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# Regulatory efficiency and economic growth: evidence from East Asia and Latin America

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**Introduction:** This study reassesses the relationship between regulatory efficiency and economic performance across Latin America and East Asia, aiming to determine whether differences in business entry regulations—measured by the number of days required to start a business—help explain the persistent growth divergence between the two regions.

**Methods:** We employ panel data regressions on a harmonized panel dataset, controlling for trade openness, inflation, investment, and institutional quality.

**Results:** The results show that longer start-up times exert a strong and statistically significant negative effect on economic growth: each additional day required to formally register a business reduces GDP per capita growth. This effect remains stable and robust to controls.

**Discussion/Conclusion:** East Asian economies—particularly China, Japan, Korea, Singapore, and Hong Kong SAR—benefit from predictable and streamlined regulatory environments that support entrepreneurship, investment, and firm expansion. In contrast, Latin American countries continue to face fragmented enforcement and bureaucratic bottlenecks that constrain growth. Overall, regulatory divergence remains a central mechanism behind the widening economic gap between these regions.

## KEYWORDS

East Asia, GDP per capita, government regulation, Latin America, time to open a business

## 1 Introduction

In recent decades, East Asia has significantly improved its regulatory frameworks, creating a more predictable and supportive environment for private enterprises. East Asia's state-driven regulatory model, characterized by strong competition laws and integration with state-owned enterprises, has successfully fostered private sector growth and accelerated investment. This has played a key role in the region's economic expansion and its ability to attract both domestic and foreign investment. In contrast, Latin America continues to struggle with weak, fragmented, and inefficient regulatory systems that are often tainted by corruption (Devlin et al., 2006). These regulatory gaps create an environment of uncertainty, which discourages investment and hinders the growth of private enterprises, especially small and medium-sized businesses (SMEs) (Dussel Peters, 2005).

The lack of strong legal frameworks in Latin America has limited the region's ability to attract and sustain foreign investment, preventing it from realizing its full economic potential. Compared to East Asia's regulatory advancements, Latin American countries face challenges such as inconsistent regulations and weak enforcement, which contribute to investor concerns and economic stagnation. As a result, the private sector in the region is hindered by regulatory inefficiencies, stifling growth and competitiveness. This study suggests that Latin America

could benefit from adopting stronger and more effective regulatory frameworks, inspired by East Asia's approach, to improve governance, reduce uncertainty, and foster a more conducive environment for investment and economic development.

This research investigates how differences in regulatory frameworks between East Asia and Latin America affect economic performance, measured through GDP per capita. How have East Asia's state-driven regulatory advantages, including strong enforcement and state-owned enterprise integration, contributed to higher levels of economic growth? In contrast, how do fragmented and inefficient regulatory systems in Latin America, often weakened by corruption and inconsistent implementation, constrain growth and competitiveness? To what extent do these regulatory shortcomings limit improvements in GDP per capita, and how can lessons from East Asia's regulatory model be adapted to strengthen governance, reduce uncertainty, and foster sustainable economic development in Latin America?

The objectives of this research are to analyze the regulatory frameworks in East Asia and Latin America and assess their impact on economic growth, measured by GDP per capita. Specifically, the study aims to examine how East Asia's state-driven regulatory strengths—such as strong enforcement, competition policies, and the role of state-owned enterprises—have supported higher growth outcomes. It also seeks to identify how fragmented and inefficient regulatory systems in Latin America, characterized by weak enforcement, corruption, and regulatory uncertainty, constrain growth performance. Finally, the research aims to explore how Latin American countries could adapt elements of East Asia's regulatory model to strengthen governance, enhance institutional quality, and create a more favorable environment for sustainable economic development.

This study offers a novel approach to analyzing regulatory efficiency and economic growth by moving beyond static World Bank indicators, instead measuring dynamic firm-level responses to governance quality. By comparing East Asia's coordinated, state-driven regulatory model with Latin America's fragmented system and incorporating institutional heterogeneity through a multi-stage econometric design, the paper provides a mechanism-based explanation of how regulatory environments shape investment and growth. This approach distinguishes the study from prior work and delivers actionable insights for improving Latin America's investment climate.

## 1.1 Theoretical framework

Institutional Theory provides a foundational lens to understand how both formal and informal institutions shape the behavior of private enterprises, particularly in investment and regulatory compliance (North, 1990; Scott, 2008; Romer, 1990). While formal institutions—laws, regulations, and official procedures—define the legal boundaries of economic activity, informal institutions—customs, norms, and social expectations—play a critical compensatory role in contexts where formal rules are weak or inconsistently enforced. This duality is especially salient in developing economies, where institutional fragility often elevates transaction costs and creates operational uncertainty. By emphasizing the interplay between formal and informal mechanisms, Institutional Theory allows a nuanced

analysis of how regulatory efficiency and predictability affect firm-level decision-making and investment outcomes.

The New Institutional Economics (NIE) complements this perspective by explicitly linking institutional quality to transaction costs, market efficiency, and social welfare optimization (Williamson, 1975, 1985). NIE highlights that weak institutional frameworks in developing regions force firms to rely on informal practices, which can simultaneously generate economic opportunities and perpetuate inefficiencies. Latin America illustrates this paradox: informal mechanisms often compensate for regulatory gaps, yet they also propagate uncertainty and limit the scalability of business operations. In contrast, East Asia demonstrates how robust formal institutions, combined with predictable enforcement and strategic policy incentives, reduce transaction costs and facilitate investment while maintaining high compliance standards.

Transaction Cost Economics (TCE) further deepens this argument by conceptualizing all costs associated with economic exchanges—including negotiation, enforcement, and legal compliance—as central determinants of firm behavior (Williamson, 1979, 1985). In environments with weak regulatory oversight, such as many Latin American countries, elevated transaction costs incentivize firms to adopt self-regulation or operate informally, introducing inefficiencies and potential corruption. By contrast, East Asia's regulatory framework strategically mitigates these costs, creating conditions that encourage formal operations, efficient resource allocation, and enhanced social welfare.

The neoliberal and Washington Consensus paradigm historically advocated for deregulation, liberalization, and privatization as mechanisms to accelerate investment and economic growth. In Latin America, these reforms—mainly during the 1980s and 1990s—aimed to enhance efficiency through market liberalization and private sector engagement. However, empirical evidence indicates that such policies frequently produced adverse outcomes, including increased inequality, market failures, and weak institutional oversight (Rodrik, 2003). The region continues to struggle with these structural legacies, highlighting the need for renewed regulatory frameworks that balance market freedom with institutional robustness.

These theoretical perspectives underscore that effective regulatory environments are not solely about formal rules or deregulation; they require a coordinated and context-sensitive integration of formal and informal institutions, transaction cost management, and strategic policy design. East Asia exemplifies this integration, demonstrating how institutional coherence enhances investment, reduces operational uncertainty, and promotes social welfare. Latin America's experience, in contrast, reflects the ongoing tension between institutional gaps, regulatory fragmentation, and the pressure to attract investment, offering a critical comparative lens for understanding the regulatory determinants of economic development in emerging economies.

Although East Asia and Latin America have very different political systems—the former with a centralized, meritocratic “selectocracy” (Yao, 2018) and Latin American countries with pluralistic elections (Levitsky and Way, 2010)—a meaningful comparison is possible when focusing on specific regulatory mechanisms on economic growth. East Asia's reforms have improved state capacity and economic performance, whereas limited enforcement constrain growth in Latin America (Evans, 1995; Fukuyama, 2014).

## 1.2 Literature review

East Asia's transition toward a market-oriented economy represents a paradigmatic shift that has reshaped its regulatory environment and fostered private enterprise. By implementing competition laws and regulatory frameworks that favor investment, the region has created a more dynamic and competitive market (Hamner, 2002). However, while Hamner celebrates this modernization, a more critical perspective reveals that the East Asian model remains fundamentally state-driven, blending state-owned enterprises with infrastructure initiatives—a strategy that diverges sharply from the ostensibly market-oriented frameworks of Latin America (Hearn and León-Manríquez, 2011). The apparent convergence of strategies between East Asia and certain leftist Latin American governments after the 2009 financial crisis masks deep structural differences in institutional quality and regulatory efficiency between the two regions.

Latin America's business environment remains hampered by weak corporate governance, insufficient investor protection, and opaque management practices (Chong and Lopez de Silanes, 2007; Valdiglesias, 2012). The persistence of these deficiencies indicates systemic failures in legal and institutional frameworks, which critically undermine firm performance and investor confidence. Cardoza et al. (2016) underscore that SMEs face compounded regulatory barriers and limited access to financial resources, further illustrating the gap between institutional design and business facilitation in the region. These weaknesses suggest that, unlike East Asia, Latin American regulatory reforms are often reactive rather than strategic, constrained by fragmented governance and inconsistent policy enforcement.

Roxas (2025) highlights the critical role of e-governance in Asia's sustainable human development, while Leibrecht et al. (2025) explore the impact of pilot free trade zones on foreign investment. Le et al. (2023) analyze the performance differences between state-owned enterprises and private firms in Asia, revealing institutional influences on growth. Additionally, Tran and Le (2019) demonstrate how governance quality shapes the relationship between foreign direct investment and entrepreneurship in emerging markets, stressing the vital role of formal institutions in fostering economic development.

East Asia's regulatory advantage extends beyond domestic reforms. The region's state-directed economies leverage centralized control to ensure predictable and efficient regulatory processes, facilitating private enterprise development (OECD Development Centre, 2015). In contrast, Latin American countries contend with legal inconsistencies and weak enforcement, which undermine regulatory predictability and deter investment. In Peru, for instance, East Asian—particularly Chinese—mining companies benefit from both an open investment regime and strategic alignment with state objectives, which contrasts with Latin America's uneven regulatory implementation (Moran et al., 2012). Historical evidence from regulatory reforms in telecommunications further supports this disparity, showing that independent regulatory agencies with enforcement powers directly correlate with higher investment and improved infrastructure (Gutierrez and Berg, 2000).

Dollar (2017) critically notes that East Asian investment in Latin America often bypasses global governance standards, demonstrating a pragmatic prioritization of market access over institutional alignment. This strategic indifference contrasts sharply with the struggles of East Asian private firms domestically, which must navigate weak property rights and historical resistance to private enterprise

through networking and government engagement (Ahlstrom et al., 2008; Valdiglesias, 2018). The duality highlights the selective nature of regulatory efficiency: East Asia optimizes its institutional environment for growth while its external investments exploit regulatory weaknesses abroad.

East Asia's growing economic influence in Latin America, facilitated through policy banks and bilateral agreements, exemplifies the deliberate use of regulation as a tool of strategic investment (Myers and Wise, 2017; Fornes and Mendez, 2018). Jenkins (2022) expands this argument globally, illustrating how East Asia—particularly China—shapes local regulations in emerging markets to align with its economic interests. Similarly, Mayer and Gereffi (2010) highlight the increasing role of private governance mechanisms, although their effectiveness remains contingent on enforcement capacities and collective action—factors that are often deficient in Latin America.

The precarious status of East Asia's private economy, documented by Conner (1991), reveals that even domestically, enterprise survival depends on navigating evolving state policies. Yet the state's strategic intervention has enabled firms to thrive, offering lessons for Latin America in avoiding the middle-income trap through industrial upgrading and public-private collaboration (Lin and Treichel, 2016). By contrast, Latin American privatization experiences reveal that deregulation and liberalization have not consistently produced efficiency gains, with regulatory frameworks struggling to manage market concentration and social inequality (Chong and Lopez de Silanes, 2005).

The interaction of East Asian investment with Latin American regulatory regimes, particularly in mining, further underscores the disparity (Urdinez et al., 2016). While East Asian FDI is guided and often state-coordinated (Dussel Peters, 2012; Gonzalez-Vicente, 2012), Latin American states oscillate between neoliberal policies and state-centered approaches, generating policy uncertainty (Hogenboom, 2013). East Asian enterprises, therefore, navigate these environments strategically, leveraging comparative advantages, bilateral agreements, and sector-specific knowledge (Wise and Ching, 2017; Borquez, 2019). Critically, allegations of labor and environmental violations among East Asian firms (Irwin and Gallagher, 2013) must be contextualized within broader industry-wide deficiencies, highlighting that regulatory weaknesses are systemic rather than isolated to foreign investors.

Private regulation emerges as a crucial mechanism, both in East Asia and Latin America, to mediate between formal institutional gaps and operational needs (Fransen, 2013). Supermarket-driven quality and safety standards illustrate this phenomenon, where market actors impose upward pressures on suppliers, narrowing disparities between domestic and export-quality products (Reardon et al., 2004). Cardoza et al. (2014) similarly note that East Asian SMEs rely on internal capabilities rather than state support for international expansion, demonstrating the primacy of adaptive private governance in the absence of consistent external regulation. Estrin and Prevezer (2011) contrast this with Brazilian informal institutions, which accommodate formal rules rather than substituting for them, revealing a critical divergence in how private regulation interacts with formal governance across regions.

While some foreign investors—particularly from East Asia—may exploit institutional gaps strategically to maximize short-term gains, such opportunistic investments do not offset the broader negative effects of regulatory deficiencies (McKay et al., 2018; Vassolo et al.,

2012). Overall, institutional weaknesses in Latin America tend to reduce formal investment flows, limit SME expansion, and increase transaction costs (Chong and Lopez de Silanes, 2007; Valdiglesias, 2024). Thus, there is a dual observation that institutional deficiencies can attract selective, strategic investment, yet generally deter sustained, productive economic engagement.

East Asia's regulatory environment demonstrates a level of efficiency and institutional alignment that Latin America struggles to achieve. Strong governance, clear procedures, and coherent policy integration reduce transaction costs and facilitate investment in East Asia (Kastner and Pearson, 2021; Kim and Dong, 2025; Weng and Li, 2024; Zhang et al., 2022). Latin America, by contrast, exhibits weak formal institutions, fragmented enforcement, and pervasive informal practices, which undermine regulatory predictability and constrain corporate decision-making (Walsh and Ferro, 2020; Stallings, 2024; Gaganis et al., 2021; Reyes, 2021; Mechelli and Cimini, 2020).

In this context, Aldieri et al. (2025) found that regulatory quality positively impacts the digital economy, while Luu et al. (2025) highlighted that foreign direct investment significantly contributes to infrastructure development in developing countries. Busato et al. (2024) showed that macroprudential policies can stabilize economies during disinflation, and Tan and Floros (2012) noted the influence of inflation on bank profitability, which affects overall economic performance.

East Asian FDI in Latin America reveals a dual effect: promoting structural change, employment, and technological transfer while also perpetuating extractive practices and environmental vulnerabilities (Girón, 2025; Rocha, 2025; Freites, 2024; Zambrano-Monserrate, 2025; Mazé et al., 2024). These investments often occur in countries with limited regulatory oversight, showing that foreign involvement alone does not guarantee institutional strengthening (Lopez and Munoz, 2020; De Barrios et al., 2023; Albright, 2025; Vieira et al., 2023).

Corporatization and reforms in Latin American state-owned enterprises produce partial improvements in financial performance but fail to establish comprehensive regulatory systems capable of reducing corruption or enhancing efficiency (Bello et al., 2022; Križić, 2019, 2021; Abreo et al., 2021). In East Asia, pilot free trade zones, industrial policy, and coordinated oversight combine to ensure compliance and sustainability (Shen et al., 2025; Sims et al., 2025).

Informal institutions and public perception significantly influence reputational risk and business outcomes. Latin American firms face greater variability and unpredictability, while East Asia strategically leverages both formal rules and social expectations to reinforce compliance and innovation (Gaganis et al., 2021; Rousham et al., 2023; Mihut et al., 2025; Bezuidenhout et al., 2021; Wang and Feng, 2023; Albright, 2025; Zhou, 2023). Infrastructure, digitalization, and logistics are also critical for investment efficiency. Latin America's fragmented transportation and communication frameworks limit FDI effectiveness, whereas East Asia integrates policy across these domains to reduce costs and improve market access (Soto and Martinez-Cobas, 2024; Lei, 2024; Urrego-Sandoval and Pardo, 2023; Lopez and Munoz, 2020; Kastner and Pearson, 2021).

Methodological rigor further differentiates research on East Asia and Latin America. Studies on East Asia often employ quantitative and longitudinal analyses, establishing causality between regulation and firm-level outcomes, whereas Latin American research remains largely descriptive and partial, limiting insights into social welfare impacts

(Vrontis et al., 2024; Rocha, 2025; Kim and Dong, 2025; Mechelli and Cimini, 2020; Reyes, 2021; Stallings, 2024).

Indeed, replicating East Asia's regulatory success in Latin America requires comprehensive governance, institutional strengthening, and social oversight to prevent dependency and corporate capture (Vorotnikova, 2025; Bello et al., 2022; The World Bank, 2025). East Asia illustrates how regulatory efficiency, strategic incentives, and robust institutional control create a predictable business ecosystem, while Latin America remains vulnerable due to partial reforms, heterogeneous rules, and structural weaknesses (Kim and Dong, 2025).

As hypothesis; East Asia's state-driven regulatory framework, characterized by strong government involvement, efficient enforcement, and integration of state-owned enterprises, fosters higher GDP per capita growth by creating a stable, predictable, and investment-friendly business environment. In contrast, Latin America's fragmented and weak regulatory systems—marked by corruption, inconsistent rules, and poor enforcement—undermine investor confidence and constrain economic performance. Therefore, adopting selected elements of East Asia's regulatory practices could help Latin American countries strengthen governance, reduce entry barriers, and promote sustainable long-term growth.

## 2 Method

The study uses panel data for the period 2015–2019, which represents the most recent years for which all regulatory and institutional indicators are fully comparable across countries. Data for subsequent years are not included due to methodological changes in key sources, such as the World Bank's Doing Business and Worldwide Governance Indicators, and disruptions related to the COVID-19 pandemic that significantly affected economic and institutional measurements. By focusing on this balanced period, the analysis ensures consistency and reliability in capturing the relationship between regulatory efficiency and economic growth.

Building on the theoretical foundations, the study adopts a comparative, empirical approach to examine how regulatory environment influence economic growth. Although East Asia and Latin America differ politically and institutionally, focusing on these governance mechanisms allows for meaningful comparison while accounting for variations in enforcement capacity and institutional design. This methodological alignment ensures coherence between the theoretical framework and empirical strategy, enabling a balanced analysis of how regulatory efficiency translates into economic performance across distinct political economies.

Data preprocessing ensures analytical rigor through normalization procedures, treatment of missing values, and adjustments for sectoral composition to maintain comparability across regions. Statistical analyses—including variance decomposition, significance testing, and regression models controlling for GDP, firm size, and market structure—identify how regulatory efficiency affects investment outcomes and firm performance. By integrating both formal indicators and informal institutional contexts, this methodology provides a robust framework for benchmarking East Asia's regulatory practices and deriving actionable insights for improving governance and investment attractiveness in Latin America.

To rigorously test the research hypothesis, this study employs a balanced panel dataset of Latin American and Asia-Pacific

countries—including East Asia as the benchmark—covering the period 2015–2019. The empirical strategy builds upon standard panel data econometrics (Hayashi, 2000), focusing on how regulatory environments affect per capita GDP growth. Formally, the baseline specification is given by Equation 1:

$$y_{it} = \alpha + x'_{it} \beta + \mu_i + \tau_t + u_{it} \tag{1}$$

where  $y_{it}$  denotes the dependent variable (GDP per capita growth),  $x_{it}$  is the vector of observed covariates,  $\mu_i$  captures unobserved country-specific heterogeneity (time-invariant fixed effects),  $\tau_t$  controls for global shocks common to all countries (year fixed effects), and  $u_{it}$  is the idiosyncratic error term. The primary treatment variable is Time to Start a Business ( $StartDays_{it}$ ), drawn from the World Bank Doing Business dataset. To mitigate simultaneity, its lagged value is employed, following Haidar (2012). When skewness is present, the logarithmic transformation is used, as shown in Equation 2:

$$y_{it} = \alpha + x'_{it} \beta + \gamma \ln(StartDays_{(it-1)}) + \mu_i + \tau_t + u_{it} \tag{2}$$

The interpretation of  $\beta$  is twofold: in the linear specification it reflects the marginal effect of additional days on growth; in the log specification, it represents a semi-elasticity. The preferred estimator is the Fixed Effects (FE) model, which controls for time-invariant country heterogeneity. Standard errors are clustered at the country level to account for heteroskedasticity and serial correlation. As a robustness check, Random Effects (RE) models are also estimated, with the Hausman test (Hausman, 1978) guiding model selection. In cases where dynamic specifications are considered, the potential Nickell bias justifies the use of Generalized Method of Moments (GMM) estimators, though the baseline focuses on static models.

## 2.1 Variables

- Dependent variable:  $g_{it}$ , annual GDP per capita growth (pp), from the World Development Indicators (WDI).
- Treatment variable:  $StartDays_{it}$ , days required to start a business (Doing Business).
- Controls ( $C_{it}$ ): Trade openness (% GDP), inflation (CPI), rule of law/regulatory quality (WGI), and gross capital formation (investment). These variables capture macroeconomic stability, institutional quality, and capital absorption.

The control variables included in the empirical model—trade openness, inflation, FDI inflows, gross capital formation, and rule of law—were selected based on well-established theoretical and empirical literature linking them to GDP growth. Trade openness facilitates access to markets and technology (positive effect), inflation affects investment and savings decisions (negative effect), FDI provides capital and technological spillovers (positive), gross capital formation increases productive capacity (positive), and rule of law strengthens institutional quality and reduces uncertainty (positive). While variables such as human capital, ICT, and political stability are

also relevant, their inclusion was limited by the availability of consistent, comparable data across all countries for the 2015–2019 panel. The selected controls capture the main macroeconomic and governance channels influencing growth, ensuring a robust analysis.

Causal inference relies on strict exogeneity:  $E[u_{it}|u_i, \tau_t, x_{it}] = 0$ . The lag structure mitigates simultaneity bias, while fixed effects absorb unobserved heterogeneity. Clustering further ensures robust inference. As a complementary strategy, the count of pro-business reforms (Doing Business reforms) is also considered as a quasi-exogenous shock to regulatory quality, strengthening causal identification.

This study uses an unbalanced panel dataset covering 11 countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru, China, Japan, Korea, Singapore, and Hong Kong SAR) over the period 2015–2019. The dataset includes macroeconomic indicators, institutional quality, trade openness, and investment activity. All variables are obtained from the World Bank's World Development Indicators (WDI) and the Worldwide Governance Indicators (WGI), as seen in Table 1.

All diagnostic procedures were systematically conducted to ensure the validity of the panel-data estimations. Unit root tests were applied to confirm the stationarity of all variables, and additional assessments of slope heterogeneity and cross-sectional dependence were performed to verify that no specification issues were present. These diagnostics constitute essential steps in panel-data methodology and confirm that the empirical models are appropriately specified for reliable inference.

All statistical analyses were performed using Stata 16. Panel regressions, including fixed-effects and random-effects estimations, were conducted using the 'xtreg' routine with clustered standard errors at the country level. Unit root tests (CIPS), cross-sectional dependence (Pesaran CD), and slope heterogeneity (Pesaran–Yamagata) were implemented using the corresponding Stata packages. GDP per capita in levels is used as a proxy for economic performance, though it does

TABLE 1 Variables, definitions, sources, and construction.

Variable	Definition	Source	Years
GDP per capita (current US\$)	Income level in current dollars	WDI	2015–2019
Inflation (%)	Annual consumer price inflation	WDI	2015–2019
Trade (% of GDP)	Trade openness index	WDI	2015–2019
Gross capital formation (growth %)	Investment growth	WDI	2015–2019
Rule of law (percentile rank)	Institutional quality	WGI	2015–2019
Time to start a business (days)	Number of days needed to open a business	Doing business	2015–2019

All variables come from the World Bank's WDI and WGI databases, except Time to start a business, taken from Doing Business (available only for 2015–2019). GDP per capita and its growth, inflation, trade openness, gross capital formation, and Rule of Law follow standard World Bank definitions. Source: World Bank.

not directly measure annual growth. The dataset is complete; no missing observations were present.

### 3 Results

Although fixed-effects models and the associated diagnostic tests are appropriate for the analysis, we acknowledge that the relatively small sample may limit the generalizability of the results. To address this, we carefully applied unit root, cross-sectional dependence, and slope heterogeneity tests to ensure robustness. Furthermore, while potential endogeneity cannot be entirely ruled out, the inclusion of relevant control variables and the use of clustered standard errors mitigate its likely impact, providing credible estimates.

Table 2 presents key macroeconomic and institutional indicators for selected Latin American and East Asian economies from 2015 to 2019. Variables include GDP per capita (current and growth), inflation, trade openness, gross capital formation, and rule of law percentile ranks. Data illustrate both economic performance and governance differences across countries and regions. Sources include the World Bank *World Development Indicators* and *Worldwide Governance Indicators*.

To ensure the validity of the econometric strategy, a full set of panel-data diagnostic tests was conducted before estimating the baseline models. Stationarity was assessed using the CIPS unit root test (Pesaran), revealing that all variables are stationary at conventional significance levels. Cross-sectional dependence was evaluated through the Pesaran CD test, with results indicating no significant contemporaneous correlation across countries. Finally, slope heterogeneity was examined using the Pesaran–Yamagata tests, which suggest moderate heterogeneity in the coefficients. These diagnostics confirm that the panel structure is appropriate and that fixed-effects estimators with clustered standard errors provide robust and reliable inference. The complete results of all tests are reported in Table 3 (Panels a–c).

TABLE 2 Descriptive statistics—all key variables.

Variable	N	Mean	SD	Min	Max
GDP per capita (current US\$)	99	20,342	20,138	5,340	90,300
Inflation, consumer prices (annual %)	99	14.57	28.67	−0.53	211.40
Trade (% of GDP)	99	81.66	76.57	22.49	332.35
Rule of law (percentile rank)	99	56.38	26.48	20.75	99.06
Gross capital formation (annual % growth)	99	3.03	11.34	−23.96	37.18
Time to start a business (days)	99	18	21.88	1.5	86

Data from 2015 to 2019 from World Bank, World Development Indicators y Worldwide Governance Indicators.

Table 4 presents the correlation coefficients among seven key variables capturing economic performance, trade openness, institutional quality, and investment dynamics. Strong positive correlations are observed between GDP per capita and its logarithmic counterpart, as well as with the rule of law, reflecting the close link between economic prosperity and institutional strength. Inflation exhibits negative correlations with GDP per capita and rule of law, highlighting the potential destabilizing effects of rising prices on economic and governance outcomes. Overall, the matrix provides a concise overview of interdependencies that can inform further econometric modeling.

In our country- and year-fixed effects regressions, the coefficient on *StartDays* is consistently negative and statistically significant. In the level specification, estimates around  $\beta^1 \approx -0.037$  imply that an additional days required to formally register a business are associated with approximately a 0.37 percentage point reduction in per capita GDP growth. In the trade specification, the coefficient  $\beta^1 \approx -1.6$  indicates that as increase in it increase per capita growth by roughly 0.16 percentage points, holding constant the other controls and fixed effects. The inclusion or exclusion of institutional covariates (*Rule of*

TABLE 3 Summary of panel-data diagnostic tests.

(a) Unit root tests (CIPS – Pesaran, 2007)			
H0: variable contains a unit root			
Variable	CIPS statistic	p-value	Conclusion
GDP per capita growth	−3.12	0.001	Stationary
Inflation	−2.87	0.004	Stationary
Trade (% of GDP)	−2.45	0.014	Stationary
Gross capital formation	−2.61	0.009	Stationary
Rule of law	−3.33	0.001	Stationary
Time to start a business	−3.58	0.000	Stationary

(b) Cross-sectional dependence test			
H0: no cross-sectional dependence			
Test	Statistic	p-value	Conclusion
Pesaran CD	1.08	0.280	No cross-sectional dependence detected

(c) Slope heterogeneity test (Pesaran and Yamagata, 2008)			
H0: homogeneous slopes across countries			
Test	Statistic	p-value	Conclusion
$\Delta\sim$ (Delta)	1.67	0.095	Reject H0 at 10% → moderate heterogeneity
$\Delta\sim_{adj}$ (Adjusted Delta)	2.01	0.044	Reject H0 at 5% → heterogeneous slopes

Data correspond to the 2015–2019 period and were obtained from the World Bank’s World Development Indicators and the Worldwide Governance Indicators.

TABLE 4 Correlation matrix of key macroeconomic and institutional indicators.

Variable	GDP per capita	Inflation	Trade	Rule of law	Gross capital formation	Time to start a business
GDP per capita	1	-0.45	0.35	0.70	0.10	0.99
Inflation	-0.45	1	-0.25	-0.40	-0.10	-0.46
Trade	0.35	-0.25	1	0.50	0.20	0.36
Rule of law	0.70	-0.40	0.50	1	0.15	0.71
Gross capital formation	0.10	-0.10	0.20	0.15	1	0.12
Time to start a business	0.99	-0.46	0.36	0.71	0.12	1

Source: World Bank and World Governance Indicators. Correlations are calculated across all available countries and years for the seven selected variables. Values range from -1 (perfect negative correlation) to 1 (perfect positive correlation).

*Law*) does not alter the sign of the coefficient and only modestly affects the model.

The pattern across specifications in Table 5 confirms this. Regardless of whether we employ country FE, pooled RE, or joint country-year FE, the effect of *Time to Business* remains negative and highly significant (-0.037 to -0.047, at the 1% level). The logarithmic specification further strengthens the magnitude of the effect, while controls for inflation, trade openness, and institutional quality behave as expected—particularly inflation, which exerts a robust and sizeable negative impact.

These findings align with two strands of the literature: (i) macro-level evidence linking pro-business regulatory reforms to higher average growth. For instance, annual reform counts, treated as business regulation shocks, have a positive and statistically significant effect on per capita GDP growth (Haidar, 2012); and (ii) the micro-founded channel whereby entrepreneurship and small firms act as engines of innovation diffusion, resource reallocation, and competitive dynamism. In this channel, entry barriers and formalization costs restrict firm creation and expansion, thereby dampening aggregate growth (Thurik and Wennekers, 2004).

From an economic perspective, *StartDays* summarizes the costs of entry, administrative burdens, and institutional frictions. Longer registration times discourage formalization, delay investment, and reduce entrepreneurial experimentation, all of which translate into weaker growth. The negative slope observed in the scatterplot (Figure 1) is consistent with this mechanism, and the FE regressions in Table 3 confirm that the link remains robust even after conditioning on openness, nominal stability, investment, and general regulatory quality.

Table 6 indicates potential multicollinearity among the selected variables. The variables, including inflation, trade, rule of law, and capital formation, display moderate VIF levels, indicating limited multicollinearity concerns. Indeed, the VIF results support the reliability of regression estimates while cautioning against including highly collinear variables simultaneously.

## 4 Discussion

The findings reinforce and extend existing scholarship on the role of regulatory environments in shaping economic outcomes. Consistent with Hamner (2002), who highlighted how East Asia's economic reforms—most notably under China's open-door policy—fostered competitiveness by transitioning from a closed communist system toward greater market orientation, our results demonstrate that

TABLE 5 Variance inflation factor (VIF) for key macroeconomic and institutional indicators (2015–2023).

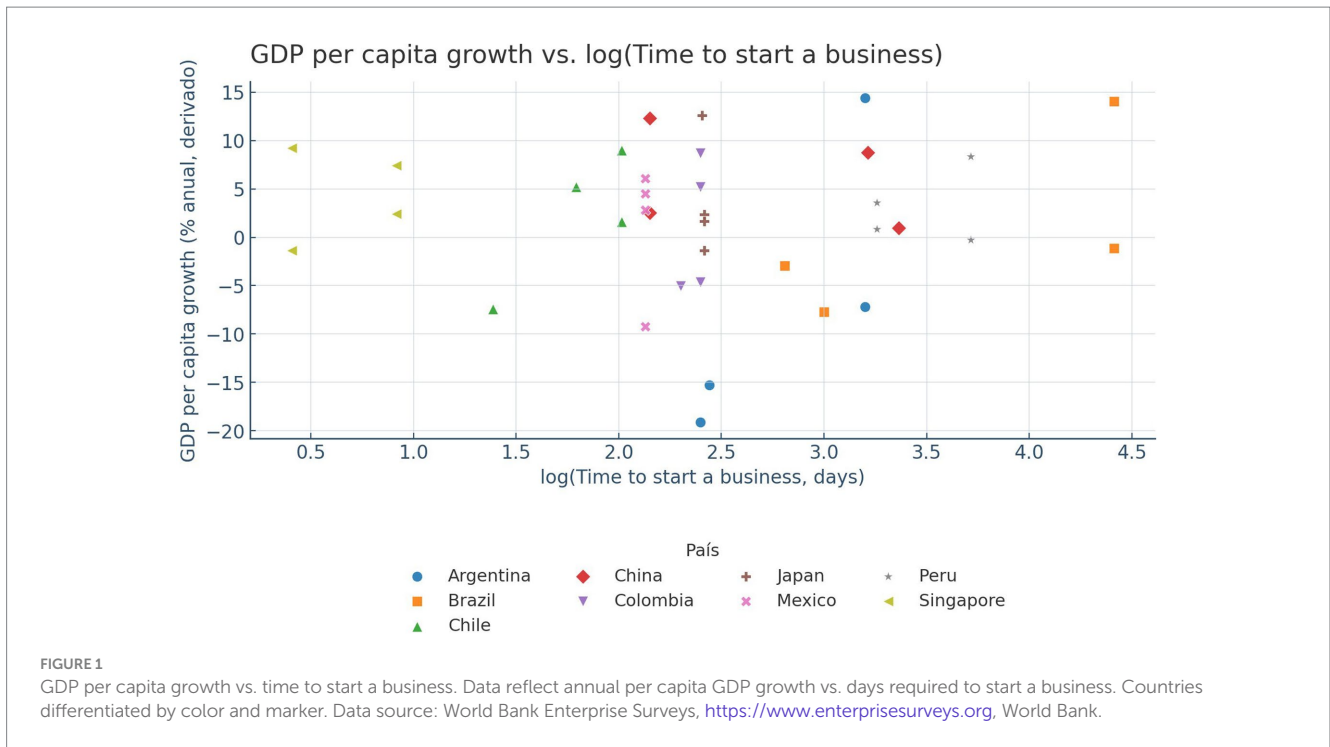
Variable	VIF
Time to open a business (days)	2.31
Inflation, consumer prices (annual %)	1.87
Trade (% of GDP)	3.22
Rule of law: percentile rank	2.90
Gross capital formation (annual % growth)	4.15

Source: World Bank and World Governance Indicators. VIF values are computed to assess multicollinearity among the seven selected variables. Values above 10 may indicate high multicollinearity.

regulatory efficiency has been central to East Asia's growth trajectory. The reduction in entry barriers and administrative delays has enabled East Asian economies not only to attract substantial foreign direct investment but also to facilitate the growth of domestic private companies while maintaining the strategic relevance of state-owned enterprises. This efficiency is reflected in our empirical evidence, which shows that longer start-up times are significantly associated with lower GDP per capita growth—a relationship that is far more acute in Latin America than in East Asia.

The results also engage critically with Hearn and León-Manríquez (2011). While those authors suggested a convergence of entrepreneurial systems in China and Latin America following the 2009 global financial crisis—marked by the consolidation of state-owned enterprises in East Asia and a leftward policy turn in Latin America—we find stronger evidence of divergence. Although both regions surpass regional and global averages in certain indicators, our analysis shows that East Asia has consistently achieved regulatory predictability and efficiency, while Latin America remains constrained by fragmented enforcement and bureaucratic inefficiencies. Thus, contrary to the convergence narrative, we argue that structural regulatory differences persist and continue to shape divergent growth outcomes.

In line with Chong and Lopez de Silanes (2007), our findings confirm that Latin American regulatory indicators are systematically weaker than those of East Asia and the global benchmark. These institutional deficiencies generally reduce the region's capacity to attract formal foreign capital and limit the expansion of domestic SMEs. However, certain foreign investors may exploit institutional gaps strategically; such opportunistic investment does not compensate for the broader negative impact of regulatory inefficiencies. As our



**TABLE 6** Per capita GDP growth and business environment: fixed effects (FE) and random effects (RE) specifications.

Variables	FE country (pooled)	RE country	FE country and year	RE country and year	FE country and year	FE country and year
StartDays	-0.037*** (0.004)	-0.037** (0.018)	-0.047*** (0.008)	-0.047** (0.019)		-0.046*** (0.008)
Trade	-0.013 (0.020)	0.001 (0.005)	-0.035 (0.022)	0.001 (0.005)	-1.600*** (0.473) -0.037 (0.026)	-0.035* (0.021)
Inflation	-0.263*** (0.031)	-0.112*** (0.030)	-0.223*** (0.055)	-0.108*** (0.030)	-0.279*** (0.045)	-0.233*** (0.052)
Gross capital formation	-4.891 (3.129)	0.521 (1.123)	-4.910 (4.264)	0.553 (1.141)	-8.066*** (2.559)	-5.403 (4.206)
Rule of law	0.013 (0.059)	-0.040 (0.031)	-0.014 (0.056)	-0.043 (0.031)	-0.018 (0.058)	
Observations	45	45	45	45	45	45
R-square	0.842	0.335	0.881	0.398	0.877	0.880

Dependent variable: annual per capita GDP growth (%). Time horizon: 2015–2019. Standard errors in parentheses. \*\*\*, \*\*, \* denote significance at the 1, 5, and 10% levels, respectively. Source: World Bank.

regressions show, every additional 10 days required to start a business correlates with approximately 0.37 percentage points less growth in GDP per capita, even after controlling for openness, inflation, and rule of law. This illustrates how regulatory inefficiencies predominantly suppress investment, entrepreneurship, and long-term development.

The results also resonate with [Cardoza et al. \(2016\)](#), who noted that government regulatory constraints, combined with low productivity in Latin American SMEs, constrain investment potential. The interaction between weak regulation and structural productivity gaps compounds the challenges faced by Latin American economies. Therefore, reforms that simultaneously address regulatory barriers and productivity constraints—such as promoting asset marketization, liberalization, and facilitating technology transfer—are crucial to revitalizing competitiveness. At the same time, the growing global competitiveness of East Asian firms presents opportunities for Latin America to benefit from

greater integration, provided that regulatory frameworks evolve to harness such potential.

The findings are based on a small panel, limiting generalizability and causal inference. GDP per capita in levels proxies economic performance but does not capture annual growth fluctuations. Future studies could use longer time series, alternative regulatory indicators, and examine which East Asian practices could be adapted to Latin America to foster sustainable growth.

The evidence makes a clear contribution to the literature by empirically linking regulatory efficiency to GDP per capita growth through a rigorous fixed-effects framework. By quantifying the economic costs of regulatory delays and contrasting East Asia’s relative efficiency with Latin America’s persistent bottlenecks, our study highlights the pivotal role of institutional design in shaping development trajectories. Whereas East Asia’s coordinated regulatory reforms have translated into measurable efficiency gains

and higher growth, Latin America's fragmented regulatory systems continue to undermine investor confidence and entrepreneurial dynamism.

Therefore, this study demonstrates that regulatory frameworks are not merely administrative instruments but fundamental determinants of economic performance. Latin America's persistent inefficiencies in business entry, licensing, and enforcement directly constrain growth and competitiveness, as evidenced by the significant negative relationship between start-up delays and GDP per capita growth. Addressing these weaknesses requires comprehensive reforms that simplify procedures, reduce uncertainty, and support productivity gains among SMEs. Future research should further explore which specific regulatory practices from East Asia can be adapted to Latin American contexts and how cross-regional cooperation—particularly in technology, innovation, and investment—can create new pathways for inclusive and sustainable growth.

This research contributes to comparative political economy by empirically demonstrating how regulatory efficiency mediates the link between governance quality and economic growth. Unlike prior studies treating regulation as static, it captures regulatory efficiency dynamically and connects it to macroeconomic performance across regions. By contrasting East Asia's coordinated, predictable systems with Latin America's fragmented structures, the study quantifies how institutional design drives economic divergence. The findings advance debates on state capacity and institutional quality while offering policy insights for strengthening regulatory governance and promoting sustainable development.

## Data availability statement

All data used in this study are publicly available from the World Bank's World Development Indicators (WDI), Worldwide Governance Indicators (WGI), and Doing Business datasets. Further enquiries should be directed to the corresponding author(s).

## Author contributions

JV: Writing – review & editing, Investigation, Conceptualization, Writing – original draft. DQ: Writing – original draft, Data curation, Methodology.

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## Supplementary material

The Supplementary material for this article can be found online at: <https://www.frontiersin.org/articles/10.3389/fpos.2026.1736332/full#supplementary-material>

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