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An old subject, but still highly topical: resource squeeze and the world trade order

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Bonn, 20 December 2010. The financial crisis hardly seems to have been overcome, and a new global challenge is already threatening the upturn in the German economy: raw materials are running short. Not all of them perhaps, but some of precisely those rare minerals and metals that are needed for electromobility and photovoltaics. According to a poll recently conducted by the German Chamber of Industry and Trade (DIHK), most industrial companies are complaining about the rising prices, and one in two is even worrying whether, before long, it will be able to obtain critical raw materials at all. And yet geologists at the German Federal Institute for Geosciences and Raw Materials (BGR) in Hanover swear that all metals will be available in sufficient quantities in the earth's crust for the foreseeable future; at worst, oil may become scarce (see the Current Column of 19 July 2010 on Peak Oil).

Geology is, however, responsible for the concentration of deposits on just a few of the world's regions and countries. This leaves the way open for the formation of cartels and for monopolistic behaviour, especially as global production of raw materials is below the "geological production possibility," because the political environment in many developing countries with major reserves is anything but inviteing for mining investment. And that is no coincidence: rare and strategically important natural resources simply attract war and civil war.

German industry's acute fear of a resource squeeze is aggravated by the coincidence of rising world demand and the reluctance shown by a number of countries to supply their natural resources: high-tech industries are processing more and more new minerals and rare metals. It only takes one of these substances not to be available in sufficient quantity for the whole value chain to be in danger. But that is exactly what is likely to happen because, with their rapid industrialisation, emerging economies, too, are developing a growing need for industrial raw materials. It is no wonder that they are inclined to limit exports of their raw materials or to impose export taxes on them so as to give their own industry a competitive edge. Only recently, China has demonstrated this kind of self-assertive industrial policy with its restrictions on the export of rare earths, startling the old industrialised countries. Furthermore, the emerging economies are trying to secure direct access to the raw materials of other developing countries, especially in Africa. In the process, they are using some quite unconventional instruments. Chinese state-owned enterprises, for example, are providing development assistance for complementary infrastructure development.

The concern about the supply of raw materials is, then, entirely justified. Consequently, the German government and the European Commission are taking the matter seriously. A report by the European Commission judges the supply situation to be critical in the case of 14 materials. With its Raw Materials Initiative, the Commission intends to face up to the emerging supply risks and to encourage joint action by the EU Member States to reduce dependence on external raw materials through increased materials efficiency, recycling and a search for alternatives. The German Economics Minister, too, is putting forward an updated Raw Materials Strategy of the Federal Government, setting up a German Raw Materials Agency under the BGR umbrella and suggesting that a "German Raw Materials Corporation" should act as a demand cartel and challenge the supply power of China and other commodity exporters (meanwhile, "Deutsche Rohstoff AG" has revealed it has been in existence since 2006). For a liberal economics minister, taking such hectic initiatives on raw materials is anything but a matter of course. According to his Weltanschauung, it is best left to the individual enterprise to worry about its supplies of raw materials, while government takes responsibility for ensuring that open world markets function in compliance with the rules of the multilateral trading system.

Yet it must be asked whether invoking the WTO rules against aggressive trade policies will be effective in China's case. The WTO itself does not have any hard power to impose sanctions for infringements of its rules; it can do no more than award the victor in a dispute settlement the right to take retailatory measures with a similar effect to that of the infringement committed by the loser. But as China's economic weight in the world grows and its Industries become increasingly integrated into international value chains, the leverage exercised by punitive European tariffs on imports from China dwindles.

On the other hand, the multilateral trading system exercises considerable soft power through its mere existence, which forces WTO members to obey the rules most of the time, even without formal dispute settlement. When referring to the soft power of the WTO, however, member states which used to bend the rules whenever domestic producers came under pressure from international competition may have a credibility problem. In the past, after all, the Europeans and Americans felt no compunction in defending their farmers against imports from more competitive developing countries and subsidising their own agricultural exports. Developing countries affected by protectionism and subsidised exports were fobbed off with the promise of liberalisation concessions in an ever more distant future. It is not only notorious critics of globalisation who therefore discern an asymmetrical distribution of power in the world economic institutions between industrialised and developing countries, which should at least have been corrected in the WTO during the current "development round." But after nearly ten years of negotiations in the Doha (development) Round the promise has still not been kept. Beyond ritualised commitments in every G7/G8/G20 summit communiqué, neither the EU nor the USA has made a convincing effort to cut the Gordian knot of the mutually obstructive agricultural interests of industrialised and developing nations with a general offer to open their markets and reduce their export subsidies.

Further evidence of the half-hearted nature of the Europeans' commitment to the world trade order, with its implications for the trade and economic policies of all the member countries, is the little attention paid to this year's World Trade Report of the WTO on Trade in Natural Resources. The report is a treasure trove for all economists and politicians interested in the specific aspects of world trade in raw materials and its control by trade and investment policies. Based on the state of the art in economic theory and citing numerous empirical examples, the World Trade Report 2010 describes the specific mechanisms and perils of natural resource markets and the exploitation of natural resources in a finite world. In his foreword WTO Director-General Pascal Lamy even questions the "standard prescriptions for greater trade openness" for natural resources markets, according to which free trade will always produce the best result for all participating countries. He argues that the developing countries' management of natural resources should be improved to prevent over-exploitation and that the WTO should adopt further and more precise rules on the world trade in natural resources with a view to defusing the emerging conflicts between producing and consuming countries. Lamy therefore rightly calls for a "prompt closure of the Doha Round," so that the new challenges and conflicts in the international natural resources trade may be dealt with under the WTO umbrella.

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