



## **Executive Summary**

# **Semiconductor Quarterly Report Second 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.

For more information, please contact us directly at the below address, or visit us online at [www.us-taiwan.org](http://www.us-taiwan.org).

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**QUARTERLY SEMICONDUCTOR ANALYSIS**

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Politics has once again been the major factor in Taiwan chip industry life over the past quarter. Business continues to boom for chipmakers, but their main sideline issue remains unresolved: the relaxation of investment and technology regulations concerning China.

Luckily, Taiwan politics took a swerve that may benefit chipmakers later in July. A high-level meeting between Taiwan's main opposition party, the Kuomintang (KMT or Nationalists) and the president of China has prompted calls for widespread opening of the Taiwan economy to China.

The meeting itself resulted in over a dozen proposals by China to allow greater opening for Taiwan products and/or reduce tariffs. It was a coup for the opposition, and prompted the ruling Democratic Progressive Party (DPP) to find measures to promote trade with China in an attempt to demonstrate that it too can "deal" with China and liberalize cross-Strait trade.

One of the results was important for chipmakers, as Taipei lifted the ban on investment in China by Taiwan chip packaging and testing companies, at least for low-end work.

It was a token gesture, but a huge turnaround from the government's position just a few months back. Earlier this year, the DPP and its allies had been speaking out against greater cross-Strait trade, and extolling companies to diversify their investments in other places, like India.

The U.S. has also been working on new export regulations for technology trade with China. The proposal will be under consideration through most of the remainder of 2006, and represents the most significant effort by the U.S. government in recent times to find a balance between American security and economic interests in China.

This report will discuss political changes that will affect the Taiwan chip industry at length, and will assess possible upcoming changes in government policy toward China. It also takes issue with the government's call to lift the ban on chip packaging and testing (chip assembly) because no guidelines exist yet for applying for such an investment – the announcement appears empty. Finally, the report will discuss at length the U.S. proposal to adopt a new China export control policy.

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