

The Impact of the U.S.-China Trade War on Taiwan Fastener Industry and Its Countermeasures



U.S. President Joe Biden announced on May 15, 2024 that he would significantly increase tariffs on a range of Chinese imports, including electric vehicles, solar cells, semiconductors, and advanced batteries, in an effort to insulate strategic U.S. industries from new competitors. President Biden continued his predecessor

Trump's policy of increasing tariffs on Chinese imports in 2018. In addition to maintaining high tariffs on more than US\$300 billion worth of Chinese goods,

President Biden has increased tariffs on China in this election year in an effort to attract the votes of swing voters in the Midwest and elsewhere, and to stabilize the Democratic Party's relatively weak electoral fortunes. In the tariff increase this time, the U.S. raised

the tax rate on lithium-ion batteries for electric vehicles imported from China from 7.5% to 25%, and the tariff on solar cells (whether or not they are assembled into components) was raised from 25% to 50%, indicating that it will be even more difficult for Chinese products to be sold in the U.S. market in the future.

After 7 years of high tariffs imposed by the U.S. on China, the impact on China's economy has been significant. Statistics on the U.S. import trade volume from 2018 to 2023 are summarized in **Table 1**. China was the largest import origin for the U.S. in 2018, with an annual import value of US\$538.514 billion, accounting for 21.23% of the U.S. total imports in the same year, and ranked the top of the list of import origins. After former U.S. President Trump raised China's import tariffs, China's share in U.S. imports

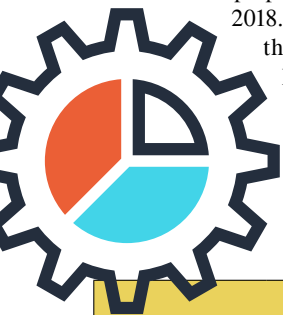


Table 1. Top 10 U.S. Import Origins Statistics in 2018-2023

(Unit: Million USD)

Rank	Country	2018		2019		2020		2021		2022		2023	
		Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
	Global	2,536,145	100.00%	2,491,700	100.00%	2,331,447	100.00%	2,828,875	100.00%	3,242,530	100.00%	3,084,110	100.00%
1	Mexico	343,681	13.55%	356,094	14.29%	323,477	13.87%	382,589	13.52%	454,775	14.03%	475,607	15.42%
2	China	538,514	21.23%	449,111	18.02%	432,548	18.55%	504,286	17.83%	536,307	16.54%	427,229	13.85%
3	Canada	318,575	12.56%	318,589	12.79%	270,026	11.58%	357,279	12.63%	436,562	13.46%	421,096	13.65%
4	Germany	125,714	4.96%	127,455	5.12%	114,897	4.93%	134,847	4.77%	146,630	4.52%	159,720	5.18%
5	Japan	142,228	5.61%	143,591	5.76%	119,507	5.13%	134,833	4.77%	148,064	4.57%	147,340	4.78%
6	S. Korea	74,239	2.93%	77,476	3.11%	76,011	3.26%	95,096	3.36%	115,394	3.56%	116,235	3.77%
7	Vietnam	49,139	1.94%	55,437	2.22%	79,582	3.41%	101,916	3.60%	127,481	3.93%	114,439	3.71%
8	Taiwan	45,709	1.80%	54,229	2.18%	60,430	2.59%	77,032	2.72%	91,725	2.83%	87,752	2.85%
9	India	54,250	2.14%	57,876	2.32%	51,255	2.20%	73,308	2.59%	85,537	0.00%	83,768	2.72%
10	Ireland	57,450	2.27%	61,884	2.48%	66,053	2.83%	73,861	2.61%	82,569	2.55%	82,290	2.67%

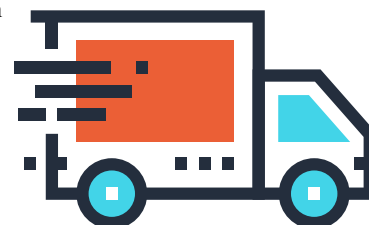


declined steadily, and its position as a no. 1 import origin was finally overtaken by Mexico in 2023, with China's imports into the U.S. totaling US\$427.229 billion in 2023, a decrease of US\$111.285 billion compared to 2018, and accounting for only 13.85% of the total U.S. import volume in 2023. In 2023, Mexico's imports into the U.S. totaled US\$475.607 billion, accounting for 15.42% of total U.S. imports in that year, and Mexico's imports into the U.S. have risen to the top of the list. **Since the start of the trade war between China and the U.S. in 2018, China's share of imports into the U.S. has decreased from 21.23% to 13.85% over the seven-year period, a significant reduction of 7.38%, of which the largest beneficiaries, in addition to Mexico and Canada, Germany, Japan, S. Korea, Vietnam, Taiwan, India, etc., are all beneficiaries, and Taiwan has also grown to be the 8th largest trading partner of the U.S.**

In terms of iron and steel fasteners (HS code 7318), **Table 2** shows the top 10 import origins of the U.S. during 2018-2023. Taiwan (either the amount of imports into the U.S. or its rank) was in the 1st place, while the share of iron and steel fasteners the U.S. imported from Taiwan increased from 32.05% in 2018 to 34.91% in 2023, a growth of 2.86%. Although China still maintained the 2nd place, its share in the U.S. total imports fell from 26.51% in 2018 to 17.10% in 2023, a significant reduction of 9.41%. Such a nearly 10% decline made Taiwan fastener industry the largest beneficiary. Compared to 2018, the share of iron and steel fasteners the U.S. imported from Taiwan in 2022 increased by nearly 7%. It can be said that most of the U.S. steel fastener orders drawn from China have been redirected to Taiwan, which also made years 2021 and 2022 the golden two years for Taiwan fastener industry.

Rank	Country	2018		2019		2020		2021		2022		2023	
		Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
	Global	5,697	100%	5,514	100%	4,777	100%	6,029	100%	7,732	100%	6,340	100%
1	Taiwan	1,826	32.05%	1,898	34.42%	1,763	36.91%	2,268	37.62%	3,017	39.02%	2,213	34.91%
2	China	1,510	26.51%	1,103	20.00%	823	17.23%	1,114	18.48%	1,605	20.76%	1,084	17.10%
3	Japan	619	10.87%	624	11.32%	506	10.59%	618	10.25%	570	7.37%	557	8.79%
4	Canada	307	5.39%	310	5.62%	259	5.42%	321	5.32%	386	4.99%	403	6.36%
5	Germany	329	5.77%	365	6.62%	328	6.87%	365	6.05%	365	4.72%	376	5.93%
6	S. Korea	188	3.30%	188	3.41%	173	3.62%	213	3.53%	288	3.72%	274	4.32%
7	Italy	152	2.67%	144	2.61%	137	2.87%	169	2.80%	195	2.52%	228	3.60%
8	India	115	2.02%	145	2.63%	107	2.24%	183	3.04%	246	3.18%	202	3.19%
9	Mexico	120	2.11%	130	2.36%	110	2.30%	129	2.14%	170	2.20%	182	2.87%
10	France	84	1.47%	87	1.58%	70	1.47%	69	1.14%	93	1.20%	111	1.75%

Table 3 shows the values and shares of iron and steel fasteners the U.S. imported from Taiwan during 2018-2023. Since the trade war between China and the U.S., both the amount and share of Taiwan's iron and steel fasteners sold to the U.S. reached record highs, especially in 2021 and 2022 (the so-called golden two years). Up to 37-39% of U.S. fastener imports were from Taiwan. Such a growth trend reached its peak in 2022 and began to cool down in 2023. The most likely factor was the visit to Taiwan by a delegation led by U.S. House Speaker Nancy Pelosi from August 2 to August 3, 2022, which was immediately followed by the military exercise of the PRC's Liberation Army in the six seas surrounding Taiwan and the tension across the Taiwan Strait.



Year	Value	Share
2018	1,826	32.05%
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2020	1,763	36.91%
2021	2,268	37.62%
2022	3,017	39.02%
2023	2,213	34.91%

Comprehensively, the trade war between China and the U.S. is a tonic for Taiwan fastener industry. Under the highly complementary situation of Chinas and Taiwan's fasteners, a very high proportion of fastener orders the U.S. drew from China have been redirected to Taiwan. **Coupled with U.S. President Biden's intention to raise tariffs on Chinese products this year, Taiwan fastener industry should be able to continue to benefit from the Chinese orders redirection.** However, since Pelosi's visit to Taiwan in 2022, cross-strait relations have taken a sharp turn for the worse, and the amount of Taiwan's fasteners imported into the U.S. in 2023 was reduced by US\$ 804 million compared to 2022, accounting for a decline of 4.11%, and whether this decline will continue in 2024, cross-strait relations account for a very important impact factor.

Taiwan's President Ching-Te Lai said in his inaugural speech on May 20, 2024 that Taiwan and China are not subordinate to each other. After this statement, China launched military drills against Taiwan on May 23rd and 24th, which covered the sea and airspace around Taiwan and outer islands, and for the first time, included a marine police to carry out a joint patrol, showed their intention to seize control



of the Taiwan Strait, and released a simulation of an attack on Taiwan. This will increase the effect of "cultural attack and military intimidation", and the geopolitical uncertainty across the Taiwan Strait will rise again. On the other hand, China's Ministry of Finance announced on May 31st that it would cancel the preferential tax rates for 134 products imported from Taiwan under the Cross-Straits Economic Co-operation Framework Agreement (ECFA) and restore them to the general tax rates. The affected products involve petrochemicals, textiles, machinery, steel and metals, and transportation vehicles, etc., and the new rules have come into effect since June 15th. Under China's military and economic coercion strategy, the impact of whether foreign orders will be shifted to Taiwan still need monitoring.


Starting from 2021, TSMC started to establish its fabs around the world and has major investment plans in the U.S., Japan, and Europe. In addition, Apple, Samsung, Google, Nintendo, and other well-known automotive parts and machine tools manufacturers are all gradually adopting a "local supply" production and marketing system, which will stimulate the development of the "regionalized supply chain". Canada and Mexico, two American countries that are part of the "USMCA", enjoy preferential treatment for their exports to the U.S., and were the two most important countries for U.S. imports in 2023, ranking 1st and 3rd respectively and maintaining very high import amounts. However, in Table 2, Canada and Mexico's iron and steel fasteners don't seem to

benefit a lot by the order transfer effect. Canada's share in the U.S. iron and steel fastener imports in 2018 was 5.39%, 6.36% in 2023, an increase of only 0.97%, while Mexico's share only grew 0.76%, indicating that Mexico and Canada do not have a strong iron and steel fastener manufacturing industry, which should be a good consideration point for Taiwan fastener industry before entering the U.S. market.



Most of the previous commentaries have looked at the U.S. from Taiwan's standpoint, but less from the U.S. standpoint. Let's refer to the American Chamber of Commerce in Taiwan (AmCham Taiwan)'s "2024 Taiwan White Paper" published on June 6, 2024, which puts forward 97 recommendations for Taiwan's investment and trade environment, including renewable energy construction, carbon emissions, maintaining relations with the U.S. government, financial regulations, investment regulations, health care and pharmaceutical industry structure, talent pool, etc. The "2024 Taiwan White Paper" suggests that the key to Taiwan's future forward deployment is to build "resilience," and that Taiwan must act quickly to strengthen resilience in several key areas, as described below.



1. Strengthening U.S.-Taiwan Relations: Taiwan and U.S.



officials both agree that bilateral relations are closer than ever, including in the economic realm, and the U.S. Chamber of Commerce has called on Taiwan's authorities to deepen bilateral relations by pushing for early implementation of the U.S.-Taiwan 21st Century Trade Initiative, the first 5 items of which have already been signed in 2023, and the two sides continue to negotiate on the remaining issues. If the agreement can be signed





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ASAP, it is expected that the two sides will further discuss the possibility of signing a "U.S.-Taiwan Comprehensive Bilateral Trade Agreement" in the future.

2. Strengthening Critical Infrastructure: Taiwan should adopt a number of strategies to strengthen the resilience of different industries, including energy, telecommunications, and transportation. Infrastructure such as power plants, water supply, telecommunications, transportation, medical institutions, bridges, and highways, among other facilities should be also enhanced.

3. Enhance Renewable Energy: Taiwan should accelerate the deployment of renewable energy sources, especially for high-energy-demanding industries such as semiconductors, AI, etc.

In the "2024 Taiwan White Paper," the U.S. businesses are most concerned about Taiwan's energy policy. The U.S. businesses' specific recommendations for the Taiwan government's energy policy are as follows.

Recommendation 1: Call on Taiwan's Executive Yuan to set up an inter-ministerial working group to coordinate energy policy and develop a comprehensive energy policy that meets international environmental commitments, satisfies energy security, and promotes economic competitiveness to ensure the expansion of renewable energy and the 2050 net-zero emissions goal.

Recommendation 2: Enhance the predictability of the electricity fee calculating mechanism, create an affordable renewable energy market, and implement a transparent electricity fee review mechanism.

Recommendation 3: Improve the investment environment for renewable energy by relaxing localized production requirements to facilitate the investment environment for renewable energy, and improving coordination with local governments to promote the development of renewable energy.

Taiwan became the 8th largest merchandise trading partner of the U.S. in 2023. In order to build a brighter future, both sides are negotiating the Taiwan-U.S. 21st Century Trade Initiative (TUS21), continuing to strengthen bilateral economic relations, and reaching a unanimous consensus on TUS21, which will serve as a springboard for a full-scale Bilateral Trade Agreement (BTA). **Once Taiwan signs a Bilateral Trade Agreement with the U.S., it will be a great encouragement to all industries in Taiwan. Private enterprises should actively support and urge the government to complete the signing of the agreement with the U.S. ASAP.**

In 2024, the global situation turns more turbulent, including the intensifying trade war between China and the U.S., the ongoing Russia-Ukraine war and conflicts between Israel and Hamas, and the tension in South China Sea and Taiwan Strait. How do Taiwanese fastener manufacturers deal with the uncertainties they face? Of course, there have been some manufacturers establishing their bases outside of China, including Vietnam, Thailand and other countries. Vietnam is especially worth noting. Vietnam's sales of iron and steel fasteners to the U.S. amounted to only US\$29 million in 2018, but grew to US\$108 million in 2023, an increase of 372% in just 7 years, a growth rate much faster than that of other countries. In 2023, Vietnam was already the 12th largest source of iron and steel fasteners imported to the U.S., and it is expected that it will continue to rise beyond 2024.

In addition to setting up overseas factories, **Taiwanese fastener manufacturers can also establish "overseas shipping warehouse", which can effectively reduce lead time, increase the competitiveness of enterprises. It is recommended that enterprises in the initial stage can consider renting warehouses in the U.S., Mexico, Canada or other countries before setting up their branches and warehouses for cross-border services.**

The advantages include more flexible adjustments of the operational scale, less investment in hardware, the development of information-based logistics and warehousing systems in Taiwan and abroad, resulting in smoother integration between domestic and international business, less lead time to improve the efficiency of shipments. Bigger enterprises can even consider investing in the establishment of self-owned shipping warehouses, although the investment cost is higher, in the long run it is better to reduce costs, shorten the delivery time, prevent importers from worrying about geopolitical uncertainties, maintain the resilience of shipments, and increase the long-term competitive advantages of enterprises.

Considering the fact that the impact of U.S.-China decoupling and geopolitical uncertainty have changed the global trade structure, Taiwanese fastener entrepreneurs in the ever-changing business environment must have the ability to grasp their own strengths, understand the future, avoid risks, select strategies, and rapidly improve the ability of business operations to face the changes that have already come. ■

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Bear Fastening Solutions, Inc.

Office: 2F., No. 140-1, Zhuanzijing, Madou Dist., Tainan City 721008, Taiwan.
Tel: +886 6 571 5928 Fax: +886 6 571 2845
Email: lionel@bearfs.com.tw

www.bearfs.com.tw



