

The Influence of RCEP on Taiwanese Hand Tool Industry

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Foreword

The global political and economic situations have been changing really fast ever since the Covid-19 became a worldly pandemic. After 8 years of negotiations, 15 countries in the Asia Pacific region (including Singapore, Malaysia, Thailand, the Philippines, Indonesia, Brunei, Vietnam, Laos, Myanmar, Cambodia, China, Japan, S. Korea, New Zealand, and Australia) officially signed the Regional Comprehensive Economic Partnership (RCEP) on November 15, 2020. Countries that signed RCEP were almost the same as those joining the “One Belt, One Road” Initiative proposed by China; RCEP requires up to 91% of goods traded within the region to be tariff-free, which means countries that signed RCEP will form the world’s largest Free Trade Zone (FTZ) that may lead to a significant impact on the global economy.

China is a major member of RCEP and the world’s largest hand tools exporter. As for Taiwan, though a majority of its hand tool manufacturers still maintain production in Taiwan, it is also facing many uncertainties caused by US-China trade war, Covid-19, RCEP, etc. at the same time. In this article I’ll explore non-power hand tools (HS codes 8201-8215) and power hand tools (HS codes 8467/8460/8465), and will also focus on the hand tools export from Taiwan to the world, the comparison with the export from Taiwan to countries that signed RCEP, and whether RCEP will cause any impact on the hand tools export of Taiwan or not. In the conclusion of the article I’ll propose my suggestions for domestic hand tools suppliers to adapt to global market changes after RCEP was signed.

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

-  BRUNEI
-  CAMBODIA
-  INDONESIA
-  LAOS
-  MALAYSIA
-  MYANMAR
-  PHILIPPINES
-  SINGAPORE
-  THAILAND
-  VIETNAM
-  CHINA
-  JAPAN
-  SOUTH KOREA
-  AUSTRALIA
-  NEW ZEALAND



RCEP 對台灣手工工具產業之影響分析

The Development of Taiwanese Hand Tool Industry in 2020 When RCEP was Signed

The hand tool industry is one of the critical industries contributing to Taiwan’s foreign exchange reserves. In 2020 the production of non-power and power hand tools in Taiwan was around 113 billion NTD; the import value was 22.5 billion NTD; the export value was 108.5 billion NTD; the domestic market demand was 27 billion NTD, and over 90% of the hand tools were for export. However, in 2020 the hand tool export of Taiwan was stricken by Covid-19 and was down around 7.1% from 2019. Its average CAGR in the past 6 years was around -0.3%. In terms of the percentage of certain hand tools export, the export of non-power hand tools represented around 75%, while the export of power hand tools represented around 25%. **Table 1** reveals the hand tools trade statistics of Taiwan from 2015 through 2020 and the percentage of export in its total trade value.

Table 1. Non-power and Power Hand Tools Trade Statistics of Taiwan in 2015-2020(e)

	2015	2016	2017	2018	2019	2020(e)	CAGR
Production Value	1124.6	1110.0	1180.0	1220.0	1250.0	1130.0	0.1%
Import Value	203.1	217.3	212.4	235.8	225.7	225.0	2.1%
Export Value	1103.3	1088.0	1135.9	1158.0	1168.0	1085.0	-0.3%
Domestic Market Demand	224.4	239.2	266.5	297.8	307.7	270.0	3.8%
Import Dependence	90.5%	90.8%	82.8%	79.2%	73.4%	83.3%	-1.6%
Export Percentage	98.1%	98.0%	96.3%	94.9%	93.4%	96.0%	-0.4%
Degree of Self-sufficiency	9.5%	9.2%	17.2%	20.8%	26.6%	16.7%	11.9%

Source: Trade Statistics of Taiwan Customs Note: Figures of 2020 are estimates. Unit: 0.1 bn NTD;%

Hand Tool Export Values from Taiwan to RCEP Member Countries and Respective Percentages of These Countries in Taiwan’s Export to RCEP Member Countries and the World

In 2020 the hand tool export value from Taiwan to the world was 108.5 billion NTD and the hand tools export to RCEP member countries was 28.89 billion NTD (26.6% of the total export). China, Japan, and Australia were the top 3 destinations in Taiwan’s hand tool export to RCEP member countries. The export value to China was 10.65 billion NTD (representing 36.9% of Taiwan’s total export to RCEP member countries or 9.1% of Taiwan’s total export to the world); the export value to Japan was 6.96 billion NTD (representing 24.1% of Taiwan’s total export to RCEP member countries or 6.4% of Taiwan’s total export to the world); the export value to Australia was 2.8 billion NTD (representing 9.7% of Taiwan’s total export to RCEP member countries or 2.6% of Taiwan’s total export to the world); the export value to Vietnam was 2.08 billion NTD (representing 7.2% of Taiwan’s total export to RCEP member countries or 1.9% of Taiwan’s total export to the world); the export value to Thailand was 1.54 billion NTD (representing 5.3% of Taiwan’s total export to RCEP member countries or 1.4% of Taiwan’s total export to the world.) Such results make the hand tool export of Taiwan an export-intensive industrial structure.

➤ The Impact of RCEP on Taiwan's Hand Tool Material Sources (Wire Rod and Steel) and Finished Products

The Analysis of Taiwan's Hand Tool Export to RCEP Member Countries

China, Japan, and Australia were the major three destinations in Taiwan's hand tools export to RCEP member countries in 2020. China represented 9.1% of Taiwan's total export to the world, Japan represented 6.0%, and Australia represented 2.4%. The three countries altogether represented up to 70.9% of Taiwan's total export to RCEP member countries (or 17.5% of Taiwan's total export to the world). **Table 3** reveals Taiwan's certain hand tool export to China, Japan, and Australia.

- China:** It was the largest destination of Taiwan's hand tool export to RCEP member countries. Its total export value was around 10.65 billion NTD. The top two exported items to China were Interchangeable Tools for Hand Tools (valued at 4.91 billion NTD) and Hand-operated Spanners and Wrenches (valued at 1.63 billion NTD). Hand-operated Spanners and Wrenches are also listed in the 20 priority tariff-exemption items of ECFA. However, China will also reduce its tariffs against Japan from the original 8-10% to 0%, which may influence Taiwan's export to China.
- Japan:** It was the 2nd largest destination of Taiwan's hand tool export to RCEP member countries (representing 24.1%) and the export to Japan was around 6.9 billion NTD. The top exported items to Japan were Other Hand Tools and Hand Tools for Machines, totaling only 2.88 billion NTD. Before Japan officially signed RCEP, Japan had reduced its tariff rate for most of hand tools imported from Taiwan and WTO members to 0% and only a few hand tools exported to Japan were subject to the rates of 3-4%. As a result, even if RCEP has been signed, it may not cause a significant impact on Taiwan.
- Australia:** It was the 3rd largest destination of Taiwan's hand tool export to RCEP member countries (representing 9.7%) and the export to Australia was 2.8 billion NTD. The top exported items to Australia were Other Hand Tools (1.08 billion NTD) and Hand-operated Spanners and Wrenches (0.59 billion NTD). Before Australia signed RCEP, Australia imposed a tariff rate of around 5%. After Australia signed RCEP, the tariff rate was immediately reduced, which might influence Taiwan's export to Australia.
- Others (S. Korea, Malaysia, Thailand, Vietnam, New Zealand, Cambodia, Singapore, Laos, Myanmar, Australia, the Philippines, Brunei):** Taiwan's export to these countries represented a smaller percentage and the export value to these countries was also comparatively smaller. Most of them were not the major hand tool export destinations of Taiwan. The aforementioned 12 countries only accounted for 7.9% of Taiwan's total hand tool export to the world.

The Analysis of Taiwan's Major Hand Tool Materials (Wire Rod & Steel) Exported to RCEP Member Countries

Taiwan's hand tools are mainly made of wire rod and steel. Wire rod and steel are not only used to produce hand tools, but are also used to produce stainless steel screws, nuts, bearings, etc. As most of Taiwanese hand tools manufacturers use domestically-made steel materials, **Table 4** reveals the trade statistics and possible impacts on major steel materials exported to RCEP member countries.

All in all, Taiwan's self-sufficiency for the above four steel materials is not enough, so they are basically supplied to meet the domestic demand and are not the major exported products of Taiwan. Plus, some RCEP member countries have already eliminated their tariffs against these four materials, and Taiwan's export to Thailand and Malaysia is subject to a tariff of only 5%, and Malaysia has also eliminated its safeguard tariff against Taiwan, so the situation of Taiwan's competition with other RCEP member countries will not appear a significant change after RCEP was signed.

Rank	RCEP Member Countries	Taiwan's Export Value	RCEP Member Country in Taiwan's Total Export to the RCEP Region	RCEP Member Country in Taiwan's Total Export to the World
1	China	106.5	36.9%	9.8%
2	Japan	69.6	24.1%	6.4%
3	Australia	28.0	9.7%	2.6%
4	Vietnam	20.8	7.2%	1.9%
5	Thailand	15.4	5.3%	1.4%
6	S. Korea	15.2	5.2%	1.4%
7	Indonesia	10.4	3.6%	1.0%
8	Malaysia	8.3	2.9%	0.8%
9	Singapore	5.5	1.9%	0.5%
10	The Philippines	4.0	1.4%	0.4%
11	New Zealand	4.0	1.4%	0.4%
12	Cambodia	0.7	0.2%	0.1%
13	Myanmar	0.4	0.1%	0.0%
14	Brunei	0.0	0.0%	0.0%
15	Laos	0.0	0.0%	0.0%
Hand Tool Export from Taiwan to RCEP Member Countries (Subtotal)		288.9	100.0%	26.6%
Hand Tool Export from Taiwan to Non-RCEP Member Countries (Subtotal)		796.1	--	73.4%
Hand Tool Export from Taiwan to the World		1085.0	--	100.0%

Source: Trade Statistics of Taiwan Customs Unit: 0.1 bn NTD, %

Tariff Code	China	Japan	Australia
8201	0.8	2.4	0.7
8202	0.6	0.7	0.4
8203	2.8	2.3	1.2
8204	16.3	7.8	5.9
8205	6.6	18.7	10.8
8206	0.4	1.4	3.1
8207	49.1	10.1	1.1
8208	4.9	1.2	0.3
8209	1.7	1.2	0.0
8211	1.0	0.3	0.2
8213	0.8	1.4	0.3
8214	0.1	0.2	0.1
8424200000	1.1	0.9	0.3
8465930000	3.5	1.2	0.3
8467112000	0.8	0.0	0.0
8467113000	1.4	0.9	0.4
8467119000	1.1	0.8	0.6
8467199000	1.9	1.1	1.0
8467299000	0.4	1.7	0.3
8467890000	0.2	0.3	0.1
8467920000	2.3	3.3	0.3
8467990000	5.3	7.4	0.4
8509809000	2.1	2.9	0.1
Combined calculation of multiple tariff codes	1.2	1.5	0.3
Total	106.5	69.6	28.0

Source: Trade Statistics of Taiwan Customs Unit: 0.1 bn NTD, %



Table 4. Trade Statistics and Possible Impacts on Major Steel Materials Exported to RCEP Member Countries

Steel Materials Likely to be Influenced	Export Destination	Tariff Rate (%)	Export Value (0.1 bn NTD)	Impact Analysis
Free-cutting Steel and Rod (Round Cross Section) (72151010)	Malaysia	5%	2.19	Free-cutting steel and rod is not a major product of Taiwanese suppliers, so RCEP will not cause a significant impact on it. If downstream steel plants purchase domestically-made wire rod and sell to Malaysia, it may indirectly influence the export of Taiwanese companies.
Hot-rolled Bearing Steel and Rod (72279000)	Malaysia	5%	2.55	Although Taiwan's hot-rolled bearing steel and rod is not subject to the 11.9% safeguard tariff in Malaysia, its competitiveness has been reduced as China can enjoy a more favorable tariff rate after joining RCEP. Prices of Chinese steel materials will be more competitive to make some customers switch their orders. As a result, if Taiwanese companies would like to consolidate its Malaysian market share, they may need to reduce their prices.
Hot-rolled Steel or Non-alloy Steel and Rod (72139190)	Thailand	5%	5.94	Major Taiwanese hot-rolled steel or non-alloy steel and rod suppliers will face competition from their Korean counterparts in the advanced application markets, while they will also face the challenges from China in the general application markets. However, as S. Korea has not been subject to tariffs for long, RCEP will not cause a significant impact on Taiwanese companies supplying this advanced products. As for China, it is facing antidumping issues. After relevant tariffs are eliminated, its wire rod and steel still must be sold with the addition of alloy. In the short term it may not cause any influence, but in the long term, China will still face pressures like customers switching orders or price reduction.
Other Steel or Non-alloy Steel and Rod (72155099)	Indonesia	17.5%	3.81	Taiwanese major suppliers can export their other steel or non-alloy steel and rod through a third country, so RCEP will not cause a significant influence to Taiwanese suppliers.

Source: Trade Statistics of Taiwan Customs

➤ Conclusions and Solutions

Taiwanese hand tool industry is mainly an export-oriented industry and its major export destinations in the world were USA in the 1st place (export value: 43 billion NTD / percentage: around 39%), China in the 2nd place (export value: 10.65 billion NTD / percentage: around 9.1%), Germany in the 3rd place (export value: 7.25 billion NTD / around 6.5%), and Japan in the 4th place (export value: 6.96 billion NTD / around 6.4%). Among these four major destinations of Taiwan's hand tool export, two countries are also members of RCEP, however, as the percentages of these two countries are much less than that of USA, we could assume that RCEP will only cause limited impacts on Taiwanese hand tool industry.

In short, with the influences of U.S.-China trade war, Covid-19 and RCEP, we are still not quite sure if the global hand tool market can recover to the previous level. According to the above analyses, RCEP will only generate limited impacts on Taiwanese hand tool industry, but as the global economy and orders are closely related to each other and China remains the biggest export destination of many Taiwan's industries, Taiwanese hand tool suppliers definitely cannot neglect the change at an international level. Below are conclusions and advice for your reference.

Combined Assessment on RCEP:

1. On the basis of FTA, the margin for RCEP to mandate more tariff reduction is actually limited. Moreover, in the categories like socket wrenches and other hand tools in which Taiwan maintains higher competitiveness, China has excluded most of them from tariff reduction or adopted a 10-year tariff reduction period. In the short term, the influence may not be very significant, but in the long term, it may need more time to observe.
2. RCEP shows less restrictions on product origins, thus causing less impacts on the regional supply chain. In the short term, the existing process & export trade model will not change, and Taiwanese hand tool industry maintaining production bases in Taiwan won't be influenced a lot.
3. USA was the top export destination of Taiwan's hand tool export. U.S.-China trade war and the pandemic also greatly revealed the advantage of "made-in-Taiwan." Many Taiwanese manufacturers have come back to Taiwan for expansion and further investment. They can continue to focus on high value added hand tools as their main development goal.

How Should Taiwanese Government React to Changes Brought by RCEP:

1. External strategy: to broaden international participation and reinforce industrial collaboration with reliable partners, guide industries to expand business to Southeast Asia and increase the flexibility of industrial supply, and help companies expand to overseas markets.
2. Internal strategy: Taiwanese Government once provided necessary guidance to digital and medical hand tools industries. In the future, it must continue to offer more resources, such as subsidies for companies' R&D projects for industrial transformation, collaboration with industries and academics, introduction of lean management and digital manufacturing systems, and digital value-added transformation.

Suggestions for Taiwanese Government for Taking Further Reactions:

1. State-owned banks should provide hand tool manufacturers with low-interest financing to reduce the influence.
2. High value-added manufacturing model to achieve high value-added and high-quality products within the hand tools industry must be continued.
3. Taiwanese Government must continue to sign FTA with certain countries (for example, Vietnam and Thailand, both are RCEP member countries, impose the import duties of up to 20%, which diminish the competitive edge of Taiwanese products in the local markets).
4. Up to 39.0% of Taiwanese hand tools are exported to U.S. market, but the U.S. imposes the duty of around 9% on Taiwanese hand tools. It is suggested that Taiwanese Government should be more active in the FTA negotiation with USA, as that will definitely be favorable to the future development of Taiwanese hand tool industry.