

TAIWAN + CHINA

SEMICONDUCTOR OUTLOOK

2006

Taiwan + China Semiconductor Outlook 2006

*The challenges and opportunities presented by
the increasing economic integration of the U.S., Taiwan, and China
semiconductor industries.*

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THE CHINA FACTOR

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THE CHINA FACTOR

- **Largest destination for global FDI (including from US and Taiwan)**
 - **Dominant global producer of IC-intensive consumer products**
 - **Most significant global market for ICs**
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THE CHINA PARADOX

- **US-China-Taiwan relationship has been an irresistible interactive economic engine**
 - **But great political uncertainties surround the relationship**
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TAIWAN CONCERNS

- **Hollowing out of manufacturing**
 - **Over-reliance on politically hostile economy**
 - **Uncertain ability to transition to “knowledge/design” support of IC investments in China**
 - ***Can Taiwan stay ahead of the curve, moving up the value chain?***
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US CONCERNS

- **Principle of Archimedes: Does China's growing global power displace US global power?**
 - **Trade deficit an uncomfortable fact: Are we financing our own displacement?**
 - **Rules of competition in China heavily influenced by Chinese Government**
 - **Intellectual Property Rights: If we can't protect them, what good is a "knowledge economy?"**
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CHINA CONCERNS

- **Desire for modernization, to move up the value chain – is China just the shopfloor of the world?**
 - **Maddening lack of innovative skills, despite huge growth in engineering skills (an IPR nexus?)**
 - **Over-reliance on multinationals, overseas markets. Need for increased domestic consumption**
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CHALLENGES AND PARADOXES

INTELLECTUAL PROPERTY RIGHTS

- **Design patents new (just introduced in 2001), so still a work in progress**
 - **SIPO overworked, underwhelming**
 - **Enforcement minimally effective**
 - **(but what *if* China were to develop an innovative culture, whither overseas design support for Chinese manufacturing then?)**
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CHINA'S INDUSTRIAL POLICIES FAVOR DEVELOPMENT OF DOMESTIC ENTERPRISES

- **Tax policies**
 - **Standards**
 - **Anti-monopoly law**
 - **But: (these actually may be reducing competitiveness of Chinese enterprises by insulating them from competition)**
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CHALLENGES AND PARADOXES

EXPORT CONTROLS

- **Security challenge as China's military modernizes, US/Taiwan plan for potential conflict**
 - **Industrial espionage, information exchange opportunities on the rise, yielding demands for heightened control on technology exports**
 - **Technology availability from third markets**
 - **In practice most ICs are cleared for export to China from U.S., production equipment still takes time**
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