

# Latin America-a New Strategic Focal Point for Taiwan's Fastener Industry



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**T**he ever-changing global financial situation has become even more tumultuous with the new economic policy adopted by Japan's Abe administration. The trade wars in different regions have become increasingly intensified as EU imposed anti-dumping tariffs on Chinese solar panels and China retaliated by levying anti-dumping duties on wines. To cope with this economic recession, the U.S., Japan and EU countries adopted a "come home" strategy by adopting preferential measures to lure the manufacturing industry back home. As all the countries are struggling with the issue of high unemployment rate, protection of the local industries has already become a reality and trade wars in different regions have become inevitable.

To look around the global economic cooperation, there is the North American Free Trade Agreement (NAFTA) with 3 member countries signing; In Europe, there is the European Union (EU) with 28 member countries; and there is the Association of Southeast Asian Nations (ASEAN) including 10 formal member countries. These organizations protect their member countries with preferential or zero tariffs in their respective regions. Therefore, exploring new business opportunities is a pressing task. Latin American nations, with their potential economic strength and abundant mineral and energy resources, play an extremely important role in this new wave of economic development.

The competition between the U.S.

and China, the biggest two economies around the world, for their political and economic interests in Latin America has aggravated with the worsening financial situation. Prior to his visit to the U.S. to meet with President Barack Obama in California, China's new President Xi, Jin-Pin visited Mexico, Costa Rica and Trinidad, highlighting the important strategic position of Latin America.

Spanish and Portuguese are the prevailing languages in Latin America including Mexico, most part of Central America, South America and the Caribbean region. Being once the Spanish or Portuguese colonies, Latin American nations were confronted with severe social conflicts and radical ideological and political ideas in early 20th century, which kept the economy from moving forward. At the turn of 20th century, the region's economy began to take off as the political condition became stabilized. The fusion of this U.S. backyard region into the global economic trend shined with the splendor of the rising China, offering stages for each other. This is particularly the case when China recovered quickly from the 2008 financial crisis thanks to the increased domestic demand and becomes the major almsgiver to aid the post-crisis Latin American nations with ample capitals. In 2010 alone, China provided a loan of USD 3.7 billion to the region. In the meantime, bilateral trade amount has been increasing dramatically over the years. In 2000, the total trade volume between China and Latin America was only USD 12.6 billion. The figure multiplied 19 times during the past decade to reach USD

Table 1. Top 5 Latin American Nations by GDP Per Capita (Unit: USD)

	Country	2012 GDP per capita
1.	Venezuela	12,956
2.	Brazil	12,079
3.	Mexico	10,247
4.	Colombia	7,855
5.	Peru	6,530

241.5 billion in 2011. The trade amount between the two regions is expected to surpass USD 4,000 billion in 2016.

As the world's 2nd largest economy, China has been exerting tremendous influence over Latin American nations economically, culturally and technologically. Taiwan, on the contrary, has always regarded the region as a non-major export destination. According to the import/export statistics of the International Trade Bureau, Taiwan's total export amount to South America in 2000 was USD 3.9 billion and USD 6.9 billion in 2012, growing by only 1.9 times, an indication of long-time ignorance of the Latin American market by Taiwan's industry. Taiwan is lagging far behind mainland China in terms of the market development strategy as its growth rate of export to Latin America is only one tenth of that of mainland China over the past ten years.

The fastener industry forms the foundation of all the industries and plays an indispensable role in the emerging regions. The top 5 Latin American nations in terms of GDP

Table 2. Taiwan Fastener Industry Export to Latin American Nations by Single Product Items in 2012

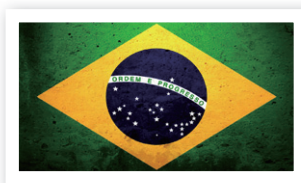
Category		Country	Venezuela	Brazil	Mexico	Colombia	Peru
Steel nails	Total(USD)		5,850	136,456	102,744	12,601	14,278
	Total Weight(kg)		440	53,895	19,886	2,315	1,604
	Unit Price(USD/kg)		13	2.532	5.166	5.443	8.901
Steel screw nuts	Total(USD)		929,237	40,508,394	49,374,532	7,124,013	3,472,597
	Total Weight(kg)		232,699	15,003,130	17,723,164	2,797,836	1,321,919
	Unit Price(USD/kg)		3.993	2.7	2.786	2.546	2.627
Copper fasteners	Total(USD)		0	47,175	623,726	23,264	6,079
	Total Weight(kg)		0	7,443	52,550	1,295	952
	Unit Price(USD/kg)		0	6,338	11.869	17.964	6,386
Aluminum fasteners	Total(USD)		126,982	1,877,609	14,802,694	403,844	301,802
	Total Weight(kg)		30,515	229,203	2,047,220	39,836	18,078
	Unit Price(USD/kg)		4.161	8.192	7.231	10.138	16.694
Other fasteners	Total(USD)		24,874	2,844,245	669,043	1,436,063	863,837
	Total Weight(kg)		1,434	424,556	105,282	359,064	136,747
	Unit Price(USD/kg)		17.346	6.699	6.335	6.784	6.324

per capita (Venezuela, Brazil, Mexico, Colombia and Peru) are summarized in **Table 1**; their imports from Taiwan fastener industry by product items are listed in **Table 2**.



Venezuela is a tropical country located in the northern part of South America with oil being the country's most abundant natural resource. As one of the major oil production countries, Venezuelan official oil mining began in 1875 and the revenue from oil takes up 80% of the country's export income. Venezuela exports much of its oil to the United States, Europe and other Latin American countries. The export of Taiwan's fastener industry to Venezuela,

according to the statistics of the Bureau of Foreign Trade, Taiwan was only USD 1 million. Taiwan sold 232,699 kilograms of steel screws and nuts to the country with a total value of USD 0.92 million, averaging USD 3.993 per kilo. This shows Taiwan has almost given up on this country with the highest GDP per capita in Latin America.



As the biggest country in Latin America, Brazil has a population of nearly 200 million, the fifth largest in the world. The country is located in the eastern part of South America and is adjacent to the Atlantic Ocean with the 5th largest land in the world. Brazil's agriculture, mining and production industries are well developed with a

sufficient labor force. Brazil's GNP topped Latin America in 2012 and the country's influence on the global market is growing. Currently China is the country's biggest trade partner. In 2012, the bilateral trade reached USD 85.7 billion and China exported 71,285 tons of steel screws and nuts to Brazil with a total export value of USD 0.12 billion, averaging USD 1.697 per kilogram. Taiwan sold 15,003 tons of steel screws and nuts to Brazil with a total export value of USD 40 million, averaging USD 2.7 per kilogram. Notably, Brazil has a comprehensive industrial system and a leading industrial production value in Latin America. The country's steel, automobile and shipbuilding industries are highly recognized in the world and its technologies have joined the rank of advanced countries in the fields of its telecommunication, electronics, aircraft manufacturing and information. It is the author's view that for the Taiwan operators

## Latin American Market

to differentiate from the mainland Chinese competitors, the auto industry, 3C screws and aircraft fasteners should be targeted as the niche markets for winning orders with high unit prices.



Located in the northernmost part of Latin America and adjacent to the United States, Mexico has modernized industry and agriculture. With the establishment of North America Free Trade Area in 1994, mutual trade and investment with the U.S, the world's largest economy has accelerated, boosting the country's economic development and national income. Strong exports helped Mexico be safe through the 1995 economic crisis and the country's economy began to recover from 1996 to 1999. Thanks to NAFTA, Mexico has become a hub of production and selling in the American region for the world's major auto makers. The Nissan cluster in Aguascalientes, Volkswagen facilities in Puebla, GM factory area in Silao and the Chrysler manufacturing center in Toluca have shaped Mexico as a major automobile production base in Latin America. In 2012 China exported 48,728 tons of steel screws and nuts to Mexico with a total export value of USD 89 million, averaging USD 1.873 per kilogram. Taiwan sold 17,723 tons of steel screws and nuts to Mexico with a total export value of nearly USD 50 million, averaging USD 2.786 per kilogram. The Taiwan fastener operators can use Mexico as the overseas base for finding the way into

the automobile supply chain and even capitalize on the ample labor force and reasonable wages by setting up back-end processing plants there and transfer the finishing and packaging works to Mexico in order to have the preferential tax of NAFTA and quickly make roads into the high unit price fastener market.



Located in the northwestern part of South America, Colombia is the third most populous country in Latin America next to Brazil and Mexico only. The races of Colombia originated from the native Indians, Spanish colonists and the mixed blood of the African slaves. The country's two major industries are oil and coffee. Taiwan sold 7,124 tons of steel screws and nuts to Colombia with a total export value of nearly USD 2.8 million, averaging USD 2.546 per kilogram. Particularly in the copper fastener market, the price per kilo was as high as USD 17.964 though only 1,295 kilograms were sold. This special market characteristic deserves in-depth observation and understanding.



Located in the western part of South America, neighboring Ecuador and Colombia in the north and adjacent to the Pacific Ocean in the west, the Republic of Peru has a population of 28 million with Spanish being the official language. Peru heavily depends on exports for earning revenues and its economic performance is tied to exports. The country has seen a steady economic growth since 1993 thanks to the stable macroeconomic

performance, improved trade conditions and increased investments and consumptions. The main export items of Peru include copper, gold, zinc, textiles and fish products; the biggest trade partners are the U.S. China and Brazil. Taiwan sold 1,322 tons of steel screws and nuts to Colombia with a total export value of nearly USD 3.4 million, averaging USD 2.627 per kilogram. Interestingly, in the aluminum fastener market, 18,078 kilograms were sold in 2012 and the price per kilo was as high as USD 16.694. This special market characteristic is worth further exploration.

The Latin American region has long been ignored by Taiwan fastener manufacturers. The Taiwan fastener operators are not as active and ambitious in the operation as their mainland Chinese competitors in terms of both the trade amount and the fastener export value. For the global financial conditions, Japan's Abe administration made a joint statement with the Bank of Japan to raise the inflation goal from 1% to 2% and will adopt the open-ended asset purchase program same as that of the Fed but in a larger scale. Japan's aggressive financial and currencies have caused the Japanese yens to depreciate by over 20% since last November. The yen slide has had a structural impact on both Taiwan and Japan's fastener industry and made it more difficult for the former to enter the Japanese auto maker market. Therefore, for Taiwan fastener industry, in addition to the strategic arrangements in the Southeast Asian market, Latin America has a very high strategic value in terms of economy, location and development; a strategy worth consideration is to establish back-ended processing plants and transfer the finishing and packaging works there. The copper and aluminum fastener markets with the feature of high unit price despite current low production volume can be the niche markets for the Taiwan fastener operators.