

Section 2 Risks of overcapacity and overdependence

In recent years, the risks of overcapacity and overdependence have come to be recognized as uncertainty factors. As a general rule, in heavy industries in particular, for which it is difficult to make short-term production capacity adjustments, overcapacity is prone to arise in a recession phase of the economic cycle. Moreover, in the case of the Chinese steel industry, for example, around 20 years ago, it was already pointed out that one factor of overcapacity was the coexistence of state-owned enterprises and private enterprises during the period of transition from a planned economy to a market economy, when the latter group of enterprises was gradually replacing the former group as the major economic force.⁷

Afterwards, it was argued that some countries' industrial policies were overly encouraging investment on the production side and creating overcapacity in a broader range of sectors, a situation that led to steep increases in exports. Indeed, around 2014, in sectors such as steel, shipbuilding, and chemical fibers, production capacity continued to expand with no regard for economic rationality, creating overcapacity, mainly in emerging countries. Price falls triggered by this situation caused corporate earnings to deteriorate, resulting in an increase in trade remedies.^{8,9}

Concerns have been voiced about the risk that a rapid increase in imports of a particular product from a particular country may undermine industries or manufacturing infrastructure of other competitor countries in a short period of time and create overdependence on that particular country for the supply of that product. This is also a factor that may create a situation that enables acts of economic coercion, which was mentioned earlier.

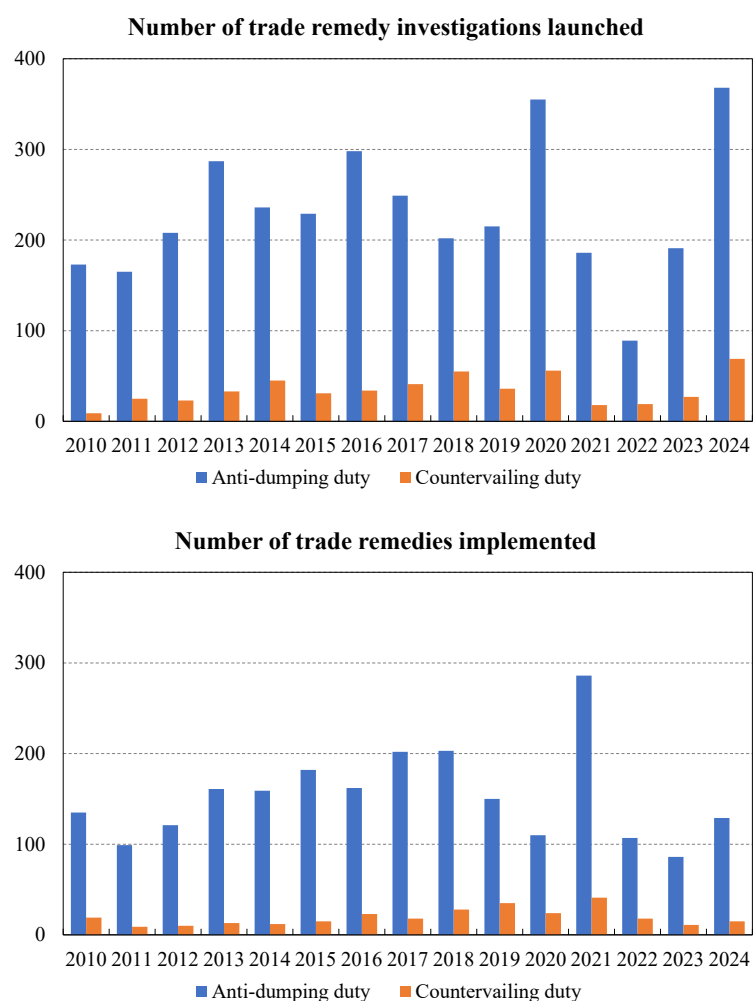
Under these circumstances, since the second half of the 2010s, trade remedy investigations have come to be launched around the world more and more frequently. In 2024, the number of investigations launched rose steeply (Figure I-2-2-1). Using trade remedies allowed under the WTO agreements is a legitimate right of governments under the rules-based international economic order, but it should be kept in mind that trade remedies could also heighten uncertainty from the viewpoint of business, depending on what specific procedures are followed or how the remedies are implemented. The growing risks of overcapacity and overdependence are posing a challenge to the existing international economic order as it heightens uncertainty for cross-border business activity.

⁷ Kwan (2006)

⁸ Generally speaking, trade remedies refer to antidumping measures, countervailing duty measures, and safeguard measures. For detailed information on those measures, see Ministry of Economy Trade and Industry (2024).

⁹ Ministry of Economy, Trade and Industry (2024)

Figure I-2-2-1. Number of trade remedy investigations launched and trade remedies implemented worldwide



Source: WTO.