



## The WTO Rebukes China on Subsidies

*Gary Clyde Hufbauer says that a ruling against export curbs of certain raw materials sends a signal that China cannot evade its global trade obligations.*

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Steve Weisman: The World Trade Organization has dealt a setback to China in the first week of July. This is Steve Weisman with Gary Hufbauer at the Peterson Institute for International Economics to discuss the ruling and the implications. Gary, what was the ruling?

Gary Hufbauer: The ruling was by a panel, and remember that's the first stage. China can always appeal and it may very well appeal to the appellate body. But the ruling dealt with China's restrictions on exports of a number of raw materials: bauxite, coke, coking coal for making steel. I believe gold was in there. And there are zinc and a number of other kinds of materials and probably a list of 20 items.

China had done two things. It put quotas on some of these, limiting the export volumes. And it put taxes on exports of others. And the whole purpose, of course, it seems obvious to me, was to keep the price within China of these various raw materials relatively low relative to the world price so that firms in China which used these materials to make more advanced items—parts, steel, whatever—would have an advantage, and would be subsidized. And that was what China did.

Steve Weisman: And those products that are subsidized compete unfairly on the world markets?

Gary Hufbauer: Absolutely. It would compete unfairly.

Steve Weisman: It's a little counterintuitive to say that a trade barrier is a case where you're limiting exports.

Gary Hufbauer: Yeah, you're right.

Steve Weisman: It starts with limiting exports, but it ends up helping their exports.

Gary Hufbauer: Exactly. Years ago, there was a case where Brazil limited its exports of raw soy beans in order to help its soy bean processors and sell the finished soy bean meal on the world market. That's what China was doing here. It helped their exports of the more highly finished materials.

Steve Weisman: China has been a pretty good litigant on these complicated WTO cases. I mean they generally accept the verdict. Is that correct?

Gary Hufbauer: Yes. Let's put it this way. They're good losers. They do have very good lawyers and sometimes they hire--

Steve Weisman: American lawyers--

Gary Hufbauer: American lawyers to argue their case. They put on a good defense.

Steve Weisman: Well, they're subsidizing the legal industry.

Gary Hufbauer: Yes, they may be subsidizing our legal industry for sure. They probably are. But in cases they've lost -- and they've lost several cases over the years and we've documented them on a policy brief on the website -- they changed their rules. They changed their laws. And they have respected the adverse decisions. In that sense, they are good WTO player.

Steve Weisman: What's the larger significance of this ruling?

Gary Hufbauer: There are two larger significant aspects. One that this just isn't a fair way of going about international trade -- that is, to depress the price of raw materials in order to subsidize your upstream industries. And that's a big thing, because China has a lot of raw materials that it produces and can do this.

The second thing, which is I think equally important, is that China can't use some kind of ad hoc environmental defense to justify these restrictions. They came in and said, "Well, mining bauxite puts dust in the air or mercury or whatever. And so we can put these quotas on." And the WTO said, "Oh no, you can't. If you're going to use an environmental defense, you have to be even-handed between your domestic users of the product and foreign users. And you have to do it in a way that's quite reasonable." And none of these was reasonable.

And this is a big precedent for a case which is just over their horizon on rare earth [materials], where China is basically a monopoly supplier to the world and has severely restricted them for a couple of years now and driven up the price.

Steve Weisman: Their motivation on rare earths has been cited as political in nature.

Gary Hufbauer: It started off political. It was a way of punishing Japan, a big buyer of this rare earths for magnets used in autos and other such uses or kind of environmental products. They wanted to punish Japan over the Senkaku Islands, where there's a dispute as to who really owns these islands. But there's a commercial dimension as well because China discovered, 'Aha, if we limit our exports since we're the dominant world exporter, the price goes sky high. So we actually get more money by limiting exports. And also we help our downstream auto industry and whatever.' Windmill industry, they all use these rare earths. And that's more of the same as what's happened in this other case.

Steve Weisman: The U.S. has a lot of complaints against China before the WTO including in the IPR [intellectual property rights].

Gary Hufbauer: We have big issues on intellectual property rights. And for us that's much more important than these raw materials, even though those are important. And I think these decisions on the raw materials don't have much legal carry-over to our intellectual property concerns.

Steve Weisman: But they do show that the WTO is willing to step in to tough issue.

Gary Hufbauer: Yes, and the WTO is willing to not take what I would call law-school arguments and to twist the plain meaning of words. And there's plain meaning on what's an appropriate environmental restriction. It should not hinder international trade any more than is necessary. And China promised when it joined the WTO to get rid of export taxes and quotas and so forth. They didn't allow any of these, what I would call ingenious arguments to overturn the plain meaning.

Steve Weisman: Gary, thanks for walking us through this.

Gary Hufbauer: Thanks.

