



Executive Summary

Semiconductor Quarterly Report Third Quarter, 2007

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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

PUBLICATION DATE: OCTOBER 1, 2007

Taiwan's semiconductor industry ended the third quarter of 2007 with a new challenge to one of its hottest segments. A glut of DRAM (dynamic random access memory) chips caused prices to plunge at the end of the last quarter, and with more fabrication plants (fabs) opening in the near future, the downturn could last well into next year.

Anyone who expects that the island's memory chipmakers would back off from their capacity spending plans due to the price drop has not been paying attention to their long-term strategy of building expensive new factories equipped with the latest production technologies. Taiwan's memory chipmakers are actually poised to weather this DRAM chip downturn better than many rivals, and the coming year will show why their strategy has been the right bet.

The past three months have also seen a continuation of certain trends noted earlier this year. More chipmakers are opting out of the manufacturing business and are farming out wafer fabrication to contract chipmakers like Taiwan Semiconductor Manufacturing Co. (TSMC) and United Microelectronics Corp. (UMC), while packaging and testing production is outsourced to companies such as Advanced Semiconductor Engineering (ASE).

There has also been some progress on Taiwan chip investments in China. ASE, the world's largest independent chip packaging and testing company, won approval to jointly-invest in a Suzhou venture with NXP, Philips's former chip division. Considering all the problems chip packaging and testing firms have had gaining government approval for anything China-related, it's a marked improvement.

In addition, the recent purchase of PC vendor Gateway by Taiwan's Acer Inc. is likely to boost Taiwan's semiconductor industry in the coming years, as Acer seeks local chip makers to fill orders for chips used in PCs. Acer is the fastest growing PC maker among the top five, and PCs remain the merchandise where more semiconductors are used than for any other product.

Finally, chipmakers in Taiwan have been given reason to be more apprehensive about the local political climate. Taiwan's presidential election draws closer - it is now just six months away. Politicians are key decision makers in Taiwan and wield tremendous power over industry, so the outcome of the election is an important factor for Taiwan businesses - particularly when it comes to cross-Strait issues. The choice between the two candidates for president boil down to the pace of domestic economic reform and integration with China - both support further liberalization, albeit at different speeds. For example, the highly contentious restriction that caps Taiwan investment in China at 40% of a company's value is likely to be lifted regardless of who is elected. The substance of the reform, however, such as any limits left in place for certain industries, is where the differences lie.

This quarterly report will focus on three main issues, including an update on the Taiwan presidential race and its possible outcomes, the state of the industry in general, and the plight of Taiwan memory chipmakers as a new downturn hits the market.

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