Fastener Markets of 4 Latin American Football Powers in FIFA 2014

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After 4 years of expectation, Brazil became the global focus as the twentieth FIFA World Cup kicked off on June 12, 2014. 32 national teams competed in 64 games for the final championship. 8 teams (Brazil, Colombia, Costa Rica, Argentina, France, Germany, Netherlands and Belgium) were qualified to take part in the quarter-final. We can see from various international sport games that the athletic performance of a country is often proportional to its economic power. Let's look at the four Latin American countries including Brazil, Colombia, Costa Rica and Argentina and see what the current and future opportunities of Taiwanese fastener industry are. Table 1 shows the data of the four Latin American countries in 2012. Brazil apparently claims the top place in population and land area while Argentina takes the second place in land area. The population of Brazil is 190 million while the remaining three countries all have a population of more than 40 million. The GDP of Brazil amounts to USD11,000, followed by Argentina's USD10,000, Costa Rica's USD9,600, Brazi's and Colombia's USD7,800, all falling into to the "developing country" category.

Table 1. Data of 4 Latin American Countries in 2012

Country	Brazil	Colombia	Argentina	Coast Arica
Geographic Location	Northeastern part of South America	Northwestern part of South America	Southern part of South America	Central America
Land Area	8,450,000 km^2	114,000 km^2	2,780,000 km^2	51,000 km^2
Population	193.95 million	47.05 million	40.11 million	45.86 million
Language	Portuguese	Spanish	Spanish	Spanish
GDP	USD11,460	USD7,841	USD10,718	USD 9,665
Major Imported Items	Oil, passenger cars, motor vehicle components, integrated circuits, telephones, pharmaceutical preparations	Machinery and equipment, basic chemicals, motor vehicles and parts, petrochemical products, metal products	Sedans & vans, oil, motor vehicle parts and accessories, telephones	Oil, integrated circuits, printed circuit boards, small passenger cars, cable telephones, automatic data processing machines
Major Import Source Countries	China, the U.S., Argentina, Germany, S. Korea, etc.	The U.S., China, Mexico, Brazil, Argentina, etc.	Brazil, China, the U.S., Germany, Mexico, etc.	The U.S., China, Mexico, Japan, Brazil , etc.

Source: Ministry of Economic Affairs (Taiwan)

There are two key points in the data worth the attention of Taiwanese fastener industry. The first point is that China is the largest or 2nd largest exporter to these 4 Latin American countries. The global strategic importance of Latin America to China is self-evident as China's prime minister Xi Jinping visited Mexico, Costa Rica, and Trinidad in 2013 prior to his first visit to the U.S. for a summit with U.S. President Barack Obama in California. The economy of Latin America staggered in the early 20th century due to serious social conflicts, radical ideology and political views. At the turn of the 21st century, thanks to the stable political condition, the economy taking off as the backyard of the U.S. started to have more interactions with the rest of the world. The region and the newly rising China gave each other a stage just in time to exert their international influence, especially after U.S. financial crisis in 2008, when China succeeded in its strategy to increase domestic demand to become the world's No.1 in the speed of economic recovery. With a mighty economic strength, China became the major capital provider for Latin America in the wake of the financial crisis. In 2010, China provided USD37 billion of loans to Latin American countries, while the bilateral trade volume between China and Latin America is also increasing substantially every year. The total trade volume between China and Latin American countries in 2000 was only USD12.6 billion and the figure hiked to USD 241.5 billion in 2011, 19 times the growth over the past 10 years. It is expected that in 2016 the trade volume between China and Latin American countries is very likely to exceed USD400 billion. Being the world's 2nd largest economy, China has been utilizing its tremendous influence over the Latin American region in terms of economy, politics, culture, science and technology. In contrast, Latin American countries have never been a major export destination for Taiwanese industries. According to the import and export statistics of the International Trade Bureau (Taiwan), in

2000, Taiwan's total export to South America was USD3.9 billion and in 2012, the export totaled USD6.9 billion, growing only 1.9 times as compared with year 2000, an indication that Taiwanese industries haven't put much emphasis on Latin American countries for so long. There is a 10-time difference between Taiwan and China in the growth rate of the trade with Latin American countries over the past 10 years. Taiwan has been left far behind by China in terms of strategic planning and operation in the region.

The second point worth considering is that passenger cars and motor vehicles both account for very high percentages in the major imported items of the three South American countries (Brazil, Colombia and Argentina), which all have a very large demand for automotive fasteners. The current automotive and auto parts markets of these three South American countries and the fastener demand of Costa Rica are illustrated as follows:

Brazil

According to the statistics published by the Association of Vehicle Manufacturers of Brazil (ANFAVEA), in 2012, the Brazilian domestic automotive sale hit a new record of 3.8 million units due to the cut on the industrial products tax (IPI). Among the domestic automotive sale, 3 million units were locally produced representing a growth of 8.34% over 2011. The imported cars accounted for 790,000 units, representing a 7.32% decline over 2011. The proportion of domestically produced cars has increased significantly. If we analyze the automobile brands, Fiat topped the sale of cars and light commercial vehicles with a total of 830,000 units followed by Volkswagen (VW) with 770,000 units sold. General Motors (GM) ranked the third with 540,000 units while Ford and Renault ranked the fourth and fifth respectively with the sales of 320,000 and 240,000 units. To stimulate the development of the automobile industry, the Brazilian government reduced the IPI rate for cars in May 2012 and extended the effective period twice in August and October. On March 30, the Brazilian government announced again to cut down the IPI rate and extended its effective period to the end of the year. Although the domestic car sale in Brazil may slow down in 2014, the Brazilian government estimates a sales figure of about 4 million units. The market potential should not be underestimated.

Colombia

Cars made in Colombia are mainly exported to the neighboring countries like Ecuador, Panama, and Peru. The output accounted for 4% of its total industrial production value, and the automotive industry took up 2.5% of employees hired in the manufacturing sector. The boom of the Colombian car market began in 2010. In 2012, the country's car sale reached 316,000 units. About 40% of cars in the Colombian market are domestically produced and 60% are imported cars (15.5% from S. Korea, 14.4% from Mexico, 5.5% from China, 5.0% from Japan and 4.5%

from India). In terms of car export, Colombian car assembly plant Renault-Sofasa exports its Duster model to Mexican market. In addition, GM Colombia's assembly plant and Hino Motor's plant also export cars and car shells. Overall, the country exports mainly the small and medium passenger cars with 10 seats or less. Apart from the Latin American countries, Colombia even exported cars to Germany, France and the Netherlands during the time when European economy was weak. In the sector of motorcycles, Colombia is the second largest maker in South America after Brazil with the motorcycle production growing by 10.73% in 2012 with a total of 570,000 units produced, of which 95% of the parts were domestically made. Over the past four years, the Colombian motorcycle market has grown by 40% and 18% of the country's households own motorcycles. In 2012, the sale of motorcycles was about 600,000 units. Colombia currently has a total of 3.6 million motorcycles. It is predicted that after a few years, the country will continue to have a growth rate of 15-20% in motorcycle production. By 2020, Colombia will have more than 7,000,000 motorcycles on streets. The main assembly plants there include AUTECO (for Kawasaki, Bajaj, Kymco), Honda, Yamaha, Suzuki, AKT, UM, YUCO, Jialing, Jincheng and so on.

Argentina

There are currently 11 automotive manufacturers in Argentina and 8 of them produce cars and light pickup vans. These auto makers include Renault, Ford, Volkswagen (these three companies also sell heavy trucks), Fiat, General Motors, Peugeot, Citroën, Toyota, etc. The other manufacturers are IVECO, Chrysler, Scania and Agrale which produce trucks and passenger vehicles. The auto industry in the country has an annualp capacity of up to 880,000 units sold from 500 sales operations throughout the country. Statistics of the Association of Automotive Makers (ADEFA) show that in 2012 Argentina produced 760,000 units of vehicles (490,000 units were sedans, 240,000 units were light trucks and 20,000 units were heavy-duty trucks). In terms of market shares of vehicles and sales in 2012, Volkswagen took 22.9%; General Motors shared 20.2%; Peugeot- Citroën represented 16.2%. As for vehicle types, Volkswagen sold most sedans, pickup vans for Ford and trucks for Mercedes-Benz. In order to promote the development of its domestic automotive parts industry, the Argentinian government enacted Act No. 26.393 in 2008 to implement the program for domestic production of automotive spare parts. According to the plan, the self-production rate of cars must be higher than 40% while the rest of parts must be purchased from the local auto parts suppliers and assembled in the country for export to other countries. The Argentinian automobile manufacturers estimate that the sales growth of Argentinian automotive market in 2013 will be 5% and the production will reach record high 870,000 units.

Costa Rica

The manufacturing sectors of Costa Rica mainly include electronics, textile, food, medical equipment, pharmaceuticals, plastics, metals, paper and cardboard industries. In 2012, its manufacturing sectors benefited from the international economic recovery and reached a 8.2% growth in production value. Main products of the electronics industry include electronic equipment, microprocessors, integrated circuits, switches, microwave telecommunication, auto parts and equipment, coil, and another electronic assembly, electronic OEM and maintenance service. Among them, the electronic equipment represents the highest proportion in the output. These products mainly include the integrated circuits produced by Intel in the export & product processing zone followed by microwave telecommunication products, electronic equipment and other products and switches. Therefore, screws for 3C products will be a focus of the market development in Costa Rica for Taiwanese fastener industry.

In comparison, Taiwanese fastener industry is still far behind Chinese fastener industry. Take Brazil as example, China is currently Brazil's largest trade partner. In 2012, the bilateral trade reached USD 85.7 billion as China exported 71,284,823 KG of steel screws and nuts to Brazil at an average unit price of USD1.697/KG. Taiwan exported 15,003,130 KG of steel screws and nuts to Brazil for an total export value of USD40 million at a unit price of USD2.7/KG. In 2013, Taiwan exported 14,873,374 KG of steel screws and nuts to Brazil for a total export value of USD46 million at a unit price of USD3.12/KG, showing an increase in the price level. However, the total volume dropped as compared to the sale in 2012. It is notable that Brazil has a complete industrial system and an industrial production value topping Latin America. The country's iron, steel, automobile and shipbuilding industries enjoy high reputation in the world while the technical level in the fields of telecommunication, electronics, aircraft manufacturing and information join the ranks of advanced countries. The author believes that if Taiwanese products are to be differentiated from Chinese products in the Brazilian market, Taiwanese operators should focus on the automotive and 3C screws as the major niche markets for winning the orders for mid and high-priced items. The two major exported items of Colombia are oil and coffee. Taiwan exported 2,032,896 KG of steel screws and nuts to Colombia for a total export value of nearly USD5.86 million at a unit price of USD2.88/KG, a very significant growth as compared to 2012. Taiwan exported 1,639,808 KG of steel screws and nuts to Argentina for a total export value of nearly USD6.39 million at a unit price of USD3.9/KG, the best performance in terms of the unit price. Taiwan exported 845,468 KG of steel screws and nuts to Costa Rica for an export value of nearly USD2.95 million at a unit price of USD3.5/KG. For the total domestic demand for fasteners in these four Latin American countries, there can be potential growth for Taiwanese manufacturers.

Table 2. Taiwanese Fastener Export to 4 Latin American countries in 2013

	Brazil			Colombia			Argentina			Costa Rica		
Item	Weight(KG)	Value (USD)	Unit Price (USD/KG)	Weight(KG)	Value (USD)	Unit Price (USD/KG)	Weight(KG)	Value (USD)	Unit Price (USD/KG)	Weight(KG)	Value (USD)	Unit Price (USD/KG)
Steel screws, bolts, nuts and auto screws	14,787,719	40,204,000	2.72	2,027,027	5,036,000	2.48	1,635,338	6,352,000	3.88	832,416	1,681,000	2.02
Copper nails or steel nails with cooper heads	77,601	6,151,000	79.26	4,145	798,000	192.52	1,869	14,000	7.49	12,970	1,274,000	98.23
Steel nails	8,054	118,000	14.65	1,724	30,000	17.4	2,601	28,000	10.77	82	1,000	12.2
Total	14,873,374	46,473,000	3.12	2,032,896	5,864,000	2.88	1,639,808	6,394,000	3.9	845,468	2,956,000	3.5

Latin America has long been ignored by Taiwanese fastener industry. For both the trade volume or the export value of fasteners, Taiwanese fastener industry lacks the enthusiasm and proactivity in strategic planning as compared with Chinese operators. The global financial environment has changed since the beginning of the 21st century. For example, the exchange rate of Japanese yen against U.S. dollar has increased from 75.5 yens for 1 dollar in November 2011 to 101.22 yens for 1 dollar in July 2014. The Japanese currency experienced depreciation by more than 33% which brought about a structural impact on the fastener industry of Japan and Taiwan, making it more difficult for Taiwanese fastener industry to find its way into the supply chain of Japanese automakers. Therefore, for the strategic planning of Taiwanese fastener industry, in addition to Southeast Asia, the Latin American region has an extremely high strategic value in terms of its economic, original and developmental advantages especially when Taiwanese governments imposed very strict audit measures on the electroplating operators in southern Taiwan at the end of 2013, which brought about a dramatic impact on the back-end processing of Taiwanese fastener operators. Against this backdrop, Taiwanese fastener operators can consider setting up processing plants in Latin American countries and relocating the back-end processing and packaging process to Latin America. The vast market demand for automotive and motorcycle parts is the niche market Taiwanese fastener industry can try to develop in the future. ■