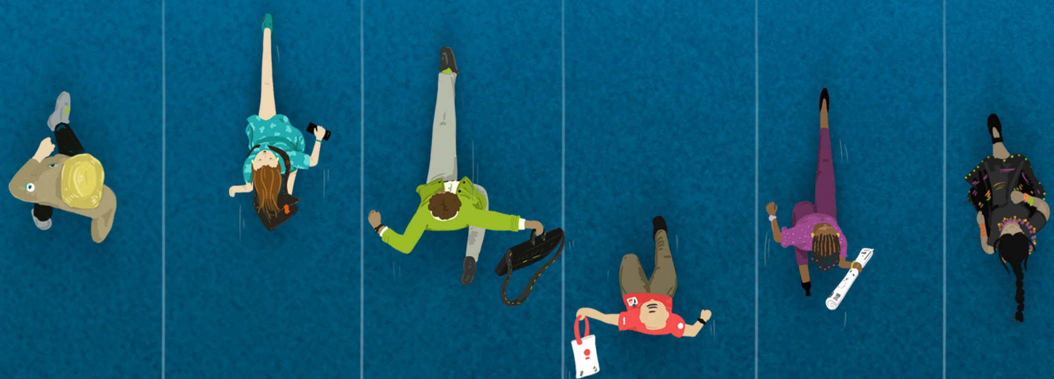
DEVELOPMENT IN THE AMERICAS

Markets for Development

Improving Lives through Competition

EXECUTIVE SUMMARY



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Latin America and the Caribbean has made major social and macroeconomic strides, yet growth and productivity remain weak. Markets for Development: Improving Lives through Competition argues that the region's core challenge is limited market competition. High market concentration, regulatory barriers, and weak enforcement of rules allow dominant firms to restrict entry, innovation, and opportunity. This book presents new evidence on how market power shapes firm behavior, employment, and inequality across sectors. It also demonstrates that reducing fragmentation, improving regulation, and strengthening competition policy can lower prices for consumers, raise productivity, create better jobs, and build fiscal capacity, making competition a central driver of development.

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Markets for Development: Improving Lives through Competition

Latin America and the Caribbean has advanced on many fronts in recent decades, from expanding education coverage to achieving macroeconomic stability. But growth remains slow, inequality is high, and productivity is stagnant. An important reason is weak competition. Closed, concentrated, or fragmented markets misallocate resources, hold back innovation, and limit opportunities. This report shows that stronger competition can drive faster, fairer, and more sustainable growth. Using new evidence—including CompeteLAC, the first dataset of comparable competition indicators for the region—it identifies where markets fall short, how this affects firms, workers, and consumers, and which reforms can make economies more dynamic and inclusive.

Why Competition Matters for Development

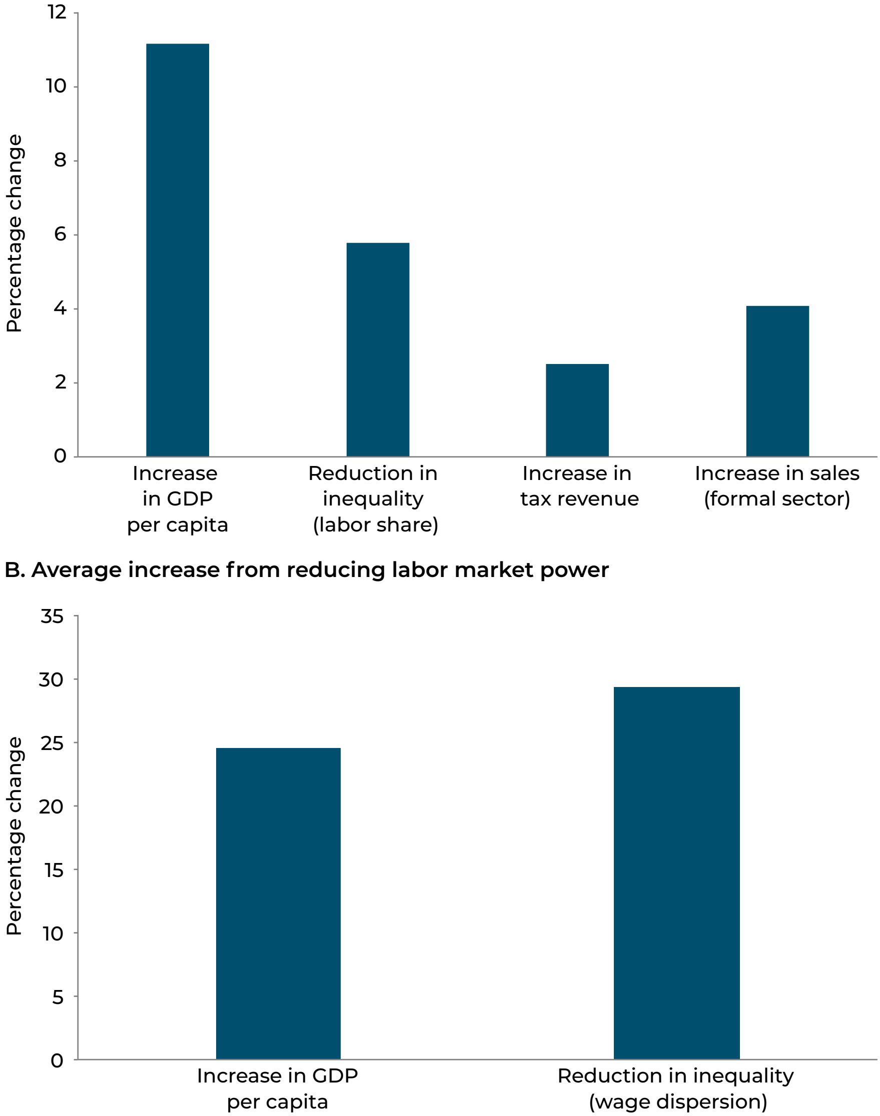
Competition is not just about prices; it is a foundation of inclusive growth. When firms face rivals, they must innovate, improve quality, and lower costs. Consumers benefit from more affordable goods, workers from fairer wages, and economies from the shifting of resources toward the most productive firms.

For Latin America and the Caribbean, the stakes are high. If product markets were as competitive as those in advanced economies, gross domestic product would be approximately 11 percent higher, and inequality would be about 6 percent lower. Greater competition compels firms to expand production, hire more workers, and invest more money. It also encourages formalization, which raises government revenues (see Figure 1, Panel A). Similar effects can be found in labor markets, where more competition implies higher levels of employment and output, as well as higher wages (Figure 1, Panel B).

Figure 1. Large Economic Gains from More Competition

A. Average changes from reducing product market power

B. Average increase from reducing labor market power

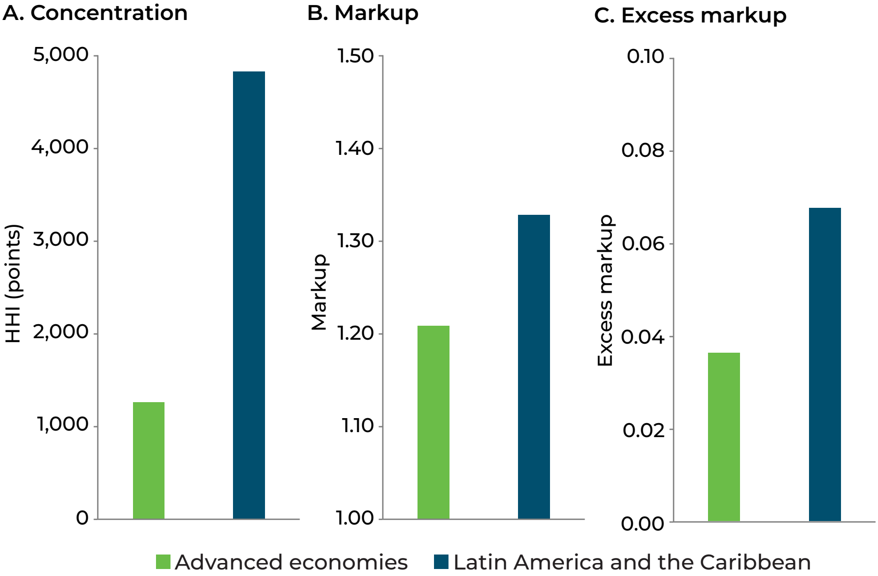


Source: IDB staff calculations. See Chapter 1 for details.

The Costs of Weak Competition

As Figure 2 shows, product market competition is weaker in the region than in advanced economies. Market concentration—how much of a market is controlled by a few firms—is roughly four times greater. Markups, the ratio of prices to marginal costs, average 1.35, as compared to 1.20. These differences remain even after accounting for the costs of innovation and brand development, as measured by excess markups.

Figure 2. Concentration, Markups, and Excess Markups



Source: Alviarez and Morales (forthcoming).
Note: Panel A measures concentration using the Herfindahl-Hirschman Index (HHI). See Chapter 2 for details.

Labor markets also appear to be noncompetitive. Workers in the region take home only about half the value they generate, compared with 65 percent in the United States and 81 percent in other advanced economies (see Figure 3).

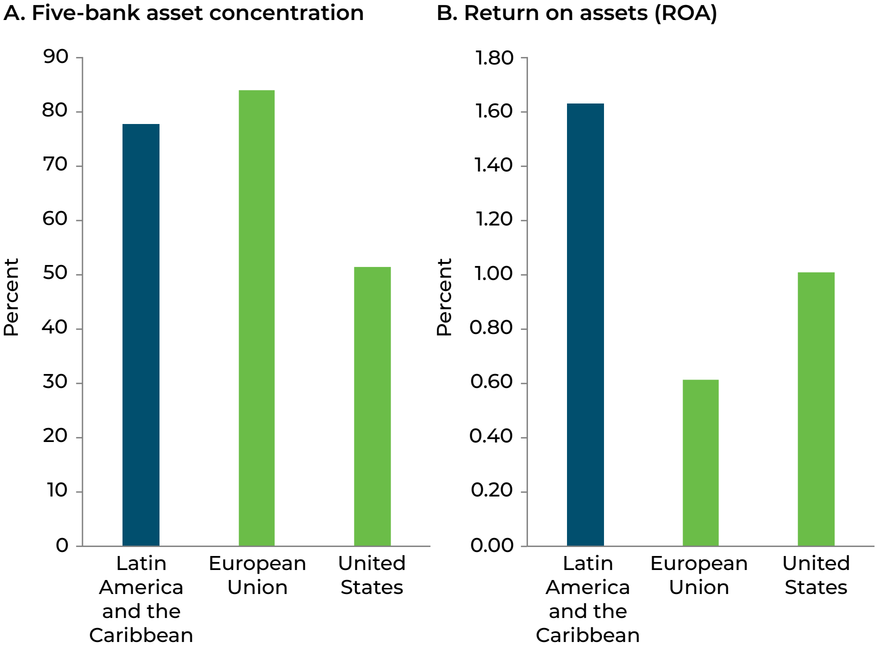
Figure 3. **Take-Home Wage (in Cents) per Dollar Value Contributed to Firms**

Source: IDB staff calculations, using World Bank Enterprise Surveys (WBES) and country data. See Chapter 3 for details.

Lack of competition manifests itself in different corners of the economy, affecting key sectors. In telecommunications, high concentration often produces persistently higher prices. The banking sector also shows significant concentration, and banks earn returns well above those in advanced economies, contributing to higher financing costs in the region (see Figure 4). Market power along the supply chain can create bottlenecks and enable large intermediaries to pay upstream producers less than they would in a more competitive market.

Beyond affecting consumers, workers, and firms, weak competition stifles dynamism. Although new firms often enter, they are usually small, informal, have low productivity, and they contribute little to jobs or innovation (see Figure 5, Panel A). Ninety-five percent of firms employ fewer than five workers,

Figure 4. The Landscape of Competition in Banking



Source: IDB staff calculations, based on World Bank Global Financial Development data (2001–21). See Chapter 5 for details.

Figure 5. Firm Entry and Growth

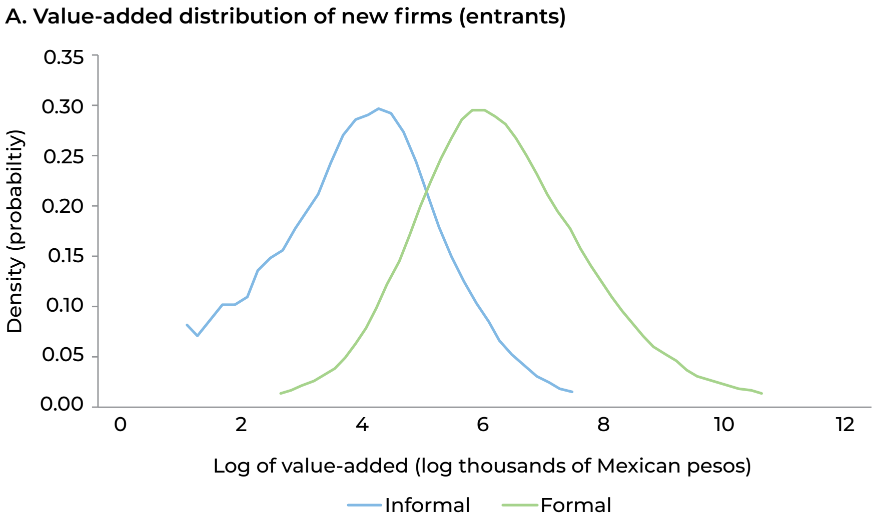


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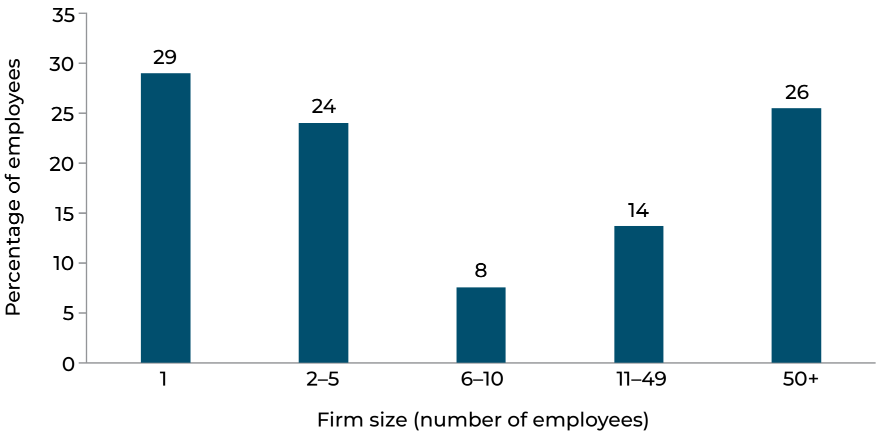
Figure 5. Firm Entry and Growth *(continued)*

B. Average Share of Workers across Firm Size

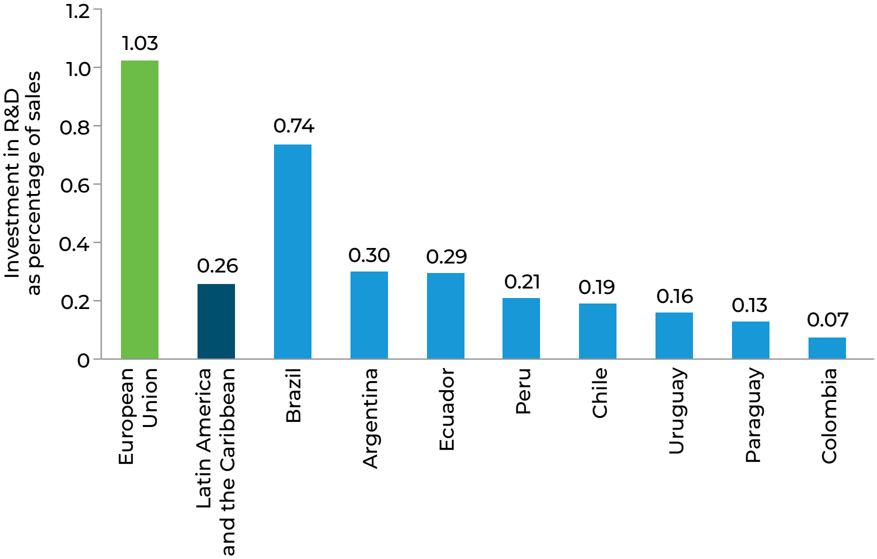


Source: IDB staff calculations, based on household survey data. See Chapter 6 for details.

absorbing 57 percent of employment. The largest and most productive firms, with more than fifty employees, account for just 1 percent of firms and 20 percent of jobs (Figure 5, Panel B).

Lack of competition also results in less innovation. Without competitive pressure, firms have little incentive to upgrade technologies, cut costs, or differentiate products. Incumbents can protect existing profits instead of risking resources on uncertain innovation, while lagging firms often see little chance of catching up. The result is fewer investments in new ideas (see Figure 6). Firms in advanced economies spend nearly 4 percent of sales on innovation, compared with 2.5 percent in the region, and only 0.26 percent on research and development, versus 1.03 percent. With little pressure on incumbents, creative destruction is weak and productivity stagnates.

Figure 6. Comparative Levels of R&D Expenditure, c. 2016



Source: IDB staff calculations, based on the Harmonized Latin American Innovation Surveys Database (LAIS) and Eurostat. See Chapter 7 for details.

How Policy Can Unlock More Dynamic Markets

Because competition shapes both growth and inequality, competition policy is ultimately macroeconomic policy. This book advocates for regulatory frameworks that promote fair competition while avoiding unnecessary rules that limit market dynamism. It calls for strengthening antitrust institutions and expanding their legal capacity to act, revising regulations that distort competition, and improving infrastructure to broaden the size of internal markets while fostering regional integration so more firms can compete on equal terms.

Reforms across the region show that barriers to competition can be overcome—and the benefits are tangible. Consumers were empowered by number portability in telecom, which drove down prices. The introduction of instant, low-cost digital payment systems reshaped financial transactions, while reforms in Uruguay of loan portability and multi-acquirer card machines reduced interest rate spreads and expanded financial inclusion. Mexico's competitive bidding for insulin procurement lowered costs and improved access for patients.

Building on these successes, governments can focus on three priorities:

- **Deepen market integration.** Fragmented markets keep firms small and isolated. Greater integration can be achieved through the implementation of interoperable systems; better infrastructure that connects markets, allowing people and goods to move across regions (see Figure 7, Panels A and B); harmonized regulations that simplify transactions within and across economies; and streamlined processes at borders that connect firms to global value chains. Firms will need to adapt to the changes by becoming more efficient and using new technologies, but doing so also creates opportunities for growth and innovation.

Figure 7. Cost of Moving People and Goods

A. Labor mobility costs

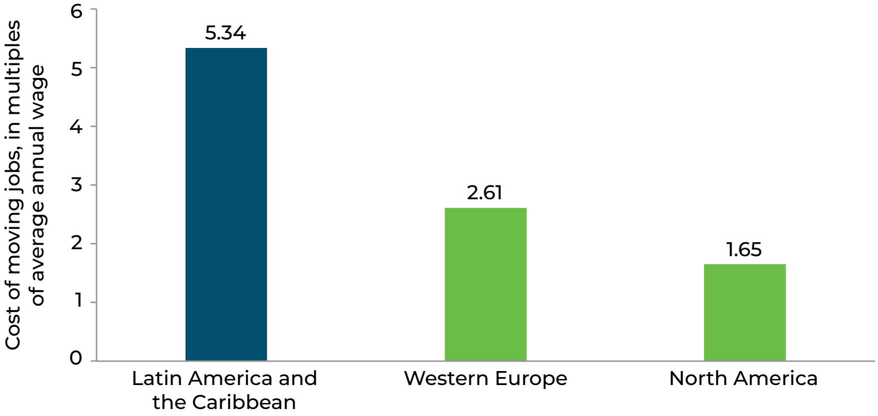


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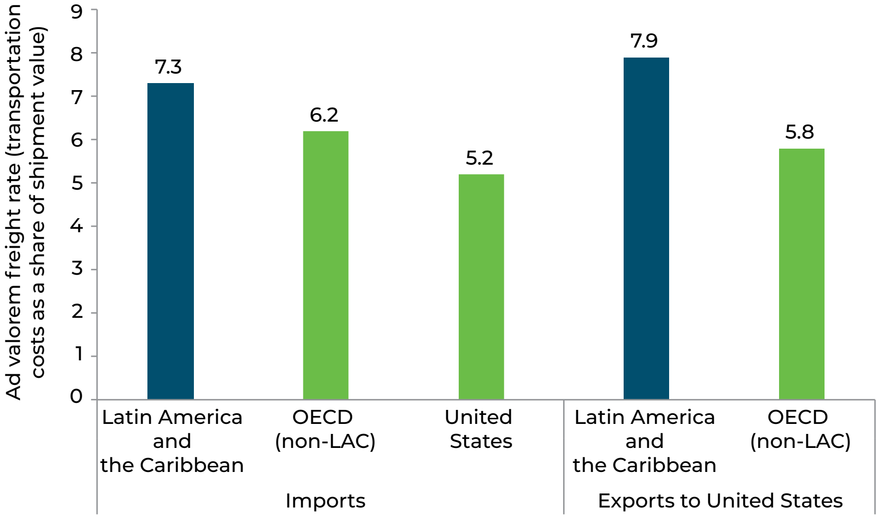
Figure 7. Cost of Moving People and Goods *(continued)*

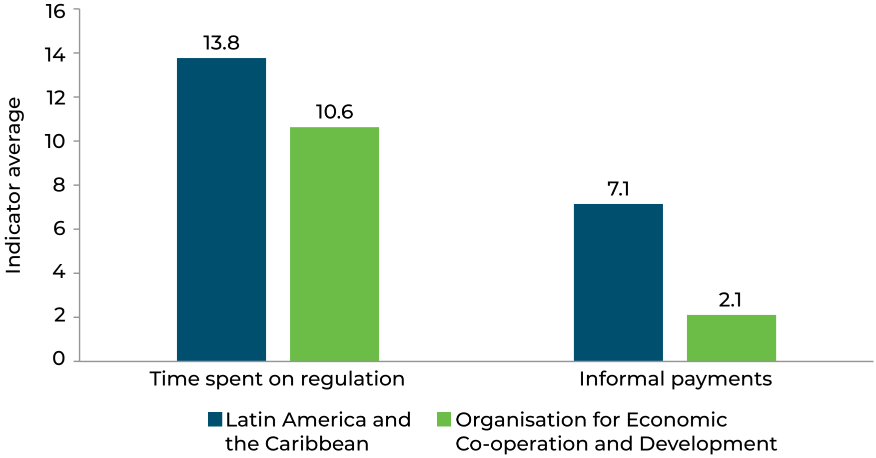
B. Transportation costs associated with trade



Source: IDB staff calculations, based on Artuc, Lederman, and Porto (2015) (Panel A) and using Transport and Insurance Cost of Merchandise Trade (ITIC) and U.S. Census data (Panel B).

- **Change rules that protect incumbents or penalize firm growth.** Removing size-dependent regimes, conducting regulatory audits, and designing evidence-based regulations can level the playing field, encourage scaling, and boost productivity. Such reforms expand the pool of firms capable of exporting or innovating and reduce fragmentation by fostering stronger competitors across regions and sectors. In Latin America and the Caribbean, regulatory burdens are heavy; managers spend far more time on compliance than they do in advanced economies, and many firms resort to informal payments to navigate requirements (see Figure 8). Moreover, preferential taxes or regulatory treatments favoring small firms can keep businesses artificially small, and few countries conduct systematic regulatory impact assessments or public consultations, leaving in place rules that often protect incumbents at the expense of new entrants. Smarter

Figure 8. Regional Averages of Manufacturing Firms' Performance and Regulatory Experiences

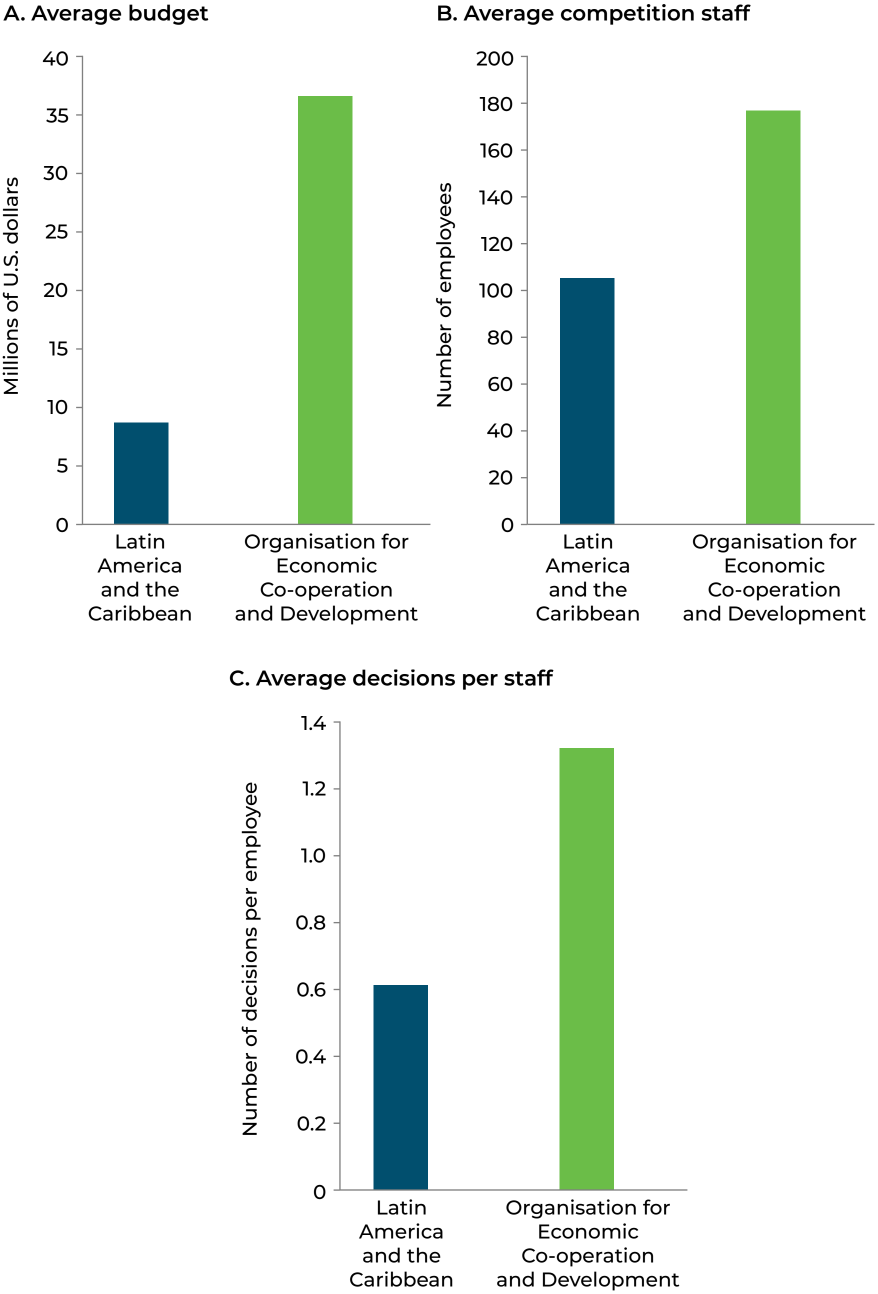


Source: IDB staff calculations, based on data from the 2006–24 waves of the World Bank Enterprise Surveys (WBES). See Chapter 9 for details..

regulation—centered on evidence, transparency, and competition—can remove these distortions, unlock the "missing middle" of firms, and deliver more productive and inclusive growth.

- **Strengthen competition agencies.** Effective oversight requires independent, well-resourced institutions with the authority to review mergers, sanction cartels, and prevent abuses of dominance. Yet agencies in Latin America and the Caribbean lag far behind their OECD peers in both activity and autonomy (see Figure 9). Many lack independence, which limits their capacity to act against politically connected firms. These gaps undermine deterrence: Although cartels raise prices and harm consumers, only about one in ten is detected in the region. Strengthening agencies with sufficient budgets, skilled staff, and institutional independence would yield large welfare gains by disciplining dominant firms and ensuring new regulations keep markets contestable.

Figure 9. Regional Averages of Antitrust Enforcement, 2020–22



Source: IDB staff calculations, based on Competition Trends (OECD). See Chapter 10 for details.

Box 1. A Procompetitive Regulatory Agenda

Translating the lessons in this book into action requires a pragmatic, sequenced regulatory agenda built around three steps:

- **Diagnosing the problem:** Conducting a legal and regulatory audit to identify rules that protect incumbents or penalize growth. Using market and firm-level indicators to detect distortions and bottlenecks created by regulations that hinder competition.
- **Prioritizing procompetitive reforms**: Focusing on reforms that remove barriers to entry and firm growth while maintaining essential protections. Strengthening institutions that defend competition, also giving them the mandate and capacity to assess the competition costs of new regulations.
- **Building coalitions for reform**: Communicating the tangible benefits of competition to citizens and firms. Bundling complementary reforms across sectors to broaden support and highlight collective gains. Engaging the private sector to enhance transparency and implementation, reducing resistance, and increasing ownership.

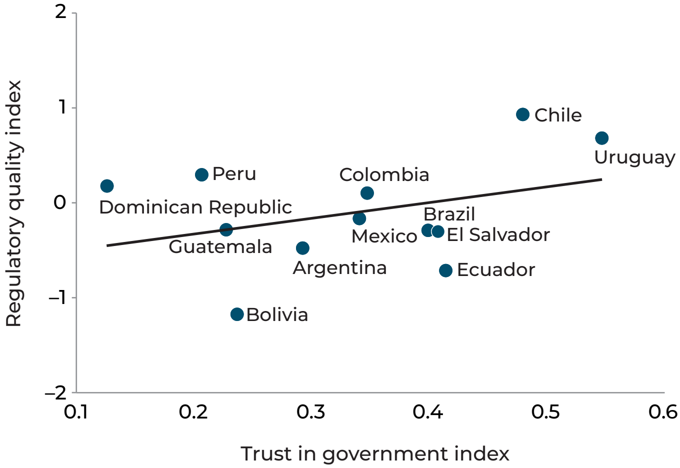
In sum, the book argues for policies that promote a procompetitive regulatory agenda focused on the principles listed in Box 1, which emphasize smarter regulation, stronger institutions, and the removal of barriers that protect incumbents at the expense of consumers, workers, and new firms.

From Lessons to Action

Weak competition is not inevitable—it reflects choices, institutions, and policies that can change. To succeed, policy reforms must go beyond rules on paper, and they must rest on three conditions:

1. **Regulation and trust.** Where citizens trust their government, regulation tends to be better designed and entry

Figure 10. Trust in Government and Regulation Quality



Source: IDB staff calculations, based on the World Value Survey Database (WVS) and Worldwide Governance Indicators, World Bank. See Chapter 11 for details.

barriers lower. Higher trust is associated with stronger regulatory quality scores—an indicator of smarter rules and more open markets (see Figure 10). By contrast, in low-trust settings, citizens often call for stricter controls to "discipline" firms, but such measures typically shield incumbents and fuel resistance to deregulation, weakening support for procompetitive public goods.

2. **State capability.** Effective bureaucracies and stable parties can ensure procompetitive reforms are implemented, and that they last. Governments need to invest in state capability and credible enforcement through independent courts, a professional bureaucracy, and competition agencies with decision-making autonomy.
3. **Political organization.** Broad business representation pushes for public goods, while fragmented lobbying entrenches privileges for incumbents. Party institutionalization and stable policy arenas are also crucial to preventing reforms from being reversed by political cycles. On the business side,

aggregating interests through representative associations can shift demands toward public goods, such as infrastructure and clear rules, rather than firm-specific favors. Finally, tight safeguards are needed to curb privileges and political-connection rents that entrench incumbents.

Progress in the region shows that barriers can be dismantled and markets opened to more competition. The task now is to extend these reforms, scale up what works, and ensure institutions have the tools to keep markets fair and contestable.

Latin America and the Caribbean has made major social and macroeconomic strides, yet growth and productivity remain weak. *Markets for Development: Improving Lives through Competition* argues that the region's core challenge is limited market competition. High market concentration, regulatory barriers, and weak enforcement of rules allow dominant firms to restrict entry, innovation, and opportunity. This book presents new evidence on how market power shapes firm behavior, employment, and inequality across sectors. It also demonstrates that reducing fragmentation, improving regulation, and strengthening competition policy can lower prices for consumers, raise productivity, create better jobs, and build fiscal capacity, making competition a central driver of development.

"The IDB's flagship publication on the state of competition in Latin America and the Caribbean is truly outstanding. It has original research of the highest quality with a wealth of facts on market power. Its novel insights lay bare the mechanisms behind monopoly, monopsony, and concentration, and the economy-wide effects on wages, startups, and business dynamism. Even more remarkable is that this IDB book is extremely well-written and accessible to a wide audience. I am convinced it will have a lasting policy impact in the region."

Jan Eeckhout
ICREA Research Professor of Economics, Universitat Pompeu Fabra

"The 2025 Development in the Americas (DIA) report, "Markets for Development: Improving Lives through Competition," presents a state-of-the-art analysis on the state of competition across a wide range of Latin American and Caribbean countries and industries. The interface between rich micro data and aggregate implications—through the use of rigorous methods—provides economists and policymakers interested in issues of competition, productivity, and resource allocation important insights into how product and factor markets clear in the presence of market power and market distortions."

Jan De Loecker
Professor of Economics and Research Professor (FWO), KU Leuven

"This landmark book provides novel and methodologically rigorous insights into the mechanisms through which competitive forces shape and influence economic outcomes. Each contribution constitutes a substantive piece of scholarship, and, better still, collectively they yield a coherent and empirically grounded narrative. The links with growth, investment, and equity point to the value of reducing monopoly power when creating policy and offer inspiration and guidance to design strategies for development."

Sean Ennis
Professor of Competition Policy, University of East Anglia

"Recent years have seen a surge in research on how weak competition harms welfare, from reduced worker participation in national incomes to inflated telecom prices. Governments worldwide are acting on these findings. Yet most analyses focus on advanced economies, and applying their prescriptions elsewhere can backfire. This timely book is a crucial step toward closing the evidence gap for Latin America and the Caribbean, offering insights essential to shaping policies that truly serve the region's workers, consumers, and producers."

Marcela Eslava
Professor of Economics, Universidad de los Andes

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