



## **Executive Summary**

# **Semiconductor Quarterly Report Third 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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Semiconductor industry leaders in Taiwan have become more and more convinced that the global recession has eased over the past quarter and that business will continue to improve. The financial crisis almost shut down global markets in late 2008, sending the chip industry into 2009 with its worst first quarter since the downturn in 2000-2002. But government intervention in the financial markets stabilized economic activity, and a general recovery has been ongoing since.

The resurgence in Taiwan has been so strong that the head of the world's largest chip foundry, Morris Chang of Taiwan Semiconductor Manufacturing Company (TSMC), predicted that his company may even break its revenue record next year. "I'm more optimistic about the global economy and my industry now," he said at a recent TSMC gathering.

Views similar to Chang's have been echoed by other Taiwan chip industry executives. The launch of Microsoft's new operating system, Windows 7, along with a range of new and popular products such as laptops and netbooks, tablet PCs, All-in-One PCs (a display with a computer built-in), E-book readers, and the continued popularity of smartphones are viewed as trends able to drive the chip industry forward. Acer, the Taiwan computer vendor, even jumped to the number 2 spot in global PC shipment rankings during the third quarter, edging out Dell for the first time.

But for others the third quarter did not go so smoothly. Man-made disasters like the build-up of excessive debt among DRAM makers on the island combined with the most destructive natural disaster in years, Typhoon Morakot, caused significant trouble for local chipmakers.

Morakot swept into Taiwan in early August and lingered far longer than such storms generally do. It dumped more rain on Taiwan in three days than the island normally gets in a year, causing the worst flooding in five decades. The physical destruction was appalling. An entire town and its people were buried in a mudslide, while hundreds of others were swept away or remain missing.

The political fallout from the Morakot disaster was also significant. The popularity of President Ma Ying-jeou plunged as word of the government's slow response to the catastrophic damage filtered out. Ma was accused of spending too much time focusing on China and not enough time taking care of Taiwan. The Premier and the entire cabinet resigned to accept blame for the lack of preparation for and slow response to the storm. A third of the cabinet ministers, including the Minister of Economic Affairs, were replaced.

Some have suggested that Taiwan Memory Company (TMC, also known as Taiwan Innovation Memory Company/TIMC), the proposed vehicle of consolidation for the DRAM industry, be put on hold and its funding be used instead to rebuild typhoon disaster areas. The switch in economics minister will also have a major impact on a host of key chip-related policies, including on TMC as well as on the hoped-for revamp of regulations governing China-bound chip investment.

During the third quarter, Morris Chang and TSMC also witnessed the rising power of a potent new rival. Globalfoundries - the joint venture between Advanced Micro Devices (AMD) and a technology investment group from Abu Dhabi, Advanced Technology Investment Company (ATIC) - flexed its financial muscles by offering to buy Chartered Semiconductor, a TSMC rival. Alone, Chartered could never hope to threaten TSMC's market dominance. But folded into Globalfoundries by ATIC, it became part of a larger company that can. ATIC may take a while to compete with TSMC in service and technology offerings as a foundry chipmaker, but can the Taiwan giant compete with its backing of Abu Dhabi oil-money?

This quarterly report will focus on the resurgence of Taiwan's chip industry over the past three months amid what seems to be a recovering global economy. The rebound in the foundry and DRAM sectors will figure prominently in this discussion. The impact of Typhoon Morakot is also a key topic because of its political implications for chipmakers.

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