

Competition in Latin America and the Caribbean

RG-K1198

1. Background and Justification

Since the 1980s there has been a rapid increase in the profit share of large firms in the United States and other developed economies. Large firms have grown larger by capturing higher market shares in their industries. At the same time, wages have not kept pace and have even stagnated. While “superstar” firms have kept rising, business dynamism has declined substantially, and startup firms’ share reached record lows in these economies. Moreover, this trend has been linked to the decline in the labor share over time (de Loecker et al., 2020), and it has been noted in a variety of industries, such as services, retail, and wholesale (Hsieh and Rossi-Hansberg, 2020). These observations hold major implications for antitrust policymaking.

Though there is evidence of market power across the globe (de Loecker and Eeckhout, 2021), little is known about these issues in emerging economies in general and in Latin America and the Caribbean (LAC) in particular. How competitive are markets in the LAC region, and how have they evolved? Have policy reforms and regulators succeeded in promoting competition? Is lack of competition limiting investment and R&D, thus hurting consumers? Are anticompetitive practices preventing the entry and growth of new firms? Have policymakers been successful in regulating natural monopolies? Proposals responding to this call should aim to answer these and other questions.

This project will sponsor a set of papers that broaden our understanding of competition in LAC and provide policy applications on how to promote competition. Selected proposals are likely to have a technical modeling or empirical component and be structured such that the analytical work proposed may shed light on a particular challenge and related policy issues or decision(s). Selected proposals will both adhere to the relevant rigorous academic standards for publication and support the continuous dialogue of the Inter-American Development Bank (IDB) with policymakers in the LAC region.

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2. Objectives

The main objective of the research projects answering this Call for Proposals is to diagnose the competitive environment in the LAC region and understand the impact of competition on firm behavior and total welfare in the economy. Each study should analyze the extent to which competition affects key aspects of one or more markets, such as wage inequality, profit rates, the importance of data-driven industries for concentration, concentration in the banking sector, etc. The project intends to draw cross-country comparisons and policy recommendations from the collection of specific studies.

In particular, the project aims to:

1. Generate country-specific evidence on the impact of concentration on different markets.
2. Calculate measures of concentration in several sectors across countries.
3. Quantify the impact of concentration on different outcomes in different countries.
4. Evaluate political implications and policy recommendations for the LAC region.

3. Scope, Methodology, and Data

We plan to commission five research papers, depending on the proposals received and the available budget. Each project may either focus on one country or compare countries through the analysis of a particular topic or theme. The research papers produced as part of this research project should be submitted for publication as Working Papers of the IDB.

Though all commissioned research papers must focus on issues regarding market power, competition and antitrust policies, there is no restriction on the methodology to be used. Examples of important works on these topics include de Loecker et al. (2021), which employs quantitative macroeconomic models, and Busso and Galiani (2019) and Talamas (2022), which use causal microeconomic analyses. Hence, we welcome proposals aiming to apply either type of analytical framework.

We welcome both multi-country and single-country papers. In single-country studies, we particularly appreciate efforts to discuss findings obtained from a combination of data sources, including household surveys, social security records, matched employer-employee data, and credit registries. Moreover, comprehensive data that cover the entirety of a market or multiple markets will be particularly important.

4. Content of the Studies

The studies should include the following:

1. Brief analysis/diagnosis of the evolution of the topic in the LAC region and/or in the specific setting or the study. What is the motivation of the study?
2. Brief literature review of the research topic and the methodology that is going to be implemented. Describe the novelty and contribution of the proposed study.

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3. Description of the research plan and design:
 - a. Diagnosis of the problem.
 - b. Description of the data.
 - c. Methodology.
4. Results.
5. Assessment and interpretation.
6. Conclusions:
 - a. Expected policy lessons.
 - b. Limitations of the study.

Note: Proposals must be submitted in English.

5. Selection Criteria

Only research institutions (including think tanks) may present research proposals. The IDB seeks to support up to five (5) studies. The research proposals will be selected based on the following criteria:

- a. Quality and feasibility of the proposed case.
- b. Clarity in the description of the research question(s) and methodology.
- c. Comprehensiveness of the proposed study. Projects that will use data with full coverage of particular market(s) to be studied in one or more countries are especially relevant.

To be considered for the project, the research proposal should include the following:

- a. A brief review of previous studies on this topic conducted on the selected country or countries.
- b. Data templates for the description and analysis and assessment of data availability.
- c. A description of the strategy that is going to be used for collecting relevant data, if needed.
- d. A detailed description of the research question(s) and methodologies to be used in the quantitative exercises.
- e. A careful identification of which hypothesis/hypotheses would be tested and which not, considering data availability.

In addition, proposals must include:

- The name of the research leader as well as a list with the names of the whole researchers' team involved. The institution should present a research team whose makeup is justified by its capacity to meet the objectives of the project, with prior relevant experience. Curriculum vitae of all researchers involved must be included in a separate annex. In the event that initial researchers have to be replaced, any changes must be approved in advance by the coordinators of the project. In all cases, however, the research leader (of each study) should lead the entire project until its full completion.

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- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan. The budget proposed by the research center should disaggregate items financed by their own contribution and those financed by the IDB contribution. The budget should distinguish among amounts assigned to professional honoraria, “overhead” and other major categories of research expenditures. **The proposal and corresponding budget must be sent in separate files.**
- Institutions must provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study. **Please note that letters of agreement must be signed before the end of 2022.**

Final research papers will be considered for dissemination as IDB Working Papers or Technical Notes depending on quality. Other forms of dissemination or publication should be explicitly approved by the coordinators until the end of the contract.

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the research paper. (An exception may be made in the case of proprietary data, in which case the team should provide the appropriate documentation; providing the data at some level of aggregation may nonetheless be required). Additionally, the data files and all statistical programs used to generate the results should be delivered to the IDB.

6. Proposal Registration

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at eltonma@iadb.org) and should be based in the Latin American and Caribbean region. Institutions from other parts of the world do not qualify as members of the Research Network. However, researchers not based in Latin America and the Caribbean can participate with research teams from qualified proposing institutions.

Proposals should be submitted using the Web Submission Form that is provided in the Call for Proposals announcement. Proposals are due **December 2, 2022**. Please note that there are two options within the submission form: one for institutions and another for individual researchers. Please make sure to choose the institutions option.

7. Coordination

The project will be coordinated by Cezar Santos (IDB/RES) and Miguel Talamas (IDB/RES). Prof. Jan Eeckhout (Pompeu Fabra University) will serve as external research advisor.

The tentative schedule of activities is as follows:

- **December 5, 2022:** Due date for receiving proposals. Institutions should ensure that the complete documentation is submitted to the evaluation committee. Complete documentation includes the registration form with all information requested, the

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research proposal, budget, and curriculum vitae of the members of the research team (CVs up to three pages long).

- **December 9, 2022:** Announcement of **selected research proposals**.
- **March 15, 2023: First Discussion Seminar** via Zoom with the Technical Directors of the project for the purposes of presenting the proposal and the methodology to be used in the study, as well as presentation of preliminary analyses.
- **June 2, 2023:** Due date for receiving a **progress report** on the studies. The reports should outline the draft with its different sections, detail data and methodology that will be used and all other relevant information.
- **September 29, 2023:** Due date for receiving a **first draft** of the research papers.
- **October 30, 2023: Second Discussion Seminar** in Washington, D.C. (travel restrictions permitting), with the Technical Directors of the project to discuss the first draft of the research papers.
- **November 24, 2023:** Deadline for a **final edited version** of the research papers, including a summary that discusses policy lessons. Data should be submitted by this date. Research papers must follow the **IDB Manual of Style** for working papers. Studies that are of good quality at this stage will be considered for publication in the IDB Working Papers series.

8. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$25,000** or its equivalent in local currency as a contribution to the total budget of each study. The payment schedule is as follows:

- **30 percent** within 30 calendar days of signing the formal agreement between the IDB and the respective research institution. **Please note that the letter of agreement must be signed by December 22, 2022.**
- **20 percent** within 30 calendar days of presentation and IDB approval of the progress report of the research study.
- **20 percent** within 30 calendar days of presentation and IDB approval of the first draft of the research paper.
- **30 percent** within 30 calendar days of presentation and IDB approval of the final version of the research paper, delivery of the datasets used in the study, and completion of the conditions of the terms of reference.

9. References

Busso, M., and Galiani, S. (2019). The Causal Effect of Competition on Prices and Quality: Evidence from a Field Experiment. In *American Economic Journal: Applied Economics* (Vol. 11, Issue 1, pp. 33–56). <https://doi.org/10.1257/app.20150310>

De Loecker, J., and Eeckhout, J. (2021). Global Market Power. Working Paper.

De Loecker, J., Eeckhout, J., and Mongey, S. (2021). Quantifying Market Power and Business Dynamism in the Macroeconomy. Working Paper.

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De Loecker, J., Eeckhout, J., and Unger, G. (2020). The Rise of Market Power and the Macroeconomic Implications. *Quarterly Journal of Economics*, 135 (2).

Hsieh, C., and Rossi-Hansberg, E. (2020). The Industrial Revolution in Services. University of Chicago, working Paper.

Talamas Marcos, M. Á. (2022). Surviving Competition: Neighborhood Shops vs. Convenience Chains. Inter-American Development Bank. <https://doi.org/10.18235/0004453> .