

**Industrial Development Report 2005**

# **Capability building for catching-up**

Historical, empirical and policy dimensions



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION





The Industrial Development Report 2005, UNIDO's flagship publication, addresses two key questions. First, why have most developing countries failed to narrow the gap in income and productivity with more advanced economies? Second, what strategies and policies can those countries adopt to build the capabilities that are necessary for catching-up under the current international environment?

From the perspective of domestic policy making and international cooperation, more effort – both in terms of ideas and resources – needs to be directed to structural issues so far largely neglected, where substantial degrees of freedom remain vis-à-vis the WTO rules. These issues largely relate to the building and co-evolution of domestic institutions that promote private sector development and domestic capability building. In a world increasingly driven by innovation, framework conditions that are a prerequisite of economic catch-up have been transformed so as to encompass the various dimensions of innovative development as key ingredient.

With this in mind, the Special Topic Section of the Report first takes stock of lessons learned throughout modern history. On this basis, it then provides a framework for operational policy analysis as well as a methodology for the assessment of capability building needs to help overcome clear limitations in the current understanding of economic development.

The Second Part of the Special Topic focuses on the interactions between the knowledge, business innovation and policymaking subsystems, and addresses the policy capabilities that are necessary to overcome the often intractable problem of matching demand and supply of innovative resources. Two specific areas – food safety requirements and standards – are explored to highlight these interactions and test the suggested policy analysis framework.

The Second Section of the Report reviews industrial activity worldwide including measures of technological advance following the tradition of previous Industrial Development Reports. The interaction of industrial and technological advance yields a new indicator, the industrial-cum-technological-advance index, which highlights the significant structural differences between and within regions.

**About the cover illustration:**

The graph on the cover, generated by means of a fractal geometry model, simulates a pattern formed by three ring vortices playing catch up with one another (also called 'chaotic leapfrogging').

