Editorial

# Fasteners x EVs

## 2 Different Chess Games for China and Other Countries

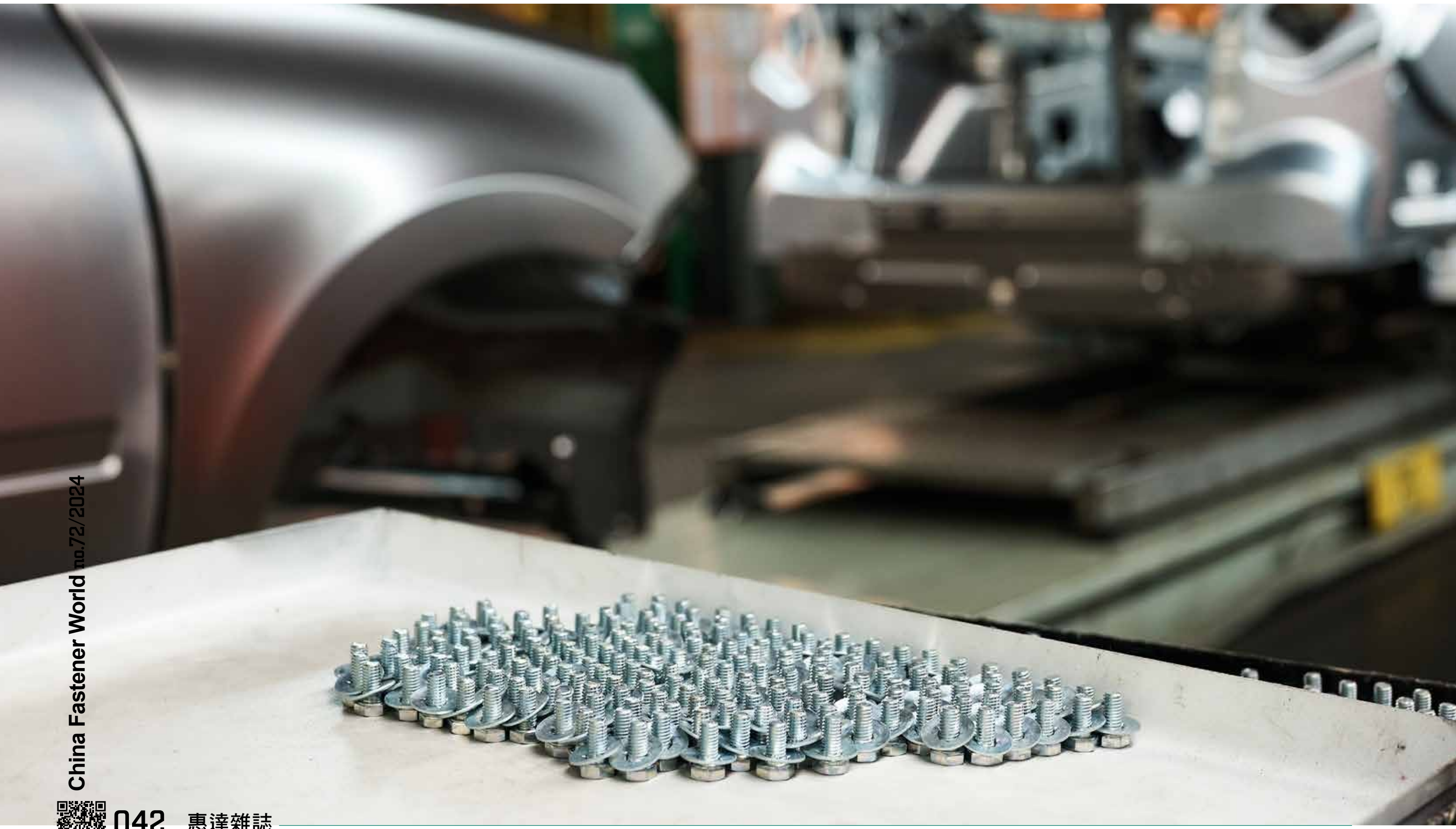
## 社论：紧固件 x 电动车，中国与海外国家各自面对的博弈

### Signs of a Polarized China Fastener Industry Emerge

China has the largest output of fasteners in the world, and its output is still rising annually. Prior to 2018, its annual output had exceeded 8 million tons, soaring to about 9.78 million tons in 2023. According to an analysis by an industry consultation institute in China, China's industrial fastener market value would be USD 20.7 billion in 2023 and will reach USD 22.1 billion in 2024, a growth of 6.7%. If this forecast comes true, the market expansion will drive the output to continue to grow in 2024 and possibly reach 10 million tons in the next five years.

The massive production momentum derives from the fact that many major Chinese fastener companies have invested heavily in digital and smart manufacturing in recent years and adopted automated production lines. Large Chinese manufacturers with mass production capability and competitive prices can output tens of thousands of tons of fasteners a month, like pressing a fast-forward button on production speed and output, significantly shortening lead time and achieving a high cost-performance ratio. However, behind the curtain of abundant capacity, a polarized industry revenue structure has emerged.

Publicly listed companies are the epitome of industry revenue performance. We can tell the signs from their latest financial reports. Let's start with this conclusion — **among Chinese listed fastener companies in H1 2024, the revenues of companies specializing in mid-to-high-end products hit double-digit growth, while the revenues of conventional companies specializing in low-end products obviously went down.** The so-called mid-to-high-end products include fasteners with higher safety requirements for aerospace, EVs, rail transit, etc.; low-end products mainly include generic stainless steel fasteners and so on.



At one end of the scale are companies with good revenue performance. For example, Changhua Group which specializes in manufacturing auto parts and accessories saw revenue up 21% and net profit soaring 158% in H1 2024. Changhua has benefited from the rapid growth in production and sales of new energy vehicles and continues to invest in the construction of a production line with an annual output of 2 billion pieces of automotive high-strength fasteners. In addition, Essence Fastening specialized in manufacturing auto parts along with an aerospace riveting production line saw revenue grow by 42% and net profit by 73%. Qifeng Precision Industry Sci-Tech which is developing high-end products saw revenue grow by 6%. Ronnie Precision which is transitioning to and tapping into the new energy vehicle market saw revenue increase by 17%. **China's imported high-value fasteners which are worth billions of US dollars will gradually be replaced by local Chinese fasteners. This will definitely be a future trend.**

At the other end are companies facing revenue challenges, including Zhejiang Tong Ming, the leader in Chinese stainless steel fasteners, whose revenue fell by 16%, as well as Gem-Year Industrial, the leader in Chinese fasteners which fell by 16%. Shandong Tengda Fastener Technology which specializes in stainless steel fasteners saw its revenue decline by 6% and so on. A study reveals that **China's stainless steel prices have fluctuated greatly in the past two years. The prices of raw materials such as iron ore, nickel, and chromium have continued to decline. This has caused the price of stainless steel wire rods to drop significantly, and lowered the price of stainless steel fastener products, thereby impacting the revenue.**

This polarized industry revenue structure reveals that China's fastener industry is at a crossroad of deciding whether to transition into high-end products. The leading giants are unquestionably growing larger. Even if they encounter a short-term revenue impact, they have enough funds in their pockets to quickly carry out partial or full-on transformation. But what about those small and medium conventional enterprises that account for more than 80% of the total? Obviously, competition in China's low-end fastener market is already fierce, and profit margins are being squeezed. It is necessary to transition into mid-to-high-end products to earn more profits. However, various rising domestic costs in China, coupled with tariff challenges from foreign countries, as well as carbon taxes that will be levied in the future, undermine the capital of small and medium conventional enterprises, making the transition a far-fetched goal despite the enterprises' high interests. This will continue to make the M-shaped revenue of Chinese fastener companies more serious. This is a wake-up call for China's fastener industry.

## The Die is Cast for China's Global Dominance in EVs; EV Fasteners will Make a Hit in China

In 2023, China's EV sales reached 8.41 million units, up 36% year on year, accounting for 59% of global sales which were 14.18 million units. The International Energy Agency (IEA) estimates that sales will increase 25% year on year to 10.14 million units for the 12 months of 2024.

Chinese EVs are dominating the overseas market and outrunning the sales of other overseas carmakers. This September, Reuters reported that Volkswagen was considering closing its factory in Germany for the first time in its history. Volkswagen said it had no choice but to adopt a more radical strategy. This news shocked Germany. Even some YouTubers put "Made-In-Germany Is DONE" and "A Wakeup Call" on their video titles. The South Korean press reported that the reason is the rise of China's EVs as well as the energy source disruption caused by the Russia-Ukraine war, which force Volkswagen to save expenditure.

Although China's export of EVs declined for the first time in H1 2024 and now faces additional tariffs imposed by Europe, the U.S. and Canada, in September, the European press found that sales of Chinese major EV makers like BYD, Li Auto, and NIO increased significantly in August over the same period last year. Tesla's sales in China and the number of Tesla EVs exported from China also grew significantly. This phenomenon shows that **China has dominated the global EV market and will drive the revenue growth of relevant supply chain players in China, among which EV fastener manufacturers are one of the beneficiaries.**

Fastener World's study found that the market for EVs priced below USD20,000 to USD30,000 are already in the grasp of China, leaving no chance of winning for other foreign car manufacturers. China's EV industry is still making frequent moves, continuing to connect a huge supply chain, and extending its production bases to Latin America and Southeast Asia (especially Thailand and Vietnam) using political ties with diplomatic countries and working with large consortiums.

China's EV supply chain is quite competitive, especially in battery production. **Nikkei Asia pointed out that among the top 10 battery manufacturers in the world last year, Chinese companies accounted for 6, and about 80% of the cathode materials for battery core components were produced in China. Chinese EV manufacturers have been able to keep costs down because the battery procurement network is concentrated in China.**

As Chinese EV manufacturers gain success overseas, **Chinese EV fastener manufacturers in the supply chain will have the opportunity to copy the success model and compete with competitors from Taiwan, Europe and the U.S. in the future. This is only a matter of time, so for overseas manufacturers outside China, the top priority is to think about how to play this chess game with China.** Tariff sanctions could be a political act without real effects, but technology will always be the market's definitive game-changer, so manufacturers will eventually have to resort to independent R&D. **China has used itself to make an example which proves that the new battery technology developed by China can dominate the world and change the market rules originally steered by Europe and the U.S. It is a tried-and-true rule that mastering technology means dominating the world.** Fastener companies in all countries should think about how to go back to the root of matters and use their own technology to create the next fastener manufacturing technology that changes market rules. Whether it is reducing carbon emissions, increasing production speed, reducing costs, etc., they may have an opportunity to pull out their ace that can compete with competitors. ◘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