



Trade in Natural Resources



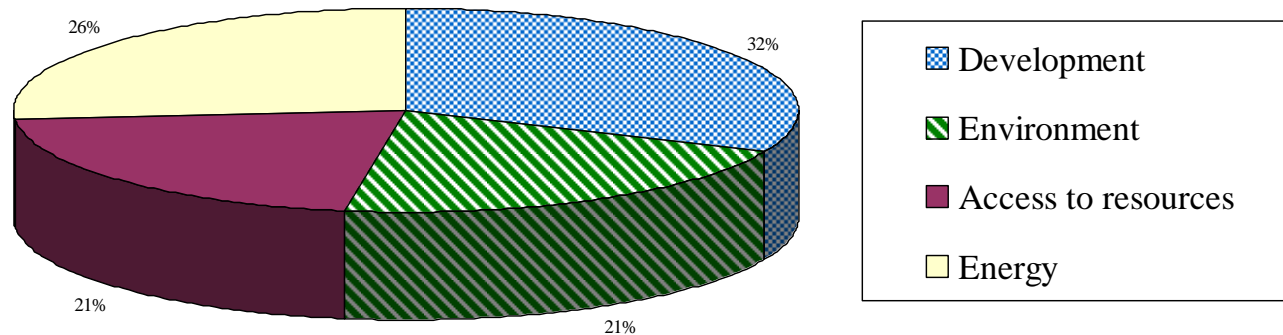
Michele Ruta
Economic Research Division, WTO
ECES, Cairo, 27 September 2010

The webpage on resources trade



- In January 2010, the WTO Secretariat launched a **discussion forum** on the topic of the Report
- Nearly 100 participants contributed with their views on natural resources trade and the WTO

Submitted contributions by policy concern



Why a Report on Natural Resources?



- Resources trade represents an important share of world trade
- Natural resources have unusual characteristics
- As the world re-emerges from global recession, tensions in natural resources trade will return
 - Properly designed **trade rules** are particularly valuable in resource sectors

What we mean by “natural resources”



- A working **definition**:

“Natural resources are stocks of materials that exist in the natural environment that are both scarce and economically useful, either in their raw state or after a minimal amount of processing.”

- The Report focuses on resources that are traded internationally:

- **Fish, forestry, fuels, mining products**

Key features of natural resources



- Natural resources share **special economic characteristics**:
 1. Uneven geographical distribution
 2. Exhaustibility:
 - Rents (extra profits)
 3. Externalities (environmental and other effects external to the market)
 4. Dominance (oversized share of resource sectors in trade and/or GDP)
 5. Price volatility

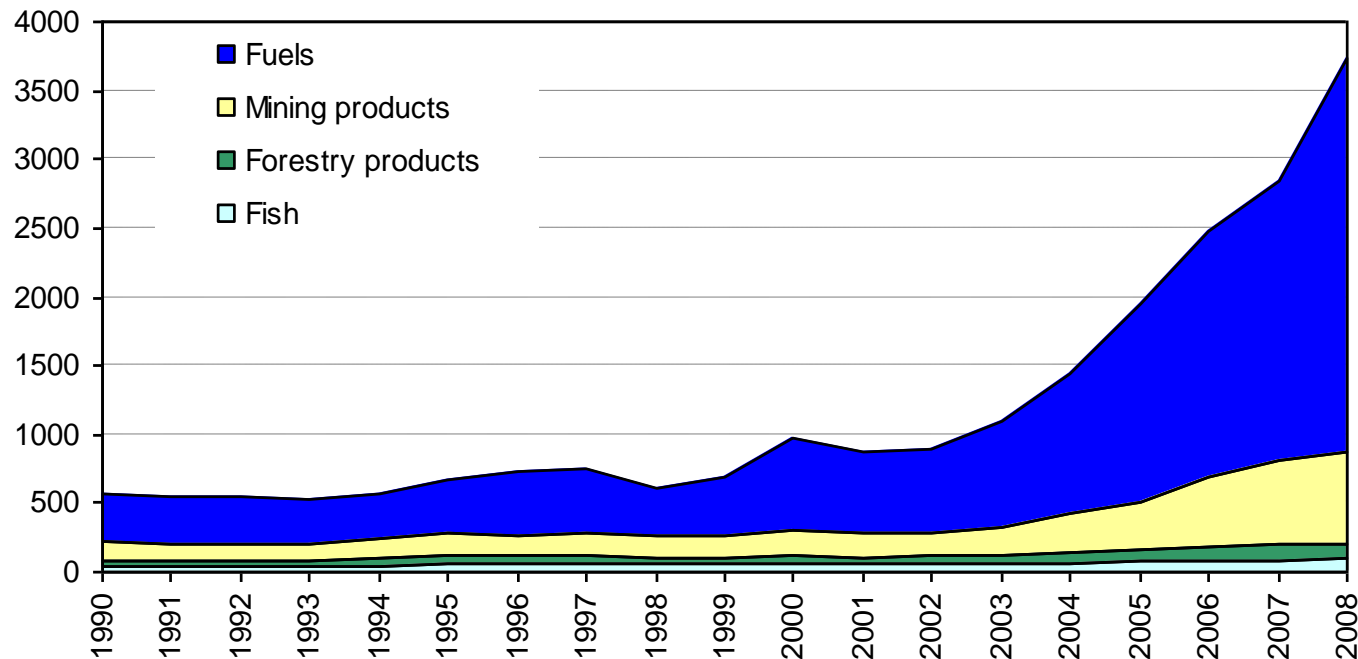
- These characteristics represent the five cross-cutting themes of the Report

Key features of natural resources



- In 2008 natural resources trade was nearly **24%** of world trade in dollar values
- This share has grown **20%** per year in the last decade

World resources exports by product, 1990-2008 (Billion dollars)



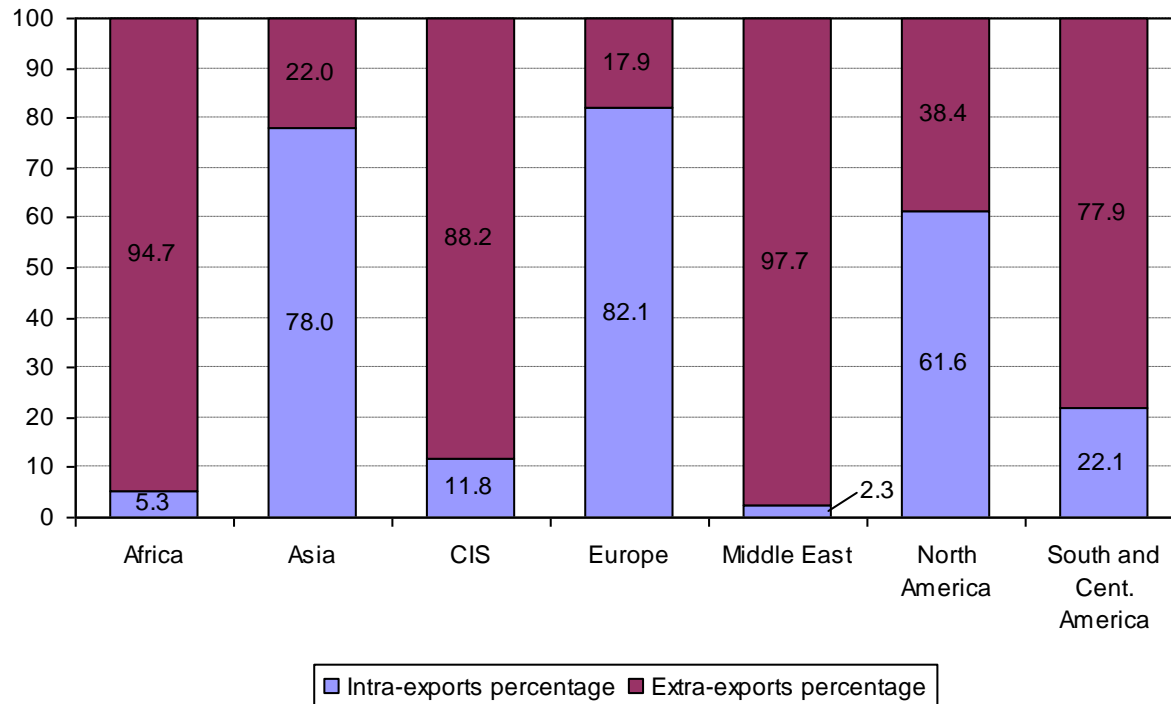
Source: WTO Secretariat Estimates.

Key features of natural resources



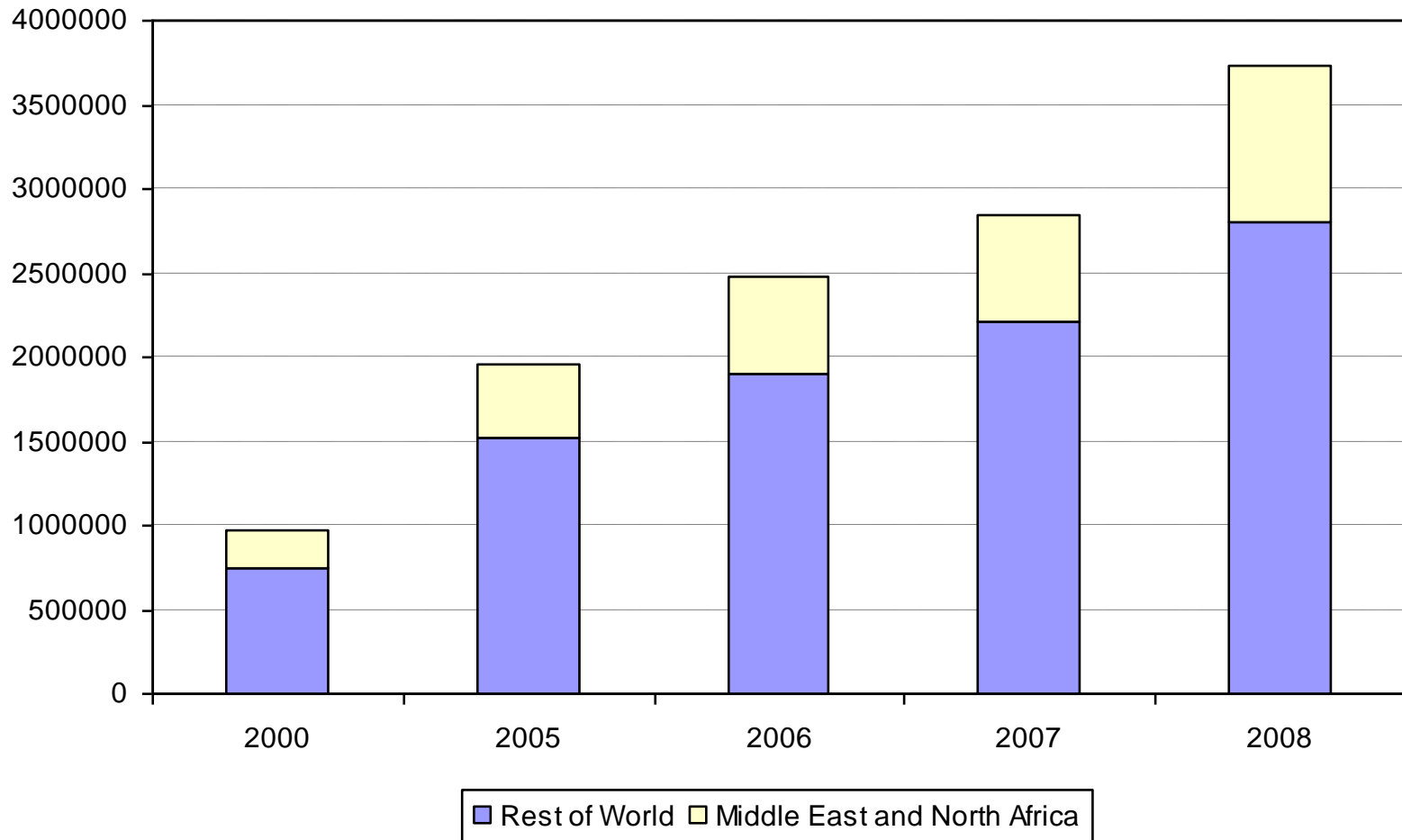
- Regions that are rich in natural resources (Africa, CIS, Middle East) tend to ship these goods to other regions

Share of intra-trade in natural resources exports, 2008



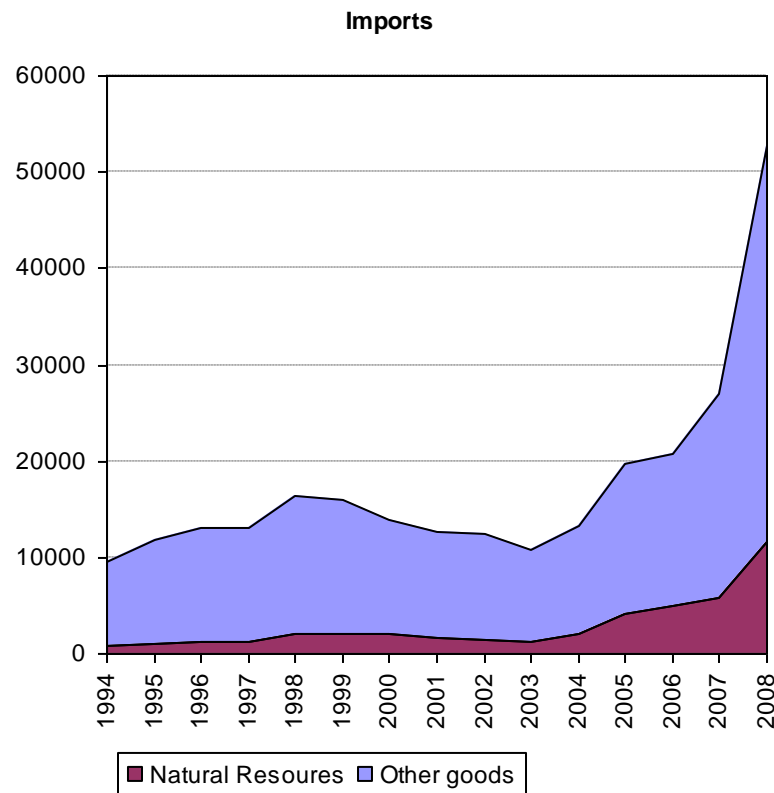
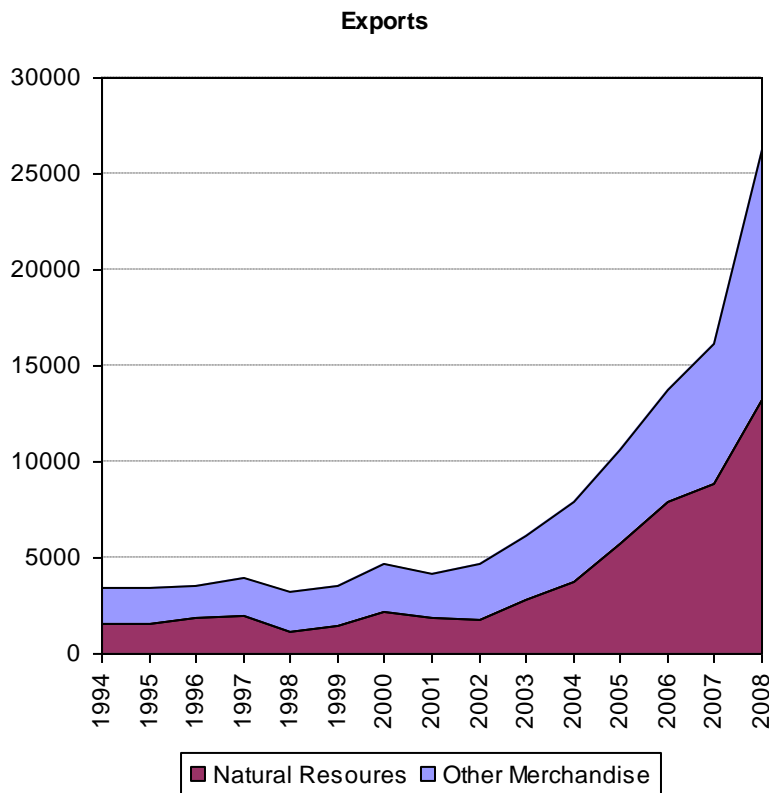
Source: WTO secretariat estimates.

MENA share of world natural resource exports, 2000-08



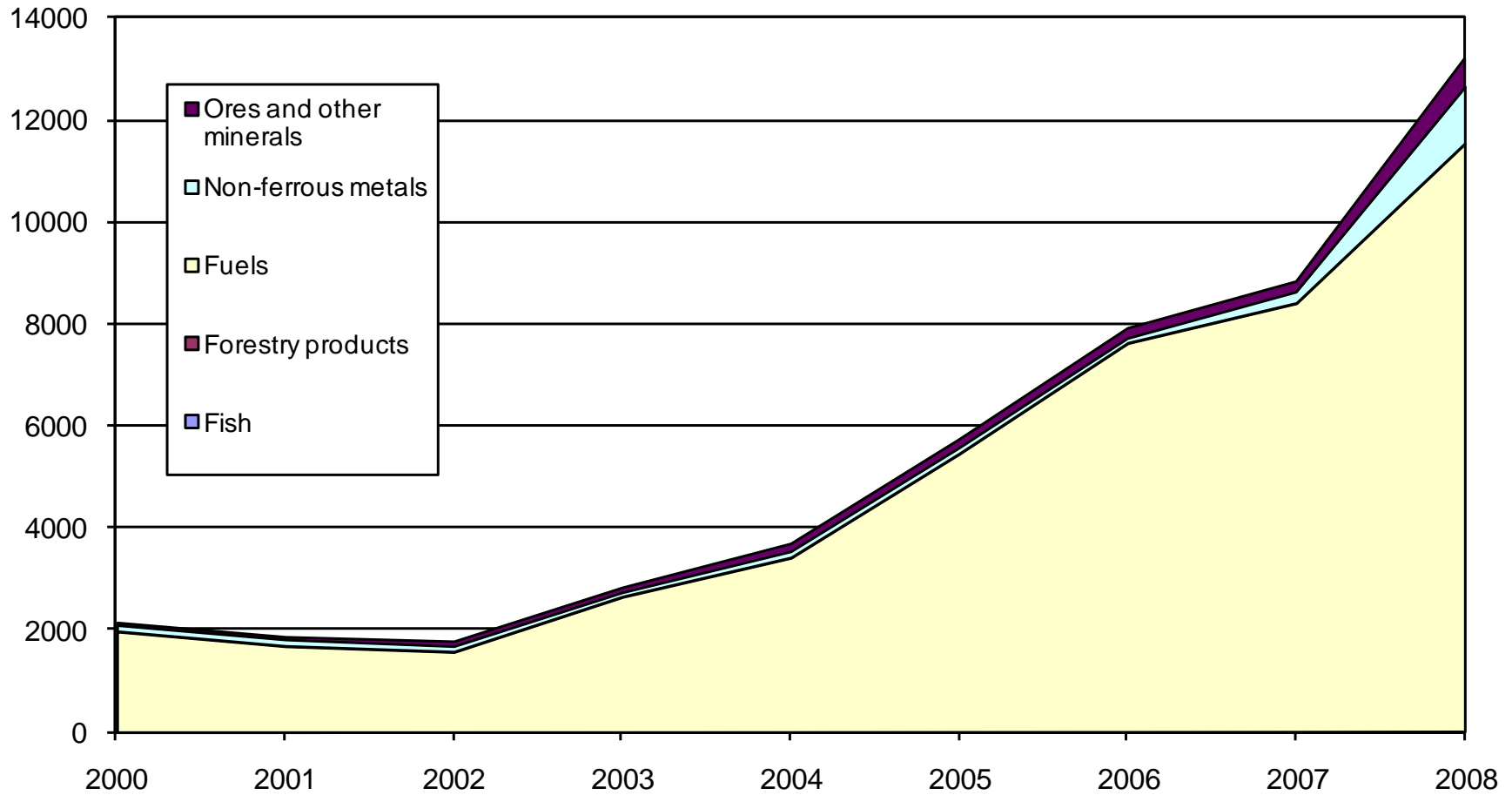
Source: WTO Secretariat estimates, data are in million dollars.

Share of natural resources in Egypt's total merchandise exports and imports



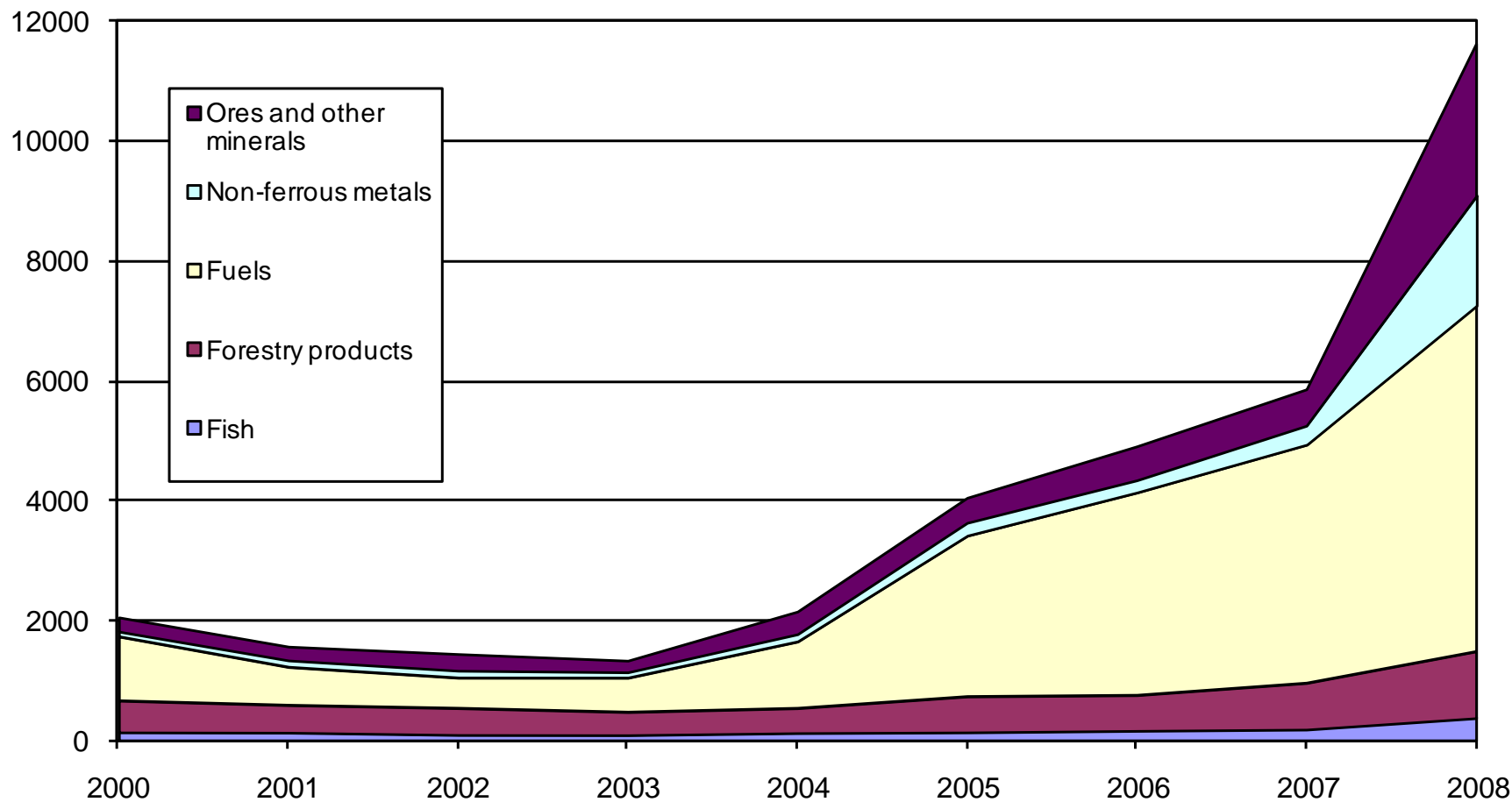
Source: UN Comtrade database, data are in million dollars.

Egypt's exports of natural resources



Source: UN Comtrade database, data are in million dollars

Egypt's imports of natural resources

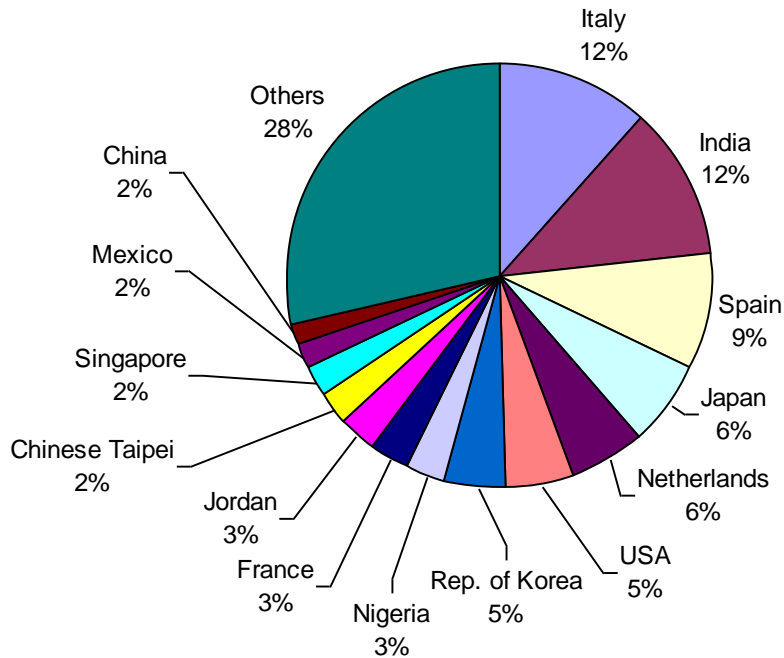


Source: UN Comtrade database, data are in million dollars.

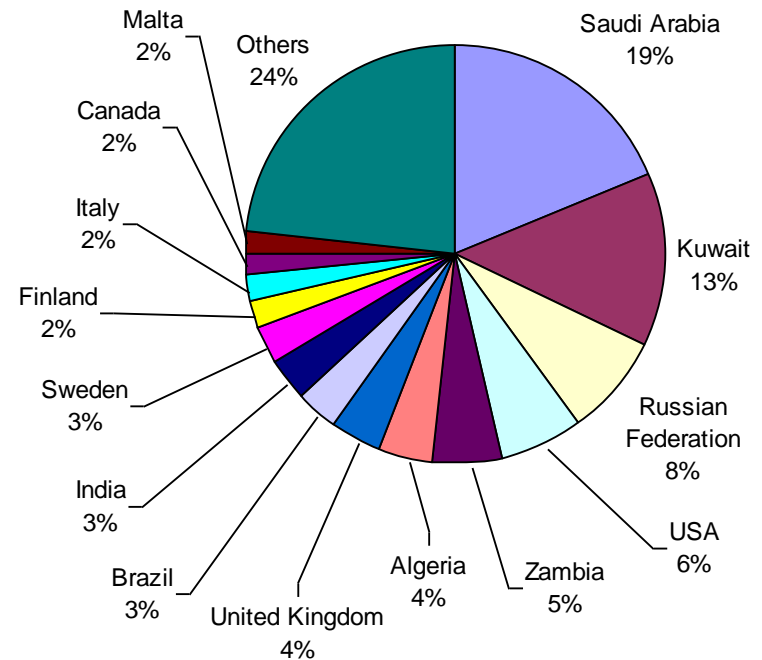
Egypt's natural resources exports and imports by destination and origin



Exports



Imports



Source: WTO Secretariat estimates, data are for 2008.

Trade theory and natural resources



- The uneven distribution of resources suggests the existence of **static gains** from trade
- However, welfare comparisons are complicated by the effect of trade on resource exhaustibility:
 - This effect depends on market conditions
 - **imperfect competition** (cartels)
 - **open access** (poorly defined property rights)

Trade theory and natural resources



- Three **other major issues** commonly associated to natural resources trade:
 - Environmental externalities (damage)
 - Natural resource curse
 - Price volatility of natural resources
- Open trade may **exacerbate** or **ameliorate** these problems:
 - Environment: trade may increase consumption, but also promotes a more efficient use of resources
 - Development: trade can induce over-specialization, but also provides access to foreign markets

The resource curse



- The **resource curse** hypothesis
 - It is the possibility that resource abundance may harm economic performance
 - Transmission channels include the “Dutch disease”, corruption and civil conflict
 - The empirical literature has not reached a consensus
- Trade may intensify or dilute natural resource dominance in an economy
 - The latter effect depends on governments’ supporting policies for **diversification**

Resource price volatility



- The determinants of resource **price volatility**
 - Market forces: growth in emerging economies, limits to production capacity
 - Speculation: “herding” effects
 - What caused the oil price increases in 2003-2008?
- Volatility has a negative impact on **exporters** that requires government intervention
 - Fiscal effects
 - Growth effects

Trade policy and natural resources

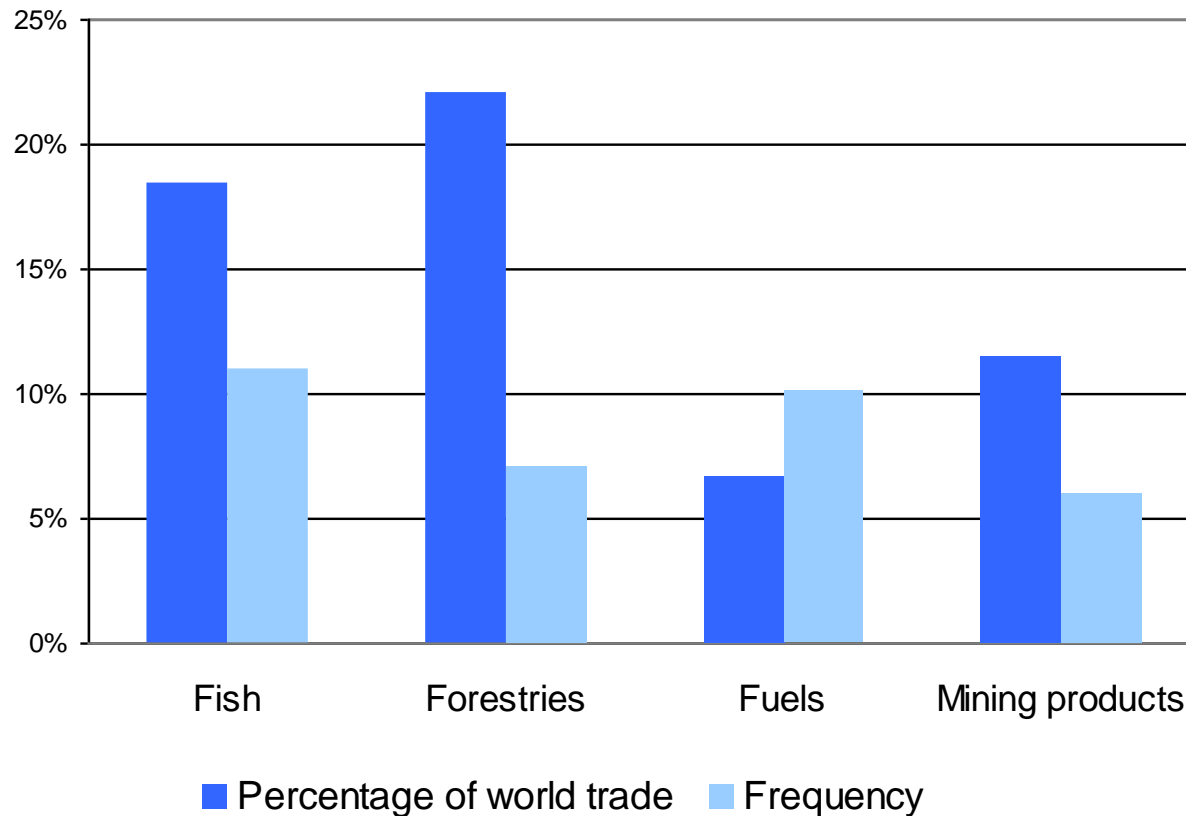


- **Export measures** dominate trade policy in resource sectors:
 - Bound tariffs are on average 1.7% in developed countries
 - About 35% of all notified export restrictions cover resource sectors
 - Export taxes cover 11% of natural resources trade

Trade policy and natural resources



Export taxes by natural resource - upper bound estimates



Source: Trade data are from Comtrade, year 2007; information on Export Taxes is derived from TPRs (1995-2009)
Note: Calculations are based on HS-2 digit data.

Trade policy and natural resources

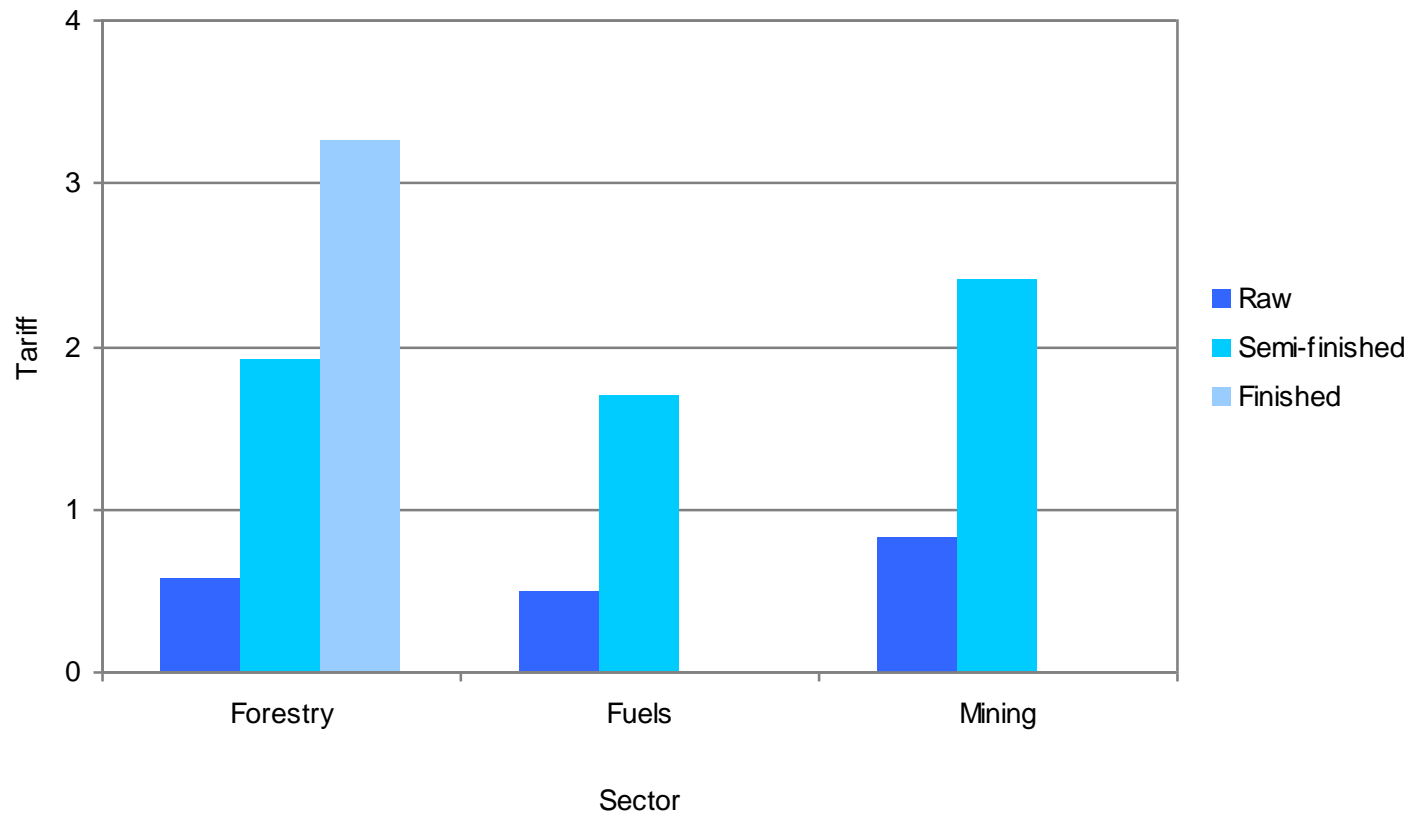


- Other policies that relate to resources trade:
 - Domestic policies such as consumption taxes, technical regulations and **subsidies** are widely used
 - Global subsidies to fisheries are in the order of US\$ 25 and 29 billion annually
 - Import restrictions rise with the stage of processing (**tariff escalation**)

Trade policy and natural resources



Tariff escalation: structure of tariff protection in developed countries, by stage of processing



Source: WTO Integrated Database and International Trade Centre.



Trade policy in Egypt

Applied tariff rates by **natural resource**

Fishery	Forestry	Mining	Fuels
5.3	4.0	4.4	3.7

Applied MFN tariff rates of **processed products**

Cork and paper	Petro-chemicals	Mineral-based semi-manufactures	Wooden furnitures
12.5	2.2	12.7	30.0

Source: WTO Integrated Database and International Trade Centre, year 2007.

Trade policy and natural resources



- Governments often employ trade policies to address the specificities of resource sectors:
 - Improve conservation, reduce environmental impact, diversify economic activity, offset volatility
- Yet, trade policy also has **distortionary** effects
 - Trade measures shift rents across countries, alter the terms of trade
 - Trade policy is second-best compared to domestic measures

Natural resources and trade regulation



- Natural resources trade is regulated by current **WTO Agreements**:
 - Principles of the WTO offer a framework for limiting non-cooperative and self-defeating trade policy
 - WTO rules leave scope for governments to address specificities of natural resources trade
- Trade regulation is one aspect of **international cooperation** in natural resources
 - Other agreements deal with environmental externalities, corruption, etc.

Natural resources and trade regulation



- Intensified cooperation would be beneficial in several challenging areas
 - **Export policy:** commitments on export taxes
 - **Sustainable exploitation of natural resource:** “green”, fishery and fuel subsidies
 - **Domestic measures affecting resources trade:** production quotas, dual pricing
 - **Legal clarity and coherence:** freedom of transit, coherence among international agreements

Thank you!

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Trade in natural resources

