



# Skills for Competitiveness

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## Briefing note

The strengthening of productive capacity is crucial for countries to grow and to generate employment. In order for productive capacity to be strengthened, enterprises need to benefit from a sustainable business environment. Macro, trade, investment and other policies need be aligned in order to create an environment that allows entrepreneurial activities to flourish. The access to finance for companies, in particular small and medium-sized enterprises, is crucial in this context. But enterprises do not only need access to finance and physical capital, they also need access to human capital in order to develop.

Ensuring that enterprises find the skilled workforce they need and ensuring that workers find jobs that correspond to their skills is one of the most imminent issues to be addressed in the current period of high unemployment that particularly hits the young. The fact that in many countries well-educated young people are among the unemployed is a signal of serious mismatches between the supply and the demand of skills in the labour market. Reducing this mismatch is crucial for enterprises to grow and for the young to find jobs. Aligning business growth strategies and skills development policies is therefore an important ingredient for strengthening countries' productive capacity.<sup>1</sup>

In ILO's experience, strategies for raising productive capacity work best if they are designed at the sectoral level. At the sectoral level, it is easier to foster collaboration between employers, workers and relevant education, training or other governmental institutions. It is also easier to ensure alignment between skills development policies and other development policies.

On the other hand, trade openness is unlikely to automatically create job miracles since successful integration into world markets tends to go hand in hand with the adoption of new technologies and productivity increases. Productivity increases are a main driver of growth, but export growth does not necessarily lead to additional job creation. Trade liberalisation may even contribute to de-industrialisation in countries with simple and undiversified production structures.

On average jobs in the exporting sector tend to be better paid and characterised by better working conditions than jobs elsewhere. However, in order for this to result in an improvement of the overall job market situation, exporting sectors and other productive sectors in the economy would need to grow

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<sup>1</sup> See the policy approach for skills development agreed by governments, employers and workers at the 2008 International Labour Conference: *Conclusions on Skills for Improved Productivity, Employment Growth and Productivity* ([http://www.ilo.org/skills/pubs/WCMS\\_103457/lang--en/index.htm](http://www.ilo.org/skills/pubs/WCMS_103457/lang--en/index.htm)).

substantially. In other words, the big challenge is in ensuring a relatively high supply response of the economy.<sup>2</sup>

At the same time, employment is gaining importance as an element of trade related technical assistance, often upon explicit demand from beneficiary countries. Trade related technical assistance — in particular when provided through the ‘multilateral’ channels (Aid for Trade Initiative, EIF) — often aims at strengthening the supply capacity of low income countries. The importance of trade-related physical infrastructure has often been emphasized in this context. Labour market characteristics of low income countries, such as the predominance of the informal economy, also have an impact on countries’ supply response. This could be taken into account in the design of future technical assistance. Given the role of education and skills for export performance, and for a country’s capacity to absorb FDI and to move into new economic activities and value chains, it is a crucial to put a stronger emphasis on skills development in trade-related technical assistance.<sup>3</sup>

The ILO has begun to collaborate at the sectoral level with other UN agencies to combine their expertise related to productivity and competitiveness with ILO’s expertise related to skills development. This collaboration has been promoted under the umbrella of the UN-CEB Cluster on Trade and Productive Capacity. Joint approaches are very promising for strengthening productive capacity in developing countries and for ensuring that growth goes hand in hand with the creation of decent employment. ILO actively supports collaboration in the context of the UN-CEB Cluster, for instance, through the design of technical assistance tools that can easily be integrated into trade-related technical assistance initiatives, such as the ILO’s programme on Skills for Trade and Economic Diversification, or STED.

STED is a capacity-building tool to help constituents identify sectors with export growth potential, assess skill gaps in those industries, and design and implement appropriate responses to fill those gaps. It does so through building up the capacity of local statistics offices and academic institutions to adapt and apply quantitative assessment tools and by vetting research findings and determining policy recommendations through an extensive process of social dialogue.

In the last three years, pilot testing of STED was completed in Ukraine (Metal industry and Tourism), Bangladesh (Agro processing and Pharmaceutical), Macedonia (Tourism and Food processing), and Kyrgyzstan (Garments); a Users' Guide was produced; and several consultations were launched to mobilise resources from non-traditional sources through the Aid for Trade initiative.

The STED programme is the basis for the ILO's participation in the Aid for Trade Initiative for Arab States, an initiative of the International Islamic Trade Finance Corporation (ITFC) to be implemented through a multi-agency partnership that includes UNCTAD, UNDP, UNIDO, and ITC in addition to the ILO.

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<sup>2</sup> Marion Jansen and José Manuel Salazar-Xirinachs, “Job creation through trade: Challenges for African countries”, *Bridges African Review*, Volume 1, Number 2, June 2012

<sup>3</sup> Marion Jansen and José Manuel Salazar-Xirinachs, “Trade and jobs: what role for multilateralism?”, *WTO Public Forum 2012*.