

26th OSCE Economic and Environmental Forum

“Promoting economic progress and security in the OSCE area through innovation, human capital development, and good public and corporate governance”

SECOND PREPARATORY MEETING

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Food-for-thought paper

Human capital development

Overview

In an increasingly interconnected OSCE region, the Economic and Environmental Dimension is essential for stability and security.

Technological innovation and digitalisation, alongside globalisation, are profoundly reshaping economic systems, the production chain and consumption behaviours. In particular, the Fourth Industrial Revolution is already producing significant shifts across all industries, impacting on business models and even changing the very nature of work. In turn, this is impacting on human capital, not least by changing the dynamic between talents and skills and the labour market. However, unless these developments are well understood and the process of transformation well managed, there is a risk that such economic disruption might lead to increased illegal economic activity and other factors that can undermine security and stability in the OSCE region.

Given the OSCE’s mission to promote sustainable economic growth and foster international economic co-operation to counter such challenges, the Italian Chairmanship of the OSCE has decided to dedicate the 26th Economic and Environmental Forum to “Promoting economic progress and security in the OSCE area through innovation, human capital development, and good public and corporate governance”.

While new technologies and innovation may provide valuable opportunities to improve the wellbeing of our societies by helping to address significant challenges such as unemployment, low economic growth and corruption, they may equally pose challenges to the security of our societies and individual people, in particular undermining the job security of specific categories of workers.

eGovernance is a particularly illustrative example of the dual aspect of these changes. On the one hand, e-government solutions can help curb corruption and promote access to information and citizen engagement. On the other hand, the implementation of e-government initiatives faces technological difficulties such as the lack of shared standards and concerns around data ownership.

Current developments such as the transition to the Fourth Industrial Revolution and the impact of digitalisation and artificial intelligence on economies and societies all require a focused approach by policymakers with the aim of building a common vision on priorities for reform within education and employment to harness the opportunities and curb challenges related to technological transformation. Improving educational attainment and investment in human capital development is essential in order to compete in the digital economy and digitalised workplace. Sharing best practices and ensuring international collaboration within the framework of multilateral organisations such as the OSCE - in line with the OSCE Maastricht Strategy - can help address such challenges of the digital era and their implications for security.

Human Capital Development

According to the *Global Human Capital Report* of the World Economic Forum, “human capital” is understood as “*the knowledge and skills people possess that enable them to create value in the global economic system. Human capital is not defined solely through formal education and skilling. It can be enhanced over time, growing through use—and depreciating through lack of use—across people’s lifetimes*”¹.

Human capital is critical not only to the productivity of society but also to the functioning of its political, social and civic institutions. Understanding its current state and identifying key areas for policy development and investment are crucial for economic stability and identifying ways to promote sustainable growth. The impact of technological change on labour markets calls for a renewed focus on investment in human capital development and leveraging education for social well-being and shared economic prosperity.

The development of new technologies and the expansion of the digital economy over the economy as a whole are accelerating the transition to new ways of creating economic value (such as through the use of robots and artificial intelligence) that will require human labour less and less. According to a recent study of the Organisation for Economic Cooperation and Development (OECD), one out of six jobs will disappear due to the impact of digitalisation. If poorly managed, this transition could have disruptive consequences on labour markets, widening the already significant gap between the “haves” and the “have nots” and so undermining social cohesion.

As well as the possibilities of jobs disappearing, other major challenges of this transition include the significant shortage of the required skills in the labour market(s) and the emergence of ‘non-standard work’ that lies outside the scope of labour regulations with possible adverse effects on wages and working conditions.

Key to our response must be regular investment in human capital development together with ensuring safety nets for the most vulnerable groups. Indeed, a more equal future will require relevant transformation in training and education systems, as well as the sharing of

¹ <http://reports.weforum.org/global-human-capital-report-2017/key-findings/>

responsibilities between public and private sectors in governing the transition and in promoting measures to facilitate and expand access to the new technologies.

This transformation will also require specific measures aimed at fighting corruption in education. Equal access to educational, skills and training is prerequisite for a society that wants to promote growth and increase social equity. Corruption in education may limit skills acquisition and therefore diminish human capital development.

Addressing the challenges and opportunities of innovation and digitalisation on social and economic development will require a long-term, strategic vision for human capital. Some of this work is already underway: recognising the dangers, the International Labour Organisation (ILO) has launched a two-year initiative on the “*Future of Work*” with a wide-ranging agenda², which will run up to its own centenary in 2019. However, given the security implications, the OSCE should also provide a framework for governments, the business community, educational institutions and individuals to gain a better understanding of these changes, assess the possible consequences for human capital and re-think approaches and policies comprehensively in order to allow human capital to adapt, adjust and develop to meet the challenges and demands of the modern economy.

Particular areas for action: bridging the digital gap

Reducing gaps in human capital development is key to designing and implementing policies for economic development and inclusive growth. One of the most pressing issues in this area is bridging the digital gap, which is even more critical in such a fast-evolving economic environment.

Digitalisation is already transforming societies, the business environment, governance models and individuals’ daily lives. A redesign of educational systems and approaches, of job creation policies, and of the relationship between government and business is needed to create long lasting, shared prosperity.

A clear understanding of the dynamics of this transformation and its impact is a prerequisite for all political leaders, policymakers, decision makers, business leaders, educators and opinion leaders. To this end, focused and continued discussion is needed, especially as the final outcome of this digital transformation cannot be taken for granted: it could lead to progress or to socio-economic disruption and disparity that exacerbates existing economic threats to stability and security in the OSCE region.

OSCE mandate and the 26th Economic and Environmental Forum

The 2003 OSCE Strategy Document for the Economic and Environmental Dimension (OSCE Maastricht Strategy)” includes paragraph 2.2.12 on Human capital development which underlines that “*Human resources are an essential factor for economic growth and development [...], and calls on participating States to “take appropriate measures to promote education and training and increase co-operation, including with specialized international institutions and organizations, in areas such as facilitating and widening access to educational, research and training institutions through increased fellowships and internship programmes.”* According to the Maastricht Strategy, investing in human capital development

² <http://www.ilo.org/global/topics/future-of-work/lang--en/index.htm>

is a key policy area to tackle “*deepening economic disparities between and within countries*” deriving from the uneven benefits of “*globalization, liberalization and technological change*”. The Ministerial Council Decision no. 8/17 on “*Promoting economic participation in the OSCE area*” calls upon pS to “*continue their efforts to promote education and vocational training, [...] and increase employment opportunities*” [...] *ensuring the necessary conditions for the education and vocational training of youth, and through programmes facilitating youth access to the labour market*”.

It is in this context that, with the involvement of international governmental, academic and business representatives, the Second Preparatory Meeting of the 26th Economic and Environmental Forum will focus on the following key issues related to the impact of digitalisation and the Fourth Industrial Revolution on the future of work, namely:

- the gap between formal education and the needs of the labour market;
- the impact of early childhood education - how to improve teacher quality and methods;
- development of cognitive versus non-cognitive skills;
- addressing the challenges of an ageing workforce through life-long learning and facilitating access to skills needed in the labour market (including emerging economies);
- tackling the major challenges related to vulnerable categories of the labour market and how to share such responsibility between the public and the private sector;
- reinforcing corporate governance models that balance profit with social impact, wages and labour rights;
- promoting public governance that provides equal access to digital tools and models of investment that support shared prosperity.