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Capability building for catching-up: Historical, empirical and policy dimensions

UNIDO Report Presents a Toolkit to Build Up the Necessary Capabilities

Vienna, 23 November 2005 — Developing country policy makers face constraints that were absent back in the 1970s or 1980s. Current trade rules limit the scope of traditional policy instruments available to countries attempting to catch up in productivity and income, especially in the critical areas of technology assimilation and export promotion. However, according to UNIDO's Industrial Development Report 2005, there are ways to overcome this obstacle: many crucial policy tools for building domestic institutional and private sector capabilities remain below the WTO radar. This fact points to a significant potential for the promotion of domestic development, which is still barely taken advantage of due to lack of tools to assess capability-building needs and design/implement the respective policies.

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 in the current international environment?

Innovation, the new global economic engine, has become a pivotal ingredient of the set of conditions for economic catch-up. Today's catching-up policies rely heavily on the ability to create, assimilate and spread knowledge. The Industrial Development Report 2005 underlines that about 60 per cent of the difference in income between Sub-Saharan African countries and the advanced industrial economies can be attributed to gaps in the stock of knowledge. Serious lags in investments for innovative development result in significant losses in terms of growth potential for the least developed countries — which otherwise, in an apparent paradox, would stand to gain the most from their status as newcomers, or 'followers', to technological innovation.

The Report devotes a special section to assess lessons learned from catching-up experiences throughout modern history. From these experiences it builds a framework for operational policy analysis as well as a methodology for the assessment of capability building needs — filling a major gap in the current understanding of economic development. Two specific areas — technical standards and food safety — are evaluated to highlight these interactions and test the policy framework offered by the report.

Innovation systems have three main subsystems: knowledge, business innovation and policymaking. The Report focuses on the interactions between them, and identifies the policy capabilities that are necessary to bring together the demand and supply of innovative resources, a problem that often appears intractable in developing countries. Just how much is at stake is illustrated using the case of capability building needs of Argentina's food safety system. Argentina loses on average up to US\$1 billion every year due to sanitary problems that force exporters to accept lower prices for their products. This handicap, the report shows, could be overcome by investing US\$ 10 to 25 million a year over five years into building the necessary state-of-the-art capabilities in its

food safety agency to respond to the emerging sanitary and phytosanitary requirements.

Following the tradition of previous Industrial Development Reports, the second section reviews industrial activity worldwide, including measures of technological advance. This issue includes a new indicator, the industrial-cum-technological-advance index, which plots the interaction of industrial and technological advance, highlighting significant structural differences between and within regions, particularly among the developing economies. The East and Southeast Asia region is the leader, as it has doubled its share in world production during the 1990s, reaching a percentage three times larger than that of the runner-up region, Latin America.

Report available at [:www.unido.org/idr](http://www.unido.org/idr)

Note for editors

The United Nations Industrial Development Organization (UNIDO) is a specialized agency of the United Nations that focuses its efforts on relieving poverty by fostering productivity growth. It helps developing countries and countries with economies in transition in their fight against marginalization in today's globalized world. It mobilizes knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment. For more information, please visit www.unido.org.

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