

How Should Taiwan Hand Tool Industry React to BRICS

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For the past few years, the global political and economic conditions have been in a procedure of re-integration. The developed countries face many economic issues, so their domestic industries can no longer take the lead like they did in the past. However, some emerging countries gradually stand out and have made contributions to the global economic development. The most well-known emerging countries are “BRIC”, which stands for Brazil, Russia, India, and China. They agreed to include South Africa into the group in 2012, called BRICS, which takes up 43% of the global population and 17% of the global trade volume. To consider the purchasing power, BRICS accounts for 25% of the global GDP. When a new international order is formed, BRICS will become a pivotal force to affect the global economy.

Global Economic Environment Faced by Taiwan Hand Tool Industry

With the fast development of China, China has replaced Taiwan to become the largest hand tool export origin in 2003. Additionally, the financial crisis in 2009 and the European sovereign debt crisis in 2012 imposed an impact on Taiwan hand tool industry, yet it still demonstrated a brilliant performance in 2012. The export value of powerless hand tools reached NT\$ 73.7 billion and its production value ranked the 2nd place over the years, amounting to NT\$ 61.5 billion. The performance of powerless hand tools in 2012 indicated that Taiwan hand tool industry is equipped with excellent and robust structure. Confronting rapid changes in the global environment and the emergence of developing countries, Taiwan hand tool industry should consider the transformation to face uncertain market variables. The article is focused on BRICS as target to analyze bilateral trades between Taiwan and BRICS in recent years as well as to realize the business opportunities to serve as reference for adjusting the future direction.

Hand Tool Import & Export Between Taiwan and BRICS

CHINA

Among BRICS, Taiwan hand tool industry demonstrates a high trade volume toward China. The largest factor affecting the bilateral trade is the industrial status after ECFA is signed. Customs Import & Export Statistics indicate that ECFA presents a positive growth on GDP, import & export, trade conditions, and social benefits for Taiwan. ECFA significantly exhibits positive benefits on the macro economy. The early harvest list includes 5 items of hand tools that are free from tariffs. Since ECFA becomes effective, these 5 items have saved NT\$ 519 million of tariff till the end of 2012 for Taiwan hand tool industry. The benefits of ECFA also include- “Taiwan has the advantage to enter Chinese market after comparing with other leading opponents; Taiwan becomes the priority cooperative partner and portal for

foreign investors to enter Chinese market; industrial supply chain will be kept in Taiwan; Taiwan speeds up to develop as an industrial logistics center. Three direct links provide the convenience for circulation of cargo and personnel, reduction of bilateral goods tariff as well as elimination of non-tariff barriers that will give an opportunity for Taiwan to become a multi-purpose logistics center of re-exportation, logistics, distribution and processing of end products. Additionally, the government initiates many incentives, such as government’s easing restrictions for Taiwanese industries to invest in China and encouragement of returning to Taiwan that will facilitate Taiwan to become the operational headquarters of Taiwanese industries.



Table 1. Import & Export Value of Taiwanese Powerless Hand Tools to China
(Unit: NT\$ 100 million)

	2007	2008	2009	2010	2011	2012
Tools used in agriculture, forestry or horticulture	0.25	0.23	0.46	0.47	0.77	0.83
Saws	0.41	0.40	0.26	0.53	0.35	0.43
Files, pliers and knives	1.57	1.76	1.32	1.94	1.95	2.06
Wrenches	11.70	11.57	10.10	13.48	13.30	14.12
Other hand tools	16.81	15.81	12.13	17.16	17.86	14.20
Hand tool sets	0.61	0.56	0.47	0.64	0.58	0.50
Extruding metal & rock drilling tools	24.86	17.98	12.61	21.68	32.94	38.47
Knives with blades (pruning knives)	1.31	1.49	1.66	2.21	1.22	0.98
Razors and razor blades	0.03	0.01	0.00	0.01	0.00	0.00
Scissors & Sewing Scissors	0.22	0.17	0.19	0.13	0.25	0.45
Paper knives, letter openers, erasing knives	0.17	0.30	0.21	0.14	0.15	0.25
Total export value	57.94	50.27	39.40	58.40	69.37	72.30
Tools used in agriculture, forestry or horticulture	0.61	0.49	0.36	0.51	0.58	0.48
Saws	5.20	4.93	2.66	3.45	3.64	3.57
Files, pliers and knives	3.58	4.05	2.07	2.54	2.50	2.69
Wrench	4.35	4.06	2.69	4.09	5.06	4.75
Other hand tools	5.56	6.08	3.36	4.49	5.06	4.76
Hand tool sets	0.23	0.21	0.17	0.13	0.13	0.19
Extruding metal & rock drilling tools	16.92	15.14	11.99	13.97	13.83	14.05
Knives with blades (pruning knives)	0.58	0.73	0.80	0.87	1.14	1.02
Razors and razor blades	1.55	1.58	1.15	1.19	1.75	1.92
Scissors & Sewing Scissors	0.65	0.71	0.64	0.83	1.09	1.05
Paper knives, letter openers, erasing knives	1.13	1.12	0.91	1.07	1.20	1.25
Total import value	40.34	39.10	26.78	33.14	35.99	35.74
Surplus or deficit between Taiwan and China	17.59	11.18	12.62	25.26	33.39	36.56

Table 2. Import & Export Value of Taiwanese Powerless Hand Tools to Russia
(Unit: NT\$ 100 million)

	2007	2008	2009	2010	2011	2012
Tools used in agriculture, forestry or horticulture	1.46	0.39	0.31	0.68	0.79	1.19
Saws	0.18	0.14	0.06	0.20	0.28	0.30
Files, pliers and knives	0.34	0.35	0.17	0.33	0.56	1.21
Wrench	0.44	0.72	0.34	1.61	4.61	8.69
Other hand tools	5.29	5.97	4.02	8.06	10.12	12.28
Hand tool sets	0.43	0.39	0.20	0.89	2.37	2.54
Extruding metal & rock drilling tools	0.47	0.08	0.03	0.16	0.22	0.52
Knives with blades (pruning knives)	0.03	0.02	0.00	0.03	0.04	0.03
Razors and razor blades	0.00	0.01	0.00	0.01	0.00	0.02
Scissors & Sewing Scissors	0.09	0.19	0.27	0.38	0.37	0.44
Paper knives, letter openers, erasing knives	0.00	0.00	0.00	0.01	0.02	0.19
Total export value	8.72	8.25	5.41	12.33	19.37	27.39
Total import value	0.00	0.00	0.00	0.00	0.02	0.10
Surplus or deficit between Taiwan and China	8.72	8.25	5.41	12.33	19.35	27.29

Table 1 displays the import & export value of Taiwanese powerless hand tools to China. Overall speaking, Taiwan hand tools present the trade surplus toward China. In 2012, trade surplus reached NT\$ 3.66 billion, presenting a gradual growth. Main export products included extruding metal & rock drilling tools, wrenches as well as other hand tools, and the amount was about NT\$ 7.23 billion. Taiwan imported hand tools from China including extruding metal & rock drilling tools, wrenches, other hand tools, saws, files and pliers, the import amount was about NT\$ 3.57 billion.

RUSSIA

In 2012, Russia was the 6th largest hand tool export destination of Taiwan. Although the bilateral trade amount of hand tools between Taiwan and Russia is not high, the demand for hand tools in Russia shows a fast growing trend. Since Taiwan imports rather small amount of hand tools from Russia, hand tool trade between Taiwan and Russia presents a surplus, amounting to NT\$ 2.73 billion, up 3 times over 2007. Main export products include other hand tools, wrenches and hand tool sets, among which wrenches experience a rapid growth. Overall export amount is almost a surplus, about NT\$ 2.72 billion. Import & export value of Taiwan powerless hand tools to Russia is shown as **Table 2**.



Excessive regulation, insufficient transparency, high transaction cost and administration burden placed on business operation and investment activities exist in Russian economy. These negative factors must be corrected in the long-term stable economic development. Russian economy is still in the state of highly non-commercial risk, mainly originating from the government's conflicting policy, such as corporate governance, execution, outdated judicial and official system that causes the investment risk. Accordingly, though Taiwan hand tool makers regard the demand for hand tools in Russia as being very potential, bureaucracy still affects policy formation and execution. Meanwhile, poor efficiency and unreasonable management impose pressure on business operation, the government does not equally treat the enterprises, laws and decrees show unsteady and inconsistent, all resulting in poor effects for Taiwan hand tool makers to explore Russian market.

Table 3. Import & Export Value of Taiwanese Powerless Hand Tools to Brazil
(Unit: NT\$ 100 million)

	2007	2008	2009	2010	2011	2012
Tools used in agriculture, forestry or horticulture	0.08	0.16	0.13	0.18	0.17	0.25
Saws	0.01	0.01	0.00	0.04	0.08	0.10
Files, pliers and knives	0.19	0.22	0.26	0.45	0.37	0.48
Wrench	1.12	1.28	1.26	2.15	1.95	2.24
Other hand tools	1.29	1.63	1.20	2.09	2.21	2.01
Hand tool sets	0.27	0.43	0.31	0.54	0.56	0.51
Extruding metal & rock drilling tools	0.51	0.80	0.88	1.67	1.93	1.72
Knives with blades (pruning knives)	0.03	0.03	0.02	0.02	0.07	0.05
Razors and razor blades	0.03	0.00	0.03	0.27	0.00	0.00
Scissors & Sewing Scissors	0.12	0.11	0.08	0.11	0.11	0.07
Paper knives, letter openers, erasing knives	0.04	0.04	0.03	0.02	0.01	0.01
Total export value	3.68	4.71	4.21	7.54	7.46	7.44
Total import value	0.04	0.07	0.08	0.07	0.04	0.08
Surplus or deficit between Taiwan and China	3.64	4.64	4.13	7.47	7.43	7.36

Table 4. Import & Export Value of Taiwanese Powerless Hand Tools to India
(Unit: NT\$ 100 million)

	2007	2008	2009	2010	2011	2012
Tools used in agriculture, forestry or horticulture	0.02	0.02	0.03	0.06	0.09	0.09
Saws	0.03	0.01	0.02	0.02	0.02	0.01
Files, pliers and knives	0.07	0.05	0.08	0.08	0.08	0.07
Wrench	0.52	0.51	0.55	1.11	1.18	1.07
Other hand tools	1.15	1.24	1.15	1.49	1.42	1.46
Hand tool sets	0.03	0.07	0.08	0.12	0.19	0.20
Extruding metal & rock drilling tools	0.94	2.97	3.44	6.70	6.02	4.08
Knives with blades (pruning knives)	0.02	0.03	0.02	0.03	0.03	0.04
Razors and razor blades	0.00	0.00	0.00	0.00	0.00	0.00
Scissors & Sewing Scissors	0.05	0.07	0.07	0.08	0.07	0.07
Paper knives, letter openers, erasing knives	0.01	0.01	0.01	0.01	0.02	0.01
Total export value	2.82	4.99	5.45	9.71	9.10	7.10
Total import value	0.32	0.36	0.24	0.37	0.55	0.58
Surplus or deficit between Taiwan and China	2.50	4.63	5.21	9.34	8.55	6.52

BRAZIL

Bilateral trade amount of hand tools between Taiwan and Brazil is not high. However, Brazil is the main country in South America. Since Taiwan imports a rather small amount of hand tools from Brazil, hand tool trade between Taiwan and Brazil presents a surplus, amounting to NT\$ 736 million, up 2 times over 2007. Main export products include wrenches, other hand tools and extruding & rock drilling tools. The demand for these 3 items is considerably steady, the export amount is almost a surplus, about NT\$ 744 million. Import & export value of Taiwanese powerless hand tools to Brazil is shown as **Table 3**.



In the past years, Brazilian government nurtured its industry and adopted a discriminatory policy toward foreign investments. Since 1990's, Brazilian government has gradually adopted open policy and revised its measures that discriminated foreign investments in order to improve its economic structure and enhance industrial competitiveness. Based on this background, Brazilian government does not provide finance or tax incentives to all foreign investments, resulting in barriers to Taiwan hand tool industry wanting to enter Brazilian market. On the flipside, Brazil and MERCOSUR provide investors with a wide and protected domestic demand market. If Taiwan hand tool manufacturers wish to set up plants for production, their products will focus on Brazilian domestic market.

INDIA



Since 2003, India has begun to experience rapid economic growth and its economic growth rate lied between 8% and 9% from 2011 to 2012. India adopted the socialist planned economy and the government dominated the economic and industrial development to focus on state owned enterprises, national defense and heavy industry. However, Indian government showed low administrative efficiency and the civil industry suffered the domestic depression. In 1991, Indian finance was on the verge of bankruptcy. Later, Indian government was engaged in open policy and proactively reformed its finance and trade investment environment to gradually move toward the market economy.

Table 4 shows the import & export value of Taiwanese powerless hand tools to India. Bilateral trade amount of hand tools between Taiwan and India is not high. Since Taiwan imported a rather small amount of hand tools from India, hand tool trade between Taiwan and India presented a surplus, amounting to NT\$ 650 million, up 3 times over 2007. Main export products included extruding and rock drilling hand tools, other hand tools and wrenches. The demand for these 3 items was considerably steady, overall export amount was about NT\$ 710 million. IMF statistics indicated that India

GDP was US\$ 1,264 in 2010, up 23% against 2009. The GDP shows that disposable income and purchasing power are gradually increasing for Indian people. The disposable income and purchasing power reflect the potential of India's domestic demand market, especially when Indian machine tool industry ranks the 17th place in the world. Meanwhile, India is the 12th machine tool consuming country. The related demand of India's machine tool industry imposes a considerable effect on Taiwan's pneumatic and power hand tools; therefore, it will be the direction of deployment for Taiwanese pneumatic and power hand tool makers in Indian market.

Table 5. Import & Export Value of Taiwanese Powerless Hand Tools to South Africa (Unit: NT\$ 100 million)

	2007	2008	2009	2010	2011	2012
Tools used in agriculture, forestry or horticulture	0.80	0.82	0.56	0.69	0.72	0.72
Saws	0.03	0.02	0.01	0.01	0.03	0.05
Files, pliers and knives	0.31	0.21	0.18	0.22	0.25	0.30
Wrench	1.41	1.33	0.81	0.92	1.13	0.98
Other hand tools	3.53	3.29	2.22	3.06	2.80	3.01
Hand tool sets	0.25	0.09	0.12	0.17	0.21	0.27
Extruding metal & rock drilling tools	0.42	0.31	0.16	0.26	0.30	0.34
Knives with blades (pruning knives)	0.05	0.03	0.02	0.03	0.02	0.02
Razors and razor blades	0.00	0.00	0.00	0.00	0.00	0.00
Scissors & Sewing Scissors	0.03	0.01	0.01	0.03	0.02	0.02
Paper knives, letter openers, erasing knives	0.03	0.02	0.02	0.02	0.03	0.02
Total export value	6.85	6.14	4.12	5.42	5.50	5.75
Total import value	0.19	0.18	0.07	0.10	0.10	0.09
Surplus or deficit between Taiwan and China	6.65	5.96	4.04	5.32	5.40	5.66

SOUTH AFRICA

South African government promotes “South-South Cooperation” to deal with changes of new economic and trade environment as well as enhance its exploring trade outside European countries. Therefore, South African government selects bread-winning products to export to key countries in each region. In terms of introduction of foreign capital and investment attraction, South African government also selects the investment items that will attract some target countries to achieve the goal of high cost effect. Although Taiwan does not export too many hand tools to South Africa in terms of amount, the hand tools are one of bread-winning products for export. Additionally, South Africa will continuously promote to establish free trade areas with other regions or countries, including MERCOSUR, Turkey and India. However, South African government is short of manpower so that it does not proactively conduct the agreement signing with above mentioned countries and regions. Taiwan hand tool industry can use this opportunity to combine the force of government, manufacturers and private sectors to facilitate the signing of free trade agreement between Taiwan and South Africa and to serve as an outpost for Taiwan hand tools to enter the related free trade areas.



Table 5 indicates the import & export value of Taiwanese powerless hand tools to South Africa. Bilateral trade amount of hand tools between Taiwan and South Africa is not high. Since Taiwan imported a rather small amount of hand tools from South Africa for about NT\$ 9 million. As a result, hand tool trade between Taiwan and South Africa presented a surplus, amounting to NT\$ 570 million and showing a decrease over 2007. Main export products were other hand tools and wrenches. Overall export amount was about NT\$ 580 million.

Main Issues for Taiwan Hand Tool Industry to Make Deployment in BRICS

Accelerate Footsteps for Taiwan and BRICS to Sign Free Trade Agreement-

Currently, Taiwan signed ECFA with China and does not have any preferential tariff of free trade agreement with the other 4 BRICS countries. As a result, the government should speed up its action to sign free trade agreements with the others to accomplish complete deployment of Taiwan hand tool industry in BRICS.

Establish Labor Division Within Hand Tool Industries Between China and Taiwan-

Among BRICS, China has the highest correlation with Taiwan hand tool industry in terms of its market scale and potential as well as cross-strait trade volume. Total export volume of cross-strait hardware almost reaches half of total global export volume. Facing the external impact, Taiwan hand tool industry should rely on its industrial advantages, such as excellent manpower, stable quality and flexible production efficiency to build Taiwan into an international hand tool production and development center.

Integrate Industrial Demand of China's 12th 5-Year Guidelines-

Taiwan hand tool industry can combine 7 strategic industries of China's 12th 5-Year Guidelines, including

energy saving, environmental protection, new generation of information technology, biology, high-end equipment, new energy technology, new materials, new energy automobiles and R&D of high professional hand tools to be in line with 6 key emerging industries (biotechnology, green energy, high-end agriculture, tourism, medical care and cultural creative resources) promoted by Taiwan government and bring Taiwan's soft strength, such as ICT advantage and cultural creativity into play to create a new market demand. Taiwan hand tool industry can use China as a bridgehead to move toward the other 4 BRICS countries.

Promote Hand Tool R&D Alliances and Co-Branding: Government or research institutes should take actions to invite leading manufacturers and associated factories to establish R&D alliances and integrate the upstream, midstream and downstream hand tool suppliers to create global competitiveness. Joint procurement and co-shared inventory can decrease production lead time and inventory for manufacturers. In the meantime, R&D alliances can enhance supply chain integration, cost control and technical upgrade and brand building to increase international competitiveness. In the aspect of brand promotion, there are more than 400 brands of Taiwan hand tools, which cause a tough competition in the international market. Co-branding is thus promoted to march toward international market and to generate the opportunity to enter BRICS.

Conclusions and Suggestions

Taiwan hand tool industry faces many challenges, including the global economic slowdown during 2011-2012, European sovereign debt crisis, China's rapid emergence, the industry still maintains a robust growth, indicating that Taiwan hand tool industry is equipped with excellent industrial base and should speed up its transformation to be in line with the trend and demand of BRICS and should eliminate the stereotype of consumers toward the hand tool industry and injects new vitality and elements. Taiwan hand tool manufacturers still hold a cautious and optimistic attitude and firmly face challenges and competition from the global market in order to re-create the prosperity of Taiwan hand tool industry.

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