

THE FOLLY OF EXPORT RESTRICTIONS

EDITORIAL

Import curbs have long been protectionists' weapon of choice. **But export restrictions are a growing problem.** On Tuesday, in **the first case of its kind, the World Trade Organisation backed a complaint against China's use of quotas and duties to limit exports.** The case related to **curbs on exports of raw materials** such as zinc and coke. But it sets a precedent which should also apply to rare earths – minerals used in making high-tech goods from mobile phones to smart bombs, and 97 per cent of which are mined in China. This is good news.

From an economic perspective, there is little to recommend export restrictions. They disrupt global supply chains. Even for the exporting country, the gains are illusory, because the curbs thwart the price mechanism. Far better, if possible, to let this work: not only are high prices an efficient way to ration scarce goods, they also encourage those capable of doing so to boost production, and thus, ultimately, bring prices down again.

There are some cases – the prevention of critical shortages of foodstuffs, for instance – where export restrictions may be the lesser of two evils. China argued that its policies were justified because they related to the conservation of exhaustible natural resources. Such a defence might be permissible under WTO law. **But conservation** was clearly not the motive for China's actions: had that been the case, quotas on production, rather than exports, would have been the solution.

China must now comply with the WTO's ruling. There is reason to hope it will. The country has **a reasonable record of abiding by WTO rulings.** Moreover, its export restrictions will ultimately prove self-defeating.

China's restraint of rare earth exports is a case in point. Although its low labour costs and environmental standards in effect make it a monopoly supplier, China is home to only 36 per cent of the world's rare earth deposits. Following moves last year by China to restrict exports, other countries are now looking elsewhere for sources of these minerals. In the long run, the net result of China's actions will be a smaller share of this lucrative market.

The importance of the WTO's ruling goes beyond China, however. As global competition for resources intensifies, the temptation to restrain exports of strategic commodities increases: China is not the only country tempted. The WTO's first ruling on this subject provides a solid base from which to challenge such practices.