise from technological progress, innovation and the socio-institutional framework in which production is organized. If sustained, low productivity growth would have profound adverse implications for progress in global living standards, the sustainability of private and public debts, social protection systems, and the ability of macroeconomic policies to respond to future shocks and to the ageing costs. The LACs’ economies are affected by the same disease as other regions but at a higher degree of toxicity. During the same long-term period as shown in Fig. 24.1, the TFP growth for the CELAC economies is even worst since it is negative (−0.11% per year), and only the very poor region of Sub-Saharan Africa registers a worse performance (−0.5%) (Fig. 24.2).

This very poor performance of long-run TFP growth translates or “explains” statistically the impossibility for LAC economies, as a whole, to catch up with the advanced economies and to follow the emerging ones. The observed growth rate for the GDP of LAC area is the result of an improvement of labour absorption (demographic dividend and women inclusion, i.e. more productive workers) and human

Fig. 24.1 CELAC region, long-term annual growth rate of Total Factor Productivity Growth, 1960–2014 (Source: IDB 2018)

Fig. 24.2 LAC region, relative evolutions of GDP, TFP and Factors accumulation with respect to the US economy 1960–2010. (Source: OECD 2019)

capital (better education) combined with an investment increase. However, these efforts were more than compensated by a loss in efficiency, i.e. the bad TFP performance (30% less than the US). Alternatively, this appears also in the fact that in the LAC region, any additional investment yields less than in the advanced economies or the emerging ones. For example, in South Korea, the capital stock increased two times faster than GDP between 1960 and 2017, while in Brazil, the capital stock increased three times faster than GDP for the same period. But this gap in “capital deepening” is not due to a better effort of investment in Brazil with respect to Korea, but to a lower growth of GDP for the same effort of investment, i.e. to a lower efficiency of Brazilian economy, and apart from that in Brazil, labour inputs also contributed positively to output increases. IDB (2018) calculated that if the LAC would have invested at the same rate than that in Emerging Asia (+7% in LAC investment ratio) and if the efficiency of the investment would have been the same (capital output ratio of 3.5 versus 5 in LAC), the level of LAC GDP would be six times higher in 2017 than the observed GDP for the same year.

The diagnostic appears to be clear: the LAC economies as a whole are less efficient than the advanced and emerging economies, their scarce resources dedicated to investment are more wasted than elsewhere, and in the next future, the demographic dividend as well as the environment’s deterioration are about to turn into additional negative factors for growth. A radical change is needed both for reversing the general slowdown in TFP and for solving the specific inefficiency of the LAC economies.

The Common Features Between the EU and LAC Performances in TFP

The EU and LAC regions share the same TFP disease as the rest of advanced economies, but with a common distinctive feature with respect to the US economy. When comparing the EU to the US TFP growth, the main part of the European lag comes from the lower productivity performance in European service sectors, as a result of low competitive pressures and heterogeneous regulations which blunt the incentives to adopt best practices. When comparing the LAC economies with the US and the EU ones, this disadvantage is even bigger and constitutes a major obstacle to the catching-up process and the necessary improvement in their competitiveness for facing the global and social challenges their economies are condemned to solve quickly. Inefficiencies come mainly from services but are also affecting manufacturing since in globalization the competition in tasks (not any more in products) makes efficient services the key for participation to Global Value Chains (GVCs). Inefficiencies in services result from distortions in incentives for innovation and protection rules favourable to inefficient firms, both in the LAC and the EU, but with big differences between the EU and the LAC. These differences offer a wonderful opportunity for bi-regional alliances and cooperation, mutually beneficial. TFP potential growth is enormous for both regions by organizing technological transfer between the EU and the LAC in a strategy for SMEs' joint competitiveness on GVCs.

This handicap in services is really the key of the needed productive transformation the LAC economies (as well as the EU ones) require. Services, in the broadest sense, including logistic and infrastructure, are the basic determinants of a fruitful and dynamic participation to Global Value Chains (GVCs) which would allow the increase of TFP and so putting both regions on a higher growth path. In fact, this common feature to the EU and the LAC economies is *linked to the weakening diffusion mechanism of innovation to the whole economy*. The reasons are very complex and very different from one region (or country) to the other; however, it is interesting to try to apply to them the same analytical scheme in order to identify common issues from idiosyncratic specificities. The lagging TFP in the LAC should not be a surprise as the diffusion mechanism is precisely what characterized an emerging economy while the so-called “under-development trap” impedes this diffusion and maintains dualistic features inside the same economy with a big difference in productivity across sectors. This “internal gap” in productivity reflects the social exclusion in the LAC economies and generates a “vicious circles” typical of poorer countries. In fact, as shown by ECLAC studies, the internal productivity gap between the modern export sector and the rest of the economy reveals a sectoral strong heterogeneity which generates social inequalities, which in turn slows down progress in productivity and innovation, leading to the so-called “external gap”, or lack of structural competitiveness, due to exports with low impact on growth and social progress (less inclusive exports and international insertion). Large internal gaps reinforce the external gap and partially feed on it. Thus, vicious circles are

created, not only in terms of poverty and low growth, but also slow in learning and weak structural changes, all of which hinder regional integration and reinforce their handicap in competitiveness, to be able to insert themselves to value chains under good conditions. Since low productivity sectors have great difficulties for improving human capital, innovating, adopting technology and driving learning processes, the internal heterogeneity worsens systemic competitiveness issues, poor international insertion and social exclusion.

In the EU, although the breakdown of the diffusion mechanism cannot be explained in the same way by under-development, there are yet similar processes through the increasing social inequalities linked to rent-seeking attitudes which lead to social exclusion too with a negative impact upon growth. In addition, the impact of the global crisis has played the same role in both regions for dampening the TFP progress through less investment and less innovation. The remedies are very similar, but in the EU, they deal more with the technological frontier firms and sectors. Since the LAC economies are much less present at the frontier (top technological firms and sectors), the priority for the LAC economies is merely to concentrate efforts where the results on TFP should be the highest and the cheapest, i.e. to focus their efforts towards the third mechanism: to raise the productivity of laggard firms and to accelerate the technological diffusion to the whole economy, to SMEs and to the labour force, something that necessarily involves universities. The technological gap is not only much easier and faster to close for the followers than for the leaders, but it is a prerequisite for climbing the production chains up to acquiring leading roles. Indeed, the spillovers across firms and sectors are increasing with the catching-up process and are two ways: modernization by importing leader technology opens the road to local innovation and diversification of technology, creating specific “niches” inside the Global Value Chains (GVCs) and improving also profitability for both partners.

This general predicament is of course easy to say, but it takes its attractive operational sense by considering the higher returns the bi-regional cooperation could bring inside the strategic alliance that both regions intended to build together. The major objective should be to dedicate this alliance for improving their joint competitiveness in the globalized world by cooperating to increase the diffusion mechanism for reducing their respective productivity gaps with the technological frontier and the top firms.

Some Key Weaknesses in LAC Economies Which Explain the Lagging TFP

Considering the most important causes for the lagging TFP in the LAC economies, a simple activation and extension of the existing tools for bi-regional cooperation could do most of the tasks for meeting the challenges both regions are facing. First, economic openness in the LAC economies remains insufficient, despite some clear

progress. Without getting into details or countries, Fig. 24.3 speaks for itself showing the LAC economies are the less opened of the regions. Empirical results demonstrate that trade openness is an important factor of TFP through several channels (competition, investments, specialization, technological information and spillovers). International Monetary Fund (IMF) research shows that reduction in input tariffs and non-tariff barriers is found to raise strongly TFP levels (Ahn et al. 2016; Dabla-Norris and Duval 2016), especially where protection is still high. Trade appears to be closely correlated to foreign direct investment (FDI) to which the region is not sufficiently open for benefitting from knowledge spillovers of FDI which spur TFP. Figure 24.4 shows this strong correlation.

The kind of strategic alliance both regions are trying to implement points precisely to increase mutually their respective markets and their reciprocal flows of investment, one of the keys to TFP improvements. Second, Fig. 24.5 shows that the region is also the less integrated into *Global Value Chains*. Globalization produced this fragmentation of the production processes, allowing for firms from less developed economies to join the global production network by specializing in specific activities within the value chain, focusing on those core tasks they are most efficient at without being obliged to create their own whole cluster and network as mature economies were obliged to do in their past stages of development. Recent empirical studies established a direct impact upon TFP and higher participation in GVCs (effects of specialization and scale economies, access to frontier technologies and markets, higher technology inputs, knowledge spillovers through cooperation with providers and suppliers). Economies can participate in GVCs by using imported inputs in their exports (so-called backward linkages) or by supplying intermediates to third country exports (forward linkages). GVC participation varies substantially

Fig. 24.3 Regional comparison of trade openness of LAC economies 1975–2016 (trade flows measured as % of GDP). (Source: Morgan 2017)

Fig. 24.4 Correlation between Trade and FDI for LAC (billions of US \$). (Source: Morgan 2017)

Fig. 24.5 Global Value Chain participation index by region (share of domestic and foreign value added in gross exports). (Source: Morgan 2017)

across different Latin American countries. According to OECD (2019) database, Chile has the highest level of total GVC participation of the Latin American economies, accounting for 52% of gross exports (which is mainly driven by forward participation because of its copper exports). However, many other Latin American economies are not well integrated within GVCs compared to other developing Asian and Eastern European economies. For example, the total GVC participation represents only 31% of gross exports in Argentina and 35% in Brazil.

More importantly, regional value chains within Latin America are also much less developed than in Europe, South-East Asia or North America. Intra-regional links are very low: out of the total foreign value added used for producing exports, only 9% was sourced from within the region against 50% in the EU and 40% in Asia (Cadestin et al. 2016). Latin American economies are more integrated with external actors (e.g. China) than intra-regionally but with less transmission to the national economies. Also, firms in Latin America show a very low propensity to innovate through international collaborations, with 21% of Brazilian and 8% of Chilean large firms and only 2% of Brazilian and 3% of Chilean small firms doing so. These figures are much lower than in the OECD and Asian economies. For example, the share of SMEs collaborating on innovation with higher education or research institutions in the OECD economies is 14.5%, and for large firms, it is 37% (OECD 2019). On these aspects too, a bi-regional approach would inevitably bring more regional cooperation, and also a more inclusive development through the explicit cooperation orientation and tools that are available.

Third, regional integration is lower than in other regions, and even Africa has now a higher share of intra-regional trade than the LAC area. This feature is a major handicap for productivity increase and for competitiveness and incorporation to dynamic GVCs. One of the constant guidelines of the EU agreements is to incentivize regional integration with specific methods and tools (Fig. 24.6).

Although not the only weaknesses that affect negatively the TFP growth in the LAC, these three categories are precisely those that could be solved through a strategic alliance with the EU along the lines exposed in the next section.

Fig. 24.6 Intra-regional exports versus inter-regional by region (in % of total exports 2015). (Sources: IMF 2017)

The Win-Win Game of an EU-LAC Cooperation Addressing the Laggard TFP

According to our analysis, the priority for both the EU and the LAC economies should be to deal with the weakening in the technological diffusion mechanism. Indeed, in the EU, the TFP issue relies mostly in the too low productivity in the service sectors. In the LAC, the issue is much deeper because the gap is higher and more generalized to the whole economy: the rising gap between frontier firms and the rest of the economy dominated by inefficient SMEs is bigger. The positive appealing aspect is that focusing the efforts upon the pace at which the innovations spread throughout the economy by dealing with SMEs could yield much more TFP jumps than to try to develop new technologies for the frontier firms. Furthermore—and more importantly—the easiest way to do it is through a mutually profitable bi-regional cooperation between academics and SMEs, since it is based upon technological exchanges, regional benchmarking, joint researches and joint ventures, which are powerful ways to spur catching-up and innovation.

Our argument is structured as follows:

- Based upon the big change induced by globalization provoking the acceleration of the law of comparative advantages, a systematic fragmentation of tasks and outsourcing has resulted worldwide of the whole production chain, including the part R&D (knowledge).
- Exchanges of experiences between the EU and the LAC allow for making more visible common interests to strengthen the GVCs to which both producers belong:
 1. Weakest/smallest producers benefit more from being brought into a GVC for technological transfer and access to market which is fast, cheap and with a lever effect in the local environment,
 2. Wide productivity gaps allow for complementarity opportunities to be exploited in mutual interests along the GVC in a double dynamic: lower costs for inputs for the most advanced partner, opportunities for outsourcing beneficial to both partners (new jobs in both regions as competitiveness increases along the GVC, cfr. Germany case with Eastern European economies) and broader field of differences spurring innovation.

Indeed, the actual way to spur productivity simultaneously in both regions is by using the profit-seeking drive of firms (and also in some cases with the cooperation of academics) looking at differences and complementarities that the respective GVCs' participation of these regions offers: the EU needs anyway more competitive inputs for remaining competitive in its specialties, and it could find them in the LAC economies by contributing to adjust the technological know-how necessary for reducing the costs, while the LAC needs more incorporation to dynamic GVCs on which its members could develop new specialties, become more innovative and benefit from better access to more sophisticated technologies and markets. A closer bi-regional cooperation—focusing on applied research and helping SMEs to

internationalize—could speed up the technological catching-up in both regions (moving towards the production frontiers) and even provide the resources for innovating and feeding the creation of new technological leadership (moving-up the production frontier).

Figure 24.7 presents a dynamic synthesis of what the EU-LAC Strategic Alliance should do. The red frontier is the local best technology, but most local firms are far from this frontier. Improving their effective use of technologies would move them upwards (red arrow of TFP jumps). The green frontier represents the top productivity performers trying to displace upwards the technological frontier. The incorporation of more SMEs from both regions into GVCs would allow a double upwards movement: increasing efficiency with existing technologies with an improvement in competitiveness of the whole GVC which could therefore benefit from more resources for R&D able to displace upwards the technological frontier with positive feedbacks for the whole chain and for both regions. The recipe consists in focusing SMEs' reciprocal contacts and ventures through universities' bi-regional cooperation on local grounds for improving their operational efficiencies and technological catching-up, increasing their ability to integrate GVCs. The increased profits from acceding jointly to cheaper and better inputs for the joint GVC (upwards movement of red arrow) should allow for accelerating R&D dedicated to pushing upwards the joint technological frontier (upwards move of green arrow).

Technology and innovation are key for a long term productivity strategy

Fig. 24.7 Dynamic upwards moves of TFP through Bi-regional University-SMEs cooperation along joint GVCs (Source: Conference Board)

The Complementary Win-Win Game of EU-LAC Cooperation on Social and Environment Issues by Extending the REDIMA Method

The failure of both regions to cushion the social impacts of globalization, although to different degrees, provides another important application for the proposed REDIMA method because it would spur the exchanges of best practices across the Atlantic for improving the social consensus and fighting populism. The dynamics of improving productivity thanks to the kind of bi-regional cooperation exposed above require a parallel cooperation on social aspects because social consensus is a necessary component for productivity progress. The same analytic reasoning added by the absolute urgency to curb global climate changes justifies the necessity to create also a REDIMA network on de-carbonization. Furthermore, these two additional networks would lead “*to realize that a true ecological approach always becomes a social approach*” (Pope Francis 2015).

Conclusions

Bi-regional cooperation initiatives should give a special priority to match European Universities with that of the LAC, and simultaneously to organize the connection of SMEs from both regions for spurring their mutual internationalization and their technological and managerial evolution. Academic Summits have opened the way, but they should now be strengthened both at policy and company levels.

The basic idea justifying such a stronger cooperation of academics, governments and private firms from the EU and the LAC relies upon the very fact that the patterns of technology adoption, reallocation and productivity growth within and between firms in both advanced regions and lagging ones of these two regions are directly complementary for strengthening respective competitiveness on world markets. The successful integration of the Central and Eastern European countries into the EU economy in more advanced countries’ production networks (especially through the German/Austrian firms’ strategies) shows the ideal road to follow and to apply for the relations between the EU and the LAC economies. Ideal conditions of such a “win-win game” for both regional partners (the EU and the LAC) could be organized along the same lines and would lead to a significant improvement in Total Factor Productivity as a combined result of more global competition pressures but inside a more cooperative scheme at bi-regional and regional levels.

The EU and the LAC share the same values and socio-economic objectives more than with any other regions, making the LAC area the best candidate for a successful alliance with the EU. This is not just a political discourse argument, but a strategic reality: the LAC countries offer sufficient differences and divergences for

creating attractive synergies as any other LDCs or emerging countries, but at the same time, they offer simultaneously the closest similarities between social objectives and the kind of societies in which citizens want to live which are necessary for mutual trust into a binding strategic alliance for the long run.

The concrete proposal: a set of bi-regional networks applying the REDIMA recipe to monitor four key areas of cooperation:

1. Macroeconomic Monitoring: MMM

The purpose is triple: (i) to stimulate each region to organize a previous mutual monitoring across national peers at regional level, improving intra-regional mutual communication and building trust, therefore reducing uncertainties and promoting regional consensus; (ii) the group dynamics and the resulting emulation process among national participants in face of their peers from the other region contribute to improve national governance, making-up for respective institutional weaknesses at national level (external scrutiny equivalent to checks and balances); (iii) to identify common interests in order to build consensual views and credibility in front of third partners, financial markets as well as inside multilateral organizations (IMF, WB, WTO, ILO, UN, etc.).

Concretely, the importance and interest to establish such a dialogue with the EU should motivate the LACs to put in place their own scheme of *Mutual Macroeconomic Monitoring schemes (MMM)* (by sub-regions and for the LAC area as a whole), in order to level up to EU working method. This technique allows for generating individual incentives for the national players to use the mutual surveillance in their own interests through the credibility building brought by the MMM and the scrutiny of competing partners. The best example is the possibility to influence the “spreads” (interest rate risk premium) by winning credibility and being supported by the technical peer review involving experts of both regions.

How? By focusing attention of markets (and national public opinion) upon national policy performance and commitments, creating market and creditors’ reactions which reward sound policies (effects on credibility), that makes more identifiable the gains of regional integration and macroeconomic cooperation (making it self-rewarding and conciliating national and regional interests). In terms of game theory, this dynamic process leads to “dominant strategies” that coincide with regional optimum, making possible a process of visible “win-win” game in which the positive outcome increases as the game is repeated, and incentives to defect tend to diminish with time as effective regional cooperation develops, as the game is repeated and seen as becoming an outgoing process (endogenous nature of the gains from Regional integration, seen in Axelrod’s work showing that expectations can speed-up cooperation). The MMM delivers a mix of competition and cooperation: the bi-regional level creates a more effective way to create quickly the “checks-and-balances” and to spur regional integration that LACs would otherwise have spent too much years and efforts to win alone by their own.

2. *Social Policy Mutual Monitoring: SPMM*

Extending the scope of the mutual monitoring to social issues would spur the awareness of the importance for productivity to go along with improving the social consensus.

3. *Mutual Monitoring of Environment: MME*

Complementary dimension of both social and economic policies, especially for making aware that GDP measures do not yet take on board the negative value added of environment destruction and CO₂ emissions which correspond to lower effective productivity.

4. *Mutual Monitoring of Productivity: MMP*

This monitoring would focus the university-firm gap, especially for SMEs, as well as the issue of negative externalities not included in national accounts.

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