

# The Importance of Competition for the Investment Climate

**Third Annual meeting of the Latin  
American Competition Forum  
Madrid, July 19, 2005**



**Antonio Vives**  
Deputy Manager  
Inter-American Development Bank  
Private Enterprise, Financial Markets and the Environment

# Structure of Presentation

---

- Business Climate for Competition in LAC
- What is the IDB doing about it
- Competition and development
- Putting it together

# Business Climate for Competition

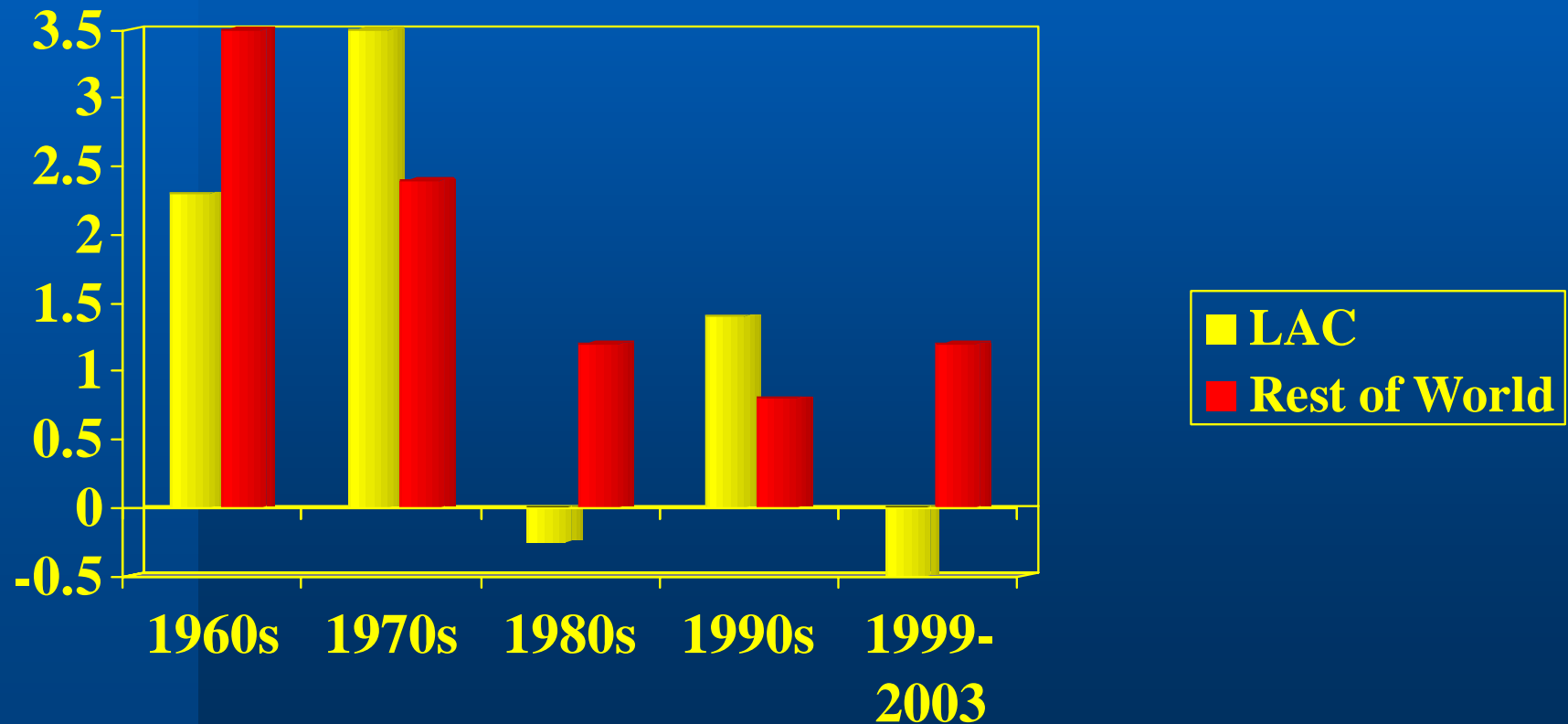
- Economic stability
- Entry and exit for more competition
  - Procedures
  - Labor regulations
- Regulation to stimulate and not hinder
- Fight corruption to avoid dominant power
- Transparency for a level playing field and stimulate entry

# Business Climate for Competition

- International openness
- Judicial system to enforce competition decisions, stimulate entry and finance
- Financial market development to permit enterprise entry and growth
- Institutional development
- And.....competition law and policy

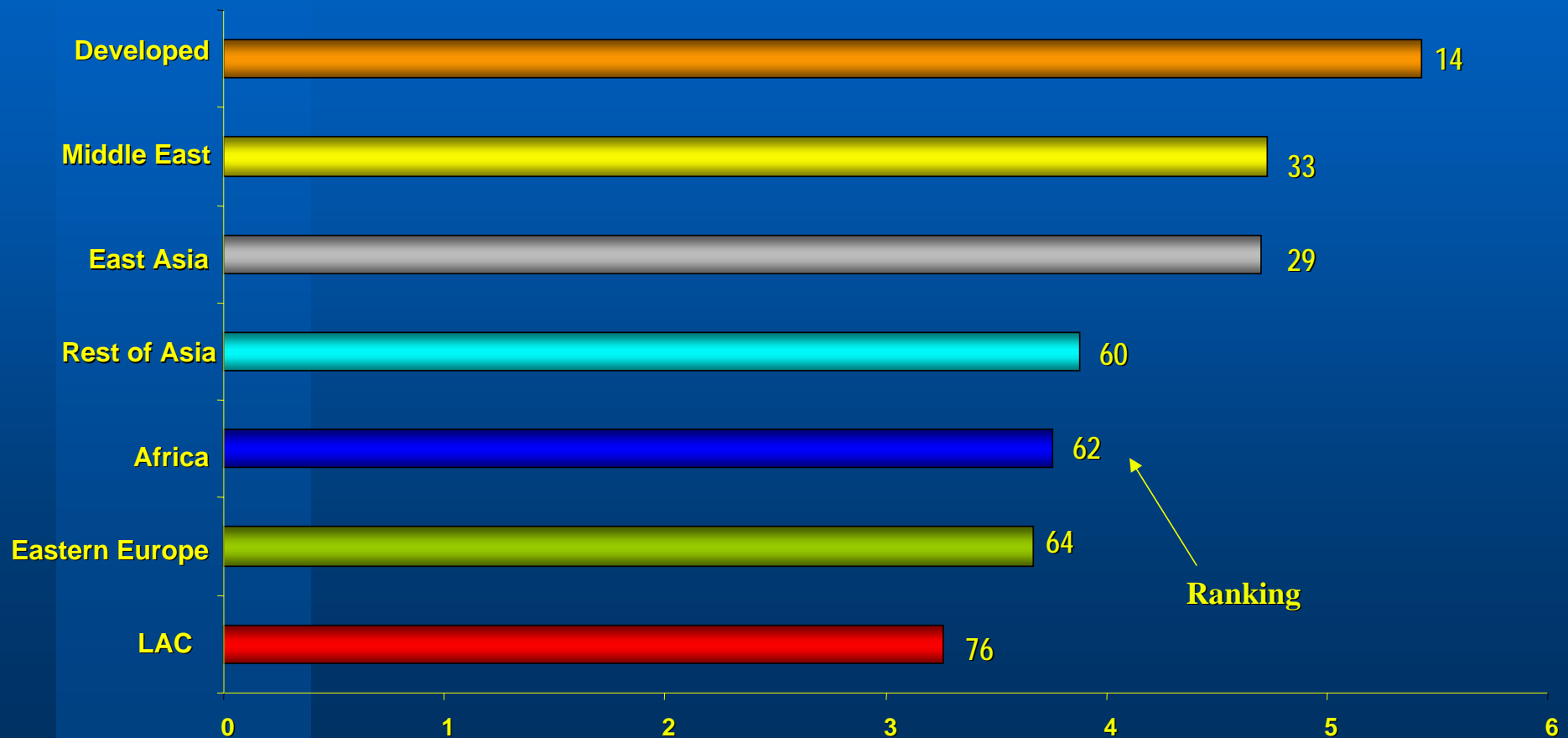
# Economic Growth has Been Uneven

## Relative Per Capita Economic Growth



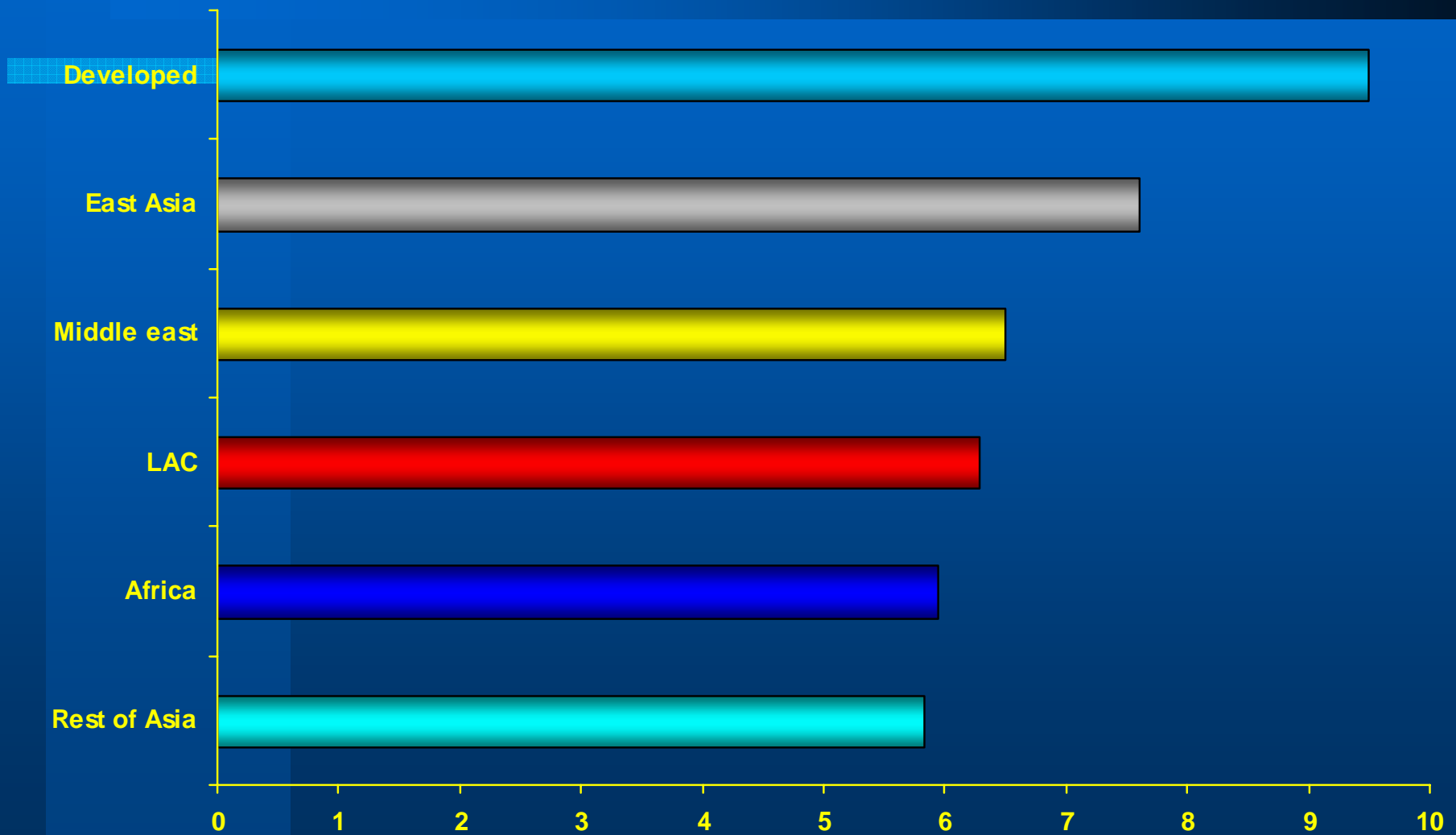
# Weak Rule of Law

## Contracts and Law Subindex



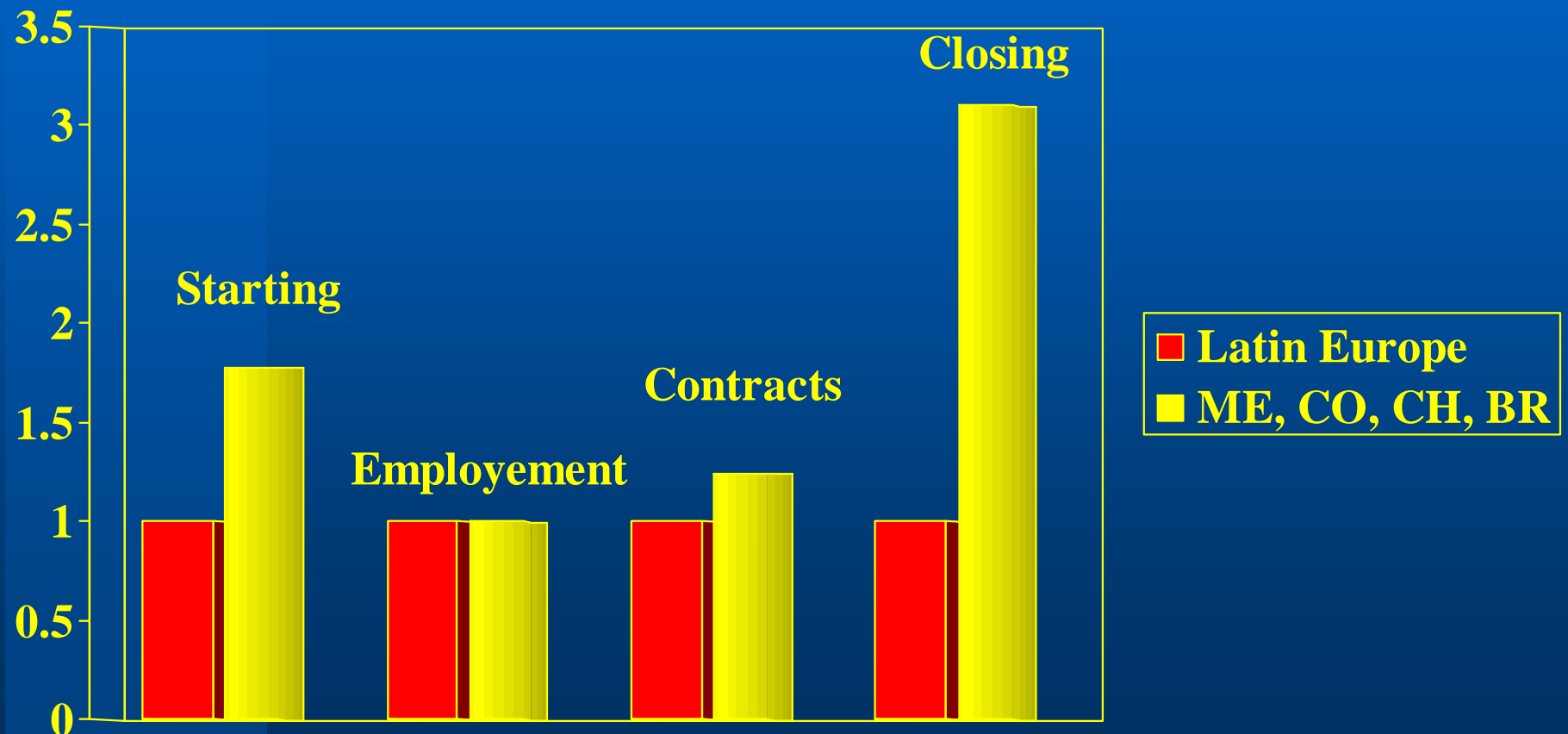
Source: The Global Competitiveness Report 2003-2004

# Expropriation Protection Index

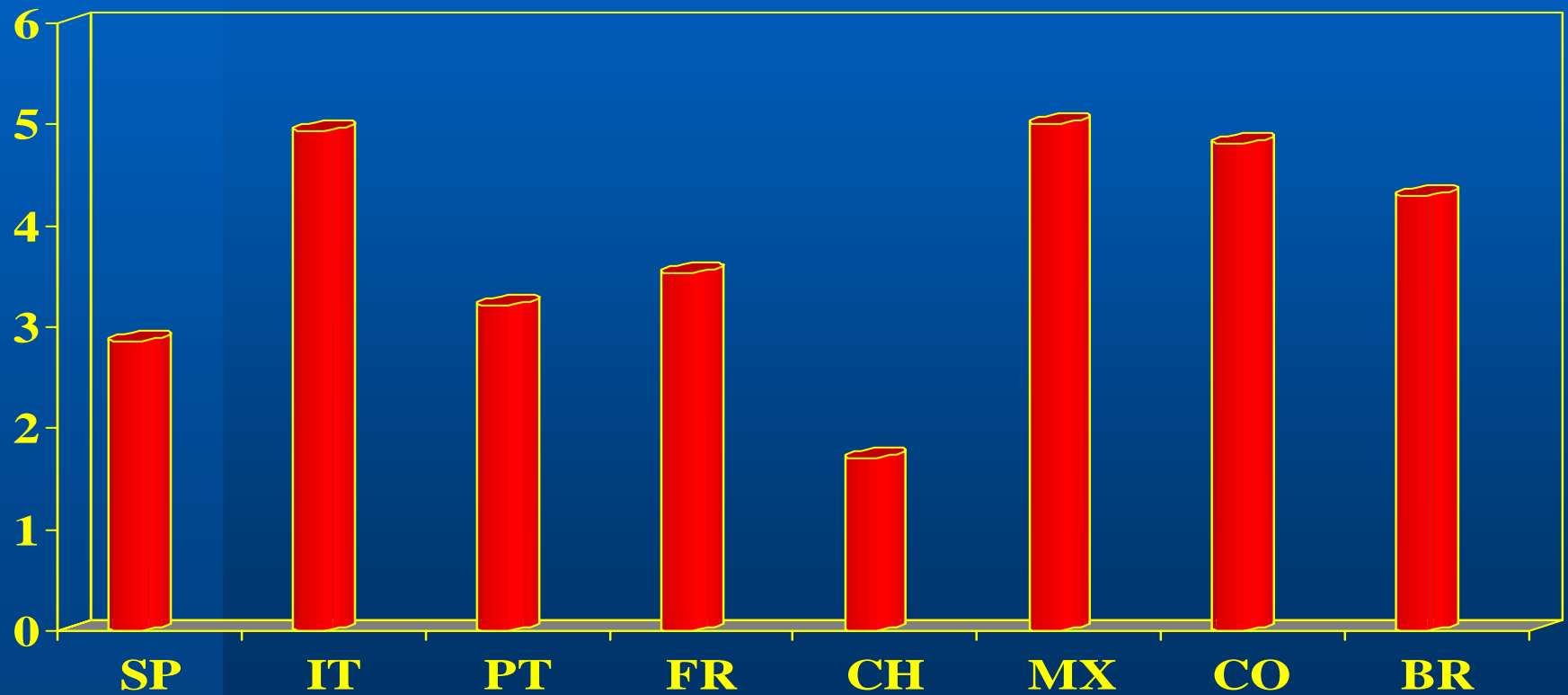


Source: ICRG, average for 1980s and 1990s

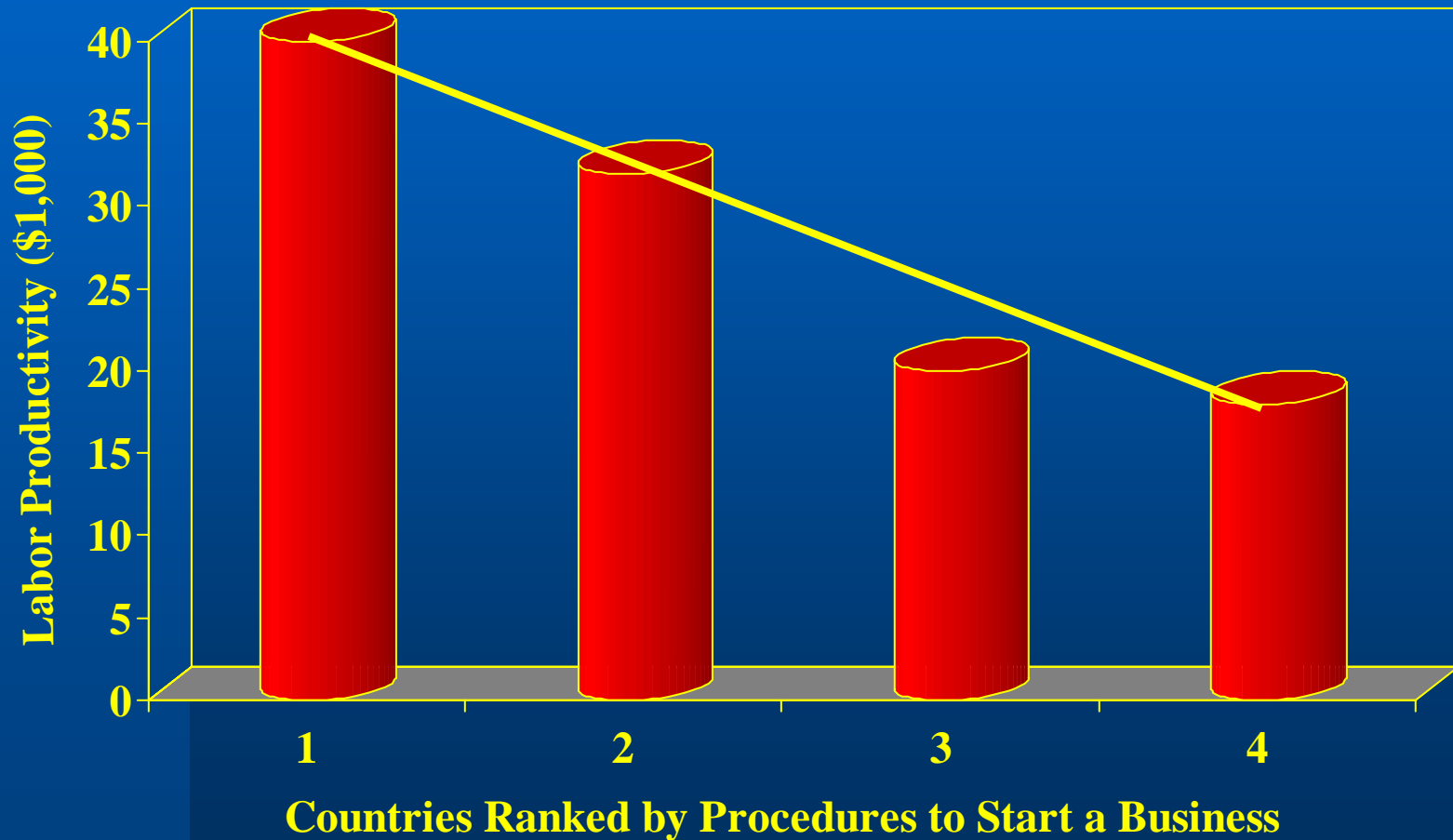
# Entry and exit: Latin Europe vs. LA



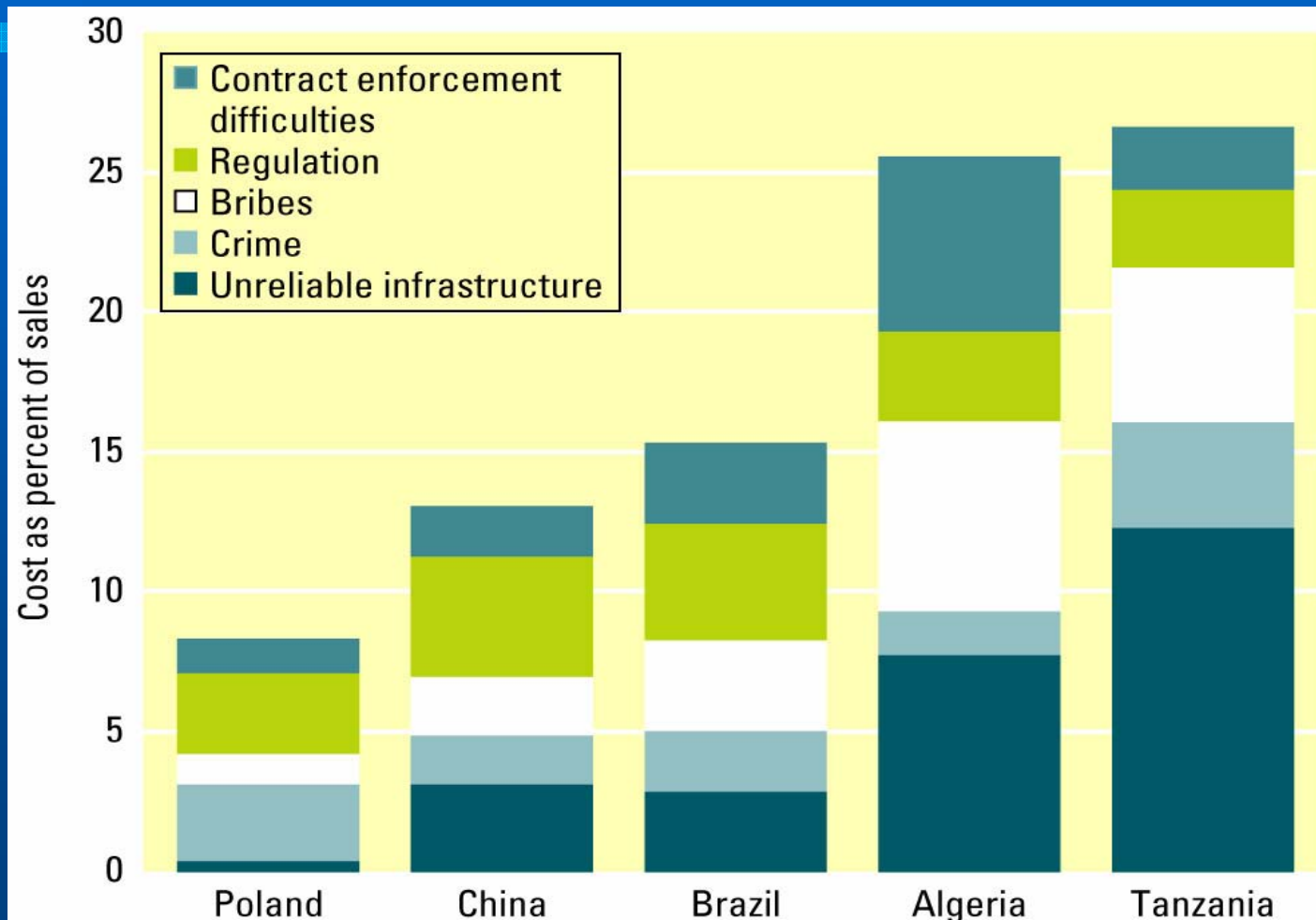
# Opacity: ROR premium over US



# More Procedures, Less productivity



# Business Climate Constraints Impose Increased Costs



Source: World Bank ICS data in WDR 2005

# What is the IDB doing about it

- Business Climate Initiative
- Building on Doing Business of the WB and the joint BEEPS (Business Enterprise Economic Performance Surveys)
- Series of targeted interventions to address very specific problems, after consensus on priorities with the public and private sectors

# The Initiative Focus On

- Financial Systems Development
- Legal and Regulatory Frameworks
- Governance
- Institutional Development
- Secured Transactions
- Public Private Partnerships
- Competition law and policy

# Competition and development

- Competition is part and parcel of the business climate, but many times looked at in isolation
- Many studies have shown a positive relationship between competition at home and country competitiveness and hence development
- Does it mean we must foster competition in all countries and all sectors?

# Latin America ranks low

## Growth Competitiveness Index



Source: The Global Competitiveness Report 2003-2004

# Competitiveness Rankings

## EU AREA

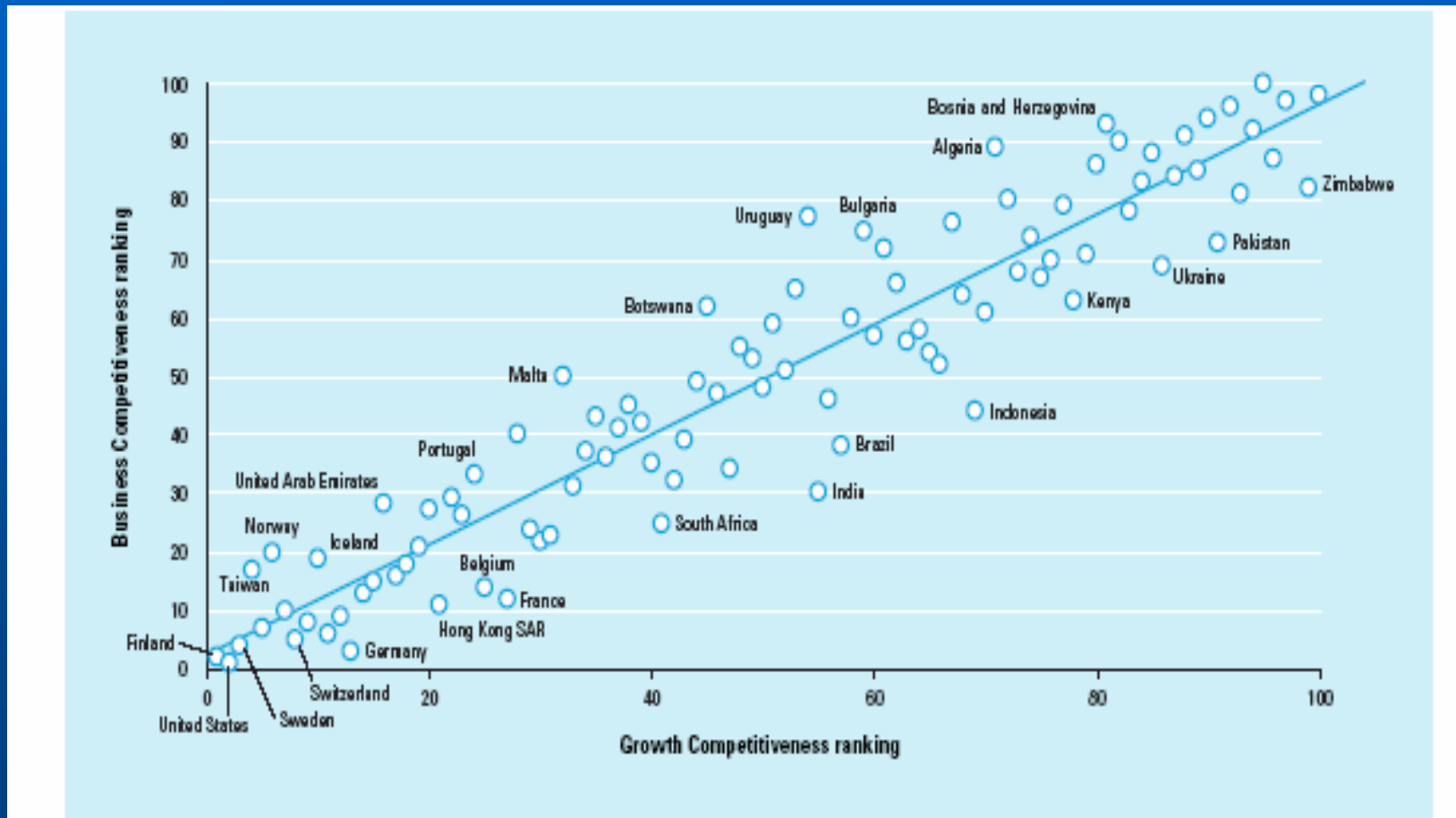
- ✓ Finland: 1
- ✓ Germany: 13
- ✓ United Kingdom: 11
- ✓ Austria: 17
- ✓ Spain: 23
- ✓ France: 27
- ✓ ... Italy: 47

## LAC

- ✓ Chile: 22
- ✓ Mexico: 48
- ✓ El Salvador: 53
- ✓ Brazil: 57
- ✓ Colombia: 64
- ✓ Argentina: 74
- ✓ Venezuela: 85

\* Source: World Economic Forum. 2004-200

# Competition, competitiveness, growth

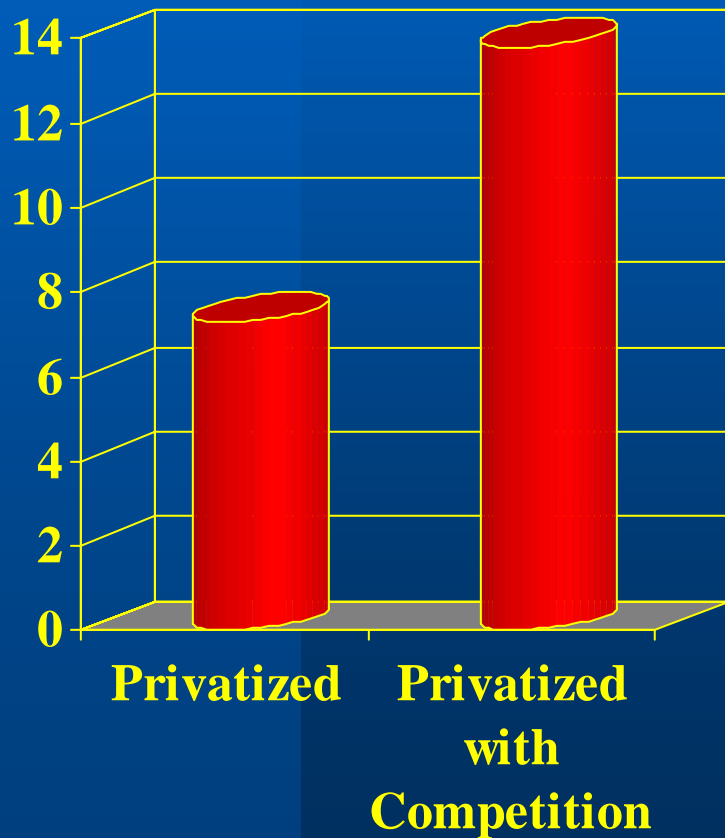


Source: The Global Competitiveness Report 2004-2005

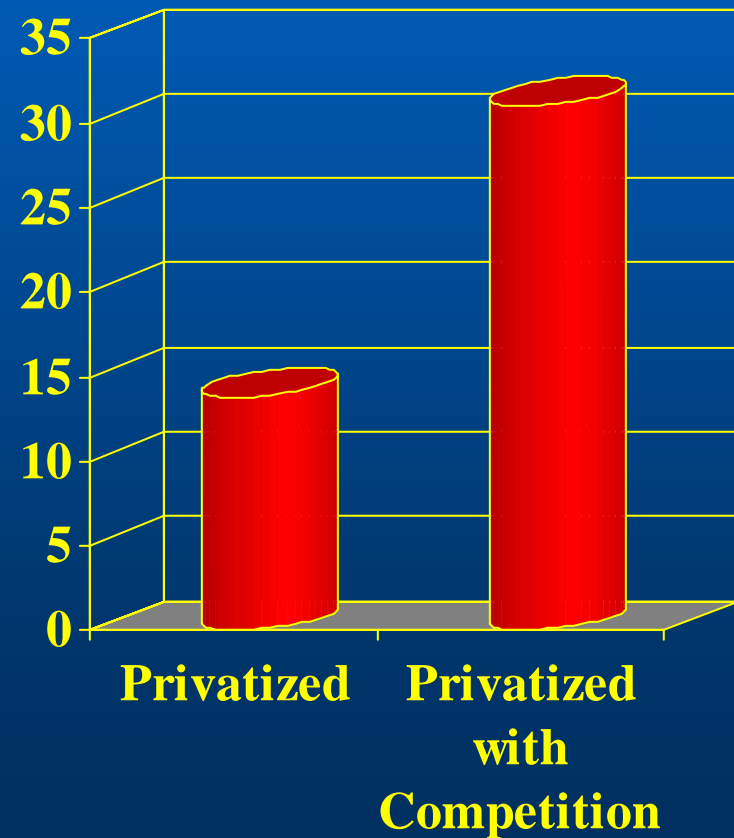
# Productivity and Competition: An example

## Growth of phone main line connections and productivity

Percent



Percent



# Legacy of Import Substitution in LAC

- Protection from foreign competition
- Promotion of local industry and public monopolies
- Low absorption capacity for new technologies
- Low levels of investments in human capital
- Low productivity gains
- Low institutional effectiveness
- Low competition.....low competitiveness

# Competition, competitiveness, growth

- Competition can help substitute for inefficient regulation and institutions, but it can also stifle economies of scale, nascent industries, innovation, etc..
- Balance is even more complicated in developing countries
- Context, context, context
- Complete and developed legal and institutional “markets”

Competition Is Not  
An End In Itself

# Multi-Layered Dynamic



# Compatibility, complementarity, harmonization and integration required

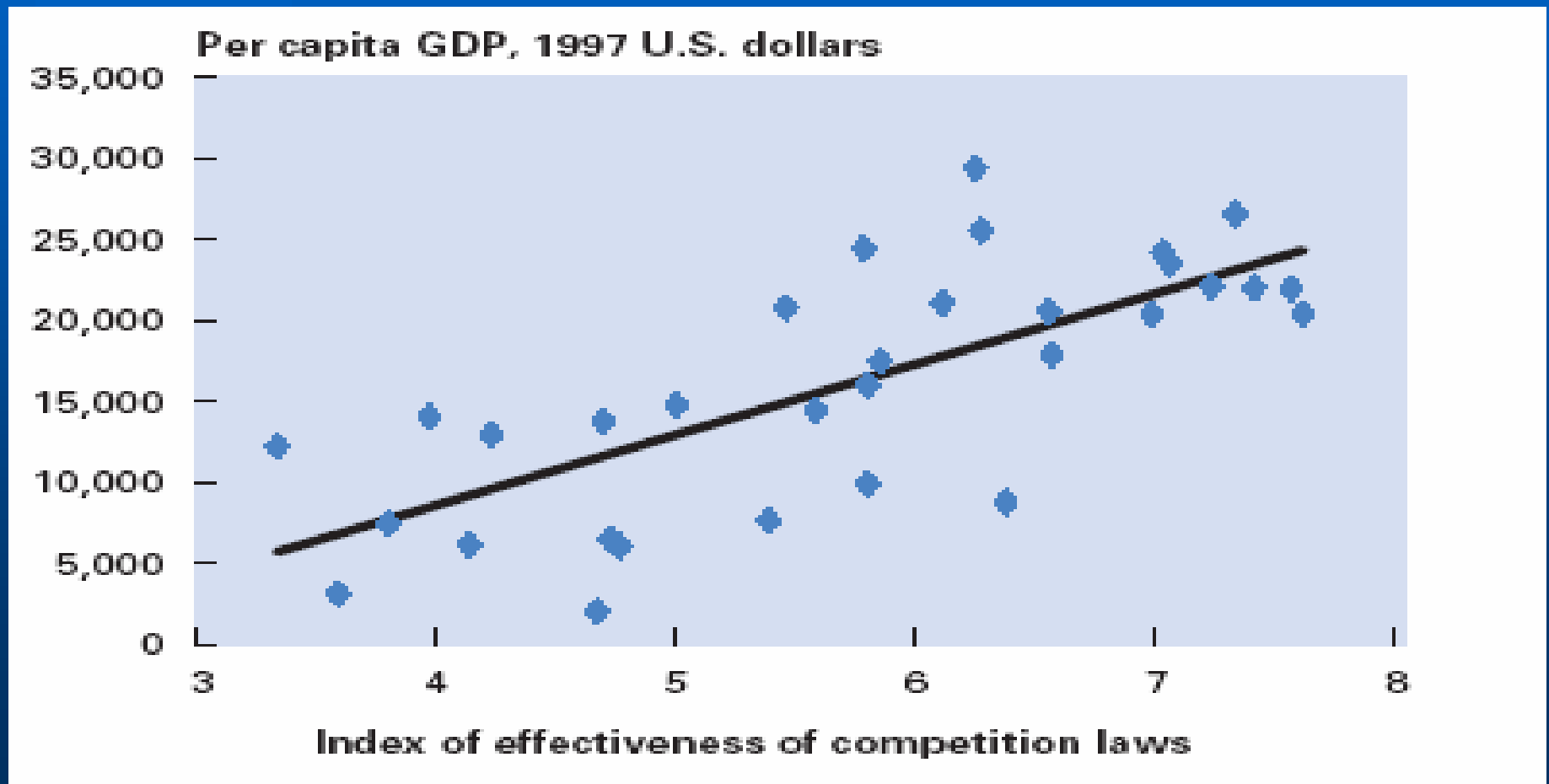


## ...and the glue.....

- Advocacy
  - Accountability
  - Monitoring
  - Enforcement
- 
- ....for the last three we do not have effective words in Spanish or Portuguese!!

# Increased per capita income increases effectiveness of competition law

(or is it the other way around?)



Source: World Bank ICS data in WDR 2002

# Closing remarks

- Because of complexity we have to work on pieces
- But it is the whole that makes it work
- Not to wait for perfection
- In developing countries, many pieces are missing, many do not fit. **Do not go for a perfect piece** but rather the one that fits the most in the current puzzle.
- Aim to complete the legal and institutional pieces.....with glue.

# The Importance of Competition for the Investment Climate

**Third Annual meeting of the Latin  
American Competition Forum  
Madrid, July 19, 2005**



**Antonio Vives**  
[antonio.vives@iadb.org](mailto:antonio.vives@iadb.org)  
Tel. 202 623 1608