

How Would Taiwan's Fastener Industry Survive the New Cold War

by Wayne Sung



In December 1991, the Supreme Soviet declared the breakdown of the USSR. It marked the end of the Cold War, which had lasted for 44 years with the US and the USSR as the two main antagonistic countries. Russian Federation was in a sluggish economic condition for a long period after the breakdown, and hence, its influence was substantially reduced until 2000 with the rise of economic

powers, or the BRICs (Brazil, Russia, India and China). Since then, Russian Federation has remained a globally important country in terms of its economic and military influence. In addition, it is a member of the G8. Vladimir Putin has been the President of Russian Federation since 1999 and has a direct power over the regime and political decisions of Russian Federation. President Putin has a tough stand on the members of the EU and the former members of the USSR. As the EU demonstrates growing political and economic influence and the former members of the USSR get closer to the EU, Russian Federation has to adopt coercive means. After a coup took place in Ukraine in 2014, Ukraine has been leaning towards joining the EU and this has prompted Russian Federation to use coercive means. This has heightened the tension between Russian Federation and the West.

The West wants Crimea to remain a part of Ukraine and become a member of the EU that sides with the West. Therefore, countries of the West unanimously condemned Russia's adoption of coercive means. After Flight MH17 was unexpectedly shot down near the Ukraine-Russia border, U.S. President Obama announced the U.S. would impose more sanctions against Russia in the aspects of economy, finance and the purchase of energy and weapons. In addition, certain Russian banks and defense industries were also named into the sanctions, including some politicians and entrepreneurs that have close relationship with President Putin. Moreover, the sanctions include limited export of energy technology and sale of weapons from Russian Federation. Furthermore, the U.S. would prohibit its citizens from buying any share or bond of or issued by three specified banks in which Russian government has a certain percentage of ownership. These sanctions are imposed due to Russia's military intervention in Ukraine. Although a fragile truce has been signed for the eastern part of Ukraine in September, the U.S. and the EU still do not stop enhancing their economic sanctions against Russia.

On the other hand, Russia has also adopted measures to counteract these sanctions. In August 2014, Russian Prime Minister Dmitry Medvedev announced Russia would ban the import of certain agricultural and fish products from the EU and the U.S. for one year. This is the first economic sanction imposed by Russia against the U.S. and EU. In addition, Russia is considering prohibiting European and U.S. airplanes from flying over Russian airspace. On September 11, 2014, Polish National Natural Gas Co. announced it had stopped supplying natural gas to Ukraine because Russia substantially reduced its supply of natural gas to

Poland by 45%. Moreover, the ban on food import may be expanded to other products, such as cars and apparel. With Russia's measures to counteract the economic sanctions imposed by the U.S. and EU, a war of economic sanctions has taken place, marking the start of a new cold war.

It is estimated that Russia may lose the monetary amount of €100 billion within two years due to the sanctions against it and that the EU may suffer the loss of €90 billion within two years due to the ban imposed by Russia. Some European firms worry that the sanctions may result in a backfire, lowering the profit margins of the Western firms and adversely affecting the Western investment in Russia. Therefore, the countries of the EU that have a close trade tie with Russia will suffer from the war. Both the West and Russia will suffer from the impacts caused by such an economic barrier.

Steel Screws, Bolts, Nuts, Auto Screws (HS Code 7318) During 2011-2013

	2011				2012				2013			
	Weight	Unit	Value (1,000USD)	Unit Price (kg/USD)	Weight	Unit	Value (1,000USD)	Unit Price (kg/USD)	Weight	Unit	Value (1,000USD)	Unit Price (kg/USD)
Taiwan Annual Export	1,347,746,764	KGM	3,807,957	2.83	1,278,585,161	KGM	3,586,510	2.81	1,371,098,506	KGM	3,679,706	2.68
Taiwan Annual Export to Europe	559,484,030	KGM	1,469,048	2.63	478,466,268	KGM	1,245,313	2.6	512,731,655	KGM	1,282,244	2.5
Taiwan Annual Export to Russia	29,677,154	KGM	62,251	2.1	23,242,247	KGM	51,281	2.21	36,762,702	KGM	72,380	1.97
Taiwan Annual Export to Ukraine	3,627,743	KGM	8,307	2.29	3,620,639	KGM	8,161	2.25	3,624,328	KGM	7,755	2.14

Table 1 shows trade data of fasteners (HS Code 7318 including steel or iron screws, bolts, nuts and screws used for automobiles) exported from Taiwan to Europe, Russia and Ukraine during 2011 to 2013.

As shown in **Table 1**, the average price per kg of fasteners exported from Taiwan to Europe was US\$ 2.63/kg in 2011, 2.60/kg in 2012 and 2.50/kg in 2013. The three-year average price per kg was US\$ 2.58/kg, which was 6.86% lower than the three-year average price per kg of all fasteners exported from Taiwan during the three-year period. This means the fasteners exported to Europe were of lower prices. Moreover, the three-year average price per kg of fasteners exported to Russia was US\$ 2.09, which was 19% lower than the three-year average price per kg of all fasteners exported from Taiwan. This means the Russian fastener market is yet to be developed. In terms of the amount, Europe comprised more than 40% of the total amount of fasteners exported from Taiwan and only 2% of the total amount was exported to Russia. Therefore, in terms of

the importance of each market, Europe is much more important than Russia. The new cold war between Russia and the West will bring down demand in the greater Europe region. The regional demand will become relatively more important. As a result, I have some suggestions for the fastener industry of Taiwan.

Enhance trade with Russia through China: The new cold war will substantially reduce the sales of products from Europe to Russia and the gap in sales may be bridged

by sales of products from China. China has been an important trade partner for Russia. The bilateral trade between Russia and China totaled US\$ 75 billion in 2012 and is estimated to reach US\$ 90 billion in 2014. In terms of quality and selection, products made in China have been regarded as of medium price level. Therefore, the new cold war will assist in the growth of exports from China to Russia. Taiwanese fastener manufacturers having factories in China may benefit from the new cold war. Also, these manufacturers may utilize China as an entrepot to increase their sales.


Be active to develop the Russian fastener market: Only 2% of Taiwanese fastener exports were to Russia. This means the Russian fastener market may be further developed. Therefore, as the West is reluctant but has to abandon the Russian market, fastener manufacturers of Taiwan may actively develop the Russian fastener market by participating in tradeshows held in Russia.


Get the follow-up processes finished in Russia or other European countries: In 2014, waste water generated by electroplating caused a big problem on both the environment and the fastener industry, prompting the cost of electroplating to skyrocket (due to the need to purchase waste water processing equipment). Therefore, electroplating may be carried out in European countries with lower labor costs or in Russia. The benefits may include lower customs taxes in the greater European region, priority to be purchased by local businesses, and being able to enhance sales to the local market.

4. Quality cannot be compromised: Certification should be acquired and quality management should be carried out to ensure quality. Overall quality may be assured only if quality management is carried out according to the relevant standards. Otherwise, cases similar to the recent scandal and overhanging doubt of GMP certification regarding cooking oil in Taiwan may cause oversea buyers and businesses to question the credibility of quality certification of fasteners manufactured in Taiwan.


Each crisis usually has an opportunity hidden in it. Fastener firms of Taiwan should grasp the opportunity posed by the aforesaid gap in sales brought about by the new cold war via furthering fastener sales to the EU and Russia, strengthening their quality management mechanism. In addition, as mentioned before, optionally, the electroplating may be carried out in European countries with lower labor costs or in Russia. The aim is to increase the market share of fasteners in the greater European region.

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