

Export Trend of Taiwan Fastener Industry in Q1-3 2019

by Dr. Wayne Sung

The statistics of main industries in Taiwan in the first 3 quarters of 2019 have been published. The first 3 quarters of 2019 saw decline in both volume and value of steel fastener export in Taiwan. This is mostly affected by two global incidents, one being the U.S./China trade war and the other being the regional trade conflict between Japan and South Korea.

As shown in the following table, Taiwan's steel fasteners are greatly affected by Chinese companies selling at low prices in places other than the U.S. because of their setback in sales there. The sales value of steel fasteners in Taiwan decreased rapidly. Although the U.S. has canceled the raise of tariff to 30% which would have been in effect on October 15, it has already had a serious effect on the whole Taiwan industries. The trade war has caused serious global economic slump to the critical point of recession. A new financial crisis bodes an alert that the trade war between the world's two

largest economic entities have driven the world's economy to the edge of a breakdown.

Refer to Table 2 for a comparison chart of Taiwan's export values to multiple regions between the first 3 quarters of 2019 and the same period in 2018. The U.S. marked the highest sales growth for Taiwan in the first 3 quarters of 2019, followed by Japan. Exports to other regions were declining. Among them, China and Hong Kong marked the largest margin of decrease in both value and proportion. Europe, the 18 countries in New Southbound Policy, Latin America and other critical export destination for Taiwan all saw a decline.

I pointed out in my previous article that China's setback in U.S. sales and overcapacity would drive China to sell at low prices in places other than the U.S., and in another article that South Korea's retreat from the Japanese market would benefit Taiwanese companies' export. Both predictions match what is happening now.

©Table 2. Comparison chart of Taiwan's export values to multiple regions between the first 3 quarters of 2019 and the same period in 2018.

Unit: USD Millions

Regions/Countries	First 3 quarters in 2018	First 3 quarters in 2019	Change (%)	Export proportion in 2018	Export proportion in 2019
China	70,924.89	65,920.56	-7.06%	29%	27%
18 Countries in New Southbound Policy	50,867.60	47,429.37	-6.76%	20%	20%
U.S.	28,943.81	34,055.45	17.66%	12%	14%
Hong Kong	31,479.82	29,579.56	-6.04%	13%	12%
Europe	23,562.04	22,388.82	-4.98%	9%	9%
Japan	16,966.04	17,221.67	1.51%	7%	7%
Latin America	4,575.75	4352.82	-4.87%	2%	2%
Others	21,228.16	21,356.09	+0.60%	9%	9%
Sum	248,548.11	242,304.34	-2.51%	100%	100%

Comparing the steel fastener (HS code 7318) industry statistics of the first 3 quarters of 2019 and the one of the first 3 quarters of 2018, the total global export value of Taiwan's steel fasteners in the 2019 period dropped by 4.58%, and the total export volume dropped by 4.74%. On the whole, the export value and volume for the 12 months of 2019 is forecast to drop by about 5%. The influence is most evident in the U.S. and Europe. Due to the trade war and

China's orders retreating from the U.S., Taiwan's fastener export value increased USD 55 million in the U.S., up 4.25%, but dropped 11.09% to USD 135 million in Europe. Despite a minor growth of 3% in Japan, the export value in other regions decline, especially in the 18 countries in the New Southbound Policy with a whopping 13.24% drop which is very concerning!

©Table 3. Comparison chart of Taiwan's fastener export values in the first 3 quarters of 2019 and 2018.

Unit: USD Millions

Regions/Countries	2018	2019	Change (%)	Export proportion in 2018	Export proportion in 2019
U.S.	1,294.30	1,349.32	4.25%	37%	41%
Europe	1,223.75	1,088.00	-11.09%	35%	33%
18 Countries in New Southbound Policy	280.04	242.95	-13.24%	8%	7%
Japan	175.91	182.73	3.88%	5%	6%
Latin America	124.39	115.56	-7.10%	3%	3%
China	108.61	80.11	-26.24%	3%	2%
Hong Kong	20.64	18.07	-12.45%	1%	1%
Others	236.43	228.84	-3.21%	7%	7%
Sum	3,464.07	3,305.58	-4.58%	100%	100%

China has long been a heartland for the overseas investment and production of Taiwanese companies and leads to a triangle trade pattern where Taiwan takes orders, China produces products and ships them, and the U.S. purchases the products. The trade war has severely struck the global investment and production deployment

of Taiwanese companies as well as the triangle trade pattern. More seriously, with the setback in sales cause by the United States' high tariff rates, Chinese fastener companies are actively developing markets in non-American markets, especially Europe. Statistics of the first 3 quarters of 2019 indicate that Taiwan's fasteners are



losing market shares in Europe, meaning that the quality of China's mid-end and low-end fasteners have gained the trust of European companies and that Taiwan has lost its competitive edge in quality. Taiwan has 60% of its industries participating in the global value chain. With the U.S. trade protectionism and other anti-globalization policies in effect, any country could bump up trade barriers igniting trade wars and dragging the global economy which undermines Taiwan's merchandise export and economic growth. As an example, except for Singapore and New Zealand having a mutual preferential

tax agreement with Taiwan, all other 16 countries in the New Southbound Policy do not have the agreement with Taiwan. It will be hard for Taiwan fastener industry to regain the lost market. To that, the Taiwanese government should actively encourage the industry to elevate technical capabilities and product quality to cope with the current export price war. Meanwhile, the government should enhance full-range collaboration with primary markets by signing bilateral trade agreements with primary trading partners to reduce potential negative impact brought by trade protectionism.

◎ Table 4. Comparison chart of Taiwan's fastener export volumes in the first 3 quarters of 2019 and 2018.

Unit: Kg

Regions/Countries	2018	2019	Change (%)	Export proportion in 2018	Export proportion in 2019
U.S.	458,228,139	479,019,774	4.54%	38%	42%
Europe	441,782,061	392,992,321	-11.04%	37%	35%
18 Countries in New Southbound Policy	85,010,278	71,369,517	-16.05%	7%	6%
Japan	52,743,944	55,176,206	4.61%	4%	5%
China	18,118,979	13,996,803	-22.75%	2%	1%
Latin America	43,500,147	38,686,405	-11%	3%	3%
Hong Kong	2,835,078	2,227,514	-21.43%	0.2%	0.2%
Others	90,237,592	82,504,161	-8.57%	8%	7%
Sum	1,192,456,218	1,135,972,701	-4.74%	100%	100%

Taiwan fastener industry has gone through the global financial crisis and the electroplating pollutant crisis with its closely interconnected supply chain. The hardship made it grow stronger. In fact, Taiwan's raw material prices and electroplating costs are over 20% higher than its competitors, rendering the lost competitive edge of low-priced average fasteners in the market. Fortunately, as Taiwanese fastener companies works hard to upgrade and customize products, their actions are working in the mid-price fastener markets. With China working hard to catch up, Taiwanese companies

should enhance development on their respective core capabilities, upgrade and transform themselves to invent higher-grade customized products such as automotive fasteners, or develop aerospace and medical-grade products to improve the added values of Taiwan fasteners. However, it will require development of customized products and transparency of product information in order to dive into high-end fasteners. Additionally, zero-defect quality is the key to entering the high-end market. The high-end fasteners required by the automotive and aerospace industries affect user safety and have very high requirement standards, so if fastener makers cannot improve and make their production flexible while ensuring production quality to gain the trust of high-end clients, they won't be able to enter the high-end products supply chain. From wire spheroidizing to forming, threading, heat treating, surface treating, packaging and delivery, every process of fastener production requires stringent quality control to ensure quality. Currently, part of the production process of Taiwan fasteners must rely on manned operations which makes it hard to achieve zero-defect rate. Therefore, it is crucial to achieve zero-defect rate with intelligent integration technology.

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With the backdrop of weakening American economy, the Trump-Ukraine scandal and impeachment crisis, and the Presidential election next year, the 13th round of negotiation between the U.S. and China is putting much bigger stress on Trump in his talk with China. Good news came out on October 11 that China made a commitment to purchasing up to 40-50 billion US dollars of American produces and opening up to foreign financial service institutions. Trump agreed to cancel the extra tariff on October 15 and the Dow Jones Index surged 319 points. We will have to wait and see if this will put an end to the trade war. However, the trade war has caused a huge change on Taiwanese fastener companies. Besides some Taiwanese companies withdrawing investments from China, Chinese fastener companies are actively developing non-American markets, leveraging their economy-driven and capacity-driven competitive edge in price and regional preferential tariffs to pose a greater threat to the export of Taiwanese fasteners. Fortunately, Taiwanese fastener companies are capable of handling overseas sales. Currently, Taiwanese fastener companies targeting the U.S. and Japan will gain more while those targeting non-American regions are faced with the challenge of competing with Chinese fastener companies, which is more evident in mid-price and low-price fasteners markets in Europe and the 18 countries of the New Southbound Policy. It is not easy for Taiwanese fastener companies to regain the overseas orders they lost. The slump of export to Europe and the 18 countries of the New Southbound Policy is very much concerning. In recent years, some Taiwanese fastener companies are considering leaving the Chinese market. The Taiwanese government has put up various incentive policies and guarantee measures, so perhaps the fastener companies could consider investing more in Taiwan plants, connect new manufacturing equipment with intelligent manufacturing technology, set up new automated fastener manufacturing plants, and implement quality control. By doing so, Taiwanese fastener industry will be able to improve competitiveness and hopefully recreate the heyday of a Fastener Kingdom in the 21st century.