OPINION

China Runs Into Natural-Resources Pushback

A ruling by the World Trade Organization eases fears of Beijing's power to corner markets.

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Strategists have long feared that China's quest for natural resources would lead to ever-higher prices, a breakdown in trade and perhaps even wars. But a stunning rebuke to Chinese manipulation last week at the World Trade Organization is a sign that the global system is far more resilient than the worriers have claimed.

The ruling made public on March 26 centered on the Chinese strategy of restricting exports of raw materials—most notably rare earth elements such as cerium and neodymium used in high-tech defense and energy systems—to give Chinese companies a leg up and inflict damage on other resource consumers. The WTO panel declared the restrictions illegal and opened the door to retaliatory tariffs from the United States, Japan and others.

Analysts from elite universities to the Pentagon have worried that China is "locking up" commodities from crude oil to copper, building a mercantilist alternative to the system of global markets that the U.S. has long promoted as the best guarantor of resource security. The data point in a different direction. Chinese oil companies have bought properties from Angola to Canada, but most Chinese oil imports are procured on the open market. Moreover, most Chinese-owned oil produced abroad is sold to the highest bidder, not only shipped home. For some resources—notably iron ore, the second most traded commodity after oil—China's entry has actually pushed global trade in a more market-based, and less political, direction.

Still, analysts argue that China's voracious consumption of natural resources push commodity prices up and cause havoc for economies around the world. Between 2000 and 2008, Chinese demand drove prices for a host of resources strongly higher. But fear of a never-ending price spiral is unfounded. Supplies from slow-moving projects in everything from African copper to Australian gas are finally becoming available to meet Chinese needs.

High prices have also spurred remarkable technological innovation: One of the most notable developments has been the boom in U.S. shale gas and "tight" oil. This boom was induced by historically high prices and is now helping mitigate the risk of spiraling resource costs. Consumers around the world—including in China—are also adopting more-efficient technologies and processes, ranging from lightweight vehicle materials to steel recycling, reducing pressure on global resource markets and prices.

What about worries that Chinese resource companies are gutting the rule of law where they invest, hurting workers, the environment and state finances? There is certainly some truth to this—particularly in...
parts of Africa and Latin America where governance is weak, with Chinese companies using bribes and failing to conduct proper environmental-impact assessments. Still, resource extraction can be ugly no matter who does it: Stories about riots against Canadian miner Barrick Gold in Peru (accused by locals of polluting the water), for example, read like accounts of anger over Chinese operators in countries from Zambia to Chile.

But resource-rich countries are gradually adopting tougher standards that are bringing Chinese and other companies into line. Meanwhile, many Chinese firms—notably the big three oil companies—are increasing their own ability to meet tough standards. They have been pushed in part by changes in Chinese government policy and pressure from watchdog groups (such as Green Watershed) at home, as well as a desire to succeed in advanced markets like Canada and the U.S.

It is true that commodities prices remain much higher than they were 10 years ago, with little chance of that changing. The biggest Chinese resource companies continue to enjoy a competitive edge through cheap capital and, occasionally, government assistance. And, perhaps most worryingly, China is increasingly jockeying with its neighbors to control islets and atolls in the South and East China seas, near which much of its natural resource trade travels.

This should not blind us to the good news. Growing Chinese demand for natural resources inevitably poses challenges. But as this week's WTO victory affirms, the world has plenty of tools to effectively respond.

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