

TFTA Seminar in Taichung with the Attendance of Several Leading Taiwanese Fastener Companies

by Konnor Lee, Fastener World



TFTA (Taiwan Fastener Trading Association) invited people from all walks of life in the fastener industry and their second generation to gather at Taichung Windsor Hotel on November 2nd, 2016, for a discussion on the status of U.S./European/Asian politics and economy, fastener market, and international material prices among other issues. This seminar took more than a month of prior preparation. With the call of TFTA vice chairman Jimmy Chang, Steven Fang of Fascon Corp., and 3 former TFTA Chairmen incl. Vincent Lue of Viven Inc., Zephyr Chang of Spec Products Corp., Jim. C.N. Chen of Hwa Hsing Screw, the event was well attended with over 100 participants in the industry, and 70% of them were the second generation. Seats were all occupied. The seminar was started with the opening remark of Ernie Lin, president of TFTA Central Chapter.

This seminar was divided into 5 thematic topics, on which Zephyr Chang, Vincent Lue and Steven Fang took turns to share their experience and perspectives, followed by interactive Q&A sections for seminar participants of the fastener industry. Below I will generalize their speeches on the 5 topics in Q&A form.

Topic 1. The Future Trend and Prospect for the Fastener Industry

Vincent Lue: The current mature development of Taiwanese fastener industry was built on the unique clustering conditions of industries in the early time. Propelled by overseas sales, SMEs and family-owned businesses could flourish and find their market position and direction through labor division and collaboration. In a global perspective, I think the development of Taiwanese fastener industry cannot be replicated and replaced. In sync with the trend, Taiwanese fastener industry is heading for high added value and quality service. The fastener industry should deliberately think about how materials, technology, heat treatment and surface treatment can be improved to achieve the industrial level of industrial heavyweight countries.

Zephyr Chang: In February 2016, EU's repeal of anti-dumping tax on China caused a drastic turbulence in Taiwan's and China's fastener supply to the EU. However, since the EU immediately initiated another antidumping tax review, I think Taiwanese fasteners are still very competitive in the international market. As for materials, Trump's presidency may boost U.S. demand for infrastructure, and therefore, I am optimistic for Taiwan's fastener export to the U.S. in 2017. Additionally, although Taiwan's technical level is on par, technology and production management are very important as well. Long lead time is often the Achilles' heel for Taiwanese companies when they try to export to the U.S. and Europe. To Taiwanese fastener industry, there is still room for development in the future when it comes to reducing the cost of standard products, shortening the lead time for special products, and quality control for small lot and diverse products.



Jim C. N. Chen: The future Taiwanese fastener industry must work on quality, price, and lead time simultaneously, and each company must pragmatically develop its own unique corporate culture and find its own way. Reduction on lead time in particular is extremely important in my opinion. The second generation seeking increased market competitiveness in the future should put their focus on how to utilize the advantageous inventory system, in order to fulfill mass production and stocking of spare parts so that they can ship stocked products immediately after domestic or overseas clients place orders.

Steven Fang: In 2016, the growth of Taiwanese fastener industry was contracting and slowing down with the export value down 10%, export volume down 10% and average unit price down 10%, all of which down from the previous year. After the EU repealed the antidumping tax on China last Feb., Taiwanese fastener industry is still working hard to retain competitiveness. I suggest that the industry take precautions and increase inventory and product volume. Do not get into the habit of starting work only when orders come in.

◆ Some seminar participants pointed out that the Taiwanese fastener capacity in 2017, following the world's rising fastener demand, is supposed to gradually bounce up.



Topic 2. The Influence of Material Prices to the Fastener Industry

Vincent Lue: By analyzing the current trend of international steel prices, we know that Taiwanese steel prices currently fluctuate with steel prices in China. The problem of overcapacity which has been criticized for so long by the U.S. and Europe is, in fact, attributed to the oversupply of Chinese steel dumped to the U.S. and Europe in huge quantities at low prices. The steel prices raised by China Steel Corp. last quarter will affect the sales prices of downstream fastener companies. Problems with material supply and lead time of major wire drawing and steel plants will emerge accordingly. If material purchase (supply) is not proportional to the volume of shipment (demand), monetary loss is inevitable. Besides the oil price driving the fluctuations of metal prices, the key factor to the global steel price surge comes down to the fundamental problem of the steel industry — imbalanced supply and demand.

Zephyr Chang: The global steel capacity in 2016 was around 1.5 billion tons, among which China accounted for 800 million tons (500 million tons were for its domestic demand). With the world's calling on China to reduce steel production, China reduced the production by 45 million tons in 2016 and announced a further reduction of 150 million tons in the next 5 years. Strictly speaking, the top 10 steel makers in China only represent 30% of China's total steel capacity. How easy will that be if China really has to succeed in capacity reduction? Therefore, Chinese government strategically forbids steel makers from loans used for further capacity expansion so as to achieve initial capacity reduction. Recently the international political and economic conditions are significantly turbulent. Issues such as Trump's infrastructure policies and building a wall along the U.S./Mexico border are the changing factors that affect steel prices.

| Asia Steel Makers' New Capacity Investment in Southeast Asia | |
|--|----------------------------------|
| Steel Makers | Increased Capacity (Million Ton) |
| WISCO | 10 |
| Hyundai Steel | 4 |
| Dragon Steel | 2.5 |
| BaoSteel | 10 |
| Formosa Plastic Group | 20 |
| E United Group | 3.5 |
| POSCO | 6 |

Table 1. Asia Steel Makers' New Capacity Investment





Jim C. N. Chen: There are two common ways for material purchase in the industry. One is to purchase every month and produce based on how many materials can be used. The other is to purchase every half year or every quarter. I suggest the industry be sensitive to the ups and downs of material cost. Regarding the steel market trend, the industry should consult with academic specialists, professors, and consultants, and refer to predecessors' opinions to analyze the dynamics of the steel market. I suggest the second generation go with the trend and refrain from getting too overactive to the next development of material prices. As a saying goes, "Some people make money in the worst time, and some go bankrupt in the best time." We should make effort to build relationship with people and building connections will keep you away from bad deals.

Steven Fang: This wave of steel price increase was mainly derived from the sudden surge of coking coal price from USD 90 to USD 130 per ton. Currently Taiwan's steel-refining materials are mostly imported. Due to the fluctuations of exchange rates, the price increase by China Steel Corp. is inevitable. It is reported that currently there are many Asian steel makers investing in capacity expansion on Hainan Island and in ASEAN (see Table 1). This action has a tremendous impact on the fluctuations of international steel prices. Regarding the issue of capacity reduction on Asian steel makers, so far we have known that the Japanese Nippon Steel & Sumitomo Metal as well as JEF co-announced in 2015 to

reduce capacity by 5-6%, and that China's BaoSteel also announced in the same year to reduce its capacity by 20%. This wave of large scale capacity reduction, along with the increase of coking coal cost, is the cause of the current steel price surge. In prospect of the global steel market, the growth momentum is absent in China and other emerging countries, and even declining demand is emerging there. Plus, the global economic growth is coming to a halt, regional/political/economic risks are increasing, and the Black Swan Events like Brexit and the U.S. presidential election have affected the political situation. In 2016, the global steel nominal consumption was 140 million tons, down 0.8% from 2015. In 2017, that number is expected to grow 0.4% to 1.5 billion tons. According to World Steel Organization, the worst time for the steel industry is over, but the overall growth is still weak.

◆ The fastener wire price in Taiwan has been raised twice since last year at a margin of NTD 4.3/KG, much lower than those of China, Europe and the U.S. Judging from the fact that the order book of China Steel Corp. is full and that the industry is increasing steel stock, the price in the 2nd quarter is still likely to rise again. However, some companies say that whether the price will rise or not depends on the upcoming order intake.



Topic 3. The Influence of U.S. Presidential Election on Taiwan

Vincent Lue: I think the new U.S. president-elect Mr. Trump is completely different from the past U.S. "elite regimes" in terms of his global strategy. He intends to invest an enormous amount of resources in creating domestic jobs, improving the living standard of American people, and putting USA in the first position, all of which are in his unchanging guidelines. Additionally, the U.S. has developed a mature democracy, and therefore, any president alternation will not be much of an effect to the U.S. In Taiwan's perspective, the fastener industry in Taiwan is extremely dependent on export and OEM. As long as it retains its technical and quality level, it will get more benefits than harm from Trump's infrastructure development policy.

Zephyr Chang: If we take a broad view of U.S. history, the Republican regime takes a friendlier policy and guideline towards Taiwan, both politically and economically. Although Trump said before the election that he would increase the tax rates on China and Taiwan, this is still uncertain due to the international status. Regarding the Mexican border issue, currently major automotive makers are interested in plant investment and market development in Mexico, making Mexico the most attractive automotive exporting country. Personally, I am optimistic to Trump's presidency and believe that it will definitely bring positive results to Taiwanese market.



Jim C. N. Chen: Recently one of my U.S. clients said that Taiwanese fastener industry does not have to worry too much about Trump's presidency. Taiwan has had a long history of specialty in construction fasteners; additionally, Trump started his real estate business from scratch and built his Trump empire in the construction industry, and he will no doubt start his regime policy with the construction industry. Therefore, Taiwanese fastener industry should benefit from that by then and its export to U.S. market should be very promising.

Steven Fang: The Republican Party of the U.S., true to form, is politically closer to Taiwan. Many Republican figures in the past took a friendly approach with Taiwan. Trump claimed he would issue a note of intent to withdraw from TPP, which is worth noting for its impact on U.S. relationship with Taiwan and China. Maintaining TIFA is an issue that Taiwanese government must face. U.S. GDP is expected to rise in 2017. Trump's presidency will impact Taiwan both positively and negatively, so Taiwanese fastener industry must try to grow stronger and be able to take a firm stance in the international market.

Topic 4. Analysis on Difficult Customers & Counter-measures

Vincent Lue: Regarding the problems with difficult customers that frequently occur across the world, I think any fraudulent behaviors should be revealed to the public via Fastener World Magazine or other channels, without mentioning their names directly. Unscrupulous clients should get the punishment they deserve through information exchange within the industry.

Zephyr Chang: I think that the industry should establish a committee and make a list of unscrupulous companies with detailed description of international frauds for the reference of the industry. We can even consider signing a confidential agreement, so that difficult customers will have nowhere to hide.

Jim C. N. Chen: I recommend using the group chat function in communication apps. This can not only eliminate problems with international lawsuit, but also immediately make related companies in the industry be informed of a list of bad companies delaying payments on purpose.

◆ A company said some clients have cancelled orders, asked for late shipments, or delayed payments due to the decreasing market demand and significant changes in currency rates. The company wants the industry to be cautious. Difficult clients are an open secret, even though they are not named in public.

Topic 5. How to Ensure Seamless Corporate Succession

Jim C. N. Chen: The second generation of the fastener industry is facing internal pressure and challenges. The young generation faces many problems such as having a hard time in communicating with senior directors, personal capabilities and experience, willingness and perseverance, 24-7 working hours, endless duties, myth of getting high salary without the need to do many things, management right distribution, etc. These issues are worth thinking to the 1st and 2nd generations. Below are 3 points I believe to be very important to business succession.

1. Be Humble to Learn Everything

When guiding the second generation, the first generation usually holds on to the management power. Step across the boundary between the first and second generation, and forget about who is the father and who is the son because the father-son relationship may hinder other senior mentors within the company from sharing their experience.

2. Being Trained Step-by-Step in Every Department

Most of the second generation start their position in the company as a special assistant to the management. This is not entirely impossible, but do not forget the importance of job rotation. Different companies have different aspects to focus

on, just like a trading company usually does not ask the successor to be technically omnipotent. Instead, the successor is asked to learn client service, business etiquette, financial concept, etc.

3. Do Not Create a Job for a Specific Person

Many Taiwanese companies continue to select their successors from within the family, which is understandable. However, how will you make arrangement when the family grows larger or how will you make arrangement when someone in the company can accept to pass down the management to a successor from outside the family? I suggest those in preparation for succession should not create a job just for a specific person, which I believe may be a perfect fit for accommodating the right talent at the right position and creating a harmonious atmosphere in business running.

4. Peaceful Management Power Transition

The successors should be humble to make better corporate succession, be active to ask and learn from others, make good communication and assistance with the previous generation, and finally carry forward to reach another business peak.

According to the Fastener World's correspondent, participants all deeply benefited from the speakers' perspectives which they considered to be more interesting and precise than other industries specialists. ■