



Look to the EU:

Europe's EIT and the future of innovation in South America

The Latin American Decade?

- + Beginning in the early part of the last decade, Latin America, and in particular, South America have experienced impressive economic growth and almost unprecedented stability.
- + Much of this growth is thanks to the windfall from Chinese demand for natural resources.
- + South American markets emerged from the Great Recession period relatively unscathed.

Impressive Economic Growth in South America

- + Brazil: In 2012, Brazil's total GDP surpassed that of the UK to clock in at the 6th largest in the world.
- + BNDES, Brazil's development bank, maintains an investment portfolio three times as large as that of the World Bank.
- + IMF forecasts that the region's economy will grow by roughly 4% annually between 2011-2015. The U.S. and the EU only 2.7 and 2.1%
- + Chinese demand for natural resources helped to bolster the economies of Peru, Argentina, Chile, and of course, Brazil throughout the recession years.

Some Warning Signs

- + Despite impressive levels of sustained total GDP growth across the continent, there is cause for concern.
- + The gap between per-capita GDP in Latin America and the developed world has grown in the last 50 years.
- + While some countries in the region have made significant inroads, the progress in per-capita GDP is not nearly enough to catch up to other regions.
- + As China turns its demands toward higher end products (and recent indicators suggest that it will), the region is ill-prepared for the transition. (Mauricio Cárdenas, Brookings)

Total Factor Production

- + Total Factor Production (TFP) is the ratio of the total goods and services an economy produces to the factors of production—such as capital, labor, and human skills.
- + According to Eduardo Lora and Carmen Pagés of the Inter-American Development Bank (IDB), the cost of neglecting total factor production in the region has been high, and without paying attention to it in the present, a future of sustained economic success in South America is in doubt.

Some Obstacles to Continued Success Remain

- + After all the accolades for stability and responsible economic management in most of South America, the next step is to consider the challenge of how to build on these important achievements.
- + Addressing total factor production—growing productivity rather than just exporting natural resources—is a key step in doing so.

How to Grow Productivity in South America

- + A caveat: Lora and Pagés note that focusing on innovation *alone* will not help South America to achieve lasting success, and point to the need for taxation changes and deepened credit markets.
- + With that understood, the importance of innovation as a piece of the productivity puzzle is undeniable.



The EU Path to Innovation

- + As an example of the importance of innovation in creating and maintaining economic competitiveness, the EU established the European Institute of Innovation & Technology (EIT) in 2008.
- + Stemming from a midterm review of the Lisbon Strategy in 2005, more than 700 consultations with experts yielded the identification of the EU's "innovation gap."

The EIT and Defining Innovation

- + The concept: defining innovation as an output of efforts from three distinct, but related fields that form the “knowledge triangle”
 - + Research & Technology
 - + Higher Education
 - + Business
- + The European Commission identified structural problems in each area that reduced the EU’s ability to innovate and threatened sustainable growth.

Building Europe's New Workforce

- + The EIT's mandate is a response to the identification of aspects of the EU's economic profile that would diminish Europe's future ability to compete in the global market place:
- + The university system: An apparent lack of professionally-applicable and "learning by doing" methods that could be applied to business.
- + Not enough SMEs: The European Commission's review saw a distinct lack of small and medium-sized businesses in Europe, indicating a lack of entrepreneurial initiative.
- + R&D: Research rarely led to commercial gains and remained within the confines of the academy.

The EIT Mission

- + "to facilitate the following transitions:
 - + From idea to product
 - + From lab to market
 - + From student to entrepreneur"
- + To help implement these transitions, the EIT employs Knowledge and Innovation Communities (KICs)



Explaining KICs

- + KICs are designed to move ideas to action and their mandates stem from two basic criteria:
 - + The issue area around which KICs are organized must be of “high societal impact for Europe”
 - + Innovation on a given issue area must lead to greater competitiveness for the EU and its citizens.
- + KICS were established to breed and socialize innovation on three important societal challenges:
 - + Climate Change (ClimateKIC)
 - + Information & Communication (ICT) (EIT ICT Labs)
 - + Sustainable Energy (KIC InnoEnergy)

Why Not in South America?

- + UNASUR just recently formed the Consejo Suramericano de Ciencias, Tecnología e Innovación (CSCOTI) in November 2012.
- + This indicates that UNASUR's leadership is willing to take action and acknowledge the importance of innovation in creating a competitive future in the region.

Why UNASUR? Some Background:

- + 2004: Cusco Declaration
- + Combining the common markets of Mercosur/I and the Andean Community (CAN), adding Chile
- + Eventual goal of a pan-South American monetary and customs union with an independent central bank and a common currency.
- + Progress on common market was frozen in June 2011
- + 2008: Constitutive Treaty was signed
- + 2010: Ratification by Uruguay gives UNASUR full legal status
- + All independent South American countries are members (though Paraguay is temporarily suspended)

Institutional Recommendations

- + Institutional capacity and political will to import European Union ideas already exists, a significant hurdle is cleared.
- + Successful implementation of the EIT strategy for innovation could not only breed positive results in growth of productivity, thereby increasing economic competitiveness in a region that sorely needs it, but also carries the potential of adding legitimacy to the union's prospects.

An Ambitious Agenda

- + Policy and scholarly communities tend to converge around a group of factors that not only impede South America's potential for market growth but also its potential to provide prosperity for its citizens.
- + They are:
 - + Crime and pandemic violence
 - + Poor infrastructure
 - + Environmental degradation
 - + Incomplete or insufficient educational opportunities
 - + Stifling bureaucracy (corruption and/or red tape)

What role can innovation play?

- + Addressing these challenges will be key to sustaining the successes of the last decade and helping to increase productive capacity and per-capita incomes.
- + In recent years, many state-level governments in the region have come to the same conclusion that the EU did after reviewing the Lisbon Strategy: that the lack of innovation capacity is an integral factor in the region's inability to compete globally and provide opportunity for its citizens.
- + Without serious emphasis on increasing South America's ability to innovate, the prospects for continued success are in doubt.

A Possible Solution?

- + The CSCTI should adopt KICs, specifically:
- + Using the same criteria to set them up is key!
- + Projects of high societal value
- + With an aim towards positive economic impact and increased competitiveness for South America
- + Acknowledging the limitations of budgets and political will, and the fact of the different challenges of the developing world, I recommend a KIC for the management of South American cities.

The Rationale for KIC Cities SA

- + The UN Development Program estimates that 80% of the region's inhabitants live in urban areas, the highest rate of urbanization in the world. 90% by 2050! (UN-Habitat)
- + 80% of future economic growth in Latin America is expected to happen urban areas. (Eduardo Rojas, IDB)
- + Further, cities are largely responsible for economic production in South America—even in countries whose economies largely benefit from natural resources and agriculture.

KIC Cities SA

- + Good governance at the metropolitan level in South America has produced some surprising and inspiring success stories.
- + Bogotá: Crime reduction, land management, infrastructure, education
- + Medellín: Crime reduction, education
- + Curitiba: Transport, Environmental Management
- + São Paulo: Transport, Environmental Degradation
- + Santiago de Chile: Transport and Environmental Degradation

The Case for "Good Governance"

- + Progressive and forward-looking policy has been responsible for notable improvements in each of Latin America's major challenge areas, from "greening" the city to crime reduction to reducing corruption.
- + Successful, innovative, and well-informed mayors have the ability to affect a whole host of important issues that have been identified as major obstacles to South American success.

KIC Cities SA Outputs

- + A KIC that brings together innovators and policy luminaries that can create 'best practices' framework for progressive city management that encourages public and private sector integration and remove obstacles that stifle would-be entrepreneurs.
- + Turning mayors with positive experiences into de facto consultants who can lead other policy makers with input from higher education, business, and research and technology will cut into stagnant productivity rates and will create space for innovation—all under one KIC umbrella.

To Conclude

- + Further institutional learning from the EU can help move South America forward
- + Importing the EIT model and creation of a KIC Cities SA at once addresses many important challenges to South America's sustainable growth and has incredibly high (positive) societal impact.
- + Progressive city management that strives for a balanced public-private relationship can be a powerful step toward increasing competitiveness and creating spaces for innovation in a region that needs them to build on recent success.
- + Successful implementation lends legitimacy to UNASUR's future as the arbiter of regional integration.