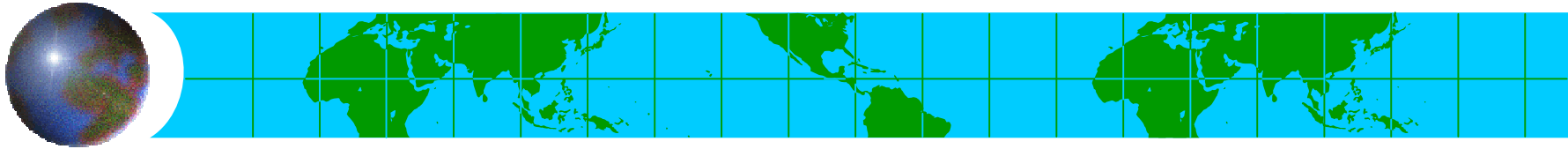


# The Future for US-Taiwan- China Semiconductor Integration

US-Taiwan Business Council  
December 7, 2004

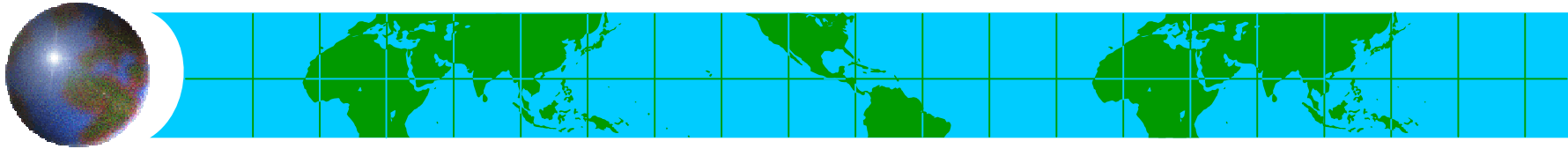


# *Topics*

⊕ Hollowing Out

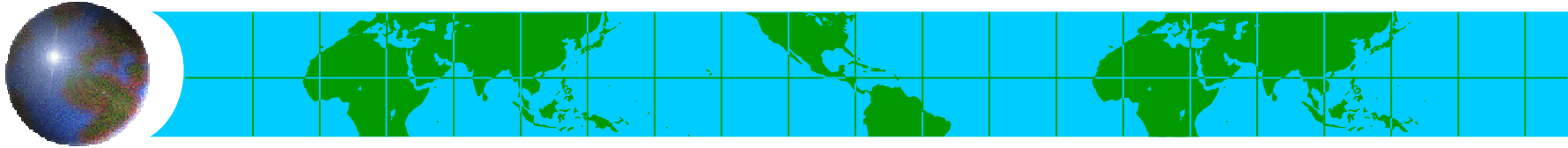
⊕ Overcapacity

⊕ Policy Context



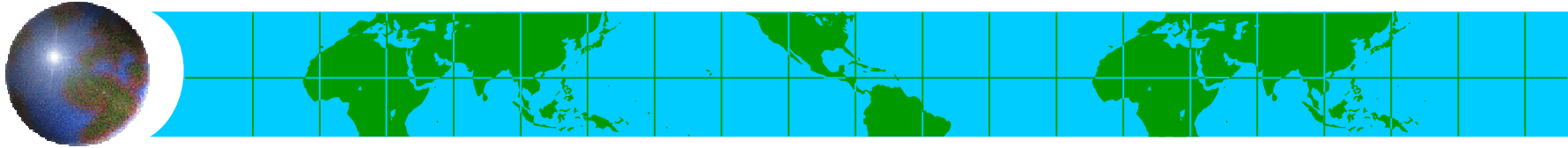
## *Hollowing Out: An American Perspective*

- **1950s: Russia will surpass America**
  - President Eisenhower's Science Advisor
  
- **1970s: EU will hollow out America**
  - Departments of Treasury, Commerce, Agriculture
  
- **1980s: Japan will hollow out America**
  - Every third person in Washington
  
- **2000s: China will...**



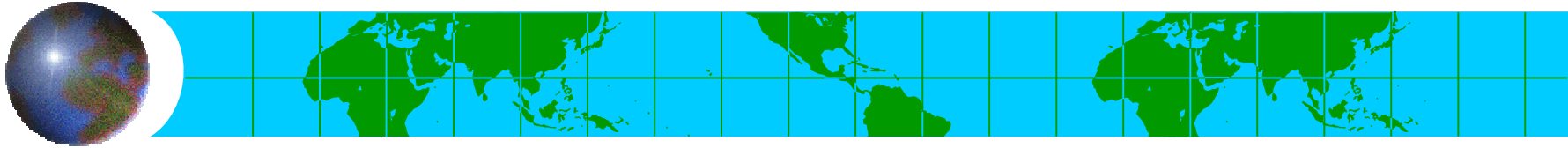
## *Hollowing Out*

- Mythological elements
  - Effect of subsidies on location decisions.
  
- Integration
  - Chinese firms or firms in China?
  
- Real issue is transition of national economies.



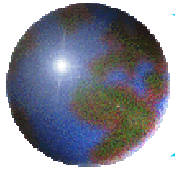
# *Overcapacity*

- Risk for government investments.
- Determined by China's consumption:
  - Effect of slow-growth policies & credit restriction efforts.
- Implications for foreign competitors.
  - Strategies to exploit domestic subsidies for global markets.



## *Policy Framework*

- Key National Policy Decisions
  - China: open economy, acceded to WTO rules, allow private ownership.
  - Taiwan: allow/accede to investment, technology transfer.
  - US: integrate China into global economy.
  
- Policies are unlikely to change.



# *The Future for US-Taiwan-China Semiconductor Integration - Predictions*

- More Integration
  - Economic incentives haven't changed
  
- No Hollowing Out
  - Rate of adjustment/ economic 'nimbleness'
  
- Boom and bust cycles affect all.
  - National variation in distribution of busts?