Executive Summary

Semiconductor Quarterly Report
First Quarter, 2006

©2006 US-Taiwan Business Council
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.

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

www.us-taiwan.org
The political atmosphere in Taiwan has changed dramatically over the past few months. Political parties on the island have increased their bickering, relations with China have worsened, and investment by Taiwan chipmakers in China is still on hold.

No new Taiwan chip investments will be made in China for at least the next three months, and probably much longer. The government is currently working out new guidelines for such investments, and is putting in place a new system to keep a more effective watch over the activities of Taiwan companies operating in the mainland.

The coming court case against two former executives from United Microelectronics Corporation (UMC) and their alleged investment in Chinese chipmaker He Jian Technology (Suzhou) Company will further hurt the prospect of chip sector investment. Lawyers have already started arguing over evidence, and the trial is set to begin in May. The case has already been used as a reason to clamp down on high tech investments in China.

This quarterly report will discuss the current state of relations between Taiwan and China as it relates to the technology industry in general and to the semiconductor industry in particular. It will also examine the impact of political tension between the two, particularly on the freeze in Taiwan investment to China as Taipei reassesses its game plan.
Executive Summary
Semiconductor Quarterly Report
First Quarter, 2006

REPORT TABLE OF CONTENTS

Letter from the President ..................................................................................................1
About the Council .............................................................................................................3
Industry Initiative: Taiwan + China Semiconductor Coalition .........................................4
  About ...................................................................................................................4
  Coalition Meetings ..................................................................................................4
  Membership Structure and Benefits ..........................................................................5
Semiconductor Analysis ....................................................................................................7
  Introduction ..........................................................................................................7
  A Tale of Two Pandas ..............................................................................................7
  Taipei Clamps Down on Tech Investment to China ......................................................8
  UMC Court Case Moving to Trial in May ..................................................................11
  The State of Taiwan’s Chip Industry ......................................................................12
  Strong Growth Leads to Big Investment by Chip Manufacturers .................................12
  Chip R&D Continues to Grow in Taiwan ...................................................................15
  Conclusion ...........................................................................................................16
Glossary of Terms ..........................................................................................................19
Taiwan Government Contact Information .......................................................................29
United States Government Contact Information ............................................................39
Suggestions of Sources for Semiconductor Industry Information .................................49
Semiconductor Headlines: First Quarter 2006 ...............................................................51
Appendix .......................................................................................................................57
  Trend: The Philadelphia Semiconductor Index............................................................57
  Trend: The Taiwan Stock Index ..............................................................................58
  Trend: US$:NT$ Exchange Rate .............................................................................58