



# Competition The Missing Ingredient for Growth?

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Spring 2024 TOKYO!

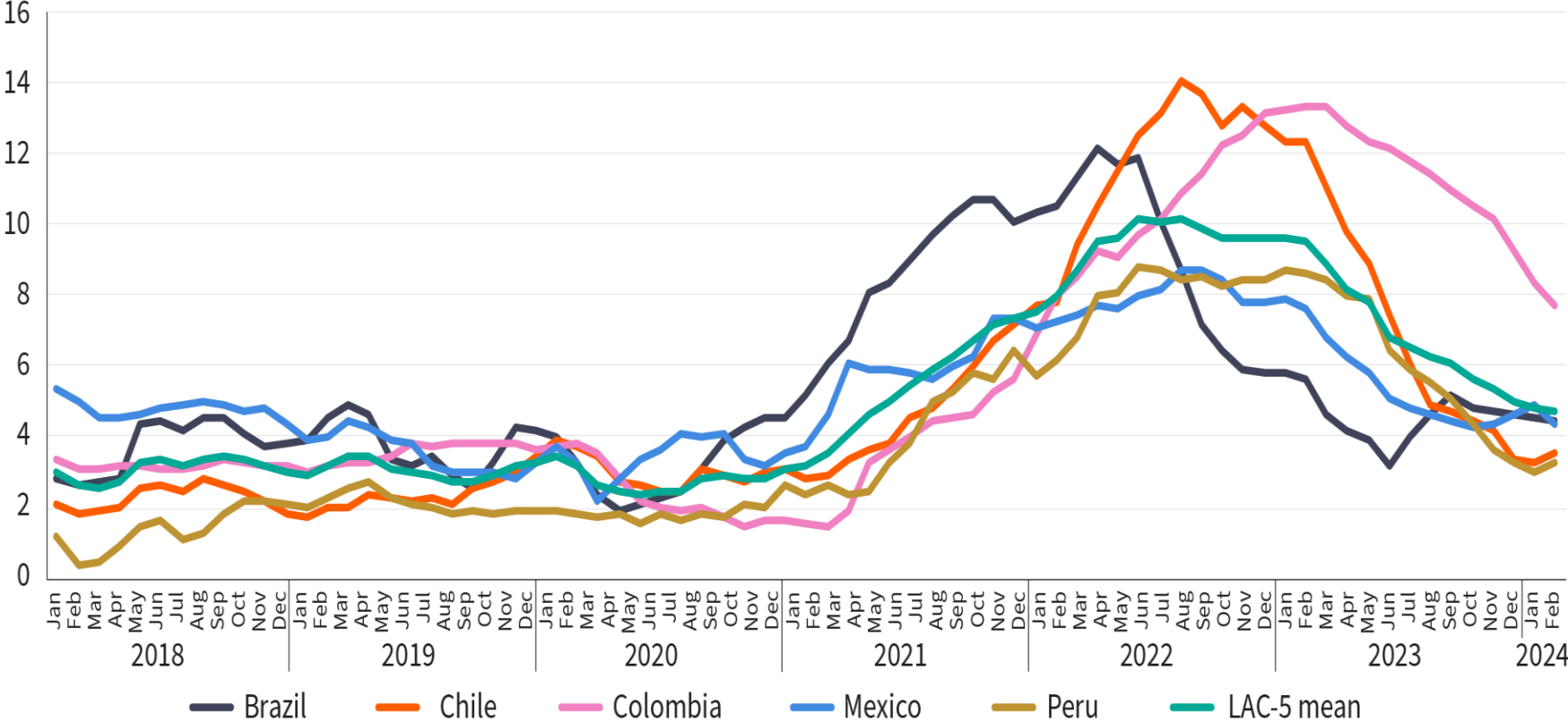
# Chapter 1: Winning the battle on inflation, but growth remains low



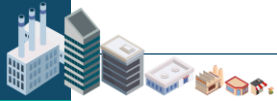
# Inflation is falling across LAC...

## Headline Inflation

Percent change, year-on-year

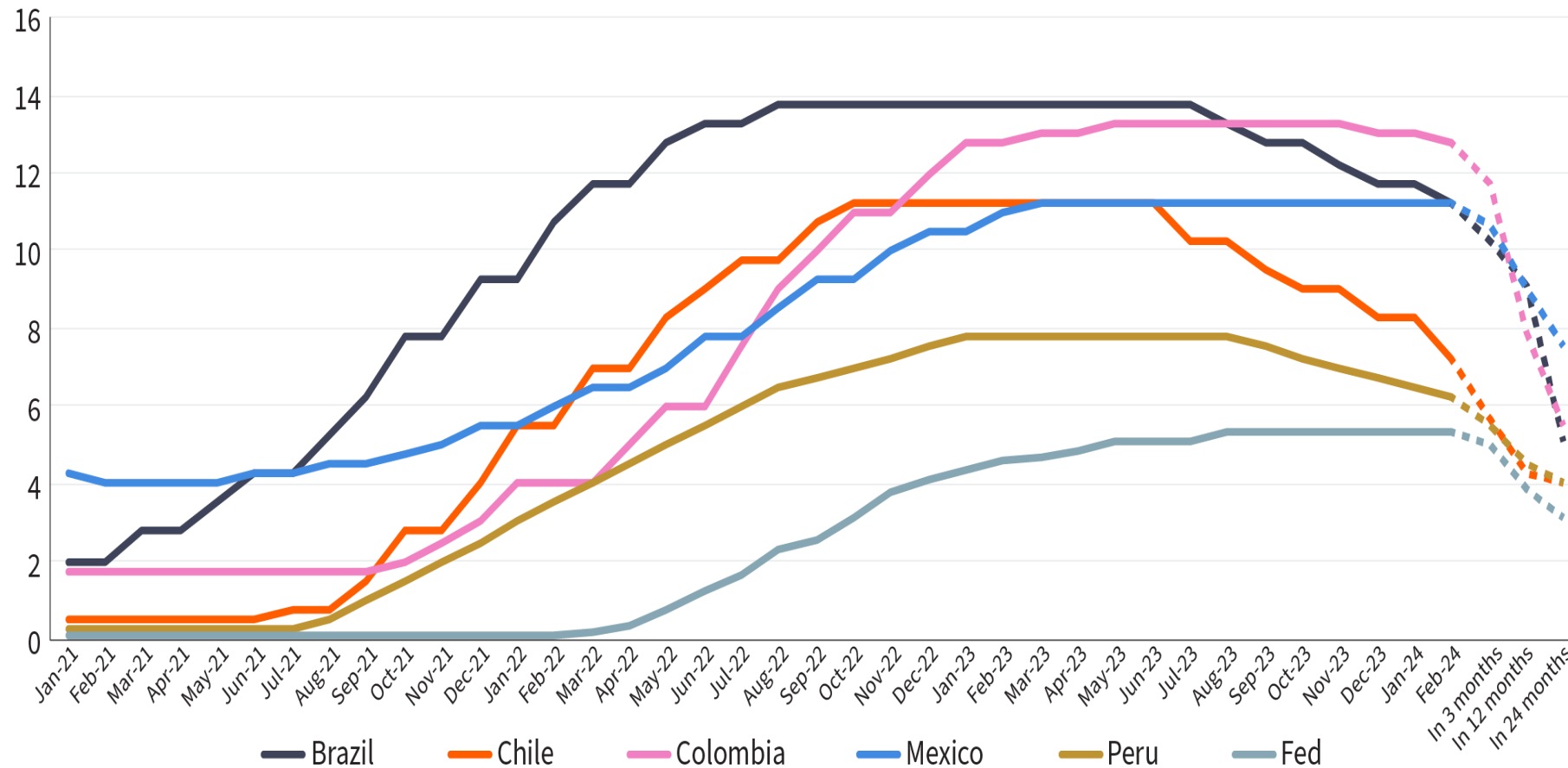


	%	J	F
LAC-5		4.8	4.7
LAC		3.5	3.3
OECD		5.7	



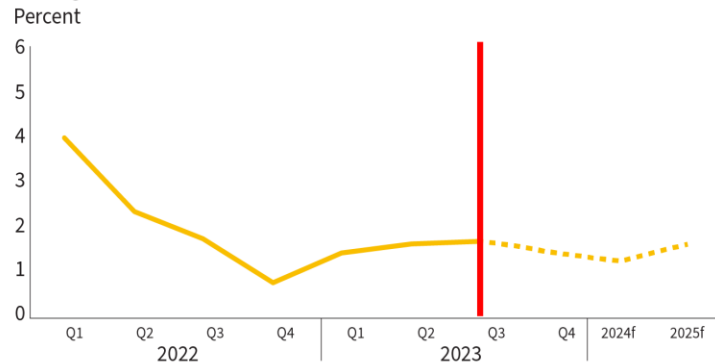
# This has allowed Central Banks to lower interest rates, but real interest rates remain high...

## Policy Interest rates (percent)



# ...And external headwinds will dampen growth in 2024

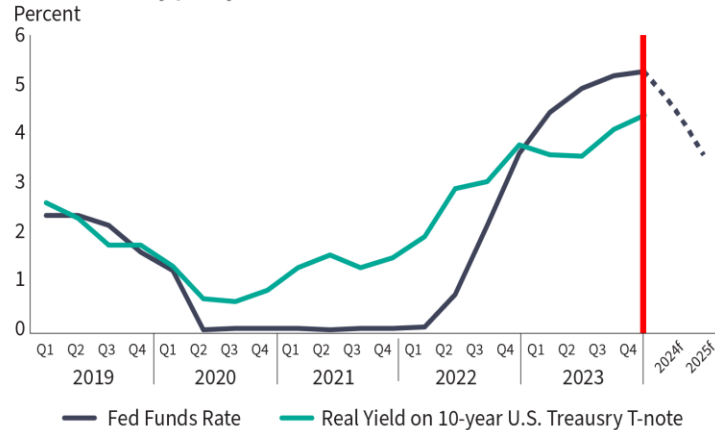
**a. G7 growth**



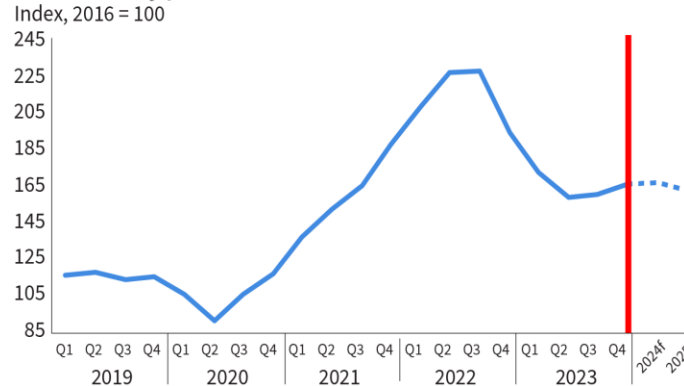
**b. China growth**



**c. US monetary policy**



**d. Commodity prices**



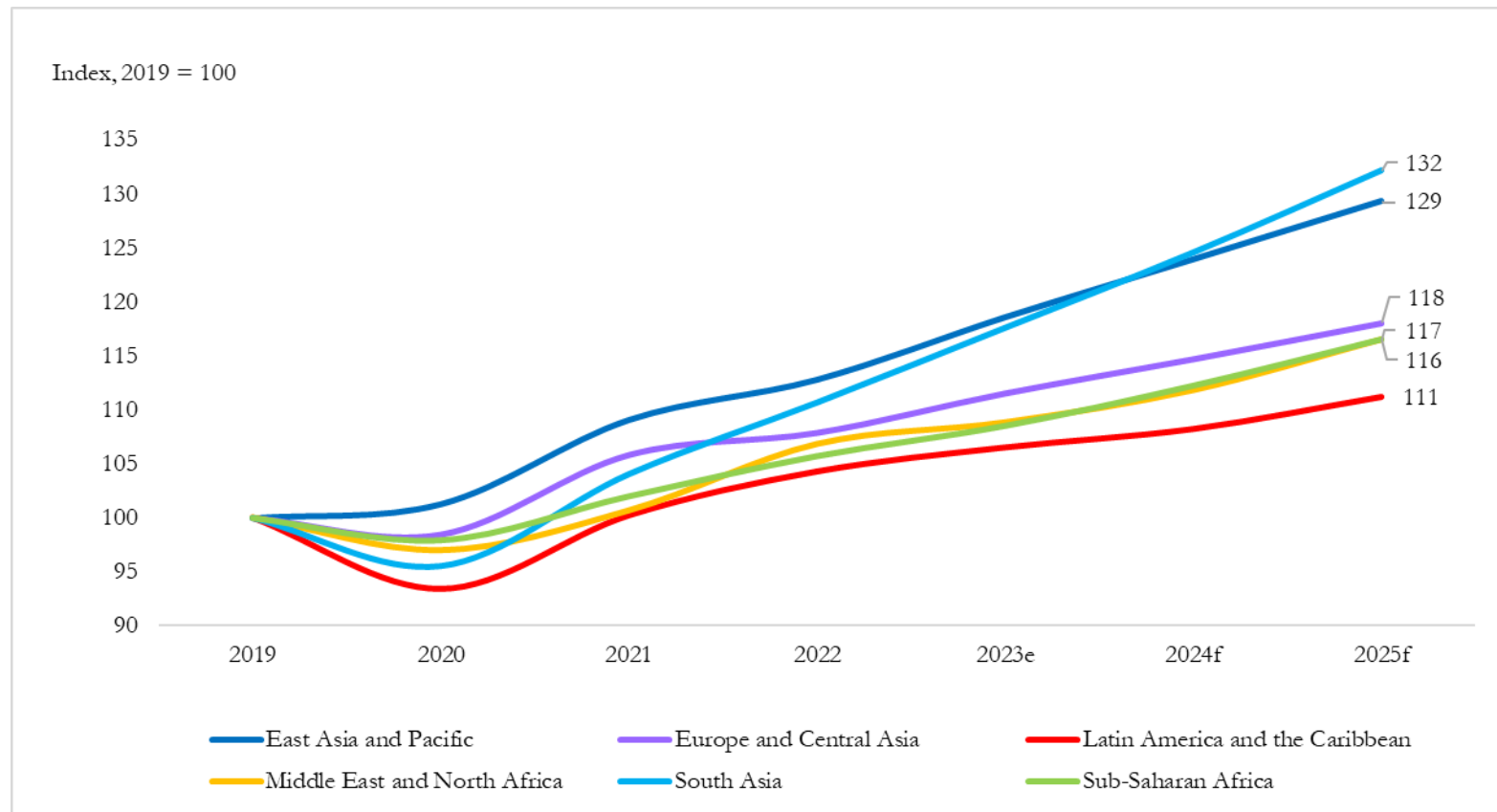
**Expected Growth Rates**

	LAC	LAC - Arg	World
2023e	2.1%	2.7%	2.7%
2024f	1.6%	2.2%	2.5%
2025f	2.7%	2.5%	2.7%
2010s	2.2%		3.1%

**This is a structural problem!!!!**

# Growth in LAC continues to underperform other regions

Real GDP levels by region



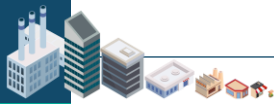
# The recovery is still incomplete

## The fiscal and debt situation remains challenging

- Deficits still high as spending stays strong and debt service remains heavy.
  - Limited fiscal space for investment
  - Contributes to current account deficits
- Few countries have returned to 2019 levels of debt.
- Financial sectors still sound despite rise in household and consumer defaults.

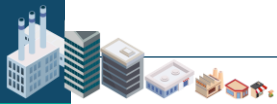
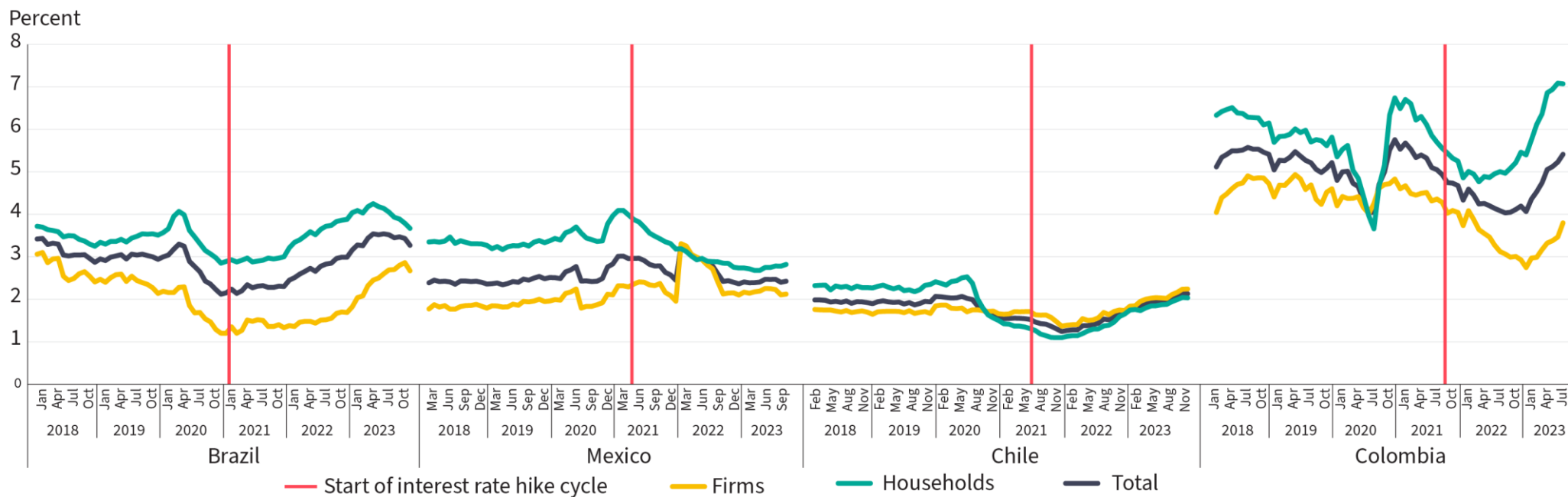
## And social indicators only slowly returning to pre-pandemic levels

- Employment largely recovered
  - Less for low skilled or aging
  - Wage recovery lags for women, high skilled
- Poverty approaching 2019 levels
- Inequality slightly improving



# Financial sectors are sound, although higher interest rates increased NPLs, including among households.

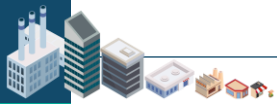
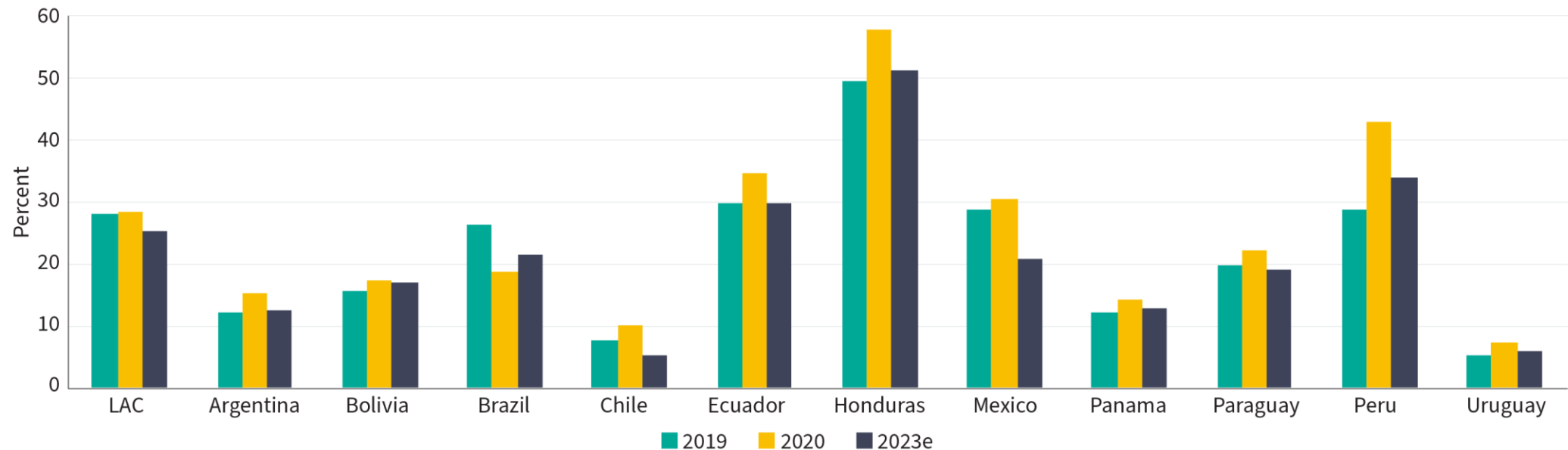
a. Non-performing loans to total gross loans





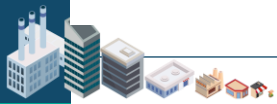
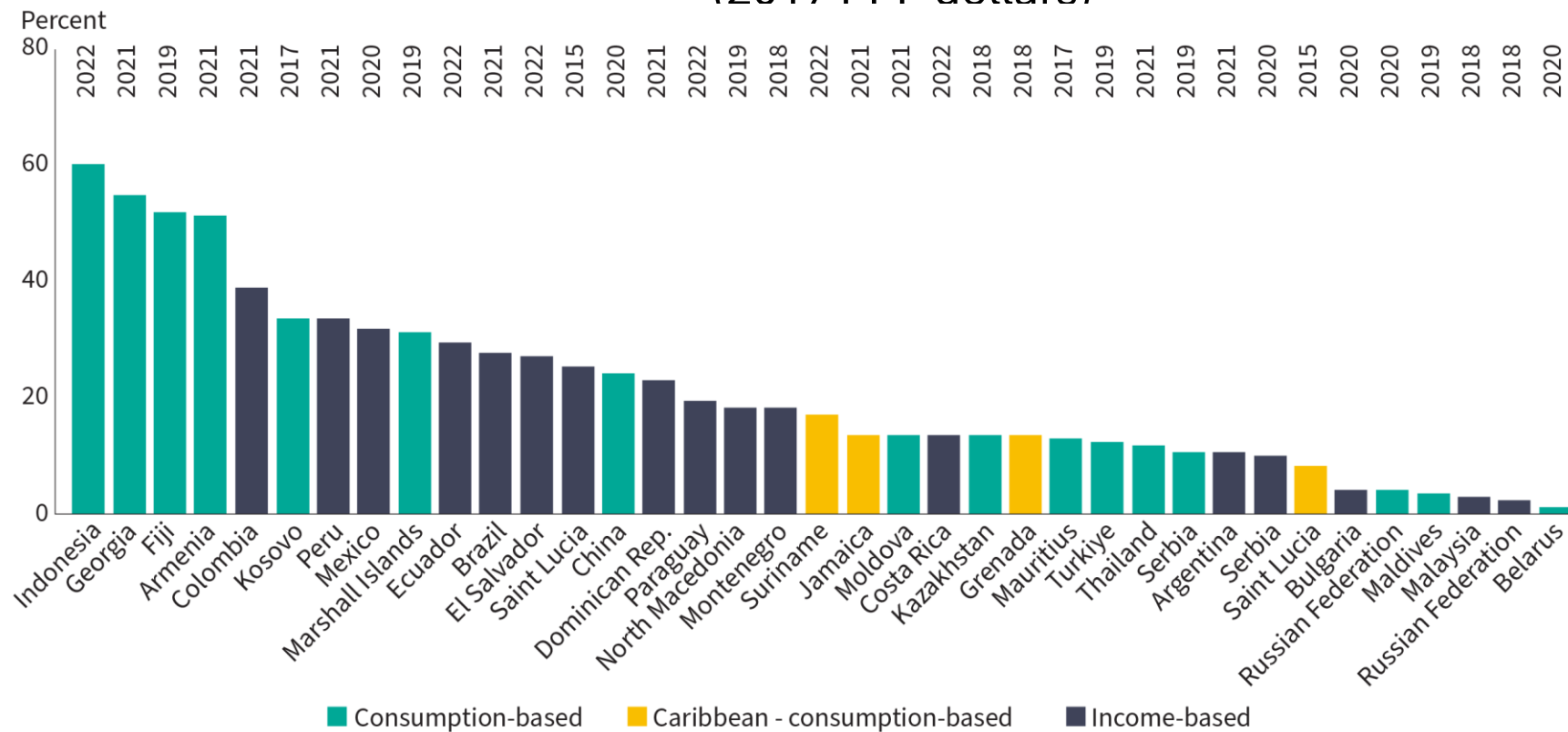
# Poverty rates are inching back to 2019 levels in most countries, with a slight improvement in distribution (Gini)

Figure 1.25. Poverty Rates in LAC Are Higher than in 2019, Except for Brazil, Chile, and Mexico  
Monetary poverty rate (\$6.85 line, 2017 PPP)



# New data on poverty in the Caribbean

Poverty headcount rate at US\$ 6.85 a day per capita  
(2017 PPP dollars)



# Reigniting Growth: New Opportunities and Emerging Challenges

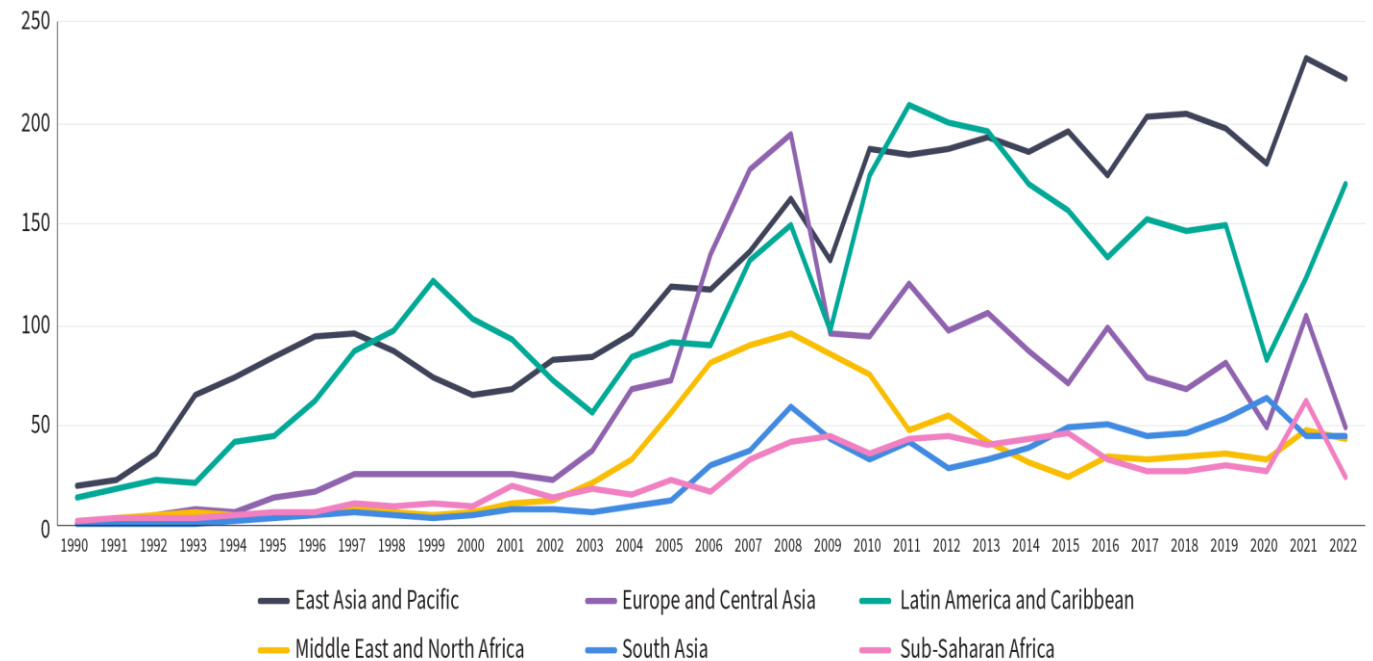


# Nearshoring? FDI to LAC increased in 2022, but still below 2010

## Despite

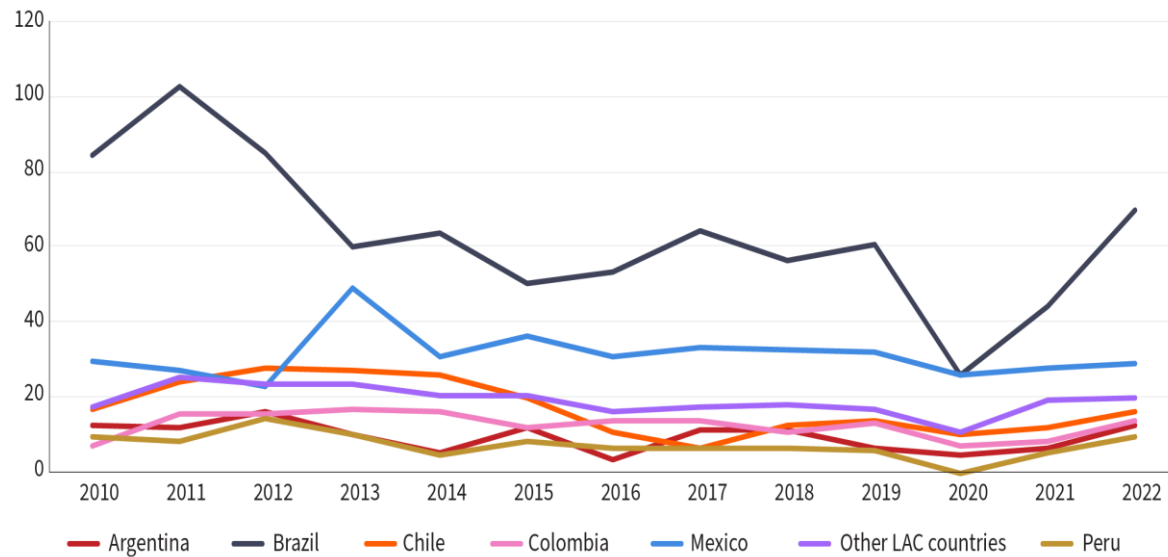
- Improved macroeconomic management
- 6 years of US tariffs on China
- A decade of rising Chinese wages
- 3 years since demonstration of fragility of VCs

Total FDI  
US\$, billions, at constant 2015 prices

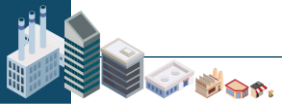
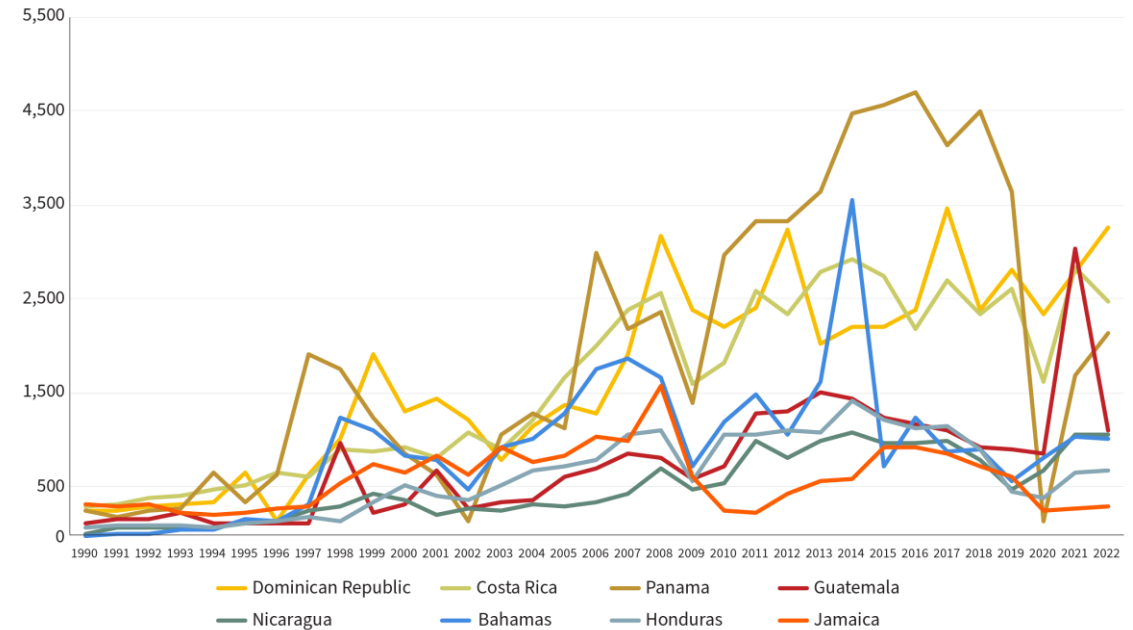


# Evidence of nearshoring in CR, DR, but not much elsewhere, including Mexico- substantial reform effort necessary,

Total FDI, US\$, billions, at constant 2015 prices

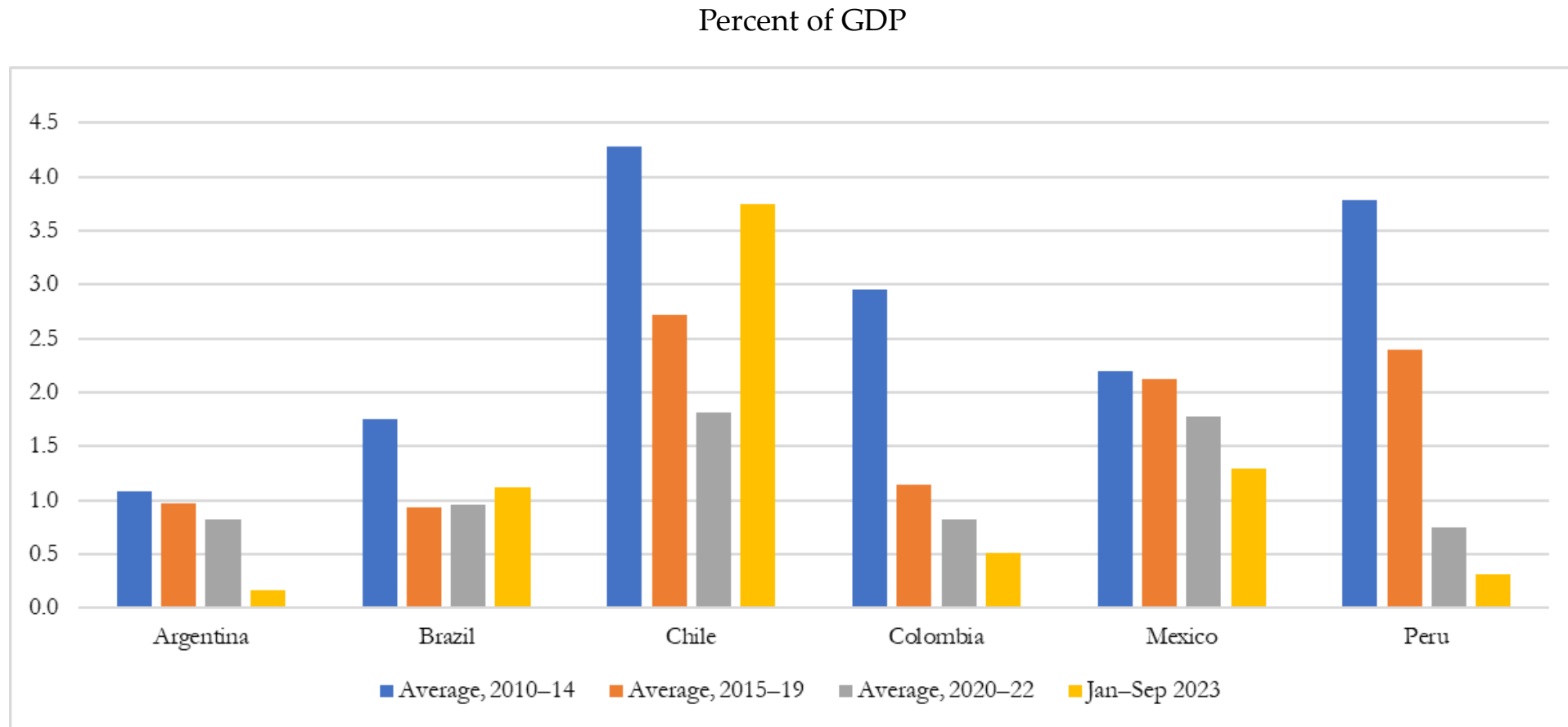


Total FDI, US\$, millions, at constant 2015 prices



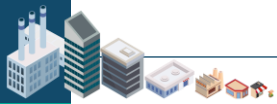
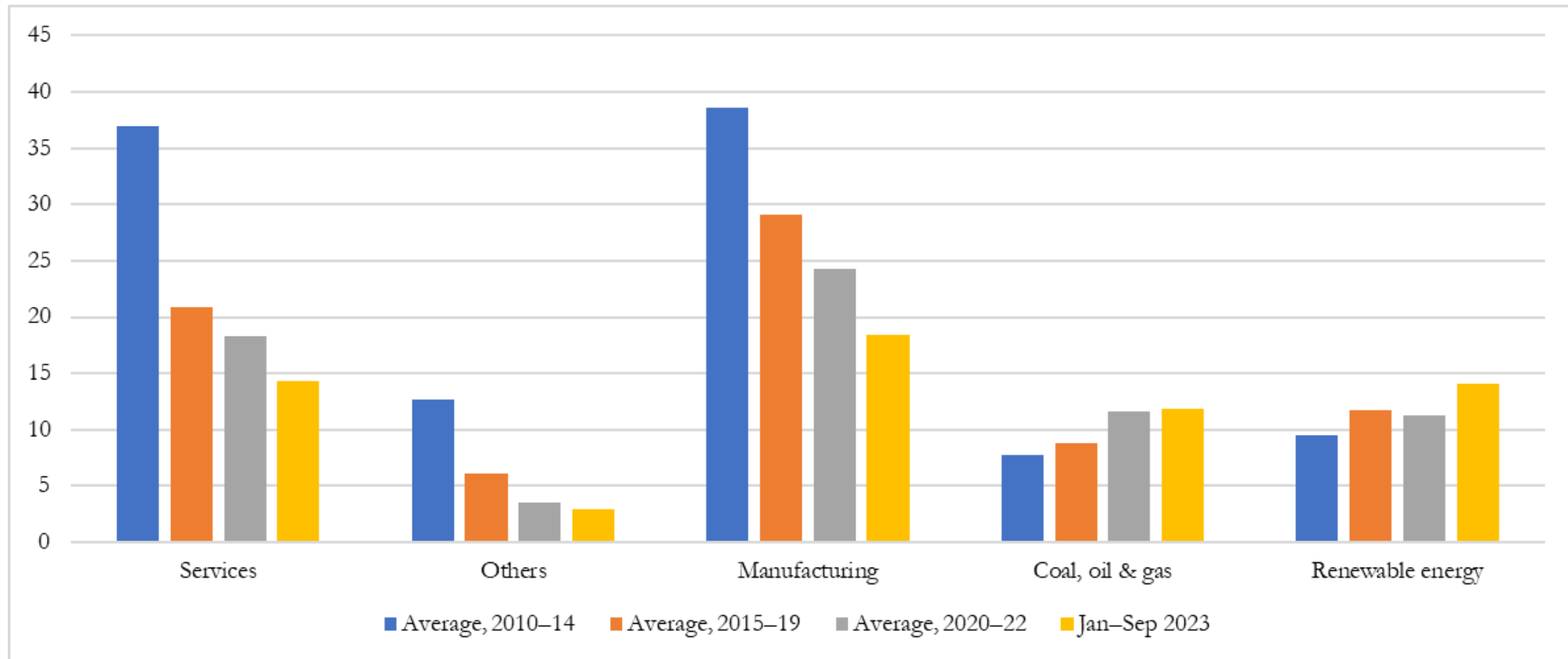
# Looking forward, announcements for most countries point to a slowdown

Figure 1.14. Greenfield FDI Announcements Have Slowed



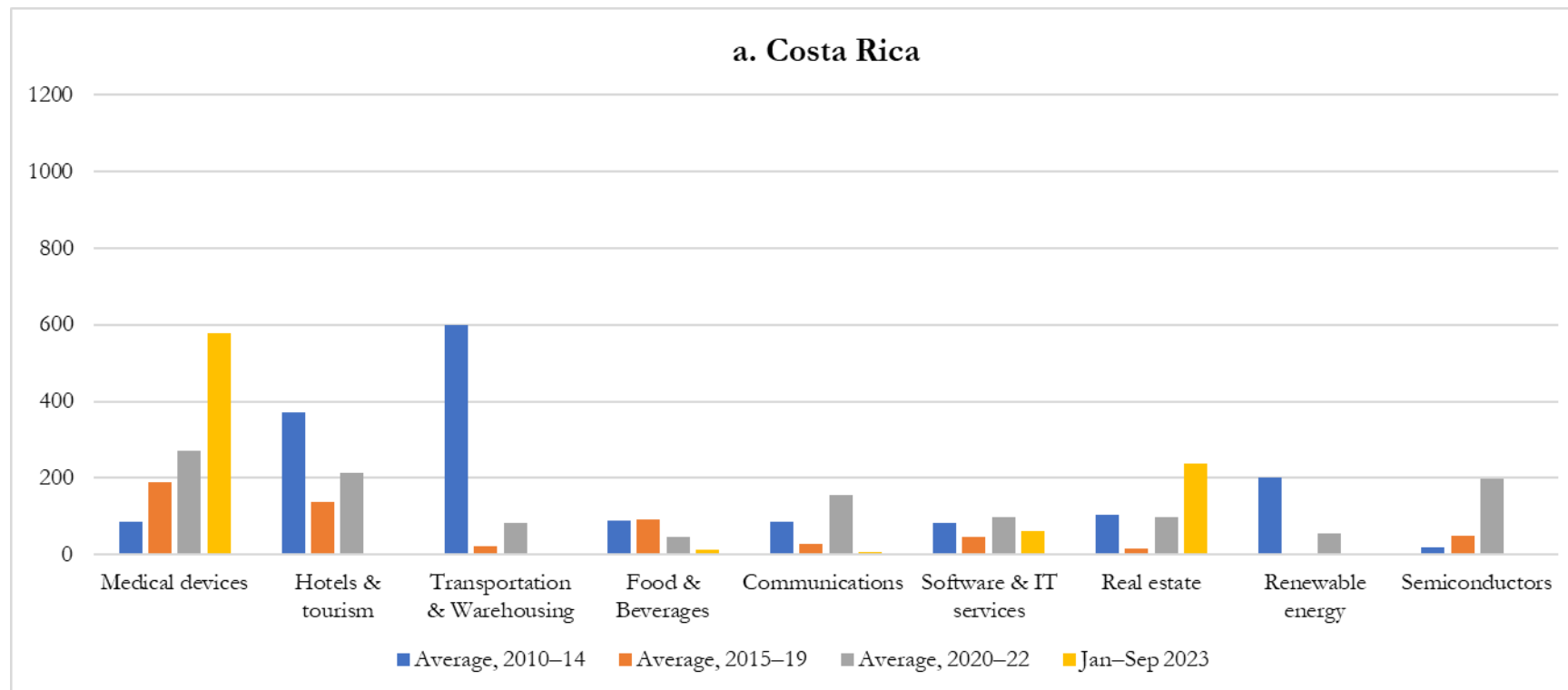
# Only announcements in energy are increasing

Greenfield Investments  
US\$, billions, at constant 2105 prices



Greenfield announcements to main destination countries and sectors

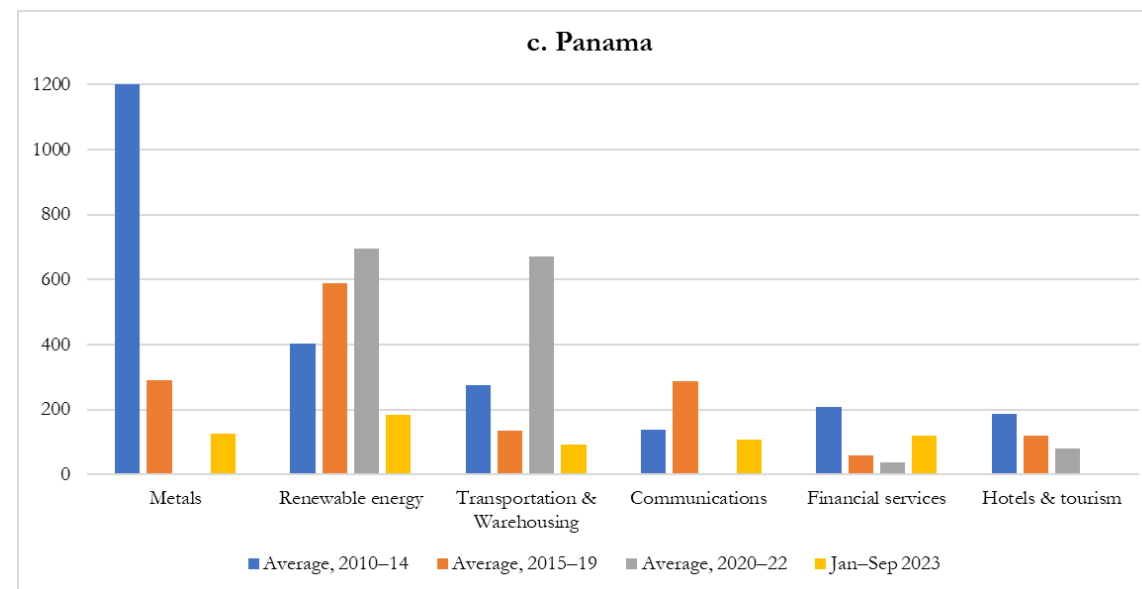
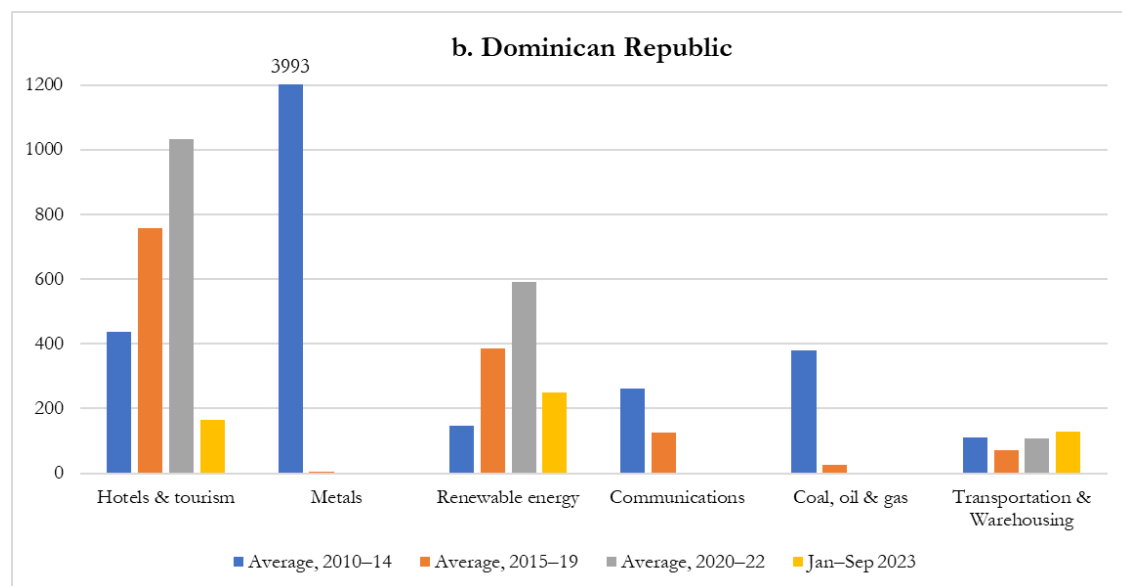
FDI Greenfield Announcements, US\$, millions, at constant 2015 prices





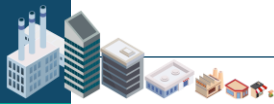
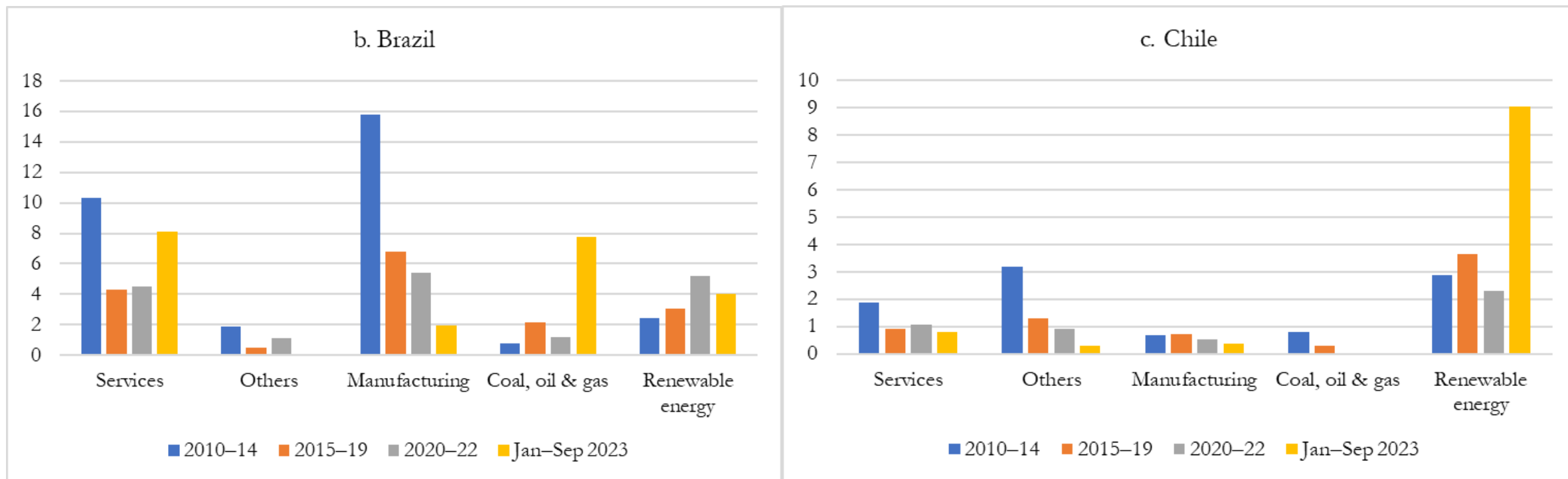
## Greenfield Announcements to main destination countries and sectors

FDI Greenfield Announcements, US\$, millions, at constant 2015 prices



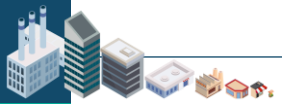
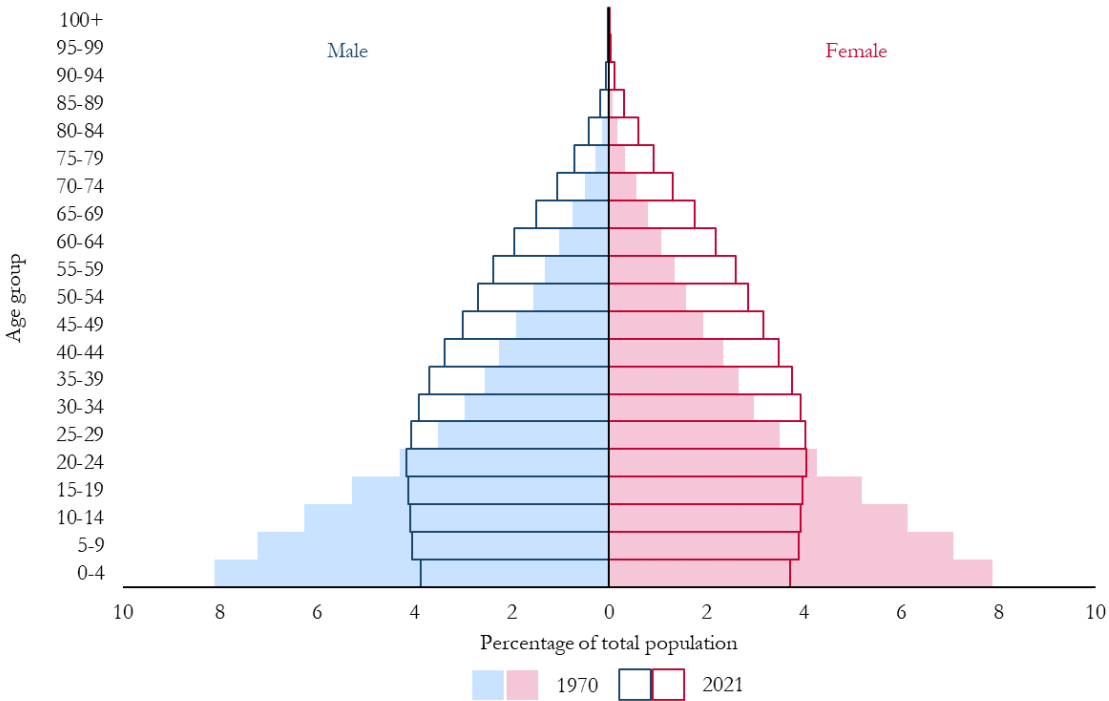
## Greenfield FDI Announcements

US\$, billions, at constant 2105 prices



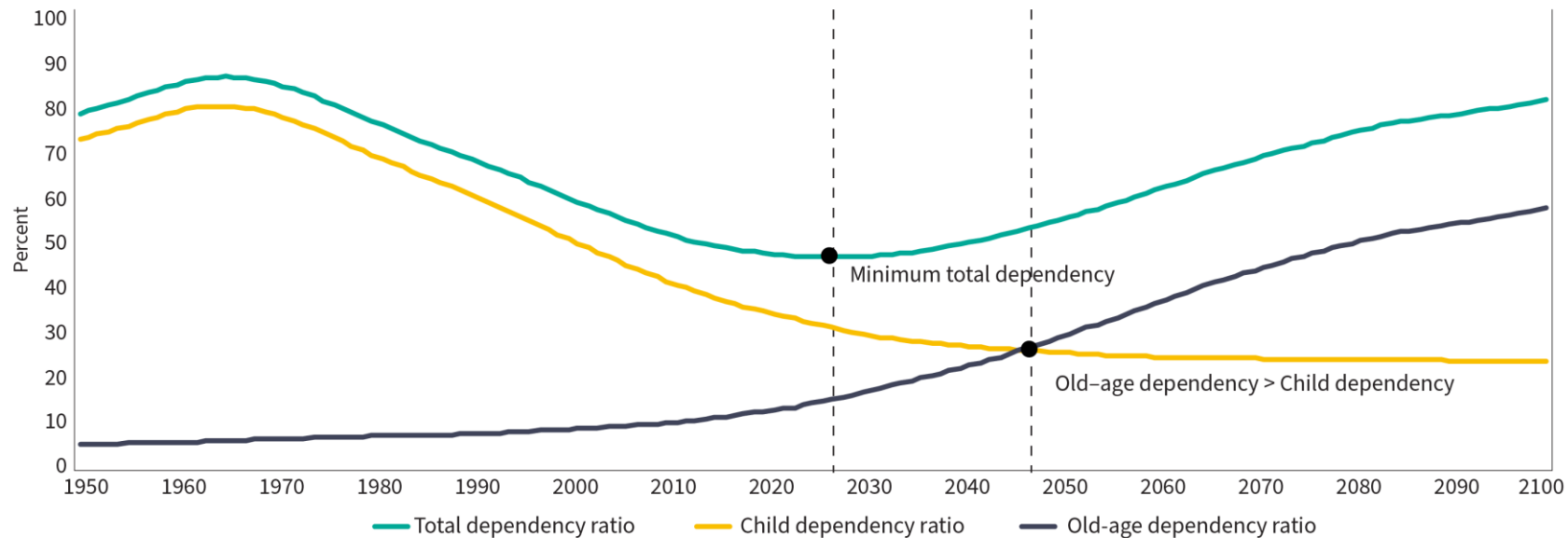
# Challenge 1: Aging implies a growing burden on the working-age population

Figure B.1.1.1. Population dynamics are shifting in LAC  
LAC population pyramid: 1970 vs. 2021



# Challenge 1: Aging implies a growing burden on the working-age population ...

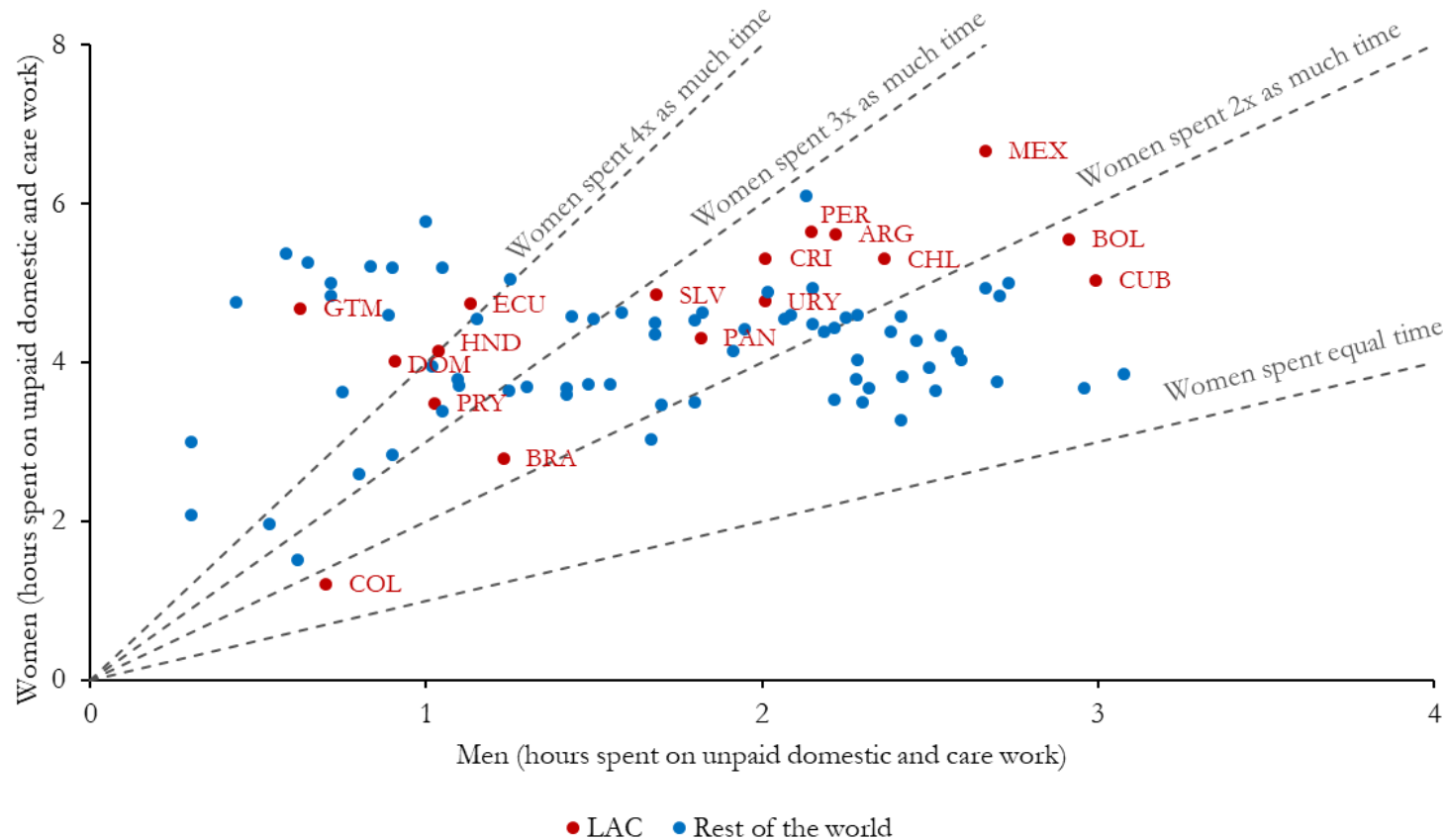
## LAC Dependency Ratio



- Increased health and pension costs
- Reduced fiscal space
- Reduced female labor force participation?

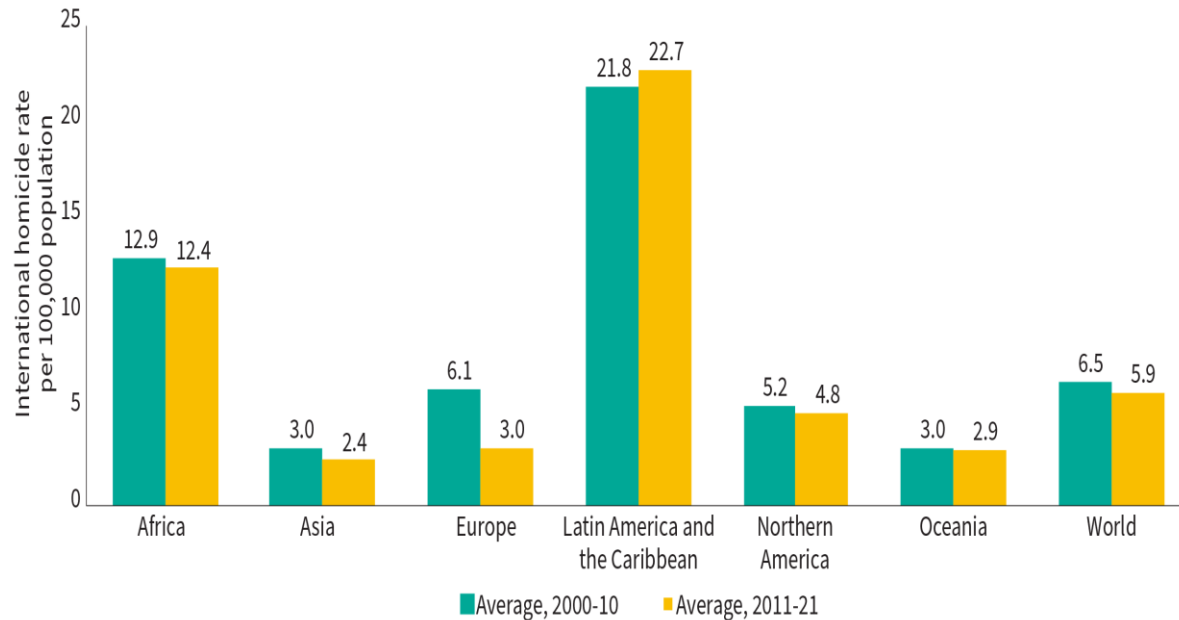
...and families (most often women) will grapple with new challenges as they transition from caring for the young to caring for the elderly

Hours Spent on Unpaid Domestic and Care Work

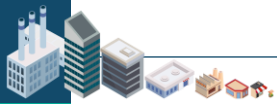


# Challenge #2: Expanding organized crime and violence increase uncertainty and cost of doing business.

LAC has highest homicide rates in the world



- Homicides: 10 X Asia, 5 X North America
- 5 X level of countries with similar level of income or poverty.
- Related to inequality, but still above countries with similar GINIs
- Related to organized crime
- 20% of Latins rank as top social problem
  - Increases uncertainty, lowers growth
  - Discourages human capital formation



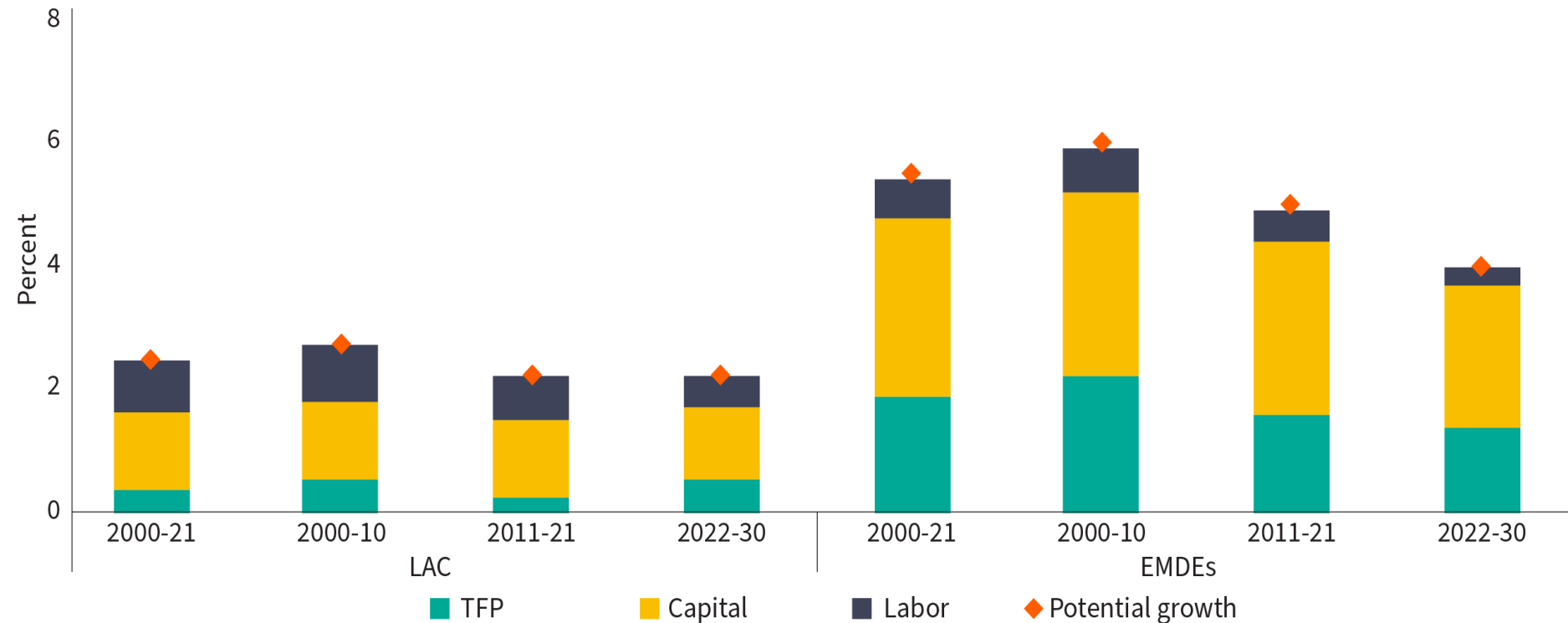
# Chapter 2: Competition: The Missing Ingredient for Growth?



Forthcoming World Bank Report, *Competition and Productivity Growth in Latin America and the Caribbean*

# LAC's low growth is largely low productivity growth.

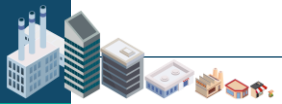
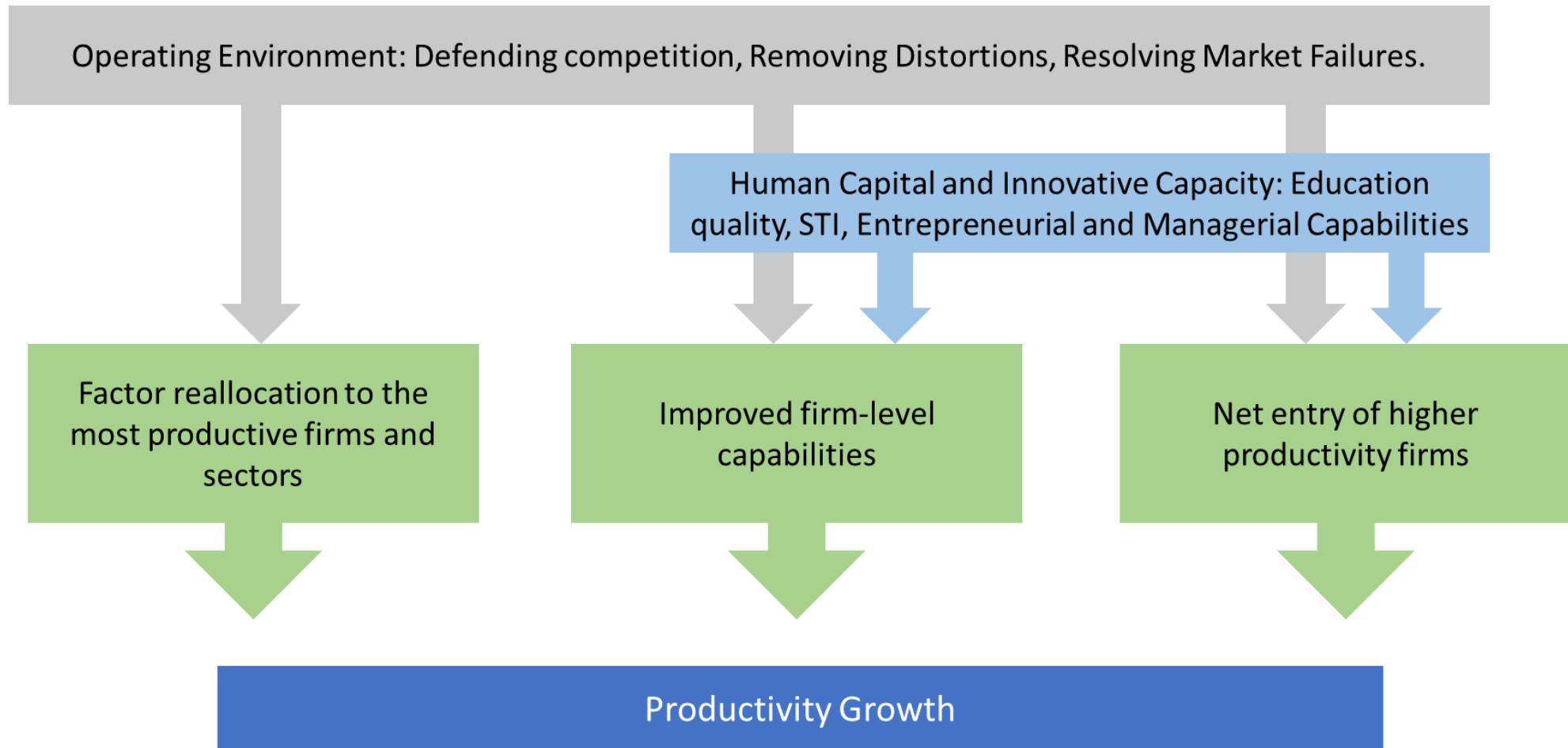
## Sources of LAC's Slow Economic Growth



Source: Kose and Ohnsorge 2023.



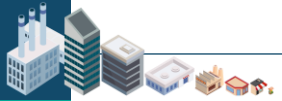
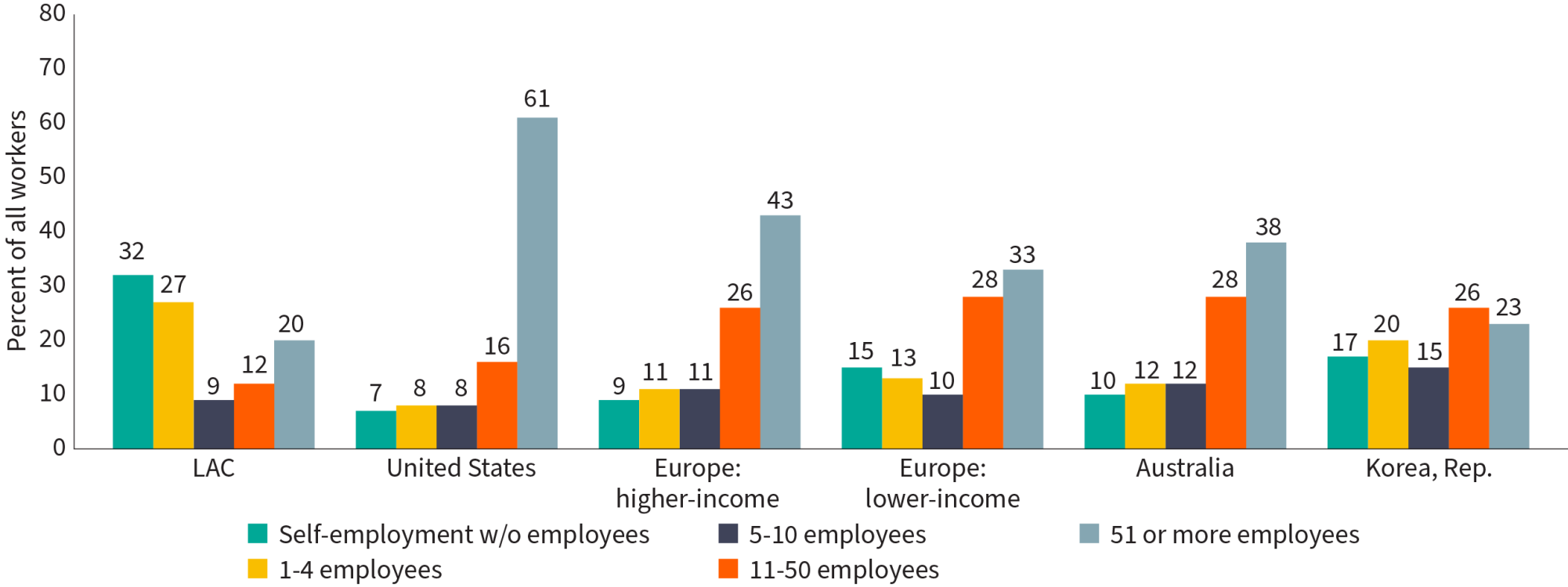
# Competition is a central component of the operating environment that contributes to productivity growth. It is missing in LAC.



# LAC: Land of Giants, Land of Micros

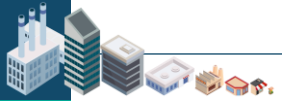
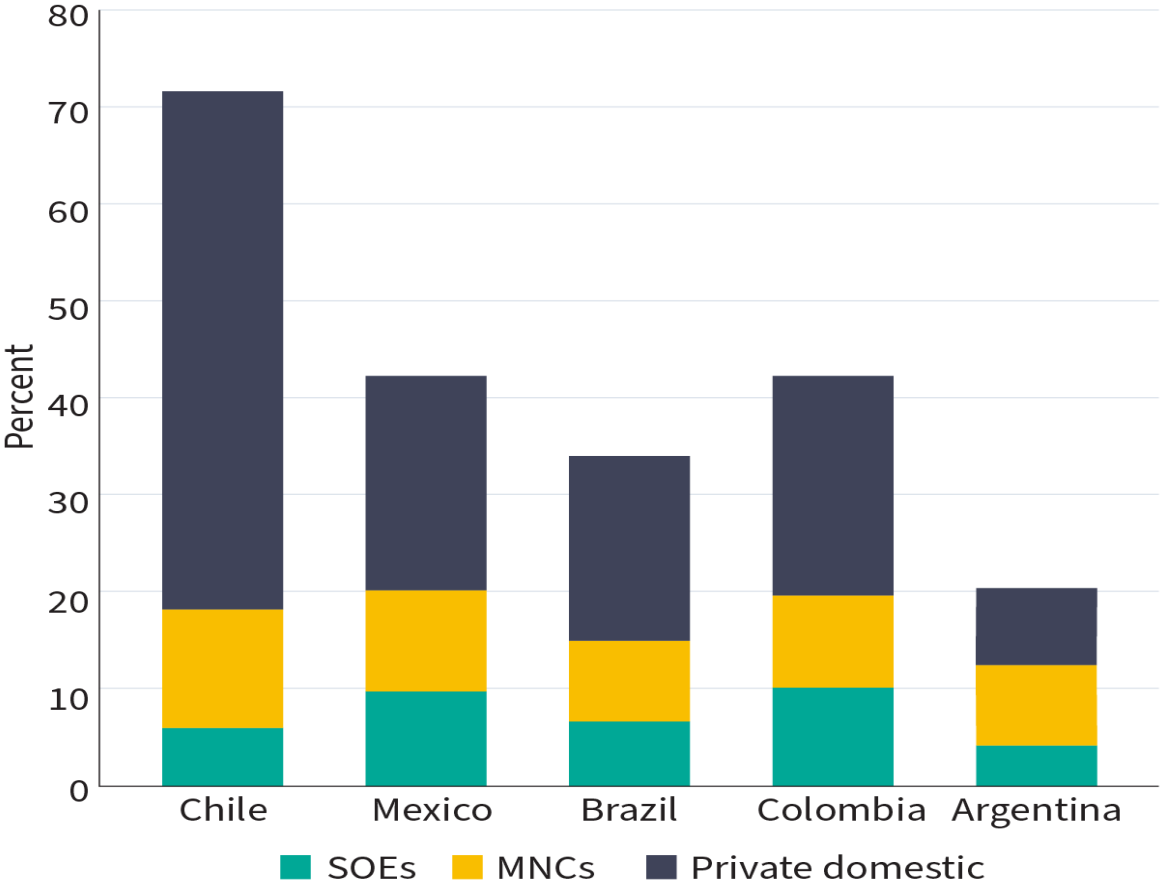


# ~70 percent of the LAC workforce is self-employed or in businesses of less than ten employees....



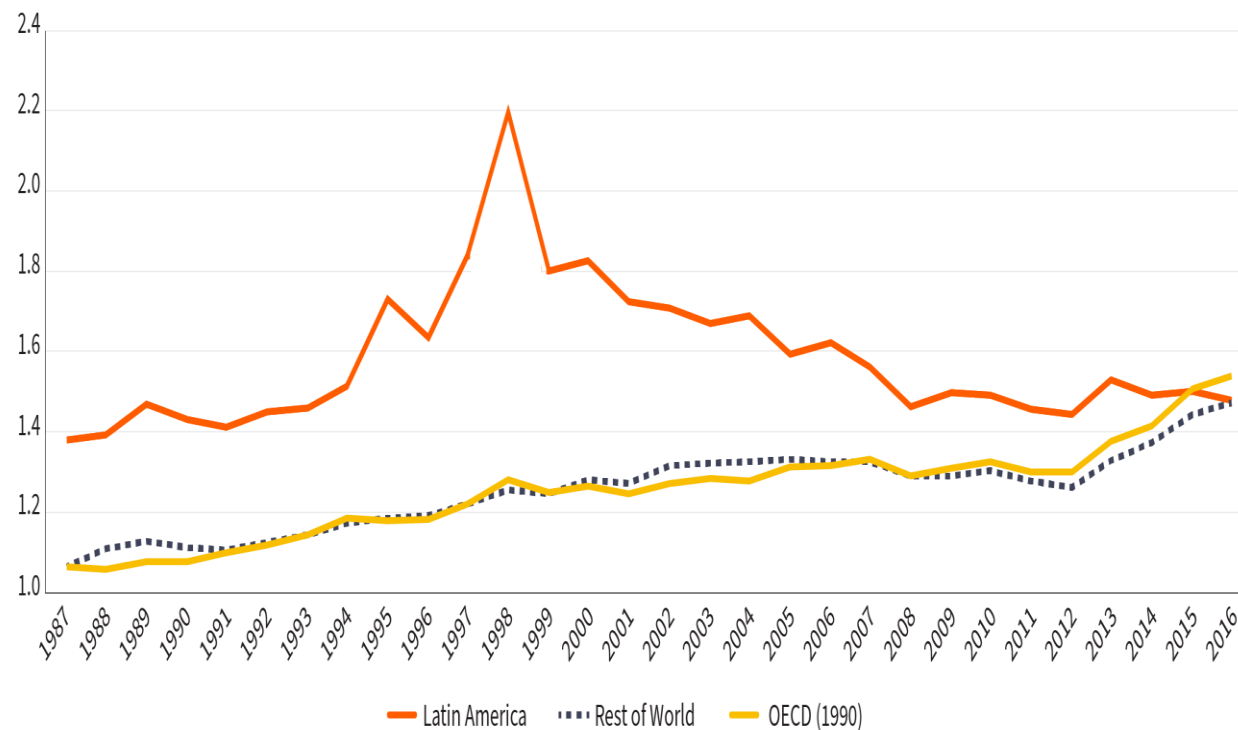
# Giant firms dominate LAC markets....

Revenues of the 50 largest firms as % of GDP



# ....And firm markups have been higher than in the rest of the world

Average markups (price above costs) 1987-2016



- Raises costs to consumers and increases poverty
- Discourages emergence of more productive firms, technological transfer, and innovation
- False trade off between competition and jobs!

# Strengthening domestic competition authorities unambiguously increases productivity, sales and wages

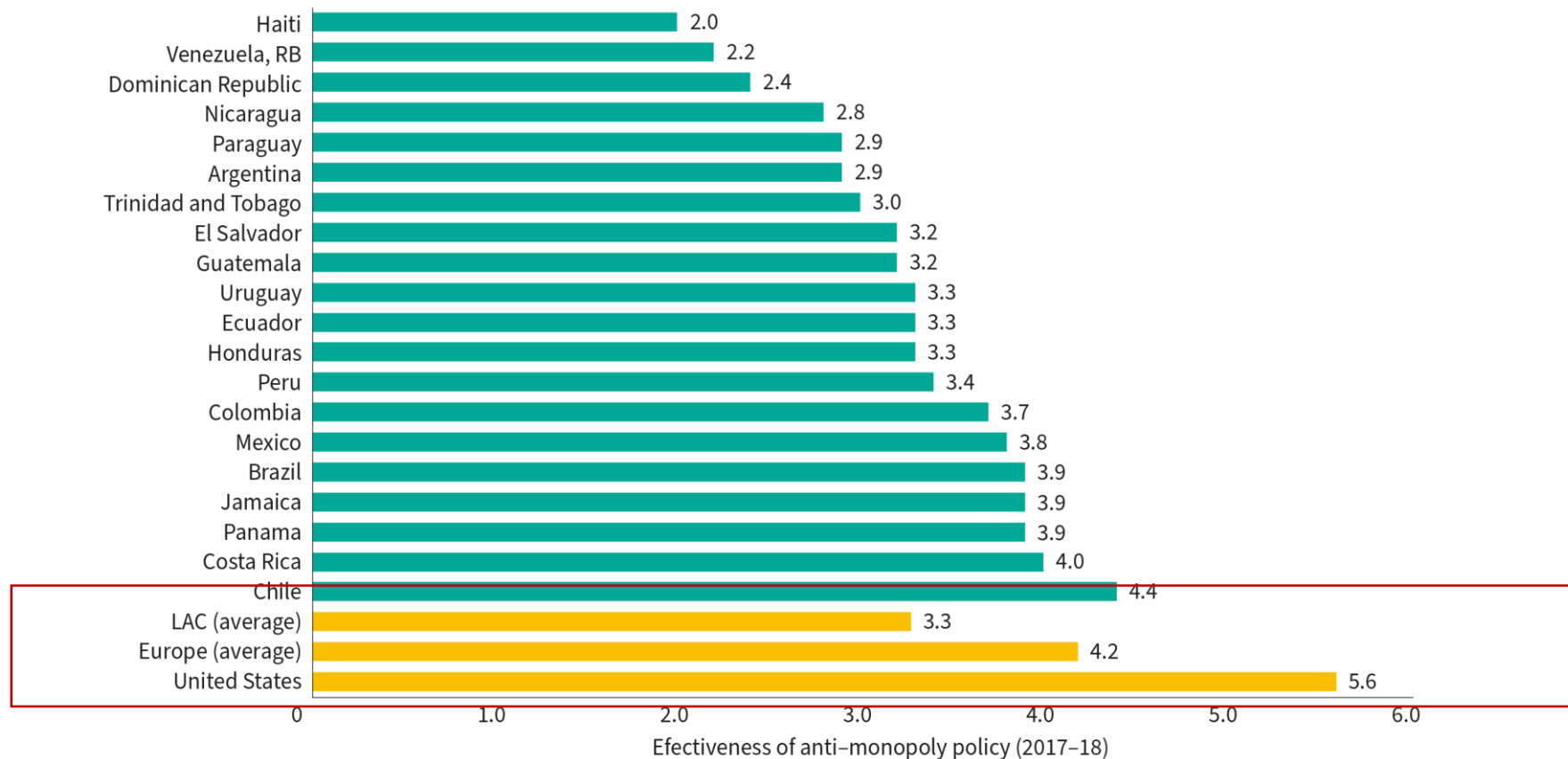
- Case studies:
- **Peru:** Eliminating barriers to regional competition increased competition and productivity.
- **Mexico:** Measures to stop anticompetitive behavior raised sales, productivity and wages.

**Peru: Change in productivity attributed to the competition policy intervention**



# But LAC competition agencies are underfunded, lack independence, and are perceived as weak.

In your country, how effective are anti-monopoly policies at ensuring fair competition?  
(Scale 1-7)

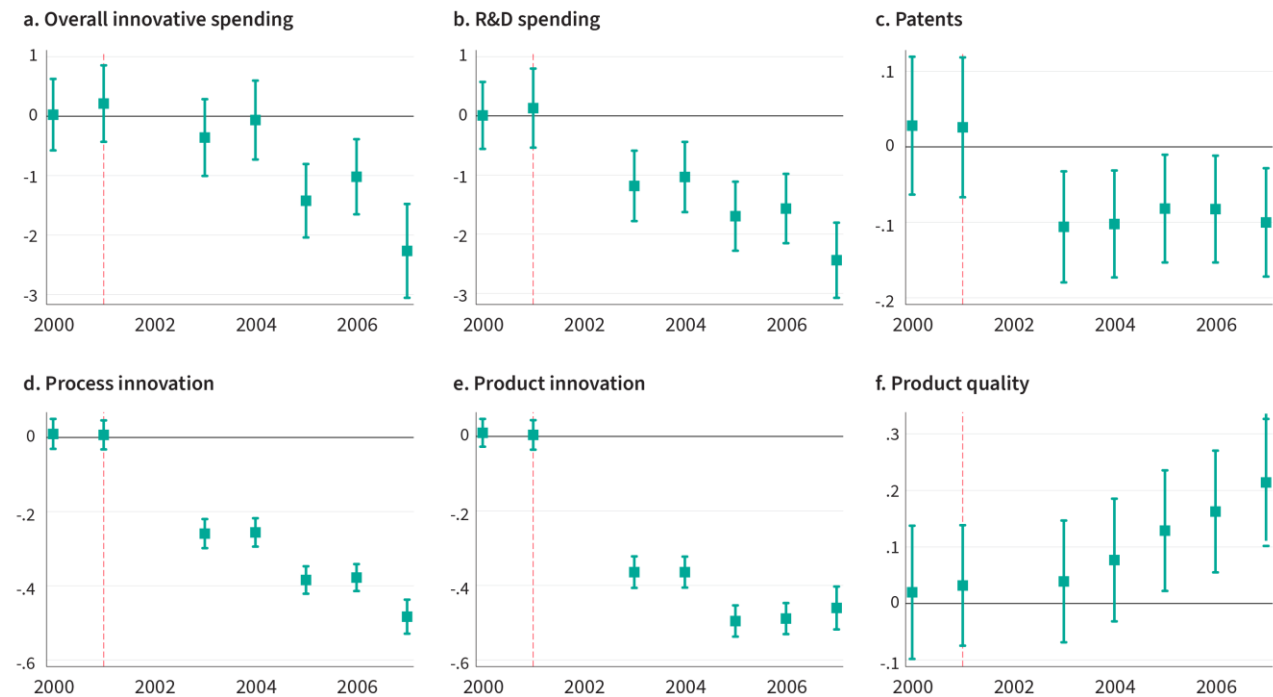


Source: World Economic Forum

# Import competition is more complicated: Lessons from the China shock

- **Mexico:** Weaker firms contracted; stronger firms expanded
- **Peru:** Technology embedded in imports allowed domestic firms to increase productivity.
- **Chile:** Decline in innovation- only those firms close to frontier expanded R&D, new products etc.

**Chile: Innovation spending fell, except for top 10% of companies.**

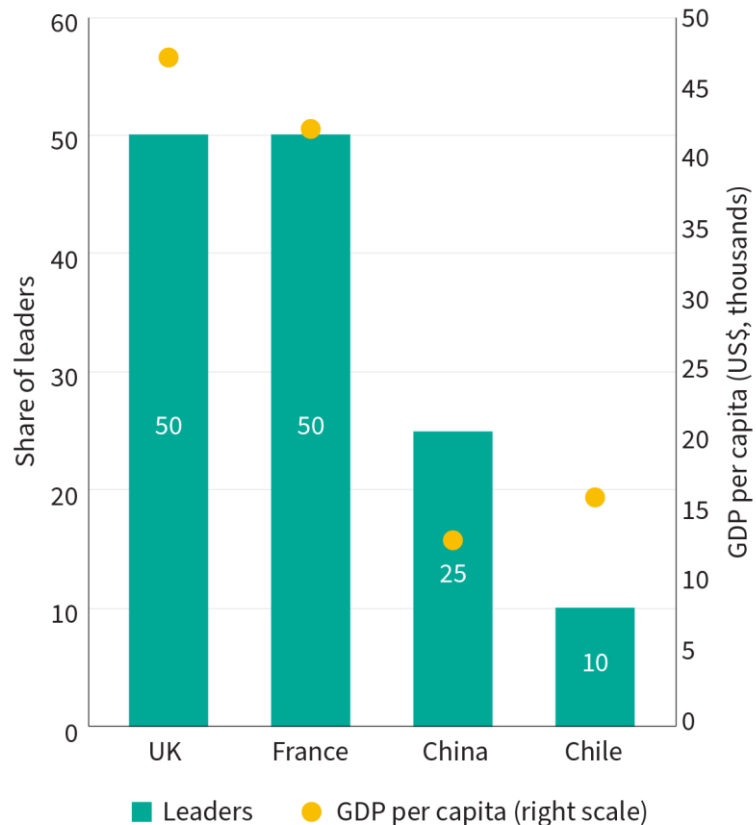


Cusolito et al 2023



# Positive impact of competition depends on share of firms near frontier

Share of firms that increase innovation with increased competition



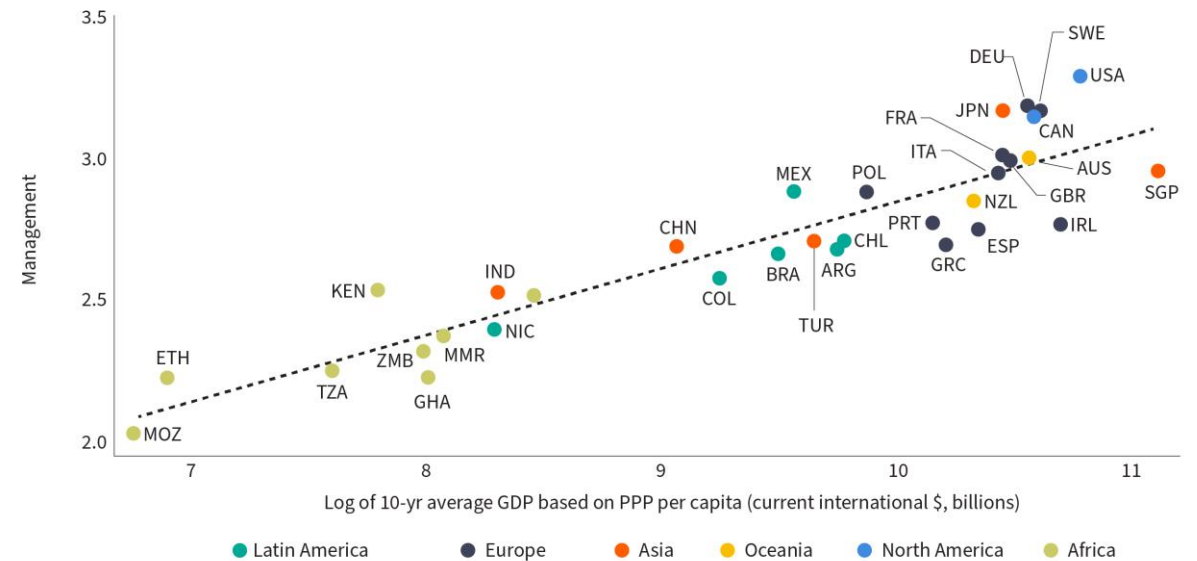
Maloney and Zambrano 2024

- Lower share implies lower growth- need capable firms to reap benefits
- LAC's protected environments have not encouraged building these capabilities
- Land of Micros, too: too small to compete

# Lesson: Increased competition requires strong firm capabilities and supporting institutions if it is to increase growth

- Managerial and organizational practices drive efficiency AND innovation effort. LAC is weak.
- Innovation and entrepreneurship ecosystems need strengthening.
  - LAC tied with Africa for weakest private sector/university linkages.
  - Financing is difficult to upgrade firms.
- Worker Skills: 29% of firms report weak worker skills as a barrier to growth.

Management score vs. GDP per cápita



Bloom and Van Reenen

# If competition is so great, why don't countries encourage it more?

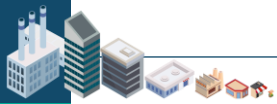
- **The power dimension**

- Rent-seeking. Lack of competition not independent of the concentration of business power.
- Courts and other legal provisions used to obtain injunctions against antitrust measures.
- Trade protection- lobbying for tariffs and NTBs fixes minimum prices.
- Fear of capital flight/disinvestment discourages authorities

## **Mechanisms**

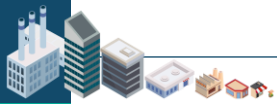
- Electoral rules resulting in fragmented party systems strengthens business influence.
- Media are concentrated and closely interwoven with business groups.
- Family-owned large firms often have connections with political power.

These happen everywhere but more likely in hyper-concentrated places like LAC



# In conclusion

- Competition lowers costs to consumers and can help reduce poverty.
- Competition is essential for ensuring strongest firms grow, facilitating tech transfer, and encouraging innovation.
- Competition authorities improve productivity, sales and wages and need to be strengthened
- New emphasis: need to build complementary firm and worker capabilities so they can compete.
- Rent seeking and business power:
  - Strengthen competition authorities
  - Lobbying regulation
- New experiments with industrial policies need to ensure market discipline/competition is central to interventions.





Thank you

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