

Editorial

The New Keys to Breakthrough in the Fastener Industry - Heritage, Transformation, Customization, and CBAM



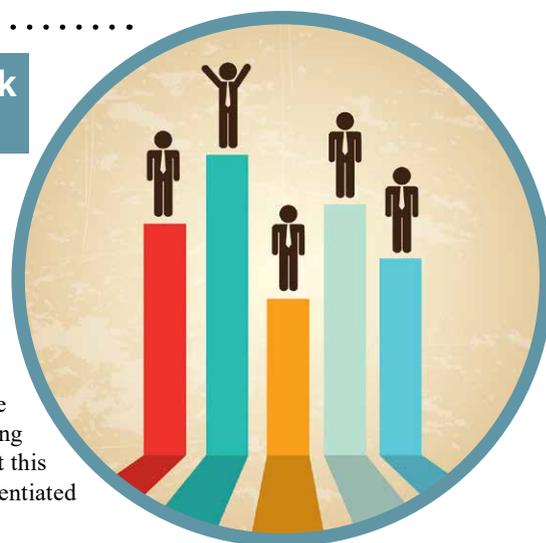
Since the end of last year, Fastener World Inc. has attended many important exhibitions in Europe, America, Asia and emerging markets, and we will arrange more exhibitions (such as Fastener Fair USA, International Fastener Show China and Taiwan International Fastener Show) to promote for advertisers in the next few months, hoping to help the industry find a way out in such difficult times. In this issue, we've featured a series of unique companies including AMBROVIT, ACHILLES, SUNCO, Fang Sheng (YFS), Bi-Mirth, Sun Through, iTAC Laboratory, Li You Screw, Yu Ruen Hardware, Tung Fang Accuracy, Kuo Chen, etc. In such an era when market challenges have become more difficult to cope with, these companies, despite the increasing operating costs, still remain undaunted by the challenges in front of them, and strive to set up a stage for their own growth and move towards the path of sustainable management through upgrading and restructuring, generational inheritance, or convergence with CBAM and other industry trends. Their experiences are definitely worthwhile for reference for those who are currently striving to find breakthroughs in the difficult situation.

Companies Should Make Timely Changes to Break Away from the Red Ocean Competition

In a recent interview, a company owner expressed his opinion that Taiwan is in the era of five shortages (i.e., water, electricity, labor, land, and talent) and the supremacy of IT Industry, and he estimated that in about 5-7 years, Taiwan's labor costs will increase significantly, and in the case of increasing expenses, what else can Taiwan do? Before such a situation happens, it is necessary for the industry to prepare for the rainy day and plan ahead.

Price-cutting may be a Red Ocean strategy for emerging countries to gain attention quickly, but for Taiwanese companies that have already passed that stage and are moving into the mid- to high-level supply chain, the risk of going back to the drawing board is extremely high, both now and in the future. Therefore, if it is determined that this path is no longer viable, it is suggested that the industry may be able to create a differentiated advantage through certain modes.

During our visit to Hannover Messe 2024, we observed some major industry trends. First of all, Industry 4.0, Smart Manufacturing, Automation, Robotics,...etc. are some trends. Various metal parts processing and precision instruments on display at the show allowed visitors to see the continuous efforts of manufacturers to pursue excellence in technology and know-how. The second is electric vehicles and peripheral charging/storage equipment. The third is the emphasis on the development of new energy. Many manufacturers who are already market leaders are looking at the development layout for the next 5-10 years, and at the same time actively



introducing the concept of CBAM and environmental protection. Under such a development, it may be difficult for manufacturers to get orders if they do not meet their requirements in the future. Carbon reduction is definitely a must-do, and the industry should not be satisfied with the current situation, but should have the courage to go out and keep up with the pace of pioneers.

Generation Inheritance and Bold Investment

The 1st generation built the foundation, while the 2nd generation creates the new situation. Taiwan fastener industry has been developing for decades, and it is inevitable that the industry will eventually move towards the stage of succession and experience transfer. Building on the success of the 1st generation, the new thinking and bolder investment behaviors of the succeeding generation have indeed transformed some established fastener suppliers. Fang Sheng (YFS), which has successfully broadened its product range from socket screws to special products and invested in a die development division to improve product development efficiency, is definitely an example. On the other hand, if enterprises do not emphasize on experience transfer and are not willing to invest more in human resources, it will be even more difficult to pursue growth with continuous internal consumption of resources.

Automated / Unmanned Systems and Customization

That factories gradually moved towards full automation and unmanned systems is quite common in Europe, the US and Japan fastener industry, but there is still much room for improvement in Taiwan, and due to the variability of industrial demand, the orders of middle and high-end customers have become more varied and small. As a result, the ability to achieve fast delivery, reduce labor & manufacturing costs and offer customized products will also affect the success of a company to obtain customers' orders. Li You Screw, which has been supplying high-precision screws to automotive, electronic and other related industries, and Yu Ruen Hardware, specialized in customization of automotive and motorcycle fasteners and the cold forging of special screws and nuts, have strengthened their customization capabilities by investing in a large number of automated high-end equipment, enabling them to be more efficient in assisting customers in shortening the product development process and responding to a large number of customized orders in a short time, thus creating a Blue Ocean strategy that belongs to them.

Digital Transformation and Innovative R&D

Digital management is the key to accelerated transformation, while new product development is a great opportunity to show customers that you can work independently and innovate. Through the introduction of advanced digitalized equipment to improve production line efficiency, a company can further widen the gap with competitors. The introduction of creative or patented new products from time to time can also stimulate customers' stronger interest in cooperation. Bi-Mirth, which has introduced a lot of advanced digital equipment and recently launched the patented Timber-Concrete Connector Screw and Seismic Screw, and Sun Through, which will present its latest Self-drilling Screws for Hollow Cement Bricks at Taiwan International Fastener Show, have been both very successful in this area.

Implementation of CBAM

Carbon reduction is undoubtedly the biggest challenge facing all export-oriented industries. We can see that many Taiwanese companies have been working hard to comply with the relevant laws and regulations, and are actively making preparations for CBAM, ESG and other issues, as well as formulating strategies to deal with them. This is absolutely good for Taiwan fastener industry. In the future if the CBAM and ESG requirements and concepts can be thoroughly implemented into the entire supply chain, the position of Taiwan fastener industry can definitely be upgraded, which can not only allow them to continuously lead other emerging countries, but also make the international market recognize that Taiwan is a good partner worthy of cooperation and can play a role in supporting the supply chain. It is understood that in Taiwan there are already a number of industry players who have introduced supporting measures for green manufacturing processes, providing a helping hand to industry players on the road to carbon reduction.

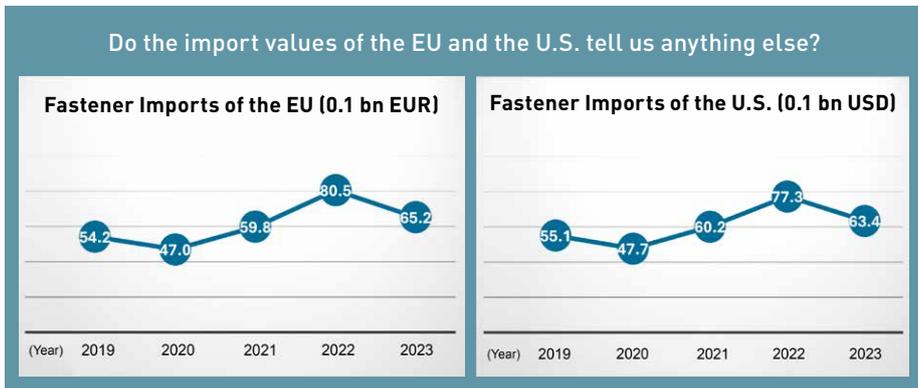
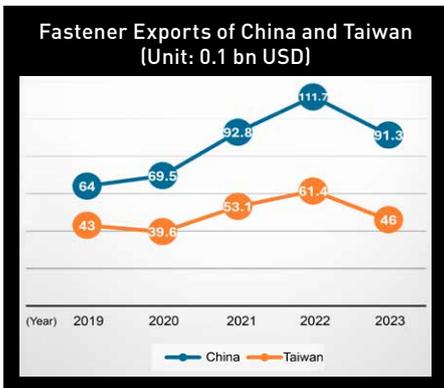
What are the Reasons for the Declining Export? What are the Opportunities for Taiwan?

Recently, we've heard some companies reflecting that the global demand for fasteners is shrinking, and their sales have dropped significantly. Is the fact that "the demand is not reduced at all, but just shifted to other countries", or "the really bad economy has led to a big drop in global orders"? This can perhaps be ascertained from the import trends over the past few years from Taiwan, the countries with high demand for fasteners in Europe and the U.S.

Taiwan's fastener exports in Q1 this year amounted to US\$1.07 billion, a decline of nearly 15% from the same period last year, and the development trend for the period 2019-2023 (as shown in the chart on the next page) also shows an "upward and then downward" trend. If to forecast from the current data for Q1 2024, Taiwan's export value this year might hover around US\$4.28 billion, roughly the same as the level in 2019-2022; China's fastener exports amounted to US\$2.1 billion in Q1 this year. Over the past five years, China's export value climbed from US\$6.4 billion to US\$11.17 billion, and then dropped to US\$9.13 billion in 2023, still roughly at the 2021 level.

Although this year's forecast is worse, China should still reach at least US\$8 billion, higher than that of 2019 and 2020. On this side, it seems that the development trend of both China and Taiwan is similar, that is, first up and then down, and there is no sign of Taiwan's reduced portion being switched to China as a result.





From the above charts, we can find that the trends of EU's and U.S. fastener imports are quite similar to those of China and Taiwan, showing a curve of "rising first and then falling," that is to say, the current decline in Taiwan's fastener exports is more related to the overall global recession than to the transfer of orders to other countries. On the other hand, it also means that the decrease in Taiwan's fastener exports is not due to a weakening of its own competitiveness; and therefore, manufacturers should instead think about how to capitalize on business opportunities when the economy picks up in the future.

Chinese manufacturers should be worried, however. Although China's steel, wire and fasteners still account for about 30-40% of the global production capacity and have a certain influence in the world, with the rise of trade protectionism in the U.S., Europe, Mexico, India, Brazil and many countries coincidentally raising import tariffs or AD duties on Chinese products, the competitiveness of Chinese manufacturers will certainly be greatly reduced. In order to maintain healthy development and stability of the supply chain of various countries, apart from hoping that China's domestic demand will strengthen and consume the excessive production capacity ASAP, otherwise, in the short term, various countries can only maintain the market through the implementation of anti-dumping, even though this will increase the cost of buyers in the purchasing countries.

Can Investing in Overseas Factories Ensure a Competitive Advantage?

In order to be closer to the market or pursue a more favorable production environment, many manufacturers have set up their factories overseas, but not all overseas factories can escape the impact of anti-dumping. For example, recently there have been rumors that the U.S. may impose high tariffs on Chinese automobiles produced in Mexico, and if the tariffs are really imposed in the future, the prices of the products are bound to go up, and in the end, they won't gain any benefits. In addition, many Taiwanese manufacturers are also considering investing in ASEAN markets such as Vietnam to export to Europe and the U.S. market. In the short term, they can indeed benefit from the FTA agreements signed between Vietnam and other countries, but in the long term, China's products still have a price advantage, and if manufacturers do not simultaneously develop the domestic market to diversify the risk, relying solely on exports will be very precarious, which is especially true for the more competitive items such as construction screws and automobile fasteners. Customization and small quantity & variety, as mentioned above, may become options for manufacturers to pursue sustainable development. Instead of focusing on a single country or region, companies should eye on the global market as their strategy and try to develop different regions (e.g., the Middle East, emerging countries, or Central & South America), and should not be afraid of developing markets in advanced countries such as Europe, the U.S., and Japan. As long as the product is good enough, there will be opportunities. Taiwan's machinery/equipment and die manufacturers are a good success story. In the early days, they went west to expand in China and indirectly cultivated the rise of local factories. As competition in the Chinese market grew, they were venturing further into emerging markets overseas, but also into Europe, the US and Japan to try out new opportunities.



Small and Medium-sized Processing Factories Should Consider How to Transform in Response to Changes in the International Market

Compared to large plants with sufficient capital, small and medium-sized processing plants tend to be more visibly affected by the boom. Coupled with the inability to directly face customers to take orders, it is more difficult for them to expand profits, so that's why they have to be more proactive in transforming themselves. Taiwan's high-tech industry has its own 10-year plan, so Taiwan fastener industry, of course, needs to draw up their plans. As Taiwan is a fastener export-oriented country, product end-users are almost controlled in the hands



of foreign companies, making it easier to be replaced and more susceptible to fluctuations in the global economy or geopolitical impact. The emergence of CBAM may be an excellent opportunity for these manufacturers to transform. Although the thorough implementation of CBAM policy will require the investment of a lot of manpower and capital, which indeed constitutes a lot of pressure on manufacturers, however, as long as they can fulfill the requirements, it will also let international partners understand Taiwan's determination to help customers enhance the value of their products. Of course, we also hope that the relevant units can give a little more time for manufacturers to accomplish their goals.

In addition, it would be great if Taiwan CSC could also play a key role in helping Taiwanese manufacturers to enhance their competitiveness. For example, by adjusting the current wire products obviously not competitive in the market to be imported from abroad or allowing manufacturers to import these products by themselves, it may make these low-priced wires to continue to create profits for the industry. Proof of origin can also be used as a basis for future AD measures (e.g., how much AD tax must be levied on screws made from Chinese wire rod in Vietnam). All these ways can create more profit margins for the industry.

Conclusion

The unchanging truth of profit creation is to go where the opportunities are. At this stage, what the industry should worry about is not why the orders have shrunk, but to think from a different perspective about where to create opportunities. Only by grasping trends, taking the initiative and accelerating transformation can they maximize their benefits at this stage when everyone is generally in a bad situation.

In this issue, we have also collected the views of many experts and scholars, such as Dr. Wayne Sung's article on "AI Applications from the Perspective of Taiwan Fastener Industry" and James Hsiao's article on "Emerging Market Opportunities- Vietnamese Automotive Industry". We hope that these articles can help readers upgrade and transform or develop the market in the future by exploring the current opportunities of the industry from the perspectives of trends and markets. ■

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