A competition-friendly regulatory environment in goods and service markets can help boost living standards. Competition can raise output per capita by encouraging companies to be more innovative and efficient, thereby lifting productivity, and by increasing investment and fostering entry by new firms. Pro-competition regulatory reforms may also help to reduce income inequality. In order to achieve such results, regulations must be designed in a way that enhances competition and lowers barriers to entry.

To have a quantitative measure of the degree to which an individual country's "*de jure*" policy settings promote or inhibit competition, in 1998 the OECD developed a set of indicators of product market regulation (PMR). This set includes an economy-wide PMR indicator and a group of sectors PMR indicators.

This section will focus on the results of the PMR economy-wide Indicator for LAC countries, which assesses the distortions to competition that can be induced by the involvement of the state in the economy, and the barriers to entry and expansion faced by domestic and foreign firms. A high score signals that regulatory conditions are less favourable to competition.

The OECD updates the PMR indicators every five years. The latest update took place in 2018 and is based on a revised methodology; therefore, the 2018 values cannot be compared with previous vintages.

For 2018, the PMR indicators are available for six Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico. Their values show that PMR tends to be more restrictive in Latin America than among OECD countries: in all the regulatory domains covered in the economy-wide PMR Indicator the LAC average is above the OECD average. However, performance varies across the region. The two OECD countries in the region, Chile and Mexico, have a regulatory framework that is more conducive to competition and better aligned to international regulatory best practice in the areas examined. Colombia and Costa Rica, OECD accession countries, are more distant from international bests practice, while the two non-members, Argentina and Brazil, lag considerably behind.

The barriers to entry faced by firms in many sectors and the distortions caused by the state's presence in the economy highlighted by the 2018 PMR indicators show that more efforts could be made by governments to create a competition-friendly environment in the LAC region. In particular, the economies in the region, with the exception of Chile and Mexico, would clearly benefit from reducing administrative burdens on start-ups, by facilitating entry in the service and network sectors, and by lowering barriers to foreign trade and investments. In addition, public ownership of firms across the economy is quite widespread in LAC countries, both in terms of the number of sectors in which governments control at least one firm and of the amount of shares they own in the largest firms in key network sectors. The only exception is Chile. While it might be justified for governments to retain a certain level of participation in specific sectors, there may be room for further reducing their presence in others.

Methodology and definitions

The PMR indicators are based on an extensive database on laws and regulations, which is compiled by the OECD relying on answers to a questionnaire that is sent to national authorities. This information captures the "*de jure*" policy framework, but not its implementation.

To calculate the indicators, the qualitative information collected through the questionnaire is transformed into quantitative information by assigning a numerical value to each answer. This coding is based on accepted international best practice (*http://oe.cd/pmr*). To build the economy-wide PMR indicator, the individual scores are aggregated into 18 low-level indicators, and then, following a pyramidal structure, into two high-level indicators: 1) distortions induced by state involvement; and 2) barriers to domestic and foreign entry. The aggregation is done using equal weights. The economy-wide PMR indicator is complemented by a set of sector PMR indicators. For further information about the methodology of the indicators, please see *http://oe.cd/pmr*.

The OECD updates the PMR indicators every five years. They currently cover the years 1998, 2003, 2008, 2013 and 2018.

In 2018, the OECD considerably changed the methodology. These changes have affected the sectors and regulatory area covered, the information collected on each of them, the structure of the indicators, and, in some cases, the best practices against which the information is benchmarked. Hence, the 2018 PMR indicators cannot be compared with previous vintages.

Further reading

OECD Indicators of Product Market Regulation Homepage, *http://oe.cd/pmr*.

Vitale, C. et al. (forthcoming), "2018 update of the OECD PMR indicators and database: Policy insights for OECD and some non-OECD countries", *OECD Economics Department Working Papers*, OECD Publishing, Paris, forthcoming.

Figure notes

The score of the economy-wide PMR indicator is displayed on a scale of 0-6, with 6 being the least competition-friendly regulatory set-up. The OECD average includes all OECD countries, apart from the United States. The LAC average comprises Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.

7.13. Economy-wide PMR indicator: a breakdown by major components, 2018

Index scale 0-6 from most to least competition-friendly regulatory set-ups

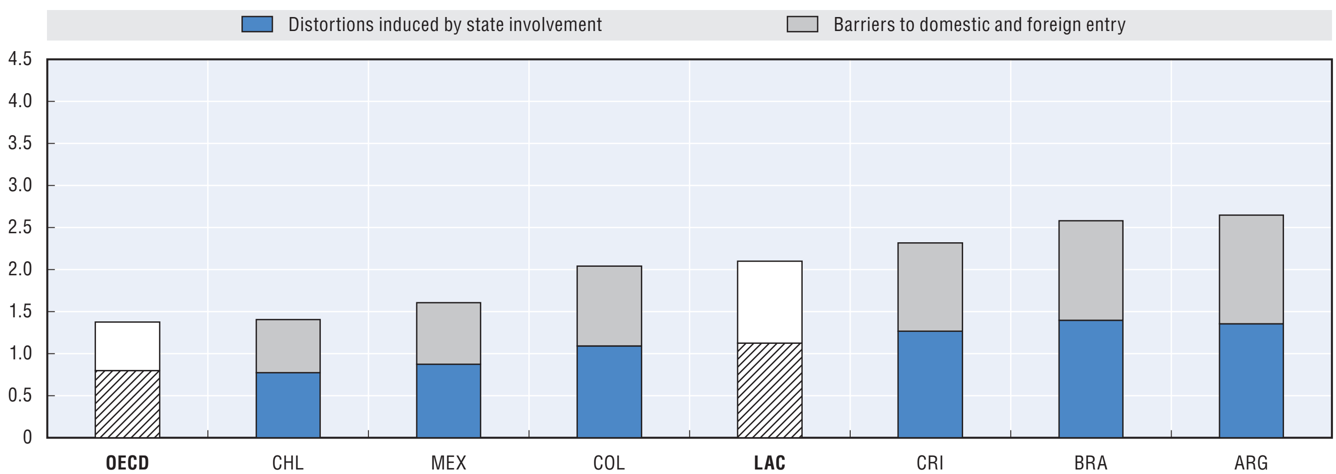
	Economy wide PMR	Distortions induced by state involvement			Barriers to domestic and foreign entry		
		Public ownership	Involvement in business operations	Simplification and evaluation of regulations	Admin. burden on start-ups	Barriers in service and network sectors	Barriers to trade and investment
Argentina	2.77	3.20	2.34	2.58	2.75	3.26	1.75
Brazil	2.27	2.36	2.18	3.84	2.88	2.25	1.98
Chile	1.21	1.30	1.13	2.22	1.02	1.59	1.20
Colombia	1.56	1.90	1.23	3.43	2.75	1.96	0.98
Costa Rica	2.46	3.10	1.81	2.70	2.56	2.84	0.89
Mexico	1.94	2.19	1.69	1.37	0.67	1.77	1.96
OECD	**1.38**	**2.15**	**1.15**	**1.50**	**1.07**	**1.73**	**0.67**
LAC	**2.10**	**2.34**	**1.73**	**2.69**	**2.10**	**2.28**	**1.46**

Source: OECD 2018 Product Market Regulation Database, *http://oe.cd/pmr*.

StatLink https://doi.org/10.1787/888934092683

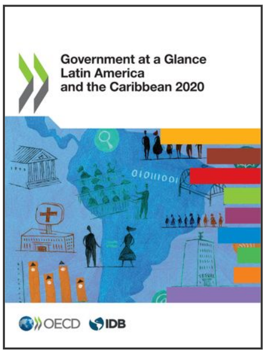
7.14. Economy-wide PMR indicator, 2018

Index scale 0-6 from most to least competition-friendly regulation



Source: OECD 2018 Product Market Regulation Database, *http://oe.cd/pmr*.

StatLink https://doi.org/10.1787/888934092702



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