



## **Executive Summary**

# **Semiconductor Quarterly Report Second Quarter, 2009**

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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 trend 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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During the second quarter of 2009, Taiwan's foundry chipmakers and several key chip designers continued to lead a rebound for local chipmakers despite the global economic downturn. Demand from China helped sell chips for mobile communications networks and handsets, as well as other kinds of chips. But demand appears to be concentrated in only a few major product segments - mostly in mobile devices, including laptop and netbook computers. Inventory rebuilding, which kick-started the global chip rebound, will end in coming months, and then the industry will be left with actual consumer and business demand to contend with.

On top of the woeful global financial news, a new set of challenges emerged in Taiwan during the second quarter.

The global downturn seems to have finally encouraged Taipei to get serious about addressing the DRAM industry's woes. The government pledged NT\$30 billion (US\$915.05 million) to each of one or two companies willing to restructure the industry through acquisition, among other requirements. The Taiwan government is committed to Taiwan Memory Company (TMC) and its partner Elpida Memory of Japan. It is not clear which company, if any, will receive the remaining funds. Two of the three most distressed DRAM makers have already voiced a willingness to be taken over, while the third continues to seek funding to survive on its own.

But despite the government's renewed interest in actually solving the DRAM problem in Taiwan, this may require more money than has so far been pledged. Taiwan DRAM makers have not had the means to upgrade the technology used in their factories, leaving many of them only able to produce the least lucrative, low-technology chips on the market. Unable on their own to find sources of new funds, they will require more than consolidation to get back to business - they will need substantial amounts of cash.

A problem also emerged with the lack of new industry regulations governing Taiwan chip-related investments in China. Taiwan's second largest chipmaker, United Microelectronic Corp. (UMC), wants to buy Chinese foundry He Jian Technology. But it is unable to do so, because Taiwan's six-year-old chip investment regulations forbid more than three Taiwan owned chip plants in China - an artificial quota that has already been met. Chipmakers have every reason to be annoyed with the lack of movement by the Ma Ying-jeou Administration on drafting new regulations. The current regulations were enacted in 2003 and expired at the end of 2005, but they still govern because they have not yet been replaced. The original move to create such rules was a highly politicized process that ended up making nobody happy. Now Taipei is scrambling to create new regulations in line with promises made by the Ma campaign during last year's presidential election. Officials have offered no time frame for when the new rules might be in place, but one thing is certain: UMC won't be able to buy He Jian until they are.

Finally, the business succession plan for Taiwan's biggest chipmaker, Taiwan Semiconductor Manufacturing Co. (TSMC) was suddenly thrown into disarray in early June, when Chairman Morris Chang returned to the CEO position. Rick Tsai, who had performed well as CEO of TSMC since 2005, was effectively demoted and set to leading the company's foray into growth markets such as LED and solar. The move, whatever the ultimate reason, casts uncertainties on TSMC's future leadership.

This quarterly report will focus first on the state of Taiwan's semiconductor industry in the second quarter of 2009, followed by a discussion on the bid to create new China chip investment regulations. The largest section of the report will examine the new plan to rebuild Taiwan's DRAM industry, while the final section of the report will discuss the decision by TSMC to demote CEO Rick Tsai to president of new business development and the possible repercussions for the company.

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