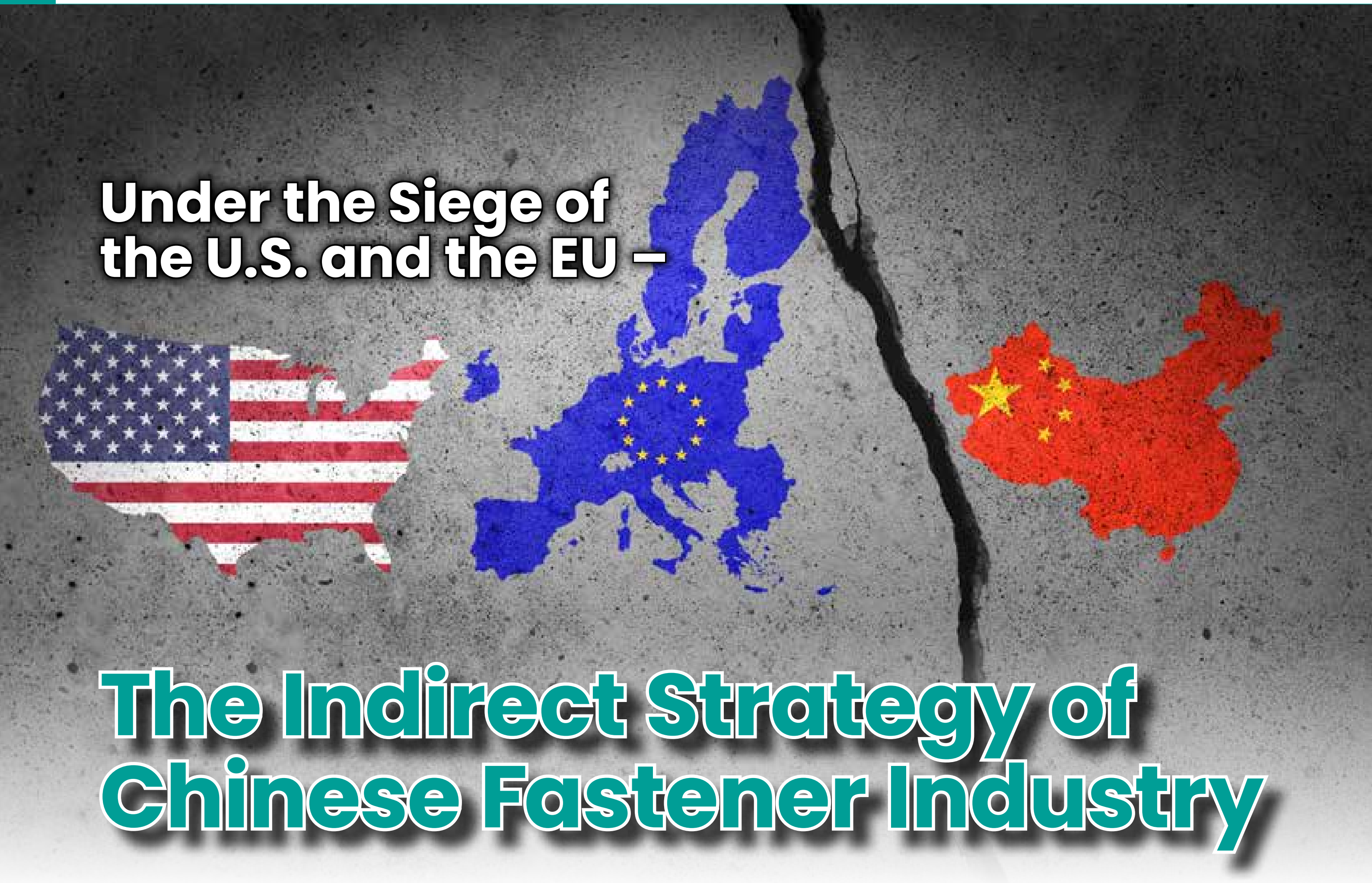
Under the Siege of the U.S. and the EU – The Indirect Strategy of Chinese Fastener Industry



The origin of the trade dispute between China and the U.S. can be traced back to the first term of U.S. President Trump. In March 2018, the Trump administration accused China of stealing U.S. intellectual property and trade secrets and invoked the U.S. “Section 301 of the Trade Act of 1974” to demand that the U.S. Trade Representative impose tariffs on Chinese imports and erect other trade barriers in an effort to force China to change its “unfair” trade practices. Since then, steel fastener manufacturers in China have formally faced the pressure of tariffs from the U.S. and have begun to actively seek strategies to deal with the situation.

On the other hand, China replaced the U.S. as the EU's largest trading partner in 2020, and the total value of goods imported by the EU from China in that year was as high as EUR 383.5 billion. The EU then began to worry that a large number of low-priced products from China would impact its domestic industry, and therefore, starting from February 18, 2022, it has levied anti-dumping duties on iron and steel fasteners (HS code 7318) originating in China at a rate ranging from 22.1% to 86.5%.

In other words, China's steel fasteners have been hit by high tariffs in two of its major export markets (i.e., the U.S. and the EU), and theoretically, its exports to these two regions should have declined significantly from 2019 onwards. However, the actual data show that the export value of China's fasteners did not decline, but instead showed a significant growth, raising concerns about the structural factors and contingency strategies behind. Please refer to **Table 1** detailing China's iron and steel fastener export values in 2019-2024.

Table 1. China's Iron and Steel Fastener Export Values in 2019-2024 — Unit: 1,000 USD

Year	2019	2020	2021	2022	2023	2024
Value	6,419,097	6,959,808	9,090,078	10,936,482	9,138,930	9,563,990
YoY Ratio		8.42%	30.61%	20.31%	-16.44%	4.65%
Growth Rate over Year 2019		8.42%	41.61%	70.37%	42.37%	48.99%

Although China's steel fasteners have been subject to high import tariffs in the US since 2019 and anti-dumping duties in the EU since 2022, the value of China's fastener exports appeared no decline in any way and even grew in 2024 by nearly 49% compared to 2019. The key reason behind this is that the “Indirect Strategy” adopted by the Chinese industry is having a substantial effect.

According to the Institutional Theory, firms facing institutional pressures (such as regulations, trade barriers or social expectations) may choose to respond indirectly rather than head-on in order to maintain market competitiveness. Rather than dealing with major obstacles directly or resorting to tariff negotiations, the so-called “Indirect Strategy” is a detour that reduces resistance, avoids risk and saves costs to achieve the ultimate goal.

In international trade practices, Chinese enterprises use legal but gray-area tactics, such as transshipment or simple processing through third countries, to comply with the “minimum processing principle” and thus circumvent trade restrictions imposed on the country of origin. This kind of strategy is in line with Oliver's (1991) proposal of “Avoidance Strategy” under institutional pressure, which is also commonly known as “origin shuffling” and is a concrete manifestation of this kind of strategy. Enterprises change the labeling of the place of origin, hide or rebrand the actual place of origin as a third place (e.g., Southeast Asia and Mexico), and re-export it to the destination country by means of re-packaging, simple processing, and so on, thus avoiding the high tariffs imposed by the U.S. and the EU. In the face of the double trade blockade by the U.S. and the EU, Chinese steel fastener manufacturers have successfully suppressed the tariff constraints and continued to expand their export scale and international market share through this indirect export mode.

Let's refer to China Customs' export statistics to analyze the exports of iron and steel fasteners (HS code 7318). **Table 2** shows the values (USD) of China's fastener exports to the world, the U.S., Vietnam, Mexico, and Canada in 2019-2024. **Statistics show that, in the face of high tariff pressure from the U.S. and the EU, China's exports of fasteners did not decrease, but grew 49%. The value of exports to the U.S. also grew 35%, Mexico and Cambodia grew 107% respectively (the highest), Vietnam grew 85%, and Canada grew 41%.** This information should help clarify which countries are being used as springboards for China's fastener indirect strategy.

Table 2. China's Iron and Steel Fastener Exports in 2019-2024 — Unit: 1,000 USD

Country \ Year	2019	2020	2021	2022	2023	2024	Growth Ratio (2024/2019)
Cambodia	13,159,092	15,592,480	20,606,119	28,032,559	22,150,791	27,215,376	107%
Vietnam	279,867,089	484,775,853	440,937,240	464,340,393	424,517,728	518,234,543	85%
Mexico	145,993,415	144,930,461	244,566,402	294,390,397	296,110,930	302,782,064	107%
Canada	115,851,200	108,145,528	165,231,658	233,058,245	152,316,397	163,731,651	41%
USA	1,004,114,571	827,330,702	1,256,849,561	1,648,044,181	1,226,812,949	1,354,376,859	35%
World	6,419,097,042	6,959,808,809	9,090,078,097	10,936,482,739	9,138,930,573	9,563,990,933	49%

On April 3, 2025, U.S. President Trump announced on the U.S. “Liberation Day” that he would impose “reciprocal tariffs” on all countries and signed related executive orders to strengthen the U.S. position in the international economy, reduce the huge U.S. trade deficit, protect U.S. industries, and promote the reshoring of manufacturing back to the U.S., which caused a new storm in the world's economy. In Trump's first announcement, he declared that the tariffs would be 49% for Cambodia and 36% for Vietnam, both of which are higher than China's 34%.

I boldly assumes that the U.S. is charging high tariffs on these countries to curb China's indirect strategy, and that in the tariff negotiations that the U.S. has begun with other countries around the world, the suppression of China's laundering of place of origin will be one of the important matters, which aims to suppress China's economic and trade activities, One of the purposes of Trump's blatant violation of the USMCA signed by the U.S., Mexico, and Canada in November 2018 was to block China's indirect strategy to prevent Chinese products from entering the U.S. under the guise of duty-free concessions in the name of Mexico and Canada.

When the “indirect strategy” is broken or ineffective, it means that the original way of relying on indirect means, flexible routes or flanking breakthroughs to achieve the goal has been predicted, countered or blocked by the other side. In this case, the next step of the strategy should be adjusted according to the situation and its own resources. Taking the Chinese fastener industry as an example, its original indirect strategy was to set up “third place processing factories” in Southeast Asia and export to the U.S. through Vietnam, Cambodia, etc. according to the preferential tariffs of the Regional Comprehensive Economic Partnership (RCEP) in order to avoid the high tariffs under the U.S.-China trade war. However, as the U.S. strengthens its determination of origin and anti-avoidance investigations, this strategy will be blocked and cracked down. Under these circumstances, the original “detour” approach of Chinese fasteners is no longer effective and may even face higher risks (e.g., punitive tariffs). In this case, turning to a head-on strategy becomes another viable option.

Example and Analysis of the "Head-to-Head" Strategy Adopted by Chinese Fastener Industry

1. Emphasize cost and capacity advantages and enter the market through direct price competition

Chinese enterprises can take advantage of their huge production capacity, automated manufacturing systems and low manufacturing costs, and choose not to bypass tariffs, but to directly declare China as the place of origin for export, and maintain competitiveness in the low and middle-end fasteners market with advantageous prices and quick lead times. For example, the U.S. has imposed a high tariff since 2019, but China's steel fasteners still showed a high level of growth in 2024, and are able to survive in the U.S. market. The key is to internalize the tariff cost (partially passed on to customers) and use the economy of scale to lower the cost and gain the target market share as much as possible. For example, some large fastener factories in Ningbo continue to produce large quantities for shipments to the U.S. market, and even with a high tariff rate, they can still remain competitive by relying on extremely low per-unit costs and fast delivery.

2. Directly Participate in International Dispute Mechanisms and Challenge Trade Barriers

China's Ministry of Commerce or industry associations have filed complaints with the WTO or used counter-charges against U.S. companies for monopolistic practices to directly counter unreasonable measures in legal battles. After Trump signed an executive order on reciprocal tariffs, China's Ministry of Commerce filed a formal complaint with the WTO and immediately took countermeasures, including investigating U.S. tech company Google for violating antitrust laws, and imposing tariffs of 10-15% on some U.S. goods exported to China. In February 2025, WTO cited a statement issued by China, stating that the tariffs imposed by the U.S. on Chinese products exported to the U.S. were discriminatory, which is a serious violation of WTO rules and inconsistent with the U.S. obligations to the WTO. On April 4, 2025, China's Ministry of Commerce and its General Administration of Customs jointly issued an announcement, deciding to impose export controls on 7 medium and heavy rare earth-related items, namely Samarium, Gadolinium, Terbium, Dysprosium, Lutetium, Scandium, Yttrium and other rare earths, with immediate effect. These rare earth elements are of dual-use nature and are of strategic importance to the high-tech, automotive and defense industries, and are used to curb the high tariffs of the US. The move appears to have paid off, as President Trump has recently begun to show signs of easing tariffs on China. On June 9, He Lifeng, a member of the Political Bureau of the Communist Party of China Central Committee and Vice-Premier of the State Council, led a delegation to London to launch a new round of economic and trade talks with U.S. Treasury Secretary Scott Bessent, Commerce Secretary Lutnick, and Trade Representative Greer.

3. Self-branding and High-end Products

Chinese fastener manufacturers must give up the original OEM/ODM-based export model, shift to independent brands, invest in high value-added fasteners, such as aerospace, automotive, safety fasteners, etc., to strive for technological say and shift from low price competition to quality competition. Even if the tariff is high, the product value and quality assurance can be recognized by U.S. customers, offsetting part of the tax burden. For example, China's AVIC system and some automotive fasteners have successfully entered the supply chain of European car manufacturers.

4. What Inspiration Chinese Fastener Industry Could Bring to Taiwanese Fastener Industry

With the rapid changes in the global manufacturing landscape, the fastener industry, as a basic component industry for machinery and building structures, is facing unprecedented competition and challenges. As the world's largest fastener producer and exporter, China's industrial strategy, market operation and international response are important references and inspirations for Taiwanese fastener industry. **Chinese fastener industry has expanded dramatically over the past 3 decades, and its successful model is mainly realized in the following aspects:**

• Economy of Scale and Capacity Expansion

Through large-scale production lines and the integration of upstream and downstream supply chains, Chinese manufacturers have achieved a low-cost, high-volume production model that enables them to respond quickly to the demand for large numbers of export orders, and in particular, to gain an absolute advantage in the low- and middle-end fastener market.

• Industry Cluster Effect

Highly concentrated fastener industry clusters formed in Zhejiang, Hebei, Shandong, etc., with mold processing, surface treatment, heat treatment, packaging and other complete support to strengthen the delivery and flexibility and reduce production costs.

• Actively Expanding External Sales Approaches

Chinese companies have invested a lot of resources in expanding overseas markets. In addition to traditional OEM exports, they also operate B2B platforms, establish their own brands or enter the European and American markets through traders. Some of them have even set up warehouses overseas to provide close customer service.

• Strategies for Coping with Trade Barriers

Facing the high tariffs and AD investigations imposed by the U.S. on Chinese fasteners, Chinese companies initially adopted an "indirect strategy", such as setting up factories in Southeast Asia or transshipment exports to avoid the tariffs. However, after the U.S. stepped up its country-of-origin checks and anti-avoidance measures, some companies chose to face the battle head-on, absorbing some of the tariff costs directly to win the fight by price and delivery time, or even responding to the trade disputes through the WTO mechanism.

Taiwanese fastener suppliers are mostly SMEs featuring quality and technology advantages, but feel the strong pressure from China in the global competition. **The development of Chinese industries offers the following key points to consider:**

1. Strengthening Industry Alliances and Collaborative Production

Taiwanese fastener companies should consider strengthening local collaboration systems, promoting vertical integration or strategic alliances, and leveraging the cluster effect to increase scale and efficiency, breaking through the limitations of a single enterprise that has difficulty in penetrating the higher-end market.

2. Digital Transformation and Automation Upgrade

Facing the trend of rapid automation in China's industries, Taiwan should speed up the introduction of smart manufacturing (e.g., IoT, AI quality inspection, auto packaging systems, etc.) to increase the unit value of production and reduce the reliance on manpower, so as to enhance the competitiveness of cooperation with European and Japanese manufacturers.

3. Development of High Value-added and Niche Products

In the absence of an advantage in the price competition, Taiwanese enterprises should deeply cultivate the high-end application market, such as automotive safety parts, aerospace fasteners, corrosion-resistant special fasteners, etc., so as to build up the image of customization and high quality, and to strengthen the long-term relationship with European and American customers.

4. Responding to Global Carbon Policy and Sustainable Transition in Advance

Some large Chinese manufacturers are beginning to invest in green energy and energy-saving equipment in response to the pressure of ESG and carbon neutrality. Taiwanese companies should also actively promote carbon inventories and the use of renewable energy in order to strengthen their roles in the international green supply chain and to avoid becoming victims of CBAM.

5. Building Branding and International Marketing Capabilities

In the past, Taiwanese companies were mostly OEM companies, but they should gradually develop their own brands, utilize digital platforms to build up international awareness, and at the same time establish service and warehousing locations in major markets such as Europe and the U.S. in order to increase the speed of response and adhesion to the market.

Chinese fastener industry, by virtue of its economy of scale, complete industry clusters and rapid capacity expansion over the past 30 years in the global market, has rapidly become one of the world's major fastener exporters, forming a great pressure on Taiwanese fastener companies. Especially in the field of middle- and low-end products, Chinese enterprises have seized Europe, the U.S. and emerging markets through the advantages of large-scale production, low-cost, and quick delivery, making Taiwan's traditional OEM-based operators face the challenge of market share being taken. However, China's success also provides a mirror for Taiwanese industry to learn from and reflect on. In contrast, although Taiwan lacks the advantage of scale, it possesses more mature processing technology, quality control capabilities and flexible order taking. If Taiwan can integrate its technological strength, industrial resources and strategic planning, and break away from "price competition" and shift to the high value-added market, it can still create room for differentiation and survival.

The future competition in the fastener industry will no longer be a price war, but a competition for the comprehensive strength of "technical strength + carbon management capabilities + brand value". Only through active transformation and early deployment can Taiwanese fastener companies stand firm in the global supply chain restructuring and create the next growth momentum. ■