

Taiwan Automotive Component Industry's Transformation and Reaction in Joining CPTPP



Part 2

臺灣加入CPTPP汽車零組件產業的轉型與因應(下)

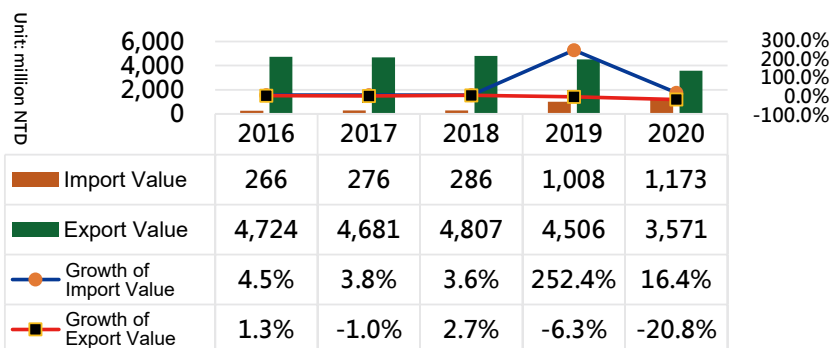
by James Hsiao

The Analysis of Taiwan's Automotive Components Import from/Export to CPTPP Countries

(a) Taiwan's Automotive Components Import from/Export to Mexico

In 2020 Taiwan imported 1.17 bn NTD worth of automotive components from Mexico and major items (ranked by import value) were motor vehicle components, engines & components, motor vehicle bodies & components. In 2020 Taiwan exported 3.57 bn NTD worth of automotive components to Mexico and major items (ranked by export value) were other automotive components, engine components, gears & transmission mechanisms, rims & components, car lamps (front/rear) & components, etc. *Graph 1* shows Taiwan's automotive components import from / export to Mexico.

Graph 1. Taiwan's Automotive Components Import from / Export to Mexico

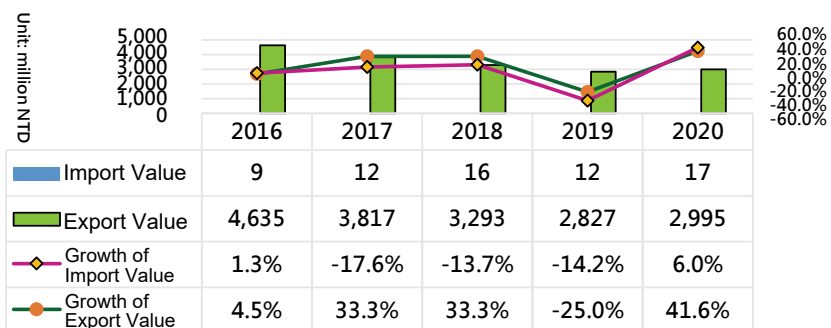


Source: Customs Administration, Ministry of Finance (Taiwan) and ITRI (2021/12)

(b) Taiwan's Automotive Components Import from /Export to Australia

In 2020 Taiwan imported 20 million NTD worth of automotive components from Australia and major items (ranked by import value) were motor vehicle components, engine and components, motor vehicle bodies & components, etc. In 2020 Taiwan exported 3 bn NTD worth of automotive components to Australia and major items (ranked by export value) were other automotive components, car sheet metal, automotive electrical components, car lamps (front/rear) & components, etc. *Graph 2* shows Taiwan's automotive components import from /export to Australia.

Graph 2. Taiwan's Automotive Components Import from / Export to Australia



Source: Customs Administration, Ministry of Finance (Taiwan) and ITRI (2021/12)

(c) Taiwan's Automotive Components Import from / Export to Canada

In 2020 Taiwan imported 40 million NTD worth of automotive components from Canada and major items (ranked by import value) were motor vehicle components, engine and components, motor vehicle bodies & components, etc. In 2020 Taiwan exported 2.85 bn NTD worth of automotive components to

Canada and major items (ranked by export value) were other automotive components, bumpers, rims & components, car lamps (front/rear) & components, etc. *Graph 3* shows Taiwan's automotive components import from / export to Canada.

(d) Taiwan's Automotive Components Import from/ Export to Malaysia

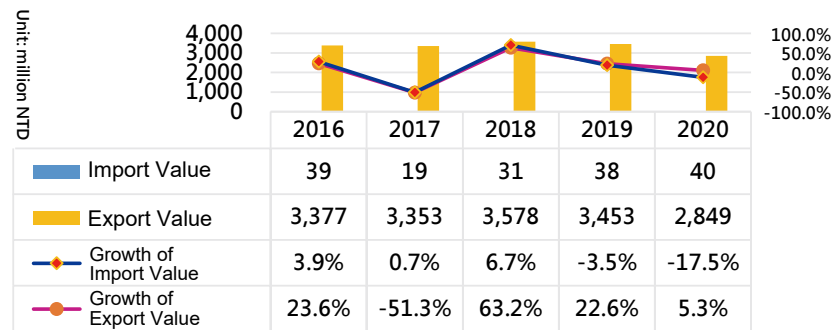
In 2020 Taiwan imported 0.18 bn NTD worth of automotive components from Malaysia and major items (ranked by import value) were other automotive components, motor vehicle bodies & components, etc. In 2020 Taiwan exported 1.34 bn NTD worth of automotive components to Malaysia and major items (ranked by export value) were other automotive components, gears & transmission mechanisms, transmission components, car lamps (front/rear) & components, etc. *Graph 4* shows Taiwan's automotive components import from/export to Malaysia.

(e) Taiwan's Automotive Components Import from/ Export to Vietnam

In 2020 Taiwan imported 0.16 bn NTD worth of automotive components from Vietnam and major items (ranked by import value) were other automotive components, motor vehicle bodies & components, etc. In 2020 Taiwan exported 0.78 bn NTD worth of automotive components to Vietnam and major items (ranked by export value) were other automotive components, gears & transmission mechanisms, transmission components, car lamps (front/rear) & components, etc. *Graph 5* shows Taiwan's automotive components import from/export to Vietnam.

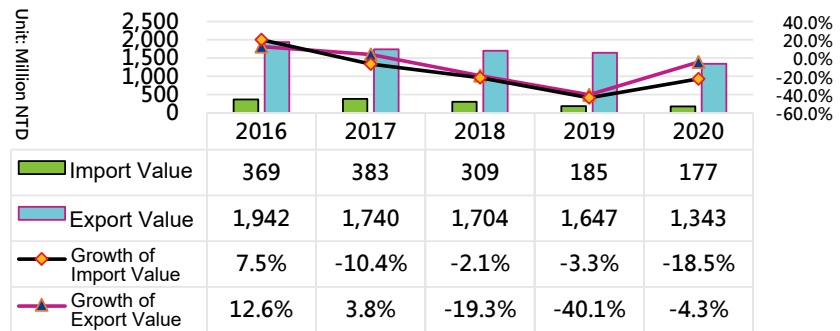
Possible Impact on Taiwanese Automotive Components Industry and Suggestions on Government Policies After Joining CPTPP

Graph 3. Taiwan's Automotive Components Import from / Export to Canada



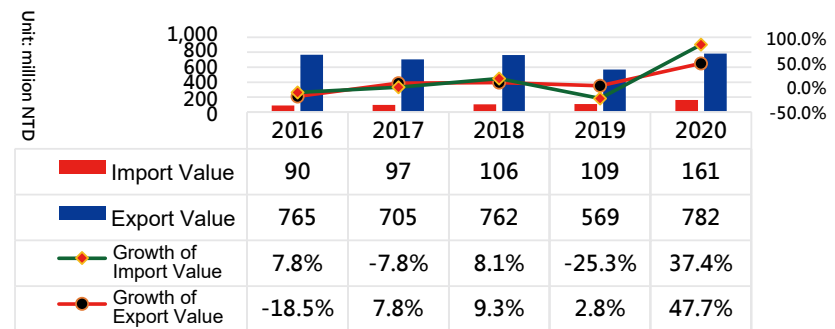
Source: Customs Administration, Ministry of Finance (Taiwan) and ITRI (2021/12)

Graph 4. Taiwan's Automotive Components Import from / Export to Malaysia



Source: Customs Administration, Ministry of Finance (Taiwan) and ITRI (2021/12)

Graph 5. Taiwan's Automotive Components Import from / Export to Vietnam



Source: Customs Administration, Ministry of Finance (Taiwan) and ITRI (2021/12)

(a) Possible Impact on Taiwanese Automotive Components Industry and Companies' Reaction

Demographic Dividend That is Beneficial to Companies' Business Expansion to ASEAN and Potential Countries/Markets

Major ASEAN members have had a wealth of experience in automotive components manufacturing and the capacity for car production and assembly. Many global leading car manufacturers have also set up their assembly plants

in ASEAN countries due to sufficient labor force, low wages, inexpensive land acquisition cost, and promising automotive industries and market development potential. Automotive industries of ASEAN are mainly in Malaysia, Indonesia, Philippines, and Thailand. Indonesia, Thailand, Malaysia, Philippines, Singapore, and Vietnam have cancelled their import tariffs on cars among each other and automotive components are also exempted from luxury tax. Different from the continuous car sales decline in advanced countries, ASEAN, on the contrary, is expected to see growth year after year in the demand for automotive components due to the demographic dividend and the huge potential for motorcyclists to buy cars. The supply chain of the EV industry is different from that of fuel vehicles, and Taiwanese companies have made many achievements in the EV industry over the past few years.

In terms of the tax on Taiwanese automotive components exported to CPTPP countries, Taiwan faces the highest taxes in Malaysia (0-30%) and Vietnam (0-45%). If Taiwan can join CPTPP, the taxes for related products will be gradually reduced or exempted. After then, Taiwanese companies can perhaps position Malaysia or Vietnam as their investment or sales operations to expand the car and automotive components market in ASEAN. The automotive component industry of Taiwan is highly complementary to those of Malaysia, Canada, and Vietnam, which is favorable to facilitate the growth margin of Taiwan's economy and deepen the collaboration with the supply chains of CPTPP members. In addition, the percentage of Taiwanese automotive components exported to CPTPP countries is still low in Taiwan's total automotive component export. However, Mexico, Canada, and Australia with more production and domestic demand are potential markets for Taiwan's automotive components export.

Taiwan's Higher Import Taxes May Make It Hard to Compete with CPTPP Members

Taiwan still imposes the tax of 0-17.5% on imported automotive components. If Taiwan is allowed to join CPTPP, which forces members

to gradually reduce or cancel taxes, it may not cause any immediate impact on Taiwanese automotive components industry. However, after CPTPP comes into force, Taiwan's automotive components industry will bear the brunt of direct and huge competition from major car and component manufacturing countries such as Mexico, Canada, and Malaysia. In addition to the int'l import and export markets, Taiwan will face much pressure in the competition with ASEAN countries.

In particular, Taiwan still imposes the import tax of 15-25% on components for domestic demand (Note: In 2020 Taiwan produced 22.53 bn NTD worth of components for domestic demand, which can be divided into bus bodies (1.45 bn NTD), truck bodies (3.93 bn NTD), and chassis & suspension components (17.15 bn NTD). Although Taiwan once reduced the taxes for certain imported car bodies and suspension components, it may still face the competition from CPTPP members (e.g., Japan, Mexico, Canada, etc.) if it joins CPTPP.

The Cost of Purchasing Automotive Components May Drop, Optimizing Industrial Transformation

In 2020 Taiwan exported automotive components to CPTPP countries and its major export CPTPP destinations (ranked by export value) were Japan, Mexico, Australia, Canada, Malaysia, and Vietnam, which altogether only represented 13.8% of Taiwan's total automotive component export to the world, showing the potential to increase export to these countries. With relevant countries adopting step-by-step tax reduction or exemption measures, Taiwan's automotive components export may be benefited. The prices of automotive components imported from CPTPP countries to Taiwan will become lower due to tax reduction or exemption, which will also reduce the cost of car assembly and the price differences between imported cars and domestic manufactured cars. The prices of imported cars may be reduced, but this will also generate certain influences on domestic manufactured cars to some extent.

Taiwan's automotive components industry oftentimes faces higher taxes in export, making it a bit difficult to expand overseas markets. As a result, most Taiwanese companies adopt overseas production to circumvent high taxes and maintain the competitive edge. If Taiwan can join CPTPP, it will help the automotive component industry remove the high tax barrier and strive for a fair competition on the market, which is also favorable for manufacturers to invest in more production in Taiwan and dedicate to the R&D of high value-added products. In the grace period, related companies can also make the most of governmental policies to transform to the R&D of critical components, seek tax reduction, head toward the development of emerging industries like EV or self-drive vehicles, and look for collaboration with countries having close ties with Taiwan, such as Japan.

The Pandemic Triggered Supply Chain Restructuring and Increased Taiwan's Global Awareness

U.S.-China Trade War and Covid-19 have accelerated restructuring of the global supply chain. The export of Taiwan's automotive components industry to Vietnam, Malaysia, and Mexico is also increasing year after year, attracting the investment of more Taiwanese investors. If Taiwan is allowed to join CPTPP, it can make the most of domestic resources and overseas market demand to restructure the supply chain in Taiwan, which is also beneficial to the restructuring of CPTPP supply chain. In the future, when more new members join CPTPP, the influence of CPTPP will become bigger. The joining of Taiwan in CPTPP will not only enable Taiwan to participate in discussions as an official member to keep updated with market trends, but also offer it more opportunities to launch trade negotiations with more countries, which is the best chance for Taiwan to enhance its global awareness and strive for more opportunities in int'l trade.

(b) Suggestions for Government Policies

Commodity Tax Reduction for Vehicles

For Taiwanese automotive components industry, it may face the direct impact from tax reduction or exemption if Taiwan joins CPTPP. As a result, how to



increase its competitive edge will become a major concern and the possibility of commodity tax reduction should be also taken into consideration. The commodity tax for different types of vehicles in Taiwan varies from 15% to 30%. Before the end of 2021, new EV buyers could be exempted from the commodity tax after registration. After the commodity tax is reduced and if car manufacturers can reflect such reduction, it'll make it easier for consumers to buy cars and reduce the price differences between domestic manufactured vehicles and imported vehicles, thus increasing the entire automotive market in Taiwan. In addition, extension of the commodity tax free period for EV will also encourage and help Taiwanese companies develop energy-saving vehicles, which has been a global trend.

Gradual Reduction of Import Taxes for Automotive Components

The tax for different types of Taiwanese components varies from 5% to 17.5%. If the import tax for all critical components can be removed at once, it will help lower the costs for domestic car manufacturers to acquire critical components from their parent companies, thus making domestic manufactured vehicle to

be more competitive in terms of price. In the int'l market, domestic manufactured vehicles, compared to other imported vehicles, will also enjoy the advantage of lower cost, thus increasing the possibility of exporting domestic manufactured vehicles abroad. On the other hand, Taiwan can also learn from Vietnam's experience to gradually reduce its vehicle tax to zero within 12 years, which will give domestic car manufacturers more time to make adjustments and get used to the possible impact on the car manufacturing and automotive components industries from tax reduction or exemption due to joining CPTPP.

Conclusions & Suggestions

If Taiwan can join CPTPP, it will help the automotive component industry remove the high tax barrier and strive for a fair competition on the market, which is also favorable for manufacturers to invest in more production in Taiwan and dedicate to the R&D of high value-added products. In the grace period, related companies can also make the most of governmental policies to transform to the R&D of critical components, seek tax reduction, head toward the development of emerging industries like EV or self-drive vehicles, and look for collaboration with countries having close ties with Taiwan, such as Japan.

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