GUEST EDITORS’ INTRODUCTION

Innovation in the Services Sector

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The service sector is increasingly important not only in developed economies, but also in developing ones. On average, in Latin America, the value added of the service sector accounts for more than 60 percent of gross domestic product (GDP) and employment (World Bank 2011). While the role of the service sector has been increasing, its productivity growth has been systematically lower both with respect to manufacturing and, in particular, in comparison with natural-resource-intensive sectors. The service sector has main responsibility for the poor productivity performance exhibited in Latin America and the Caribbean (LAC) economies (Pagés 2010). Thus, boosting innovation in services can be central to improving the performance of this sector and the economy as a whole. Concomitantly, it is important to acknowledge that the introduction of innovations could have important effects on employment that are necessary to assess.

The service sector can affect the whole economy through its effects on the efficiency with which goods-producing sectors operate as well as in the ability of certain services to generate new knowledge that could spread through the productive structure. Traditional services, such as transport and communications, are the links between the different production blocks of the economy; hence, an increase in the productivity of these sectors will improve the productivity in the production of final goods as well. Knowledge-intensive business services (KIBS) can build and strengthen the innovative capacity of the economy, improving a country’s long-run growth potential. In this respect, services are fundamental inputs and outputs of innovation processes in the other sectors of the economy.

The articles in this symposium show that the traditional view that considers the service sector as “innovative averse” and “uninteresting” for innovation policies (and policy makers) (Pavitt 1984) is not supported with the data. The articles presented in this issue and recent work for Organisation for Economic Co-operation and Development (OECD) countries (e.g., Organisation for Economic Co-operation and Development 2009) confirm, however, that services are more innovative than previously thought; indeed, in some subsectors (e.g., KIBS), they could be even more innovative than the average manufacturing industry.

However, how innovation occurs in the service sector and its effects on productivity and employment are still not well understood, especially in developing countries. Results emerging from the research begin to show a picture that suggests that the determinants of productivity growth and employment and innovation in services are not identical to those in manufacturing and that “one fits all” theories on innovation in services are misleading to the extent that services are a diverse group of sectors with regard to both production and innovation. In addition, and of fundamental importance for the region, although evidence seems to suggest that large firms are more innovative than small firms,