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1970: Graduated from the University of Tokyo, and entered the Ministry of International Trade and Industry in the same year. 1975: Received an MBA from Harvard Business School. 1995: OECD Science, Technology and Industry Director 2001: Fujitsu Research Institute Senior Executive Fellow • 2005: Senior Managing Director • 2009 Member of the Board, Executive Fellow 2001: The Research Institute of Economy, Trade and Industry Director.

Steel Excess Capacity Problem Mentioned in the Summit Declaration

As many of you will be aware, the following sentence was included in the Trade section of the declaration of the G7 summit (Ise-Shima Summit) held on May 26 and 27.

We recognize that global excess capacity in industrial sectors, especially steel, is a pressing structural challenges with global implications and this issue needs to be urgently addressed through elimination of market distorting measures and thereby, enhancement of market function.

It is rare for a particular sector to be mentioned in the Summit Declaration. But I, as the author, who serve as Chairman of the OECD Steel Committee, see this as a message to China from the G7.

One month earlier, on April 18 and 19, a high-level OECD Steel Committee meeting was held in Brussels. Higher ranking attendees than usual assembled, such as Vice-Ministers and Bureau Generals from each country, to discuss what could be done towards resolving the steel excess capacity problem. In particular, agreements were sought with regard to the two points of 1) ending governmental subsidies and other interventions, and allowing corporate activities to proceed in line with market principles, and 2) promoting information exchange between countries, and heightening the transparency of corporate activities and government measures. Requests for China to cut production or reduce facilities were excluded from the outset. However, despite negotiations over two days, ultimately no agreement was reached. This was because China adopted a stance of opposing any agreement. Why did China take up this kind of posture?

Firstly, China is dissatisfied with the global attitude that the Excess Capacity problem is a Chinese issue. The meeting was immediately proceeded by coverage in the European and American mass media to the effect that its purpose was to press production cuts on China. China responded to this by protesting that excess capacity exists in each country, and why should China alone be regarded as problematic? And further, that excess capacity has the dual aspects of supply and demand, and that cutting facilities or production alone would not resolve the problem. This is half right and half wrong. China accounts for a large proportion of the expansion in facilities since the turn of the century. In addition, the reduction in potential growth rate of China, which accounts for approximately half of global steel consumption, is assuredly not a short-term phenomenon.

Secondly, China is not an official member nation of OECD, and accordingly should not be bound by any OECD agreements. In fact, China has been attending the Steel Committee for many years, and was also involved in the recent high-level meeting from its preparatory stages. Other countries have also made efforts to accept the claims of China to the greatest extent possible. Nevertheless, China repeatedly sought assurances that the consensus documents would not be legally binding, and held fast until the end that the word “agree” or similar expressions must not be used in the

documentation. At the final stage it also made various moves to go back over items which had been agreed upon up until that point.

China clearly had no desire to reach an agreement.

Thirdly, with regard to a surge in imports from China, China strongly requested to hold in check the movements by partner countries to protect their domestic industry by strengthening of anti-dumping and taxation of subsidized exports (abbreviated to AD/CVD). Japan too suffered from measures taken by the developed countries of Europe and America at one time, and there are areas where I would like to sympathize, but the developed countries were adamant that these were measures which had been approved by the WTO. In these ways, China and the other countries were not able to see eye to eye over basic points, and ultimately the meeting culminated in the issuing of a Chairman's Statement which did not include any terms of agreement but merely recorded the course of discussions. Following the meeting, the participating countries other than China prepared and published a "Statement Without China." This was intended to make it clear that it was China that had thwarted the meeting.

China maintained a posture of saying everything it wanted to say and not making concessions. It repeatedly made long addresses without regard for time limitations during drafting, the plenary meeting and the press conference after the close of the meeting. In terms of outcomes, China achieved its objective. But the story does not end there.

Looking back in time awhile, when China joined the WTO in December 2001, in contrast with the other countries it was not an absolute market economy country, but had the status of a developing country in transition. As a result, AD/CVD can be easily invoked against goods imported from China. The WTO designation as a non-market economy was humiliating for China. This treatment was set to end after 15 years, and that term expires at the end of this year. But in view of the negative approach of China in Brussels, the European and American steel industries have strengthened lobbying towards governments that China, where state-run enterprises account for more than half of production, cannot yet be described as a market economy, and its treatment as a non-market economy should be extended. This is the

background to the sentence in the recent Summit Declaration referred to at the beginning. The American steel industry is concurrently showing movements toward filing massive legal actions on AD. Affairs are not moving in a desirable direction. There is a need for both the developed countries and China to enter into discussions with a cool head. It is necessary to settle the issue of China's WTO status by the end of the year, and prior to that the G20 will be held in China in September. The steel problem cannot be avoided as well. In view of the fact that China is the host country, there will be an onus on it to reach some kind of agreement, and it will not be possible to repeat the kind of events we saw in Brussels.