



# TIFI Holds Speech Focused on Industry's Concern on U.S. Tariffs

The tariff increase proposed by U.S. President Donald Trump after he took office in January this year has caused a huge upheaval in the global market, and most companies are still waiting to see when the U.S. will announce more specific tariff details for them to facilitate the assessment of the extent of the subsequent impact. In order to help the fastener industry understand the U.S. tariff measures as well as the trend and current situation of the domestic economy, TIFI invited Dr. Chia-Lung Wu, a financial expert, to give a speech on "Taiwan's Overall Economy and Response to U.S. Tariffs and Other Issues" in Kaohsiung (Taiwan) on Feb./25. The speech analyzed the global economic outlook, tariffs, foreign exchange rates, and interest rates, and was attended by reps of many fastener industries.

The highlights of the speech are summarized as below.

## Uncertainties to Influence Market Dynamics

The most worrying part of the industry is that the global market is filled with too many uncertainties, which has led to some industry players being at a loss as to what to do. Although President Trump is generally inclined to impose tariffs on all countries, should they do it all at once or in a gradual manner? Will different countries be taxed at the same rate? What are the tax rates for individual industries? Will Taiwan's strong chip industry also be affected? To what extent will the downstream steel products (e.g. fasteners) be affected? The situation is not yet clear. The U.S. Fed may also consider cutting interest rates again in the second half of this year in response to the resurgence of inflation and its impact on the overall economy. Undeniably, the imposition of tariffs will definitely have a certain degree of impact on the economic development. Before the Trump administration announces any new policies, the industry can still think about which part of the tariffs and the exchange rate can still create benefits for themselves from the positive and negative impacts they may bring, and find out the next response strategies.

## Who's the Actual Beneficiary in a Free Competitive Market?

Free competition in the market tends to create the phenomenon of "The strong getting stronger and the weak getting weaker", and there is an imbalance in the opportunities enjoyed by multinational professionals and the local labor force. Trump's policies are mainly aimed at solving this social division to create jobs for the grassroots, and therefore he advocates cracking down on illegal immigrants, solving the problem of industries moving out of the U.S., and fighting trade wars with major competing countries such as China, in order to bring back to the U.S. the lost job opportunities. The increase in tariffs is an important tool for Trump to resolve trade deficits with a number of countries, with the aim of solving the continuous deterioration of the trade imbalance, which must also imply a lot of national defense and political considerations.

Dr. Wu believes that **Trump's tariff measures will have 4 major effects in the long run, including: increasing financial revenue, forcing foreign manufacturers to set up factories in the U.S., protecting strategic industries such as iron & steel and chips, and achieving other political goals (such as stopping illegal immigration, regaining control of the Panama Canal, etc.).**

## Why is Trump Considering Imposing Tariffs on Chips from Taiwan and What are the Implications?

Trump wants to achieve 4 major goals in the high-end chip industry, including asking TSMC to expand its production capacity in the U.S., bringing advanced process technology to the U.S., and saving Intel to become one of the major high-end chip makers. This is also one of his "America First" promises in the campaign. Taiwan has a strong industrial supply chain in AI and chips, and the one-stop industrial cluster is not only innovative but also a great support to the U.S. On the other hand, TSMC's tech advantage can not only help Intel regain its position as a major chip maker, but also prevent TSMC from falling into the U.S. antitrust investigation.

Dr. Wu believes that **"America First" may eventually lead to the development of relevant supply chains in Taiwan, which can be also interpreted as "Taiwan First" from another perspective** in exchange for US military and diplomatic support for Taiwan. Although Taiwan may seem to have suffered a bit of a loss at this stage, it does not mean that it will not be able to benefit from it in the future.



## Positive U.S. Economic Outlook May Lead to Depreciation of Non-U.S. Currencies.

Under the subversive style of Trump's strong tax hike, foreign companies are bound to invest more and more in the U.S. in order to minimize the impact on their own operations, and many manufacturing industries (e.g., refrigerators, TV, etc.) relying heavily on the U.S. market will have to invest more in the U.S. to set up factories and production. As capital continues to flow back to the U.S., the U.S. employment opportunities increase and the U.S. dollar index strengthens, which will also lead to the depreciation of other currencies such as the Euro, the Japanese Yen, and the New Taiwan Dollar under competitive pressure.

## Tariffs May Not Necessarily Impact Prices

Dr. Wu believes that **the relevance between tariffs and prices is overestimated, as higher tariffs may not necessarily be reflected in prices**, because non-comprehensive tariffs can be sometimes circumvented. For example, Chinese companies have shifted some of their production capacity to countries such as Vietnam, or sent semi-finished products to third countries for assembly before exporting to the U.S. That Mexico becomes the first to be influenced by the 25% tariff imposed by the U.S. is also partly related to this pattern of circumvention, which also explains why the U.S. has to synchronize the tariffs on all third countries such as Vietnam, Thailand, Malaysia, Singapore, and the Middle East countries; furthermore, through the depreciation of the exchange rate, the impact of the tariffs can be minimized. Previously, China, Japan, and other Asian countries once reduced the exchange rate of their currencies against the U.S. dollar by as much as 50% in response to U.S. tariff pressure, and such a depreciation will also lead to a competitive depreciation of other Asian currencies. However, it should be noted that the U.S. often imposes punitive tariffs on countries that are suspected of manipulating the exchange rate, so it is crucial that they are properly adjusted so as not to be penalized.

Dr. Wu believes that Trump's phased increase in tariffs is intended to create "sustained" pressure on inflation, because if tariffs continue to accumulate, exporters will be forced to keep adjusting their prices upward, which will put even more pressure on inflation.

## Irreplaceability as a Competitive Edge

Manufacturers are replaced as there are alternatives in the market. If an exporter chooses to raise prices, it must take into account the degree of competition in the market. If there are many alternative choices, there is a risk of losing orders. On the other hand, if a company like TSMC having almost no competitors in the market and demonstrating low substitutability, even if it raises its selling price and passes the cost to customers, it does not have to worry too much about losing orders. This also highlights the importance of irreplaceability in the market.

## Are There Still Opportunities for Taiwan?

Dr. Wu noted that it remains to be seen whether Trump's final tariff measures will be comprehensive or partly targeted, and whether they will only target specific industries. If the result is that everyone will be treated equally, there may be less pressure on Taiwan. Although there will be pressure for Asian currencies to depreciate due to the possibility of stronger U.S. dollar, **Taiwan's importance in AI and chips is expected to continuously play a key role in boosting Taiwan's economic development, so its pressure for depreciation will be less than that of other Asian countries.** In response to the U.S. tariffs, Taiwan's manufacturing supply chains in the short term may adopt a number of significant countermeasures, including: relying on exchange rate depreciation to minimize the impact of tariffs, indirectly exporting through third parties, and setting up factories in the U.S. directly.

In fact, a large part of Taiwan's competitiveness comes from the ability to innovate, and a lot of new blood from the 2nd and 3rd generation in the industry have also joined their companies' tech R&D, so there is still a great opportunity to obtain more orders in the future due to the order-switching effect. With the AI, robotics and other key development industries continuing to inject strong momentum into the Taiwanese economy, it is not impossible for the Taiwan stock market to reach over 30,000 points in the future like the Hong Kong Hang Seng and Nikkei index one did before. **In Taiwan, there is still a lot of room for development in the technology and manufacturing industries under the trends of the order-switching effect and the ever-decreasing significance of the Chinese supply chain.** In addition to the Panama Canal, Greenland, the Gaza Corridor and Ukraine issues, which continue to be talk of the town, Taiwan will definitely be also a very important part of Trump's global economic and military strategies. ■



▲ Dr. Chia-Lung Wu

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