

Inter-regional Technical Forum on Skills for Trade, Employability and Inclusive Growth

Investing in skills for more inclusive trade (Forthcoming joint ILO-WTO report)

Presenters

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Why do skills and trade matter?



- **Skills development is key to more inclusive trade**
- Over recent decades, trade and technology have transformed the global economy
- Increased trade integration has helped to raise incomes and to lift millions out of poverty
- A large share of the benefits only materialize if economies adjust
- An important margin of adjustment in most countries involves workers' skills: trade and technology affect the demand for skills
- Skill development policies help include firms and workers

What do we know about skills and trade?



- Findings from the economics literature
 - Theory and empirical evidence
- Skills matter for efficiency and for the social impact of globalization
- The availability of skills and skill development policies affect countries' trade patterns and performance
- Trade tends to increase the demand for skills
 - In both developed and developing countries
- Trade and skills jointly affect productivity, growth and wage distribution
 - Responsive skill development policies are key

The availability of skills affects trade patterns and performance



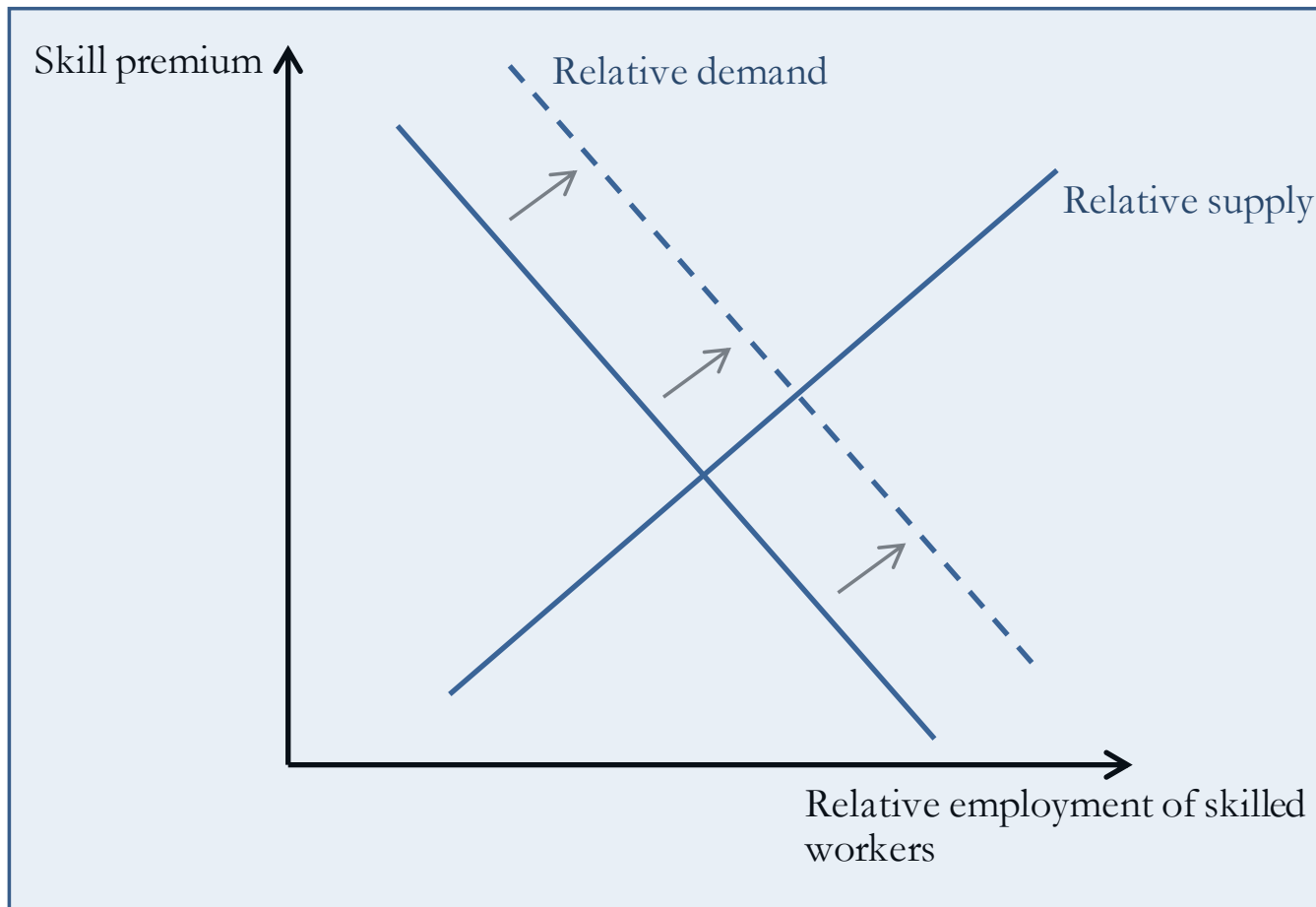
- The average skill level of workers influences countries' trade pattern and may also affect trade performance
 - Skill endowments (level, area of specialization and quality) affect comparative advantage and specialization
- The dispersion of skill levels also affects comparative advantage
 - High skill level dispersion induces specialization in industries with high skill substitutability across tasks (paper making)
- A country's development path depends on its capacity to accumulate capabilities (including skills) that lead to product diversification and quality upgrading
- Responsive skill development policies enhance participation in trade

Trade tends to increase the demand for skills through 4 mechanisms



1. Trade induces skill-biased technological change in both export and import competing firms
2. Offshoring increases the relative complexity of tasks in both source and destination countries
3. International trade leads to firm selection and more productive firms employ more skilled workers and have higher returns to skills
4. Trade raises the demand for skills in countries with a comparative advantage in skill-intensive sectors (mostly applies to developed countries)

Trade raises the demand for skills



Evidence shows that trade induces skills upgrading and/or increases in the skill premium



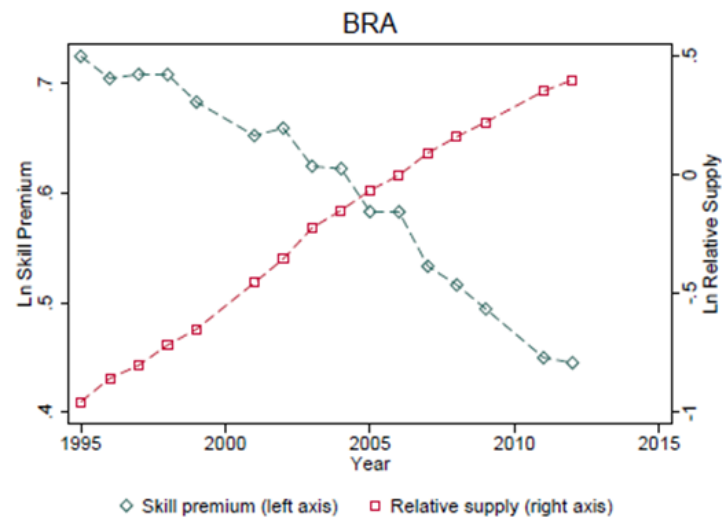
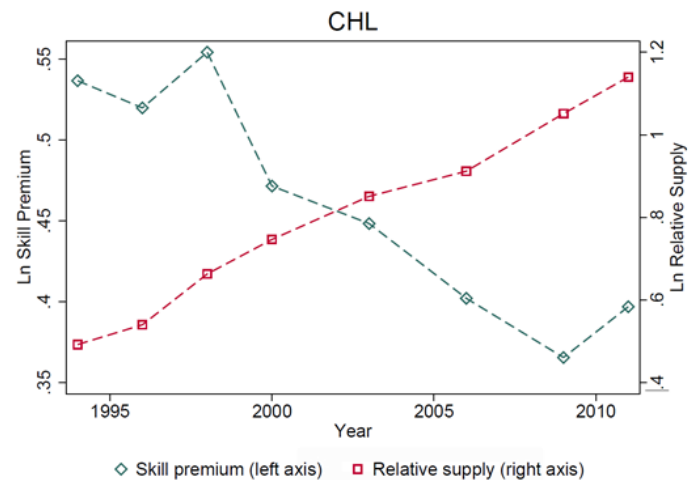
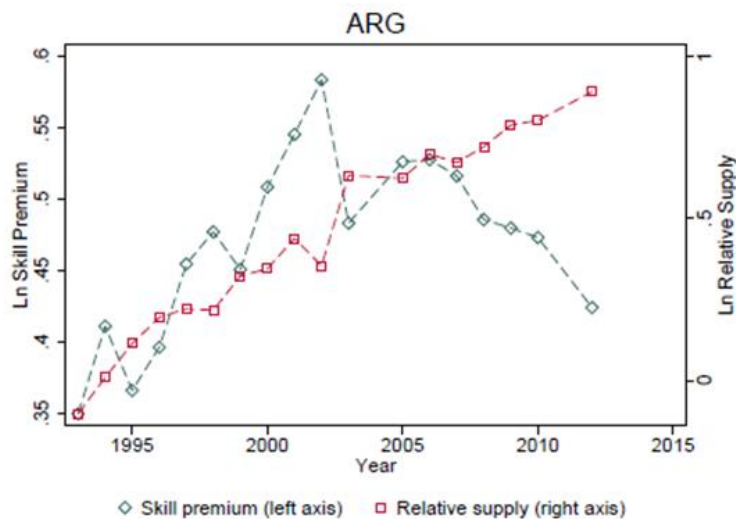
- Available evidence from developing countries suggests that trade affects employment composition mostly through the adoption of new technologies
- Trade gives exporters incentives to invest in more productive technologies
- Trade also makes imports of technology-intensive capital goods cheaper
- New technologies are complementary with high-skilled workers
- These same mechanisms have been found to also contribute to increases in the skill premium in various countries

Trade and skills jointly affect efficiency and distribution



- In developing countries, skills gaps and skills shortages constrain the performance and expansion of firms in the tradable sector
- Education and skills development policies modulate the impact of trade and technology on wage distribution (see next slide)
- High-skilled workers are better positioned to take advantage of the opportunities offered by trade
- Investment in skills can enhance the likelihood that trade will improve access to decent work

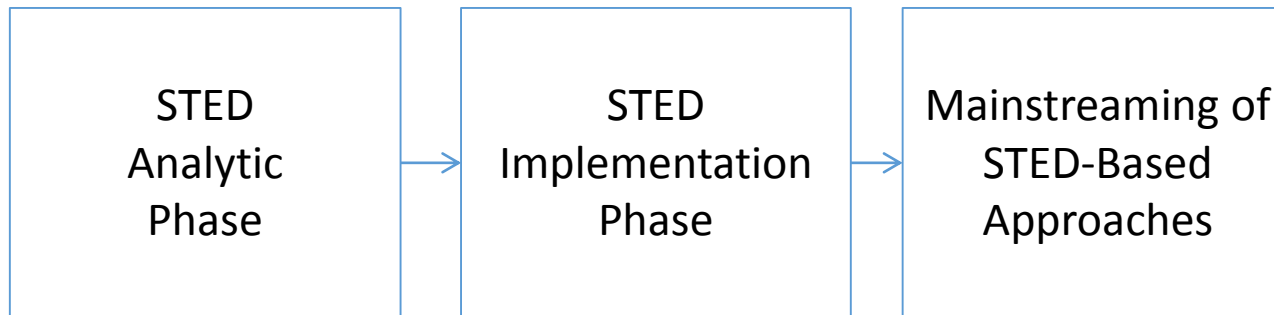
Skill supply also matters



Evidence from STED Programme, ILO experience and literature

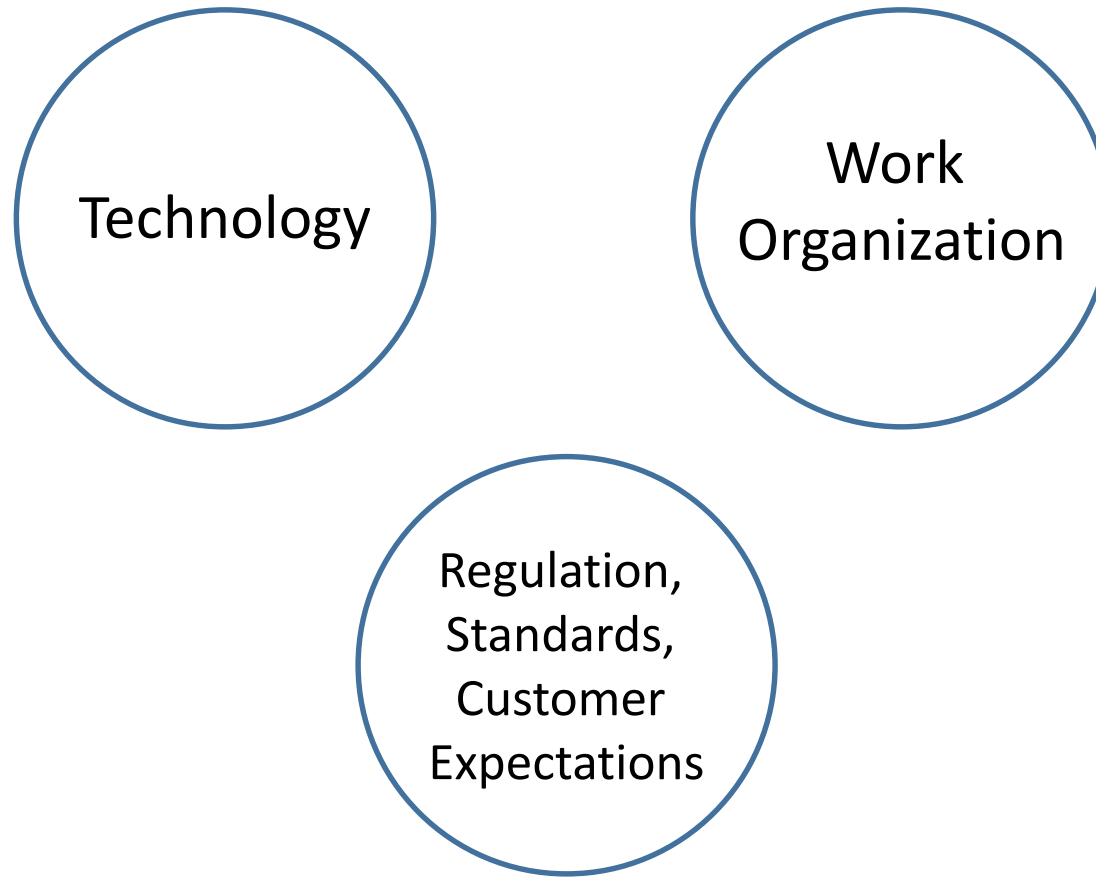


Skills for Trade and Economic Diversification



- Anticipating skills needed for success of tradable sectors, and acting on this
- Partnering with national and sector stakeholders
- Cross-ministerial
- Social partners
- Capacity building so as to mainstream
- 11 countries (more at early stages)
- 19 sectors

Key factors intermediating between competition and skills needs



Main business capability bottlenecks seen in STED



Common business capability bottleneck	Example of linked skill areas
Efficiency and effectiveness of operations	• Technical skills of machine operators, assemblers, crafts, technicians etc.
Compliance with standards and regulations	• Quality assurance and compliance skills
Marketing, sales and channel management	• Marketing skills, channel management skills
Innovation, design and product development	• Development engineering and science skills
Supply-chain management and logistics	• Logistics management skills
Value-chain development	• Key skills in the sector's value chain that contribute to the sector's success, e.g. for food-processing: agronomy, food safety

Types of motivation in skills responses to trade



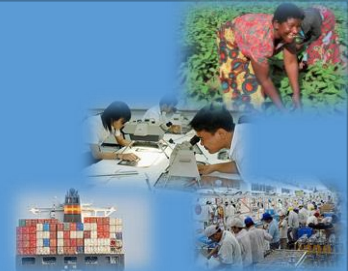
- Overall motivation
 - Economic efficiency and distribution
- More detailed motivations:
 - Pursuing competitive advantage
 - Reducing adjustment costs
 - Limiting tendency of trade to increase wage inequality

Responsive skills supply system can improve trade and inclusiveness



- A skills supply system that is responsive to current and anticipated skills needs can address skills mismatches connected to trade
- Where the supply of skills is insufficient to meet skills needs, this constrains firms in tradable sectors and their domestic supply chains in the strategies they can implement effectively
- If skills supply systems, taken as a whole, are not responsive to skills needs, this puts the economy and its exporting firms at a disadvantage in international trade
- Threat of skills obsolescence, especially for low skilled and industrial jobs

Common systemic constraints



- Core work skills of school leavers
- Skills information weaknesses
- Non-inclusive access to education and training, especially affecting low skilled workers
- Underdeveloped systems for lifelong learning
- Underdeveloped systems for work-based learning
- Student preferences not matching skills demand
- Weaknesses in education and training management
- Deficiencies in quality of education and training provision
- Unsuitable funding models
- Uncertainties among employers about business benefits of training
- Weaknesses in HRM, especially in MSMEs
- Lack of supply of suitable training
- Barriers to reaching MSMEs in sector's domestic supply chain
- Barriers to migration

Available responses and persisting challenges



- Policy coherence
- Social dialogue
- Broad access to education, skills development and lifelong learning
- Targeted training for displaced workers and/or workers under risk of displacement
- Investing in training for employed workers
- Skills development for MSMEs
- Core work skills
- Skills needs analysis and anticipation
- LMI and employment services
- Quality and relevance in skills development

More specific areas challenging for many countries



- Development of core work skills in initial education
- Quality, relevance and consistency of formal education and training provision
- Strategies for lifelong learning - particular focus on low-skilled workers, industrial workers and workers in sectors under adjustment
- Skills within the response to trade-connected employment dislocation
- Work-based learning
- Skills development at and for MSMEs
- Collection and dissemination of LMI
- Planning and acting at sector level, among other levels
- Imbalances of career opportunity and career risk between women and men
- Institutional mechanisms to anticipate skills needs in education and training governance
- Use of new technologies for education and training to improve access and inclusiveness
- Reputation of TVET
- Skills development in the domestic supply chains of exporting firms



Thank you