

Foreword

In my foreword to last year's Industrial Development Report 2004 I announced that this Report would address the issue of capability building metrics with a view to assist in the definition of policies and help bridge the gap between highly quantifiable macroeconomic targets and microeconomic ones which still remain highly notional and qualitative.

By placing the issue in historical, empirical and policy perspective, this Report brings home a number of insights of great importance relating to the conceptualisation, design and implementation of capability-building policies.

Developing countries enjoy the potential advantage of being able to draw on knowledge that has already been developed in the more advanced countries. But they confront a paradox, largely neglected in conventional policy prescriptions: to leverage knowledge you need to possess knowledge. It is not surprising that, throughout history, only a few countries have managed to free themselves from this paradox and acquire the ability to catch-up – which they did along different paths, including reliance on foreign direct investment, fostering infant industries while securing access to technology through arm's-length transactions and migratory flows. Within this diversity, the rapid rise of their domestic knowledge systems has been a common feature.

The importance of this fact is highlighted by the finding that almost 60 per cent of the difference in income between Sub-Saharan African countries and the advanced industrial countries can be attributed to gaps in the stock of knowledge.

In seeking to overcome this disadvantage, one crucial fact to be kept in mind is that the target is a moving one. Because advanced-country technologies are increasingly science-based, rights protecting their ownership stronger, and technical standards more stringent, the minimum threshold capabilities required to take advantage of the latecomer status keep rising, slowly but steadily. This imposes growing demands on developing countries' domestic knowledge subsystems and their interactions with the domestic business innovation and policy/governance subsystems. The required policies are largely outside the scope of the WTO agreements.

Policymakers facing this challenge find themselves in a quandary, because they largely lack the metrics, heuristics and needs-assessment methodologies required to design and implement competence-building policies. This is because conventional policy prescriptions have focused instead on tinkering with market-based incentives and macroeconomic

framework conditions. For all their importance, these have become increasingly insufficient to meet the challenges of development.

Accurately identifying resource-allocation needs for competence building, particularly in the field of science and technology, takes more than conventional benchmarking exercises, relevant as these are. Fundamentally, it involves pinpointing the specific requirements posed to the developing economy, opened to international trade, capital and technology flows, that attempts to develop the technical, entrepreneurial and management skills, as well as the institutions and policies that can ensure a concurrent development in the domestic supply and demand of innovative resources.

This Report provides a framework for operational policy analysis and a guide for the assessment of capability-building needs to help overcome limitations in the current understanding of economic development. The Report tests this approach by reference to technical standards and food safety systems. Metrics and needs assessments are developed in both respects to help bridge gaps in knowledge that affect the innovative development of developing countries.

This approach is part of our efforts aimed at strengthening the role of the United Nations system in the economic development domain by contributing to redress the undersupply of specific public goods in the fields of environment, knowledge and market efficiency.

Finally, I would like to leave on record how proud and rewarded I feel by the feedback on the efforts that went into this revitalized series of UNIDO's flagship publication.



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