Ladies and gentlemen,

It is a great honour for me to be here with you, to share a few thoughts on a subject that is particularly dear to me. The subject of Global Value Chains.

Turkey — an emerging economic giant — already forms part of these Chains in being one of the biggest recipients of Foreign Direct Investment in the region. I expect that Turkey, over the coming years, will be integrating further into Global Value Chains because of its stable political and economic environment, and its large population and workforce size. Geographically, Turkey lies at a crossroads between East and West, and between North and South, making it perfectly logical that it be right at the heart of multiple such chains.

Ladies and gentlemen, most people who speak about Global Supply and Value Chains neglect the trade policy side of the debate. Discussions typically revolve around how best to attract investment, but do not go further. The trade policy environment of a country can be a substantial determinant of how quickly it can rise up the ladder of value addition, moving from bottom parts of a supply chain to its upper echelons and creating brand names. There are many other policy spheres too, of course, that are relevant to climbing this ladder, like education and a trained workforce, but I would like to put the spotlight today on trade.

So what is the link then between Global Value Chains and the trade policy environment? The link is clear. By virtue of being global, these chains lead to the very same goods or services being produced in multiple geographical locations. It is not only finished products or finished services that cross territorial boundaries, but the vast majority of trade is actually in intermediate products and services; i.e. components. As these components travel into one country, and out another, to finally form a finished product, what producers are telling trade policy makers is that trade barriers, whether at the border or behind borders, are having a far worse impact than ever before. They disrupt entire supply chains. A country's imports, in today's world, are at once its exports.

I realized almost five years ago that WTO trade negotiations — which are seeking to modernize the rules of international trade and bring them into the 21st century — were still based on a 19th century conception of international trade; and that this discrepancy explained some of the difficulties encountered in the “Doha Round” of trade negotiations.

Not that our negotiators were unaware of the realities of globalization — it is just that they did not have at their disposal the statistical tools that would have enabled them to appreciate the extent of the change under way. The fact is that the statistical measurement of trade had not been adapted to the new realities. And, as WTO statisticians like to say, “the only thing that really counts is what you can measure; what cannot be counted does not count!”

In the 19th century, when David Ricardo developed what was to become the foundation of the theory of international trade, countries exported what they produced. The English exported cloth made of English wool in exchange for what was entirely Portuguese made wine. And for many decades, indeed, products were manufactured in only one country from start to finish.

But a lot has changed since then. Companies began to resort first to local subcontractors, and then to international subcontractors for jobs that they no longer considered to be within their core business.

This major transformation in the geography of production can largely be explained by technological progress which, from containerization to information technology, has considerably reduced the cost and complication associated with distance.

The textiles sector, is a sector that Turkey is all too familiar with. The global textiles value chain spans the “mere assembly” of imported fabric for export (which is what Vietnam, China and Romania for example do); to “original equipment manufacture” where apparel products are manufactured in full going beyond mere assembly (which is what Turkey mostly does); to “original design manufacture” where in addition to full product manufacture a country can create ready-made collections at different levels of sophistication (a step along the ladder that Turkey is starting to climb together with Hong Kong); and all the way to “original brand manufacture” where a country becomes the buyer in the value chain and starts to manage the supply network (which is where Italy and the US for example lie).

So, today, the various phases of production associated with garments, locomotives or airplanes are scattered across the world, creating global production chains. Fewer products are actually “Made in the US” or “Made in Turkey,” and more are simply “Made in the World”.

All that is very well, you might say, but what we are seeing is jobs disappearing and factories closing, and not the contrary. And this is where the challenge begins for statisticians. It is much easier to count the workshops that close as a result of foreign competition than those that expand their activities thanks to the efficiency that subcontracting brings; and as we know, what cannot be counted does not count.

But, brave statisticians have taken up this challenge and reinvented the national accounting framework to better reflect what is essentially much greater globalization.

The WTO and the OECD have cooperated with a number of other partner agencies on a new and improved statistical and analytical framework for measuring trade. Last year, that framework appeared to us to have reached a sufficient level of maturity, for the OECD and the WTO to jointly release a public database of international trade measured in value-added.

So what does this database tell us? First of all, that the share of services in international trade is completely different from what we thought it was. We live in a world where services like IT, marketing, logistics, assembly and distribution are increasingly subcontracted.

It is therefore not surprising that the share of services more than doubles when trade is measured in value-added terms. The figures for 2008, immediately before the global economic crisis, show a rise from 23% of total trade, measured in the traditional way, to 45% if one incorporates value-addition. According to our new figures, services are thus the chief contributors to global trade, while the manufacturing industry's share of international trade falls (from 65% to 37%). So the first lesson for trade negotiators is that they must pay much greater attention to services trade, and to removing the barriers that obstruct it.

The second lesson is that in shooting down your imports, you may actually be firing at your exports. They are progressively becoming very much the same. Today almost 60% of trade in goods is in intermediates and the average import content of exports is around 40%. In other words, to export, a country must import too. I am convinced that the new statistics we published will allow a better appreciation of this global interdependence, which in its turn will foster a more cooperative — and less mercantilist — approach to trade negotiations.

The third lesson is that measuring trade in terms of value-added makes it possible to reassess the problem of trade imbalances, which has been a source of tension since the 2008-2009 crisis. As I said at the beginning of my address, traditional statistics attribute the full commercial value of imports to the last link in the production chain, even where the contribution made by that final link has been minimal. Knowing that the last link is often China and that the leading importer is the United States, the geopolitical implications of this measurement error are immediately plain to see.

Lastly, measuring trade in value-added allows a country to focus its policies on what really matters; in other words, job creation. How much of GNP is generated from international trade? What are the jobs that correspond to this value addition, now and in the future? These questions are essential, and are the ones that really matter in the political debate on the welfare-generating effects of international trade.

Ladies and gentlemen, it was important to reformulate traditional statistics, largely based on the 19th century models, to adapt them to 21st century needs. I am confident that this innovation will be a milestone. And, I am happy that the WTO has been the driving force behind this breakthrough. After all, all regulators know that their greatest asset lies in better understanding the activities they are called upon to regulate!

I thank you for your attention.