

Call for Research Proposals

Regulation, Competition, and Market Power in Latin America and the Caribbean

A Research Network Project

RG-K1198

I. Objectives

Cross-country analyses have long concluded that institutions have a significant effect on growth. Still, there is little research, and practically none in Latin America and the Caribbean (LAC), that examines the mechanisms driving this relationship. One important mechanism is that weak regulatory regimes discourage entry and competition, reducing incentives for innovation, productivity growth, market expansion, and job creation, reducing consumer welfare through higher prices, fewer varieties, and lower-quality products.

Though some recent research has explored these issues using European and US data, there is essentially none in LAC. This call for research proposals is a first step toward filling this gap. We therefore seek proposals on any aspect of this question, including:

- The effects on prices, employment, firm entry, and/or firm concentration following the imposition or removal of regulations at any level (municipal, subnational, national); any (probably non-tradeable) sector; and of any kind: land, labor, product market, entry.
- For specific regulations, documentation of the size of the gap between *de facto* regulation (prescribed by law) and *de jure* regulation (the regulations that are enforced). Related to this issue, the extent to which these gaps create an uneven playing field, favoring some firms over others, and their consequent impact on entry and industry concentration.
- The analysis of antitrust regulation, including systematic evidence on government enforcement efforts to limit collusion, monopolization, or restrictive trade practices, including the staffing of antitrust agencies, their legal authority, and the conditions under which they exercise that authority; evidence of such practices in the region and their influence on concentration and prices; and again, evidence on the size of the gap between *de facto* and *de jure* antitrust regulation and the degree to which its application creates an uneven playing field that deters entry and increases concentration.

The results of this work will contribute to a broader project that will examine the relationship between market power (concentration) and markups in the region, and the costs of these in terms of consumer welfare, employment, and productivity. The main questions that guide this research network project are the following: i) how much does regulation affect concentration and competition in LAC? ii) how do these effects translate into productivity growth or welfare? and iii) what policy recommendations

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can be derived and what tradeoffs those policy changes might generate? Answers to these questions will form the basis of the 2025 flagship report of the Inter-American Development Bank (IDB or the Bank), which will tackle a set of first-order questions on productivity and competition that are central to both the Bank's operations and the design of policies in the region.

This broader project is motivated by empirical evidence of increasing market concentration and corporate market power across the globe, with sales-weighted markups rising from 1.1 to 1.8 since 1980 (IMF, 2019; De Loecker and Eeckhout, 2021). These upward trends have been accompanied by drops in investment rates and productivity growth (Covarrubias, Gutiérrez and Philippon, 2019), entry rates and business dynamism (Decker, Haltiwanger, Jarmin, and Miranda, 2016; Akcigit and Ates, 2019), and the labor share of income (De Loecker, Eeckhout, and Unger, 2020; Barkai, 2020). These trends have likewise been accompanied by an increase in inequality (Eslava, Melendez, and Urdaneta, 2021). Specifically in Latin America and Caribbean countries, not only are average markups potentially high, but economic rents also tend to be concentrated among fewer shareholders, resulting in greater business ownership concentration in the region compared to the rest of the world (Eslava, Melendez, and Urdaneta, 2021).

II. Background and Literature

Recent studies have found persuasive evidence that regulation, including antitrust regulation, has important effects on productivity, firm profitability, and consumer prices. Cette et al. (2017) use OECD data on product market regulation and show that it suppresses total factor productivity. Gutiérrez and Philippon (2017) document that in the United States, weaker antitrust enforcement and politically motivated entry barriers increased firm concentration and reduced investment incentives. Faccio and Zingales (2022) show that around the world, rules limiting entry into mobile telecom explain the widely differing prices that consumers pay for mobile telephony. Besley et al. (2021) analyze cross-country evidence on the strength of antitrust laws and financial data on thousands of firms from ORBIS to examine firms in non-tradeable sectors—those where competition laws are likely to have the largest impact. They find that firm profits in non-tradeable sectors are significantly higher in countries with stronger antitrust enforcement.

Similar evidence is almost entirely missing for Latin America and the Caribbean, despite a widespread belief that the regulatory environment in the region reduces competition, raises prices, and discourages investment and productivity growth. Indeed, there is little systematic data, even for single sectors, countries, or types of regulation, about the scope of *de jure* regulation, enforcement (or lack of enforcement) efforts, or the costs of compliance. The World Enterprise Surveys ([Enterprise Surveys Indicators Data - World Bank Group](#)) capture limited information about the costs of firm compliance with business licenses and tax laws. These data indicate that firms confront higher regulatory costs in the region than elsewhere in the world (e.g., in terms of time spent by high-level managers on

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regulatory matters). The OECD Product Market Regulation database is a deep and comprehensive look at a wide range of regulations, but only for a few Latin American countries ([Indicators of Product Market Regulation - OECD](#)). It indicates that barriers to domestic and foreign entry are significantly higher in Latin American countries than in non-Latin American members of the OECD. Hylton and Deng (2007) have a comprehensive database of antitrust laws in Central and South America, which are significantly more permissive than in any other region (see also the database created by Bradford et al., 2019). This suggests that firm activity related to monopolization, collusion, and restrictive trade practices should be common in the region. There is, however, no systematic evidence of this, nor changes in consumer prices or firm entry as a consequence of such arrangements.

III. Content of the Studies

This Research Network project will fund 5-7 studies that examine any of the range of issues outlined under “Objectives.” We naturally prefer proposals that aim to provide rigorous evidence from Latin America and the Caribbean about links among regulation, competition, and economic outcomes such as productivity, consumer prices, and/or employment creation. However, we value even descriptive studies. Examples of the range of proposals that we seek are:

1. *Descriptive and diagnostic evidence of the nature of regulation in the region.* We lack even narrative evidence/case studies of a) episodes of collusion, monopolistic behavior or restrictive trade practices in the region and how regulators deal with them, or not; b) the regulatory requirements confronting firms in specific countries/sectors with respect to specific regulatory areas, such as environmental, entry, land, or labor; c) for these same regulatory requirements, the gap between the regulations that are on the books and their enforcement (*de jure* versus *de facto*). Though we prefer more systematic evidence on these issues, we welcome proposals that aim to close this gap even with new narratives about single sectors, countries, and regulations. Priority will be given to proposals that can achieve these objectives for a large number of countries in the region applying a common methodology that allows for valid cross-country comparisons.
2. *Correlational analyses:* We also seek to understand the relationship between the regulatory requirements in the previous point and entry/concentration/profit margins/prices. There is, for example, no evidence in the region of the evolution of sectoral outcomes (prices, profit margins, entry, concentration) before and after the introduction or removal of regulations. We welcome proposals that document the relationship between these economic outcomes and regulatory change. We are especially eager to receive analyses related to antitrust regulation but would also welcome analyses of other regulatory changes, from zoning and land use to labor and health and safety.

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3. *Causal analyses*: Efforts to identify the causal effects of regulatory change on economic outcomes are scarce, both within the region, but also generally. We would be most eager to finance proposals that identify and take advantage of natural experiments to estimate those effects: exogenous regulatory shocks that influence some sectors and not others; that affect some firms within a sector and not others; or firms within some geographic areas (municipalities) and not others.

Note: Proposals must be submitted in **English**.

IV. Selection Criteria

Research institutions only may present proposals regarding the issues discussed above. The final number of proposals accepted will depend on the quality and the proposed budget of the proposals received. As noted above, the proposed budgets will be evaluated considering the scope of the work proposed.

Since this call for research proposals is open for only a short window of time, we are willing to accept short proposals (not more than 5 pages, but potentially fewer) that:

1. Identify the specific research question and clearly explain how it will inform our broader effort to understand the relationship between regulation, competition, and productivity.
2. Confirm that there is no prior work addressing the question.
3. Identify the data that the team will use to answer the question and explain the likelihood of getting access to these data. If some data for the analysis are straightforward to obtain and other data are more difficult, indicate in point 4 below whether the more accessible data will allow for partial answers to the research question. Showing evidence of data availability or ability to collect those data is important.
4. Describe the specific hypotheses to be examined and the methodology to be used, assuming accessibility of the data.
5. Identify underlying causes of market power and evaluate potential policy recommendations.

Final papers will be considered for dissemination as IDB working papers or technical notes depending on the approach followed and the nature of the methodology and analysis performed. Authors have the option to submit the manuscript for publication to the journal of their choice after publishing the document as an IDB Working Paper or IDB Technical Note and with written authorization from the Bank, but they must mention that the study was financed with the support of the Latin America and the Caribbean Research Network of the Inter-American Development Bank. All raw data and properly documented programming code that produced results should be submitted with the final draft. The project coordinators may explore the possibility of having the studies published in an academic

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journal, in which case they would be subject to a system of standard peer review. Otherwise, authors will have the option to publish in an academic journal (again, provided they acknowledge the Bank's technical and financial contribution). Proposals may include suggestions for further dissemination of the final version of the study.

V. Proposal Submission

Interested **research institutions** should submit a proposal no later than **November 15, 2023**, using the [Web Submission Form](#). Please note that there are two options within the submission form: one for institutions and another for teams of individual researchers. Please make sure to choose the "institutions" option. If unable to submit by this means, please send an email to eltonma@iadb.org.

The following information will be required for submitting your proposal:

- The proposal with all the technical aspects involved in the development of the study, based on the description in this call for research proposals.
- A budget indicating the time and resources that will be used within the context of the research work plan. The budget is requested as a separate file and should not be included in the proposal. The budget proposed should disaggregate items financed by the IDB contribution and those financed by the research institution or other sources. The budget should distinguish among amounts assigned to professional honoraria, "overhead" and other major categories of research expenditures.
- The name and curricula vitae (two pages maximum) of the technical coordinator and other researchers involved. These should contain sufficient information to demonstrate the team's ability to meet the objectives of the project, including relevant experience. Please note that subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from the project coordinators, but the technical coordinator should lead the entire project until its full completion.
- Institutions submitting proposals must provide the name and contact information of the legal representative, with the authority to sign letter of agreements with the IDB, if selected to conduct the study. **Please note that the letter of agreement must be signed, and the corresponding invoice be submitted before December 4, 2023. In the event that the institution cannot comply with this requirement, it will not be able to continue with the project.**

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at eltonma@iadb.org) and should be based in the Latin America and Caribbean region. Note that U.S. and European institutions do not qualify as members of the Latin American and Caribbean

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Research Network. However, researchers from the United States and Europe can participate in research teams from proposing institutions, and such collaboration is encouraged.

VI. Coordination and Schedule

The project will be administered by the Research Department (RES/RES) of the IDB. The coordinating team consists of Vanessa Alvarez, Matías Busso, and Cezar Santos (RES/RES), Phillip Keefer (IFD/IFD), and Tomás Serebrisky (INE/INE).

The tentative schedule of activities is as follows:

- **November 15, 2023:** Due date for **receiving proposals**.
- **November 17, 2023:** Announcement of **selected research proposals**.
- **January 15, 2024:** Due date for receiving a **progress report**. (This should include a preliminary literature review, methodology, basic facts, and a plan of the results).
- **January 30, 2024 (TBC):** **First virtual discussion seminar** of the project via Zoom to discuss and refine the selected proposals and methodology to be used in the research paper.
- **April 15, 2024:** Due date for receiving a **first draft** of research papers and delivery to the IDB of complementary support documents utilized in the research paper.
- **April 30, 2024:** **Second virtual discussion seminar** of the project via Zoom to discuss the first draft of the research papers.
- **August 16, 2024:** Due date for receiving a **final version** of research papers, and delivery to the IDB of any further versions of the datasets utilized in the research paper. 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.

VII. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$25,000** (or the equivalent in local currency) for each study, depending on the scope of the work proposed. We would only reach the upper bound of the per-proposal budget in exceptional cases that demonstrate a significant contribution to the knowledge about the topics of interest in the region. The payment schedule is as follows:

- **40 percent** within 30 calendar days upon the date of the last signature of the letter of agreement between the IDB and the institution. **Please note that the letter of agreement must be signed, and the corresponding invoice be submitted before December 4, 2023. In the event that the institution cannot comply with this requirement, it will not be able to continue with the project.**

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- **20 percent** within 30 calendar days upon receiving and approval by the IDB of the progress report.
- **20 percent** within 30 calendar days upon receiving and approval by the IDB of the first draft of the research paper.
- **20 percent** within 30 calendar days upon receiving and approval by the IDB of the final research paper and delivery to the IDB of the databases and code utilized in the study.

VIII. References

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