

FIRM INNOVATION AND PRODUCTIVITY IN LATIN AMERICA AND THE CARIBBEAN

THE ENGINE
OF ECONOMIC
DEVELOPMENT

EDITED BY

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& CARLO PIETROBELLI

OPEN



Firm Innovation and Productivity in Latin America and the Caribbean

Matteo Grazzi • Carlo Pietrobelli
Editors

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The Engine of Economic Development

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FOREWORD

After a decade of favorable international conditions, most Latin American and Caribbean countries are now confronting their reality. Despite the observed increases in growth rates, decline in unemployment, and spectacular figures in investment and saving, factors behind long-run growth and sustainability are still showing meager results. Total factor productivity has not changed in most countries in the region for more than a decade. This is alarming, since improvements on the inspirational side of economic growth are heavily correlated with movements in income per capita.

Most of the theoretical and empirical efforts have focused on analyzing the sources of this delay on a macro-level. By examining aggregate figures related to research and development (R&D), foreign direct investments (FDI), macro-regulations, and sometimes educational issues, it is possible to derive policy implications almost without considering several meso and micro-characteristics of the countries that may determine the success or failure of these recommendations.

We have recently learned that heterogeneity matters. In most of the countries in the region, not only do different sectors show dissimilar productivity performances but this phenomenon is also observed inside the sectors. To disentangle those macro-factors that are affecting the productive rhythm of the economies from those that are more sector or even firm-specific, we must use different lenses for different observation units. The mechanism behind those patterns may vary not only among countries but also among sectors and firms.

Thoughtfully considering the assumption that not only the level of productivity matters but also its variance, this book complies several empir-

ical works that by using different lenses aims to reveal which variables may have a systematic effect on the productivity evolution observed at a firm and sectorial level in Latin American and Caribbean countries. The book emphasizes knowledge generation, diffusion, and implementation through innovation, while exploring the roles of human capital, financial resources, and linkages that also shape firms' inspiration.

Results provided throughout the book show that there are several dimensions that matter, including the ways that policy-makers design and implement public support that aim to enhance productivity. Some results were expected but others were not. Some variables are relevant in certain countries, others in certain productive sectors. The book is an invitation to a wider group of researchers and policy-makers to have a closer look at what is happening at a sectoral or even firm level. Understanding the challenges that most of these firms, sectors, and countries face and the way they surpass them is key for the design of public policies.

This is part of the role of the Inter-American Development Bank, and especially of the Competitiveness and Innovation Division. By producing knowledge products in a collaborative and effective manner, promoting a growing research community, and supporting our policy-makers in the areas of innovation, productivity, and human capital formation, we can help to increase economic performance and, in turn, improve the overall welfare of all citizens in the region.

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