PRESS RELEASE

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TAIWAN CHIPMAKERS TO BENEFIT FROM RESOLUTION OF CHINA SEMICONDUCTOR VAT DISPUTE

According to the US-Taiwan Business Council, Taiwan's semiconductor industry will benefit from the recent agreement by China to eliminate preferential tax rebates on domestic semiconductor production.

In what had been criticized as a violation of China's World Trade Organization (WTO) commitments, China had been granting rebates on the 17% value-added-tax (VAT) for semiconductor products designed and manufactured domestically. This discriminatory VAT policy pressured companies into using Chinese chip manufacturers in order to lower costs and boost competitiveness.

According to the trade deal reached last week, China will not provide new rebates for semiconductor products or manufacturers nor for products designed in China, and no manufacturers will receive any rebates after April 2005. The deal removes a key reason for foreign companies to switch semiconductor manufacturing to China, allowing Taiwan companies to retake orders that had been shifted to Chinese foundries. In addition, Taiwan's well-developed technological infrastructure, strong IPR protection, highly-educated workforce, and integrated supply-chain serve as further incentives for companies to work with Taiwan chipmakers instead.

Taiwan's semiconductor industry earned over US$24 billion in revenue in 2003, approximately US$14 billion of which was attributed to chipmaking, according to the Taiwan Semiconductor Industry Association (TSIA). Taiwan is also home to the world's largest semiconductor foundries, Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) and United Microelectronics Corp. (UMC), as well some of the world's leading DRAM manufacturers, including Nanya Technology, Powerchip Semiconductor, and ProMOS Technologies.

Expansion plans by these chip manufacturers will likely position the island as the location of the world's highest concentration of advanced semiconductor manufacturing in the coming few years, and refutes the position that Taiwan's technology sector is hollowing out. Fears that Taiwan would see a massive exodus of semiconductor manufacturing to China seem unfounded, as chips produced in China will now be taxed the same as those produced overseas. In fact, the loss of chip rebates could push back the development of a chip foundry industry in China by years, since some investors may cancel plans to build new manufacturing facilities in China.

Later this week, the Council will release "Semiconductor Report – Second Quarter 2004," which will discuss further the impact of this agreement. It is the latest in a series of reports analyzing developments and emerging trends in the integrated relationship between the U.S., Taiwan, and China in the semiconductor industry.

About the US-Taiwan Business Council:
The US-Taiwan Business Council is a membership-based non-profit association, founded in 1976 to foster trade and business relations between the United States and Taiwan. The Council provides its members with business intelligence, access to an extensive network of relationships, and serves as an effective representative in dealing with business, trade, and investment matters.

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