



Executive Summary

Semiconductor Quarterly Report First Quarter, 2006

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INTRODUCTION

The US-Taiwan Business Council is committed to providing our members with tactical and strategic advice on how to succeed in the Taiwan market. As part of a suite of information products distributed to our members, the Council publishes several analysis reports each year. These reports are published each quarter, with an expanded report in the fourth quarter that covers the entire previous year.

The Semiconductor report focuses on the semiconductor industry as it relates to Taiwan, China, and the U.S., and provides up-to-date analysis of developments during each quarter. Each report also contains contact information valuable in initiating and maintaining a relationship with Taiwan private and government entities, as well as other useful information including organization charts and a glossary.

The US-Taiwan Business Council's Semiconductor Report has been published since the first quarter of 2002. Although these reports are distributed exclusively to members and to U.S. government employees, this executive summary provides some insight into the focus and contents of the report.

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QUARTERLY SEMICONDUCTOR ANALYSIS

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The political atmosphere in Taiwan has changed dramatically over the past few months. Political parties on the island have increased their bickering, relations with China have worsened, and investment by Taiwan chipmakers in China is still on hold.

No new Taiwan chip investments will be made in China for at least the next three months, and probably much longer. The government is currently working out new guidelines for such investments, and is putting in place a new system to keep a more effective watch over the activities of Taiwan companies operating in the mainland.

The coming court case against two former executives from United Microelectronics Corporation (UMC) and their alleged investment in Chinese chipmaker He Jian Technology (Suzhou) Company will further hurt the prospect of chip sector investment. Lawyers have already started arguing over evidence, and the trial is set to begin in May. The case has already been used as a reason to clamp down on high tech investments in China.

This quarterly report will discuss the current state of relations between Taiwan and China as it relates to the technology industry in general and to the semiconductor industry in particular. It will also examine the impact of political tension between the two, particularly on the freeze in Taiwan investment to China as Taipei reassesses its game plan.

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