
- SCENARIOS WORKSHOP BACKGROUND PAPER –

I. Rationale

The document (D6.2) proposed a methodology of scenario building to be used in the EULAC-FOCUS project. The ultimate objective is to build three/four scenarios in which the prospects for renewed cooperation in the areas of cultural, scientific and social relations between the European Union (EU) and the Community of Latin American and Caribbean States (CELAC) could be examined. The scenario building process must be instrumental to the development of policy recommendations, which is expected to be one of the key outputs of the EULAC Focus project.

The objective of the exercise is to stimulate the development of a common vision and an action plan/roadmap for renewed cooperation in the fields of cultural, scientific and social relations through the upgrading of the bilateral relation and the provision of a clearer strategic orientation. Two inputs will be critical in this process, namely: a) an adequate diagnosis of the nature and present state of EU-CELAC relations in the three above mentioned fields (D6.1), and b) the deliverable describing the relevant scenarios.

II. Methodology and activities

As far as the scenario-building process is concerned, building upon the work done in the methodology document (D6.2) it was decided that the identification of alternative scenarios would be done on the basis of existing work. Main references will be the European Commission “White Paper on the Future of Europe” (EC, 2017), the report “Global Trends to 2030” (ESPAS, 2013), and the document “LAC and the Caribbean 2030: Future Scenarios” (IDB-Atlantic Council, 2016). Other background materials produced by ECLAC, LDB/CAF, the National Intelligence Council and the Inter-American Dialogue have also been used as complementary material (see bibliography). The time-horizon for the scenario-building exercise will be year 2030.

The scenario-building process will start with the identification of **Key Forces/Trends** and **Uncertainties**. These will provide the background for the scenario-building exercise and provide participants with a shared framework. The **Key Forces/Trends** are long-term dynamics (phenomena that have been increasing or decreasing over time and can reasonably be expected to continue into the future) that will influence the future environment. **Uncertainties** are questions that have no clear answer and that should be kept in mind as a result of their potential to substantially alter the landscape. **Uncertainties** can be social, political, geopolitical, economic, environmental or technological (IDC-Atlantic Council). Some **Key Forces/Trends** and **Uncertainties** are global in nature, while others exert their influence mainly at a regional level.

In the Buenos Aires Workshop participants are expected to validate the **Key Forces/Trends** and **Uncertainties** summarized in this Brief. Adjustments will be made if necessary. In the Buenos Aires Workshop participants will also select three/four scenarios for bi-regional relations based on their expert knowledge and the discussions that will take place during the event. The chosen scenarios will have to satisfy the following criteria: a) be plausible, b) be structurally different, c) be internally consistent, d) have decision-making utility, and e) be challenging to conventional thinking. It is clear that an endless number of possible scenarios are imaginable and that no scenario will portray the only possible future. By contrast, the future will be a composition of different elements from more than one scenario. It must be kept in mind that the objective of the exercise is not to predict the future, but to stimulate critical thinking about policy choices that might shape the future.

The universe from which the selection of scenarios to be developed in more detail will be a relevant subset of alternative scenarios for the EU and LAC drawn from existing (independent) exercises. In the Buenos Aires workshop participants will also have a preliminary exchange on the implications/attributes of each one of the selected scenarios for bi-regional cooperation in the areas of science and technology, social and cultural relations.

For each of the three/four scenarios finally selected a storyline or plot will be developed after the Buenos Aires Workshop. Each scenario shall incorporate elements of desirable and undesired futures. Relevant WP will contribute with detailed inputs to the final scenario-building exercise in the policy domains relevant for EULAC-FOCUS.

III. Key Forces/Trends to 2030

Key Forces/Trends are long-term dynamics (phenomena that have been increasing or decreasing over time and can reasonably be expected to continue into the future) that will influence the future environment. The next paragraphs elaborate on five **Key Forces/Trends**:

III.1. Key Force/Trend 1: A richer and older population with an expanding middle class and greater inequalities

- In the period to 2030 global demographics will continue to alter under the impact increasing life-expectancy, declining fertility and rising levels of education (ESPAS).
- Ageing will be a global phenomenon (ESPAS), but LAC will continue to enjoy a (shrinking) demographic dividend and an open demographic window (IDC-Atlantic Council).

- With an average of 44,7 years Europe will be the oldest region, while LAC will be the second youngest with an average of 34,1 years -slightly higher than the world average of 33,2 (ESPAS).
- Ageing and long-term decline in the active population will put a downturn pressure on economies, destabilize social protection systems and render high level of youth unemployment permanent, undermining social cohesion (ESPAS). In LAC an older demographic profile will shift the demand for social services (IDB-Atlantic Council).
- If emerging economies maintain steady growth, ageing will be accompanied by a rise of the middle class. The global economy's middle class is expected to double by 2030 and account for 60% of the global population (ESPAS). In LAC the middle class is forecasted to increase by 22% in absolute terms to account for 50,5% of the total population (up from 47,2% in 2015). The rich as a share of total population will increase even faster from 5% in 2015 to 8,6% in 2030, confirming LAC's place as the most unequal region in the world (IDB-Atlantic Council).
- The growth of the middle class will take place mainly in cities, raising the world's urban population. This will increase the levels of education and the access to new technologies (ESPAS). Although LAC's period of rapid urban growth will be over, urbanization will continue to take the share of the urban population to 85-90% of total population. One noteworthy trend will be the growth of both megacities and smaller cities (IDB-Atlantic Council).
- The share of total population living in extreme poverty will be cut in half by 2030 (ESPAS). In LAC the "poor" will contract 7% in absolute terms and their share of total population will fall from 15,8% in 2015 to 12,9% in 2030 (IDB-Atlantic Council).
- The rise of the global middle class and the growth in inequality will affect global migration flows, with a projected rise in South-South flows (ESPAS)
- While levels of informal employment are expected to drop in LAC, the informal sector will still play a large role in most LAC economies in 2030. Informality rates in LAC will remain much higher compared to global peers at similar levels of GDP (IDB-Atlantic Council).

III.2. Key Force/Trend 2: A more vulnerable process of globalization led by an economic G-3

- The shift in the world economy towards Asia will continue, with China becoming the largest economy by 2030 (ESPAS).
- The US will remain the dominant super power (ESPAS), but geopolitical fault lines will continue to shape the international system (IDB-Atlantic Council).
- The EU will still enjoy one of the highest per-capita incomes but its share of global GDP will shrink from 23% to 15.5% between 2010 and 2030 (ESPAS).

- Trade in goods will slow down while service and investment flows will rise (ESPAS). Global growth is more likely to be volatile and LAC's prosperity has been tied to swings in global growth rates (IDB-Atlantic Council).
- Emerging nations will be a force for global economic and political change, but may suffer from instability and internal conflicts (ESPAS).
- Globalization will happen at a time of vulnerability for emerging countries, as they will have to carry out domestic reforms to make economic growth sustainable (ESPAS).
- Rising carbon dioxide emissions will amplify global climate change, with its negative effects more visible (ESPAS).

III.3. Key Force/Trend 3: A transformative industrial and technological revolution

- A technological revolution based on new industrial production, bio-scientific, communication and digital processes will transform societies (ESPAS).
- The speed of technological change will accelerate (ESPAS).
- This revolution may trigger far-reaching reconfiguration of location of knowledge centers and innovation and industrial production (ESPAS). Technological changes will reshuffle the international division of labor and may influence LAC's position in it (IDB-Atlantic Council).
- Uneven infrastructure coverage will lock certain areas and regions out of the digital society (ESPAS).
- Autonomous decision-making processes will rapidly rise (ESPAS).
- Europe and the US will remain leaders in science and knowledge-creation, but worries persist about applied research (ESPAS).
- In LAC the number of people receiving little to no education will decrease substantially, but school completion levels will remain much lower than the OECD average. With a relatively small percentage of people with an advanced education, economies will have more difficulty competing at the global level in high-value-added sectors (IDB-Atlantic Council).
- Given no major policy interventions or unexpected boosts to the global economy, LAC's economies will experience low to moderate growth, volatility of that growth, and chronically high inequality. It is unclear that the region will follow a convergence pathway, a trend that has been prevalent since the 1960s (IDB-Atlantic Council).
- LAC growth will increasingly depend on productivity. Although LAC will continue to have a strong base for commodities production, natural resources will not be enough for economic development: investment in education, science and technology will be critical (ESPAS).

III.4. Key Force/Trend 4: A growing nexus of climate change, energy and competition for resources

- Global competition for access to natural resources will continue to intensify with risks of market volatility, geo-political tensions and instability (ESPAS).
- Large-scale exploitation of natural resources will remain concentrated in a small number of dominant countries and regions (ESPAS).
- Food and water supply would be about managing scarcity –a problem made worse by climate change (ESPAS). With nearly a quarter of the world’s arable land and a third of fresh water supply, LAC has the potential to be one of the largest suppliers of agricultural products. The region contains nearly a quarter of the world’s forest, so increasing agricultural production will bring greater deforestation if unaccompanied by higher productivity or increased conservation measures (IDB-Atlantic Council).
- By 2030 93% of the rise in energy consumption will be in non-OECD countries (ESPAS). The future for renewable energy looks bright in LAC. New technologies that reduce the cost of extracting natural gas may enable a second wave of energy production (IDB-Atlantic Council).

III.5. Key Force/Trend 5: Changing power, interdependence and fragile multilateralism

- The world enters an age of insecurity, more interdependent but also more fragmented, insecure and polarised (ESPAS). LAC is not threatened by the ethnic, ideological, national and sectarian fissures that roil other regions of the world, but the region shares other security concerns such as illicit trafficking and cybercrime (IDB-Atlantic Council)
- The US will still be dominant, but increasingly challenged by the rise of China and other emerging economies (ESPAS). The profile of US-China relations will exert its influence upon the LAC region (IDB-Atlantic Council).
- Multilateralism will weaken (ESPAS), challenging the diversified geographical trade pattern of many LAC countries.
- Globalization will move forward *pari passu* to exclusion (ESPAS).
- Convergence around values such as fundamental human rights, democracy and the social market economy may stall (ESPAS).
- Systemic risks will rise connected to the many challenges faced by emerging countries in their economic transition (ESPAS).

IV. Uncertainties

As it was mentioned above **Uncertainties** are questions that have no clear answer and should be kept in mind due to their potential to substantially alter the landscape.

Uncertainties can be social, political, geopolitical, economic, environmental or technological. Some **Uncertainties** are global in nature while others exert their

influence principally at a regional level. The next paragraphs present a list of selected **Uncertainties:**

- A slowdown, standstill or reversal in globalization, a financial crisis or rising geopolitical tensions could pose considerable risks of protectionism, negatively impact investment flows and create more divisions across and within countries (ESPAS). For LAC there are four sources of uncertainty regarding growth: a) the overall rate of growth, its volatility, the direction from where growth will come, and d) the relative productivity of the global economy compared to the region (IDB-Atlantic Council).
- Tensions could sharpen over raw materials, energy and natural resources, potentially resulting in conflicts, especially if unexpected growth of world population has major negative effects on food and health issues, energy availability and stability (ESPAS). A breakdown in relations between China and the US can lead to a dramatic increase in their geopolitical competition in the region (IDB-Atlantic Council).
- Economic, social and political uncertainties, as well as environmental concerns, will beset China's future performance. A downturn in China could have systemic consequences. A possible currency war between the US and China would affect world markets (ESPAS). China's future economic growth will also have an enormous impact on LAC's growth performance and on whether it shifts away from an overreliance on commodity exports (IDB-Atlantic Council)
- How the US domestic public and political system will react to the challenge of providing leadership and engage in a more contested international framework (ESPAS).
- Although it is hard to envision a world in which the EU's member states will become geopolitical rivals with the US (IDB-Atlantic Council), it is uncertain how the transatlantic partnership will evolve considering the changing mix of convergences and divergences (ESPAS).
- Social discontent in emerging economies could periodically disrupt their economies and trigger regional or global conflicts. An economic and political realignment of key emerging countries may lead to rival multilateral structures (ESPAS).
- Ageing in emerging economies may negatively affect economic growth. Rising inequalities and the digital divide may trigger serious social discontent and pose major political, social and economic risks (ESPAS).
- Dynamic and technologically empowered, the new middle classes will be especially vulnerable and its political behavior will be difficult to predict. Uncertain future of democracy worldwide (ESPAS). In LAC a major uncertainty is whether the region's democracies will be resilient in the face of economic downturns, on-going criminality, embedded corruption and the temptation of populism. One major question mark is the role of an increasingly informed, capable and mobilized middle class (IDB-Atlantic Council).

- The speed of convergence of technologies remains uncertain. The impact of technologies could trigger unpredictable social reactions (ESPAS).
- One major uncertainty in LAC revolves around whether countries can diversify their economies away from commodities to more value-added products and services, and whether they can become more innovative and thereby more productive, questions which involve political as well as economic choices (IDB-Atlantic Council).
- One major question is whether regional leaders will have the desire and the political capacity to push for greater regional integration in LAC (IDB-Atlantic Council).
- The rise in sea levels may affect the population living in coastal areas (60%) and trigger migrations. The same may happen as a result of droughts and food shortages (ESPAS). LAC is a resource-rich region, but that resource base will come under increasing stress due to climate change (supply side) and rising consumption (demand side). It is uncertain how its societies will prepare for and respond to the effects of climate change (IDB-Atlantic Council).
- A major cyber-war may have systemic implications. Uncontrolled global pandemics may spread with systemic impacts (ESPAS).
- Ethical, religious or social backlashes triggered by inequalities or privacy concerns may affect global stability (ESPAS). LAC is unlikely to be affected by these security threats, but other challenges to effective governance will still be present (IDB-Atlantic Council).

V. Regional scenarios

Different scenarios can be construed depending on how societies and governments react to the challenges posed by **Key Forces/Trends**. As it was mentioned in Section II we shall build upon scenarios already available for the EU and LAC. These scenarios were originally presented in the European Commission “White Paper on the Future of Europe” and IDB’s “LAC and the Caribbean 2030: Future Scenarios”. Although the Commission White Paper draws scenarios for 2025, they can be reasonably extended up to 2030. Starting from these regional scenarios, we shall select bi-regional combinations that serve to illustrate different paths for technology and science, culture and social bi-regional relations. The next two sub-sections summarize the major features of each scenario for the EU and LAC, respectively.

V.1. Regional scenarios: the EU:

Carrying on: in this scenario the EU27 focuses on implementing and upgrading its current reform agenda. The EU continues to focus on jobs, growth and investment by strengthening the single market (including the energy and digital sectors) and by stepping up investment in digital, transport and energy infrastructure. There is incremental progress on improving the functioning of the single currency and further

steps are taken to strengthen financial supervision, to ensure the sustainability of public finances and to develop capital markets to finance the real economy. The fight against terrorism is stepped up and defense cooperation is deepened in terms of research, industry and joint procurement. On foreign policy, progress is made in speaking with one voice. The EU27 actively pursues trade agreements with third countries and reinforces cooperation in the management of external borders, improving coordination in security matters. If the latter fails, some countries may wish to maintain targeted internal controls. The EU27 manages to positively shape the global agenda in fields such as climate, financial stability and sustainable development. Citizens' rights derived from EU law are upheld. The unity of EU27 may be tested in the event of major disputes. **In this scenario it could be assumed that no significant policy change would occur in the three areas or dimensions covered by EULAC Focus.**

Nothing but the single market: in this scenario the EU27 increasingly focuses on deepening certain key aspects of the single market. There is no shared resolved to work closer in areas such as migration, security or defense. Cooperation on issues of common concern is often managed bilaterally. Progress in the functioning of the single market proves easier for the free movement of capital and goods than it does in other areas. The strong focus on reducing the regulatory burden at the EU level, differences persist or increase in areas such as consumer, social and environmental standards, as well as in taxation and the use of public subsidies, creating the risk of a "race to the bottom". It is also difficult to agree new common rules on the mobility of workers or for the access to regulated professions. Thus, the free movement of workers and services is not fully guaranteed. Divergences and limited cooperation in the monetary union are sources of vulnerability, threatening the integrity of the single currency and financial stability. Checks of people at the border are more systematic due to insufficient cooperation on security and migration. Internal disagreements on the approach to international trade makes more difficult concluding trade agreements with third countries and the role of nations mounts in areas such as migration, some foreign policy issues and humanitarian and development aid. The EU finds increasingly difficult to agree common positions on global issues such as climate change, fighting tax evasion, harnessing globalization and promoting international trade. Citizens' rights derived from EU law may become restricted over time. The capacity to act collectively will be limited. **This scenario could favor a shrinking of EU activity in the cultural area and in those domains of science and research that are not of direct interest to EU industry. More generally, foreign policy considerations would lose relevance.**

Variable geometry: in this scenario the EU proceeds as today, but those states that want to do more in common can work together in specific policy areas. The areas may cover policies such as defense, internal security, taxation or social matters, replicating the mechanisms used for the Schengen area or the euro. Closer cooperation on defense matters includes a strong common research and industrial base, joint procurement, more integrated capabilities and enhanced military readiness for joint missions abroad. Several countries move ahead in security and justice matters,

strengthening cooperation between police forces and intelligence services. They create a common justice area in civil matters. A group of countries (those in the euro area and possibly others) chooses to work much closer on taxation and social matters. Agreed social standards and greater harmonization of tax rules limits tax evasion, reduces compliance costs, and improve business certainty and working conditions. Industrial cooperation is strengthened in a number of cutting edge technologies, products and services, and rules on their usage are developed collectively. The single market and the four freedoms continue to be strengthened by the EU27, as well as relations with third countries. Citizens' rights derived from EU law start to vary depending on whether the country is or is not among those that decide to do more. **When this scenario is presented in the White Paper the areas covered by EULAC Focus are usually not mentioned as target areas for increased cooperation at EU level. The implications of this scenario for the three areas of interest for EULAC Focus stand somewhere in between those of the "Carrying on" and "Nothing but the single market" scenarios.**

Doing less more efficiently: in this scenario the EU27 concentrates its attention and limited resources upon a reduced number of areas, which enables it to act faster and more decisively in those priority areas. In choosing the new priorities the EU27 seeks to better align promises, expectations and delivery. The EU27 steps up its work in fields such as innovation, trade, security, migration, the management of borders and defense. It develops new rules and enforcement tools to deepen the single market in key new areas, focusing on excellence in R&D and investing in new EU-wide projects to support decarbonisation and digitalization. Typical examples include further cooperation on space, high-tech clusters and the completion of regional energy hubs. Trade deals are negotiated and completed rapidly and cooperation between police and judicial authorities on terrorism-related issues is systematic. The management of external borders and all asylum claims are run collectively by EU bodies. The EU stops acting or does less in area where its value added is more modest, such as regional development, public health or parts of employment and social policy not directly related to the single market. State aid control is further delegated to national authorities there is a movement away from harmonization and towards minimum standards in the areas of consumer protection, the environment and health and safety at work. In those domains regulated at EU level greater enforcement powers ensure compliance and help to close the gap between promise and delivery. The euro area continues to be consolidated and the EU's global influence changes in line with its recalibrated possibilities. Citizens' rights derived from EU law are strengthened in those areas where countries choose to do more together. Agreeing on priority areas is difficult. **In this scenario, "carrying on" in our three priority areas should be ruled out. Interest in cultural affairs or in research areas not specifically linked to the promotion of economic development would disappear, but research and innovation with a clear and directly ascertainable effect on economic development could be strengthened. Some specific areas of labor market**

policies could gain relevance, but there will be no incentive to expand the scope of social policies.

Deepening: in this scenario member states decide to share more power, resources and decision-making across the board. Cooperation between member states goes further on all domains. The euro area is strengthened and decisions are agreed faster at the European level and are rapidly enforced. The EU27 speaks with one voice in international for a, the European Parliament has the final say on trade agreements and defense and security are prioritized through the creation of a European Defense Union. The EU continues to lead the global fight against climate change and strengthens its role in humanitarian and development aid. EU's broad-ranging foreign policy reinforces a joint approach to migration and a closer partnership with Europe's neighborhood help to manage migration. There is strong focus on completing the single market in the fields of energy, digital and services. Joint investments in innovation and research lead to the emergence of several "Silicon valleys", helped by a fully integrated capital market. There is much greater coordination on fiscal, social and taxation matters in the Eurozone, as well as European supervision of financial services. Additional financial support is made available to boost economic development and respond to regional, sectoral and national shocks. Citizens have more rights derived from EU law, but may question the legitimacy of such degree of centralization. Decision-making is faster and enforcement stronger. **This scenario would imply an expansion of the scope of some EU policies across the board, including social policies. However, it is unlikely that culture will become a priority. In the area of science and research the expansion will probably affect much more internal EU activities than their foreign dimension.**

V.2. Regional scenarios: LAC

Muddling through: the muddling through scenario is the base case and assumes that both the global and regional systems unfold along a path consistent with their historical development and that current policy choices will remain unchanged. In the **Muddling through** scenario the economic performance of the region remains reasonably positive as a result of an upswing in global trade due to a recovery of global growth and reasonably high demand in emerging economies. While cross-country responses to the transition to a new demography have varied, overall it has been reasonably managed. Some of the more promising developments have been a shrinking informal economy and the improvement in public health levels. However, pandemics remain a serious threat in 2030 partly due to increased international interactions and the impact of climate change. Although the economic trajectory of LAC has been generally positive in absolute terms, is muddied relative to the rest of the world and, particularly, most East Asian economies, which in contrast to LAC have experienced growth driven by high levels of education, high rates of investment, pay-off from decades of world-class infrastructure investments, and globally competitive technology hubs. During the period

LAC growth has benefited from relative youthfulness, but the region has been unable to compete as effectively in attracting capital, employing it productively, and realizing gains from strategic investments. LAC economies continue to rely disproportionately on the export of raw or poorly processed commodities or of lower value-added goods and services, albeit with some exceptions. Investments to improve trans-boundary linkages throughout the region have fallen short of necessity and investment in human capital has risen, but less than needed in secondary and tertiary education. Given the increasing importance of education in the global knowledge economy, this deficit goes some way to explaining why the region has fared poorly relative to East Asia. Comparatively low educational levels, high (but decreasing) informality, and poor infrastructure have all contributed to LAC's inability to become an epicenter of the global knowledge economy. Universities have been unable to turn their scientific research into commercially viable technology and have failed at building better links with the private sector. The vast majority of university faculty do not work within academic systems that encourage turning their lab research into startup enterprises. One of the few bright spots is that governments have been able to manage without undergoing major transformations due to reasonable economic growth and lower levels of informality. The relatively positive fiscal situation and the behavior of the middle class can help to account for political stability across the region. As long as the public services that it needs are delivered in a reasonably timely and effective manner, the middle class has shown that it can live with governance that is not yet at world standards. **In this scenario it could be assumed that no significant policy change would occur on the LAC side in any of the three areas or dimensions covered by EULAC Focus.**

Governance on the rise: the expansion of an increasingly demanding and politically active middle class has deepened the mechanisms of social participation, strengthening democratic norms and leading to significant transformations in government effectiveness and popular legitimacy. A remaining challenge is to keep newly middle-class income families safe, and to create social protection networks to prevent them from falling back into the ranks of the poor. Apart from its social and political effects, the growing middle class has also contributed to robust economic growth through its labor and inventiveness, including the proliferation of start-ups. The public sector has done its share through the provision of quality public services that support productive activities. Empowered citizens and non-state groups, and a stronger civil society, have used technology as a means for mobilization, advocacy and, ultimately, creation of policies that have proven beneficial to economies across the region. Governments have become much more adept at creating and using effective and efficient e-governance tools, reducing tax evasion and informality and making governments more accountable. A more intensive use of modern technologies has been made possible by large investments in the internet and mobile infrastructure, enabling near-universal internet access. Improvements in governance and successful human development policies helped economies to grow faster than in the baseline scenario. Improving democracy has also enabled governments to enact important

policy reforms in a host of areas, such as tax and fiscal policies, making LAC economies more resilient to external shocks and less volatile. Other reforms, such as the reduction in business start-up costs, simpler tax filing and new bankruptcy laws, were aimed at promoting innovation and entrepreneurship, benefiting SMEs the most. Governments prioritized infrastructure and education as two vital public services needing greater investment and also invested heavily in health care. Looking back, the region has gone through an immense transformation. **In this scenario one could expect scientific and technological cooperation to gain more relevance in LAC domestic and foreign agendas. Similarly, shared challenges posed by the empowerment of the middle class and more responsive governments may create incentives to exchange experiences and best practices in the social policy area.**

Illicit world afloat: democracy in LAC has been stagnant at best and crumbling at worst. Corruption scandals, the cumulative effects of transnational crime, weak rule of law, and citizen insecurity have taken their toll. Economic and personal insecurity have accelerated a brain drain and countries have had a much harder time attracting foreign direct investment. The main drivers for this relapse were the unwillingness to be inclusive, the breakdown of democratic rule due to the ongoing corrosive effects illegal actors had on governance and the inability of governments to reinvent themselves by adopting and applying modern technologies. The middle class has not expanded as rapidly as predicted and its politics have not turned out to be as positive as hoped. Citizens' wishes for greater government effectiveness and accountability have not been realized, leading to popular frustration and social unrest. To make these problems worse, the digital revolution has not been fully embraced by LAC governments and these disruptive technologies have provided opportunities for organized crime and have made governments more vulnerable to cyber attacks. As a result, government performance has suffered, as well as national economies. FDI inflows as a percentage of GDP was lower than expected, emigration (particularly of the well-educated) increased dramatically, and economic growth was slower than in the baseline scenario. The divergence between high-income and LAC countries has widened and innovation and entrepreneurship have stagnated or even regressed. Government expenditures for education and research and development contracted, but these resources failed to be used to address structural problems such as systemic inequality and persistent poverty rates. **In this scenario bi-regional cooperation in the three priority areas is likely to shrink, overwhelmed by other priorities such as renewed security concerns.**

Toward integration: countries started to cooperate in making investments and coordinating policies with the goal of increasing the region's level of integration. The priority areas were infrastructure, education and skills, innovation policy, energy and financial coordination. LAC governments invested big in infrastructure, mainly to bind the region more tightly together and facilitate trade and commerce around and through the region. As with infrastructure, countries made conscious decisions to invest in regional energy systems and to diversify energy sources. The LAC countries also mobilized to integrate banking and capital markets benefiting from economies of scale, diversified risk exposures, the attraction of outside capital and increased liquidity. An

additional key ingredient was investment in human capital, the upgrading of skills, and the focus on higher value-added goods and services for export. This was part of a larger strategy to pivot away from dependence on extractive industries. Some LAC countries have led the way by investing in technical education and setting up programs that allow student exchanges within different member countries. They have standardized university credits, facilitating student exchanges with visa waivers, and built an integrated financial aid program. But better connecting universities to the business community has been one of the top achievements. Countries now recognize degrees and credentials across borders, which has helped remove barriers in labor mobility. The internet and communications technology also facilitated global interactions, which allowed companies and employees to be more mobile. It was also critical to align education and research and development with areas of the economy in which the LAC have a comparative advantage. These investments in education, infrastructure, and other areas, coupled with stable macroeconomic conditions, have facilitated the transition to a higher value-added and innovation-driven economy. Favorable trade performances, strategic investment in human capital and infrastructure, and increased labor mobility have translated into a general reduction of informality across the region. However, in spite of the diversification of the LAC economies and their export patterns, many of them are still too resource-dependent and far less complex than developed economies. As countries became more collaborative on a wide range of international issues, this helped to mitigate external shocks and threats to democracy and security. Economic interdependence, founded on mutually beneficial economic linkages, promotes peace through increased communication, information sharing, and shared interests. **In this scenario one could expect the LAC countries to strengthen their regional coordination and cooperation mechanisms, particularly in areas that have a positive impact on economic performance and social cohesion. Science and technology and social policies, particularly those related to more integrated labor markets, will be key target areas for cooperation.**

Fragmentation prevails: the global economy and its centrifugal forces have pulled the region toward different economic poles. Central America, Mexico and the Caribbean continued to be pulled toward the North American market, while South America gravitated more toward individual agreements with Asia-Pacific countries. Transatlantic agreements also gained momentum, creating another –albeit weaker- pole. Regional disintegration amplified a few things that were of concern at the beginning of the period, such as LAC’s exposure to global economic shocks. As leaders made no efforts to build regional trade through upgrading infrastructure and coordinating policies, each country became even more dependent on extra-regional trade and investment. Global economic downturns, therefore, hit countries harder than what may have otherwise been. A lack of investment in infrastructure and education meant that the region lost out on productivity gains and enhanced physical and human capital, and national economies expanded at a slower rate than expected. Many LAC countries have shifted their export profiles toward the sectors in which they have a comparative

advantage (primarily commodities and low value-added goods), contracting the absolute level of exports in higher value-added goods and services. The negligible improvement in regional transport infrastructure has had wide-ranging implications for economic growth, the price of consumer goods, productivity, and environmental sustainability. The lack of collaboration has contributed to political, economic and social breakdowns of individual states, which has been conducive to a resurgence of populist regimes and criminal organizations, threatening the stability of the region as a whole. **In this scenario, and similarly as in the “Illicit world afloat” scenario, bi-regional cooperation in the three priority areas is likely to shrink.**

VI. Selecting a sample of relevant bi-regional scenarios

The combination of all LAC and UE regional scenarios (5x5) produce a set of 25 potential scenarios (Table 1). As a first step of an iterative process that will end up with three or four final scenarios to be developed in more detail, we made a selection of a subset of 16 combinations based on considerations of relevance. In the Buenos Aires Workshop participants will validate the selected subset and decide upon the three or four scenarios to be further developed. The workshop will also provide an opportunity to have a preliminary discussion about the implications of each selected scenario for the three dimensions covered by EULAC Focus.

In the case of the EU we chose to focus upon three scenarios (“Carrying on”, “Doing less more efficiently” and “Deepening”). In effect, the “Nothing but the single market” and “Variable geometry” scenarios share many features with the “Carrying on” and “Doing less more efficiently” scenarios, which means that they can be safely ignored for the purpose of simplicity. In the case of LAC we decided to ignore the “Illicit world afloat” scenario, since for the purposes of our analysis it shares many features with (a radical version of) the “Fragmentation” scenario. This preliminary selection leaves 16 potential scenarios, among which three or four will be selected in the Buenos Aires Workshop for further development.

Table 1: All possible scenarios: narrowing the universe

EU	Carrying on	Nothing but the single market	Variable geometry	Doing less more efficiently	Deepening
LAC					
Muddling through	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Governance on the rise	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Illicit world afloat	Scenario 11	Scenario 12	Scenario 13	Scenario 14	Scenario 15
Towards integration	Scenario 16	Scenario 17	Scenario 18	Scenario 19	Scenario 20
Fragmentation	Scenario 21	Scenario 22	Scenario 23	Scenario 24	Scenario 25

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