



## **Executive Summary**

# **Semiconductor Quarterly Report Annual Review, 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 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).

**US-Taiwan Business Council**  
**1700 North Moore Street, Suite 1703**  
**Arlington, Virginia 22209**

**Phone: (703) 465-2930**

**Fax: (703) 465-2937**

**Email: [Council@us-taiwan.org](mailto:Council@us-taiwan.org)**

**[www.us-taiwan.org](http://www.us-taiwan.org)**

**ANNUAL SEMICONDUCTOR ANALYSIS  
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The past year saw tremendous changes for Taiwan chip makers, setting the stage for more major changes in 2008.

In 2007, leveraged buyouts (LBOs) changed the chip industry landscape in favor of Taiwan chipmakers like Taiwan Semiconductor Manufacturing Co. (TSMC) and United Microelectronics Corp. (UMC). For example, Philips Electronics sold NXP Semiconductor to a group of investors led by Kohlberg Kravis Roberts & Co. (KKR) last September. The company has since set off on a fabless/fab-lite business model, outsourcing production to companies like TSMC. Other companies involved in LBOs over the past few years will likely make similar adjustments.

A group of companies also tried to buy Taiwan chip testing and packaging company Advanced Semiconductor Engineering (ASE). Despite the failure of the bid, covered extensively in previous quarterly reports, the effort - and potential for such a buyout to allow a company to invest more freely in China - seemed to have caused the Taiwan government to rethink some of its policies.

China policy was the second major change for Taiwan. The government lost a series of high profile cases against individuals and companies accused of illegally investing in China's chip industry. Now that some of the courtroom drama is out of the way, politicians will likely start to revamp Taiwan semiconductor regulations so that chipmakers on the island can take far better advantage of what China can offer them.

Politically, 2007 will be remembered as the time the people of Taiwan finally tired of the ruling Democratic Progressive Party's (DPP) inability to run the island's economy and make effective policies - in addition to a host of corruption cases against DPP members and their families. The reverberations will likely be felt throughout 2008. Legislative elections in early January already point the way to a new era in Taiwan politics in which it appears the major opposition party, the Kuomintang (KMT), may retake the presidency. The KMT won over 70 percent of seats in the legislature, meaning that it can practically dictate legislation because it will be able to pass any legislation it chooses and block legislation it opposes.

The legislative results set the stage for the upcoming presidential vote in March. Whereas many polls showed the DPP candidate, Frank Hsieh, within range of KMT candidate Ma Ying-jeou prior to the legislative vote, now Ma is seen as far ahead. The KMT has momentum going into the presidential election season.

This report will go over some of the major events in Taiwan's chip industry in 2007. It will also look at the 2008 presidential race and its likely impact on the semiconductor industry going forward. Finally, the Council will include its own set of proposed guidelines for Taiwan's chip industry as a replacement to rules that have not been reworked since expiring in 2005.

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