

The Development of Vietnamese Fastener Industry and the Impact of EU-Vietnam FTA

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The Development of Vietnamese Fastener-related Industry Chains

Fasteners in the Vietnamese market are generally manufactured by three types of manufacturers, which include (1) subsidiaries of Taiwanese companies in Vietnam, (2) domestic Vietnamese manufacturers, and (3) manufacturers invested directly by foreigners (non-Taiwanese). In terms of the fastener manufacturing industry, Vietnam has not established a well-developed fastener industry yet. In early years Taiwanese investors came to set up their factories in Vietnam and fought for their market share on their own. However, currently Taiwanese investors in Vietnam have been facing increasing competition from local Vietnamese manufacturers. Up to now, there has not been an industry organization in Vietnam akin to Taiwan Industrial Fasteners Institute. With economic growth and market changes, some fastener-related industry clusters have been gradually emerging in Vietnam. The right table shows the locations of major fastener industry clusters in Vietnam and the numbers of fastener-related enterprises in specific areas by product category (source: <https://www.yellowpagesvn.com/>)

Fastener Industry Clusters in N. Vietnam

There are automotive/motorbike, electronics, electrics, and shipbuilding industry clusters in this region, so electronics fasteners are one of the main supplied fastener categories. In addition, Vietnam is currently encouraging its automotive and motorbike industries to establish large car manufacturing plants. Thus far, there have been around 50 car assembly plants throughout Vietnam. In addition to Mercedes-Benz and Isuzu setting up their plants in Ho Chi Minh City, most manufacturers set up their plants in Vinh Phuc, Bắc Ninh, Hải Phòng City, and other Northern cities. Japanese Honda and Yamaha have been manufacturing in the vicinity of Hanoi for a long period of time, while Italian Piaggio has also set up its plant in Vinh Phuc. As these investments created a large amount of demand for automotive/motorbike fasteners, the industry clusters for fastener supply were developed as well. The main fastener supply hub is Hanoi and has been gradually expanded to Bắc Ninh, Phú Thọ, Bac Giang, Hai Duong, Hung Yen, and Thái Bình. Formosa Ha Tinh Steel Corporation (FHS) provides the fastener industry with steel wire rod for manufacturing cold forged fasteners, but there is still not

Fastener Industry Clusters	Fasteners	Bolts, Nuts, and Screws	Threaded Rods	Anchor Bolts
N. Vietnam				
Lai Châu	1	0	0	0
Phú Thọ	1	2	0	0
Bac Giang	3	2	0	0
Hà Nội City	22	43	19	17
Bắc Ninh	2	5	1	0
Hai Duong	0	1	0	0
Hải Phòng City	0	0	0	0
Vinh Phuc	0	0	0	0
Hung Yen	1	1	0	0
Nam Dinh	0	1	0	0
Thái Bình	0	0	0	0
Ninh Bình	0	1	0	0
Thanh Hoa	0	2	0	0
Nghệ An	0	0	0	0
Hà Tĩnh	0	0	0	0
Central Vietnam				
Đà Nẵng City	0	3	1	0
Binh Dinh	0	2	0	0
Khánh Hòa	0	1	0	0
S. Vietnam				
Bình Phước	0	0	0	0
Tay Ninh	0	1	0	0
Long An	2	8	0	2
Binh Duong	11	40	5	3
Ho Chi Minh City	28	112	17	9
Dong Nai	2	26	1	0
Ba Ria-Vung Tau	4	7	0	0
Cần Thơ City	0	1	0	0

any well-developed fastener industry at its surrounding areas, such as Hà Tĩnh, Thanh Hoa, and Nghệ An. The time usually taken from the downtown of Hanoi to the nearby fastener industry clusters in the N. Vietnam region by car is about 2hrs on average.

Fastener Industry Clusters in Central Vietnam

The fastener categories published on the aforementioned local yellow pages are mainly those for basic public infrastructure and general use. There is no significant fastener industry cluster in this area. Thành phố Quảng Ngãi and Đà Nẵng City are both the major locations of its steel and petrochemical industries, and fasteners supplied to these cities are mainly for the domestic demand of steel and petrochemical industries.

Fastener Industry Clusters in S. Vietnam

Fasteners supplied to this area are mainly for construction, basic public infrastructure, furniture and woodenware. The developments of Taiwanese investors and local Vietnamese investors establishing their fastener manufacturing plants in this area are very similar to each other. Mercedes-Benz and Isuzu set up plants in Ho Chi Minh City, while Taiwanese SYM and Kymco also brought tens of their partnered Taiwanese factories to invest in Vietnam, thus facilitating the industry cluster development in Binh Duong and Dong Nai. Ho Chi Minh City, Dong Nai, and Binh Duong were all major supply hubs for the early-stage development of relevant manufacturing industries and the fastener industry in S. Vietnam has also continued its stepwise development since then.

In the wake of economic growth in the region, domestic Vietnamese and overseas (non-Taiwanese) manufacturers chose Binh Duong as their fastener manufacturing industry cluster. In addition to focusing on Dong Nai where the need for commercial trade and transportation could be both satisfied, they also extended their reach outwards to Long An, Cần Thơ City, and Tay Ninh.

On the other hand, as Taiwan's China Steel Corp. (Taiwan CSC) is optimistic to the further growth of ASEAN market, it then formed a strategic alliance with Nippon Steel Corporation, Formosa Ha Tinh Steel Corporation (FHS), Chun Yuan Steel Industry, and Hsin Kuang Steel in order to establish CSVC in Ba Ria-Vung Tau for steel production. Ba Ria-Vung Tau has become one of the essential manufacturing bases for Taiwan CSC to penetrate into Vietnam and other emerging markets in ASEAN and South Asia. Tung Ho Steel has also established its plant in this city, which is 1-2 hours away from the two major fastener industry clusters- Binh Duong and Dong Nai. There are also fastener industries in Ba Ria-Vung Tau, as this area is close to Vung Tau Port and CAIMEP, which is an excellent advantage for import and export. This area is not only the best place for the fastener industry, but also for Taiwanese investors to establish their steel hardware plants.

Currently, the main fastener supply and commercial trade clusters of S. Vietnam are centered on Ho Chi Minh City and those neighboring provinces (incl. Binh Duong, Dong Nai, Long An, Cần Thơ City, Ba Ria-Vung Tau, and Tay Ninh) are all within the coverage of their trade activities. However, fastener manufacturing clusters are centered on Binh Duong, while other manufacturing activities are centered on Binh Duong, Dong Nai, Long An, Cần Thơ City, Ba Ria-Vung Tau, and Tay Ninh. The cluster developments of the plants invested by Taiwanese in Vietnam and domestic Vietnamese fastener plants in this region look alike very much.

Major Taiwanese Fastener Manufacturers in This Region

Fastener Company
Evergreen Screws Industry (Vietnam) Co., Ltd.
Rich Fame-Chite Enterprises Co., Ltd.
A-Plus Co., Ltd.
Homn Reen (Viet Nam)
Chin Well Fasteners (Viet Nam)
Header Plan
Stand Dragon Technology Co., Ltd.
Chienta Bolt Co., Ltd.
United Mechanical
Co-Win Fasteners Viet Nam
Viet-Screw (Linkwell Viet Nam)
Thread Industrial Co., Ltd. (Viet Nam)
United Industrial
Dicha Fasteners Mfg
Anchor Fasteners Vietnam Co., Ltd.
Ting Ray Co., Ltd. (Easylink Industrial Co., Ltd.)
Công Ty TNHH Tycoons Việt Nam
Công Ty TNHH Thép Tycoons Việt Nam
Oriental Multiple Vietnam Company Limited

With Vietnam being more and more attractive to foreign investors and domestic manufacturing costs such as land and labor being higher and higher, it is suggested that new investors in the fastener industry should fully consider the balance among commercial purchasers, land cost, labor cost, transportation cost and supply chain industry chain support.

FTA(EVFTA)

On June 8th, 2020, the Assembly of Vietnamese Parliament respectively passed the "EU-Vietnam Free Trade Agreement, EVFTA" with 94.62% attendants voting yea and "EU-Vietnam Investment Protection Agreement, EVIPA) with 95.65% attendants voting yea. These agreements have been officially signed on June 30th, 2020 and have taken effect 30 days after the announcement of the Agreements. Vietnamese Parliament will then leave the Agreements to the Vietnamese Government to fulfil all relevant details and articles listed the Agreements. On the other hand, the European Commission (EC) also announced on June 30, 2020 that the EVFTA would take effect on August 1st. As the Covid-19 pandemic has caused many adverse impacts on the economy of Vietnam, the approvals of these two Agreements are expected to help boost the economic recovery of Vietnam, solicit more high-quality investments, realize the diversity of supply chains and reduce too much reliance upon certain few markets.

On March 30th, 2020, the EC passed the EVFTA, making Vietnam become the only two ASEAN countries (the other is Singapore) reaching FTAs with the EU. EVFTA is considered by the Vietnamese authorities a



new type of FTA, which is comprehensive, of high quality, mutually beneficial and compliant with WTO's regulations. Signing the EVFTA symbolizes a pivotal milestone of Vietnam's further involvement into the world's economy. Through the collaboration with 27 EU member states, Vietnam is able to increase its economic growth, facilitate the trade and investment between Vietnam and the EU, and advance its technology development, etc. Among all the FTAs Vietnam has signed with other countries, EVFTA is considered the best with the most benefits. Another feature of EU-Vietnam FTA is the involvement of S. Korea. Although the EU-S. Korea FTA and S. Korea-Vietnam FTA have both taken effect, they are only bilateral agreements. However, the EU-Vietnam FTA set a favorable tariff condition on country of origin regulations: Materials must be produced in the region, but if materials used are originating from S. Korea, they can be still considered made in Vietnam, thus recreating a new division of labor among the EU-Vietnam-S. Korea. Such a unique way to interconnect with origins through different FTAs, deepen division of labor, and consolidate supply chains might be seen for the first time among all FTAs in the Asia Pacific. What's worth noting is that country of origin regulations for future FTAs will become stricter and more exclusive than ever and will be more protectionism-oriented, which may result in bigger impacts on Taiwan. The EU-Vietnam FTA is just a beginning. In the future, more FTAs will be made based on similar ideas and form another wave of power to influence and change the global supply chain, which Taiwan definitely cannot be ignorant of.

It is estimated that in the first 5 years of EVFTA coming into effect, the GDP of Vietnam will increase from 2.2% to 3.3% and in the first 10 years of EVFTA, it will increase from 4.6% to 5.3%. EVFTA also creates new jobs. It is estimated that around 0.146 million additional jobs will be created every year, which could help lift hundreds of thousands of Vietnamese people out of poverty. To be concrete, after the Agreements took effect, the EU immediately eliminated the tariffs against 85.6% of products imported from Vietnam, which represent around 70.3% of the total value of Vietnam's export to the EU. After 7 years, the EU will eliminate the tariffs against 99.2% of products imported from Vietnam, which represent around 99.7% of the total value of Vietnam's export to the EU. As for the EU's export to Vietnam, Vietnam will eliminate the tariffs against 48.5% of products imported from the EU, which represent around 64.5% of the total value of the EU's export to Vietnam. Tariffs against other product codes will be also gradually eliminated within 10 years.

The EU is a quite important trade partner to Vietnam. According to the statistics of Vietnam's Customs, the bilateral trade value of Vietnam and the EU increased by 13.7 times from US\$ 4.1 billion in 2000 to US\$ 56.45 billion in 2019. In 2019, Vietnam exported US\$ 41.5 billion worth of products to the EU and imported US\$ 15 billion worth of products from the EU. The EU has been the 2nd largest export destination of Vietnam for long and its main exported products include textiles, shoes, mobiles, computers, and agricultural products. Textiles and shoes represent 20% of the total value of Vietnam's export to the EU. After EVFTA comes into effect, not only its textiles and shoes exports will be greatly benefited, but also the market share of other products it exports to the world will also be increased in the EU, especially when the EU is going to eliminate the tariffs against around 77.3% of the products imported from Vietnam within 5 years and against the rest of 22.7% within 7 years.

As far as the EU's main market investors are concerned, Vietnam is an attractive emerging market, as in the region Vietnam always reports eye-catching annual economic growth and the number of its middle class also continues to grow. For these reasons, Chairman of EU Chamber of Commerce, Nicolas Audier, pointed out that, after the EC approved EVFTA, several EU corporations and groups have established their offices in Vietnam in order to grasp business opportunities.

EVFTA Requirements for Relevant Fasteners Tariff Barriers

The reduction schedule of the base rate of customs duty is included in EVFTA Annex 2-A. The Appendix 2-A-2 is the EU's requirement for the base rate of customs duty, and the Appendix 2-A-2 is Vietnam's requirement for the base rate of customs duty. The tariff/HS codes of fasteners fall within 7318.xxxx. The base rate of the EU for these products is 3.7% and the base rate of Vietnam is 5% or 10%. These products all belong to category A. According to the articles of EVFTA, all products falling within category A should be exempt from tariffs since the implementation of FTA. The EC announced on June 30 that EVFTA would take effect officially since August 1st. As a result, all fasteners (either exported from Vietnam to the EU or exported from the EU to Vietnam) have been exempt from tariffs since August 1st, 2020.

'til the end of 2020, UK will still be a part of the EVFTA. Vietnam and UK are discussing their own bilateral trade agreement, which is expected to reach the final phase by the end of 2020.

Technical Barriers to Trade (Non-tariff Barriers)

Chapter 5 of EVFTA refers to the definition of technical barriers to trade, which includes preparation, adoption and application of standards, technical regulations and conformity assessment procedures, as defined in the TBT Agreement). This also means that the existing EU standards, technical regulations, and conformity assessment procedures are still the same as those defined in the TBT Agreement.

Below are relevant fastener-related technical regulations imposed by the EU

EU Technical Regulations	Major Relevant Fastener Categories
Restriction of Hazardous Substances Directive, RoHS (2011/65/EU)(EU 2015/863)	Electronic/electric fasteners
Directive on End-of-life Vehicle, ELV (2000/53/EC)	Automotive/motorbike fasteners
Construction Product Regulations, CPR(305/2011/EU)	Construction fasteners

Latent Impacts on the Fastener Market

After the anti-Chinese protest and riot happened in Vietnam in 2014, Taiwanese and foreign investors began to question if it was the right time to invest in Vietnam. However, as Vietnam successively signed various FTAs (such as TPP, CPTPP, RCEP, and EVFTA) with other countries, the trade tension between USA and China continued to escalate, and Vietnam performed quite well in containing the spread of the Covid-19 pandemic, Vietnam became again the current investment focus of many Taiwanese investors. Although the cost of investing in Vietnam is getting higher, the new version of Taiwan-Vietnam Investment Protocol will help safeguard Taiwanese investors' investments in Vietnam.



For the export-oriented Vietnam, EVFTA will definitely play a key role in boosting its economic growth. In addition, for those Taiwanese investors in Vietnam, the tariff reduction in exports from Vietnam to the EU will not only increase their competitive edge of price, but also bring more competition from domestic fastener counterparts to them. In addition to some issues still left unsolved (such as the U.S.-China trade war, the lack of labor/water/electricity, and surging costs of land, plant, and labor), investors (incl. fastener investors) in Vietnam also have to face many “under-table” costs. On the other hand, the issue of falsification of country of origin marking is also increasing the risk. For example, U.S. Department of Commerce made an affirmative determination that steel products Vietnam exported to the U.S. were suspected of antidumping duty circumvention; if certain enterprises go to invest in Vietnam mainly for having their products marked “made-in-Vietnam to avoid the impact of the U.S.-China trade war, it is highly possible that their investment projects may be held back by the Vietnamese Government in the future. EVFTA includes strict requirements for country of origin marking, intellectual properties, competition and environmental protection standards. EU’s non-technical barriers such as country of origin investigation and strict customs procedures all pose challenges to products exported from Vietnam.

In 2020 the minimum wages set by the Vietnamese Government for three specific zones in the country are: 4.42 million VND (around 192 USD) for zone 1, 3.92 million VND (around 170 USD) for zone 2, and 3.43 million VND (around 149 USD) for zone 3. The minimum wage difference between Ho Chi Minh City in zone 1 and the rural areas in zone 3 is around 43 USD. In terms of the labor demand, the number of labor demanded by fastener enterprises is much less than that demanded by other labor-intensive industries like textiles, leather & shoes, handicrafts, and woodenware. The percentage of the wage cost in the fastener industry’s total cost is much less than that in the textile, leather & shoes, handicrafts, and woodenware industries. As a result, the main costs of the fastener industry include not only land, plants, and equipment, but also the time-effectiveness control over materials handling, operating & accounting, shipments, and supply chain support. For fastener producers in Vietnam, if they have fully considered the interests of commercial purchasers, shipment cost, and supply chain industry clusters support, plus the enforcement of EVFTA since August 1st, which makes fastener trade between Vietnam and the EU exempt from tariffs, they will be likely to gain more orders placed by EU purchasers compared to others not signing any free trade agreement with the EU yet.

Those fasteners which can be mass-produced in Vietnam and are compliant with EU’s technical regulations may cause certain impacts on Taiwanese fasteners exported the EU market, and EU’s orders for the same specification of fasteners are also likely to be switched from Taiwanese suppliers to Vietnamese suppliers, resulting in adverse impacts on Taiwan’s fastener export to the EU. As a result, Taiwanese fastener suppliers must always keep a vigilant eye on the possible adverse impacts brought to Taiwan’s fastener export by EVFTA and actively reinforce their competitive edge on the EU’s technical barriers to trade, in order to maintain their leading position in the global fastener supply market.

Sources:

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