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Rupert J. Hammond-Chambers
President

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CHINA'S RECENT DIPLOMATIC OUTREACH TO TAIWAN OPPOSITION LEADERS COMPLICATES FURTHER LOOSENING OF CROSS-STRAIT SEMICONDUCTOR INVESTMENT RESTRICTIONS: US-TAIWAN BUSINESS COUNCIL

According to the US-Taiwan Business Council, the Taiwan government is not likely to relax semiconductor industry investments in China in the near term. This holding pattern is a function of the domestic confusion created by recent understandings reached by Taiwan non-government delegations and opposition party leaders in recent visits to China.

The Chinese government has interwoven the visits of former Kuomintang (KMT) Chairman Lien Chan and Peoples First Party (PFP) Chairman James Soong, this past spring, with a series of trade initiatives designed to focus on core political constituencies in Taiwan such as southern fruit farmers. These constituents are both politically powerful as well as traditional supporters of the ruling Democratic Progressive Party (DPP). The apparent questions these initiatives have raised about the DPP's ability to manage cross-Strait trade has further dampened interest on the part of the ruling party to accelerate certain areas of liberalization.

While the Council welcomes dialogue between China and Taiwan, it is clear that these initiatives are designed to undermine the position of Taiwan's President Chen and the ruling DPP. If the DPP is to proceed with further liberalization in areas such as chip packaging and testing as well as 0.18-micron chip manufacturing, it will require a level of control over the process. China's decision to use trade as a mechanism for undermining the ruling party is hampering further liberalization and progress towards the normalization of cross-Strait trade relations.

According to Council President Rupert Hammond-Chambers, "In light of these and other events, the Chen administration has become even more cautious with regards to economic interaction with China, and it will pursue policies to address the seemingly incremental erosion of its authority over cross-Strait trade matters – including continuing to hold back Taiwan chip testing and packaging firms from investing in China and further limiting chip manufacturing technology transfers."

"The Chen administration is considering the broader implications of China's détente with Taiwan's opposition party leaders, its unwillingness to engage the Chen administration, and the impact this is having on the ruling party's domestic authority and standing," said Hammond-Chambers. "The Council is concerned that any process to undermine the Chen administration's authority over trade negotiations will result in a political backlash in Taiwan that will slow or even halt incremental trade liberalization across the Taiwan Strait."

"The US-Taiwan Business Council believes that normalized trade across the Taiwan Strait will result in reductions in cross-Strait political tensions, increased efficiencies for Taiwan companies, and therefore price, quality, and time of delivery improvements for the myriad of U.S. companies that participate in the integrated technology supply chain that links the U.S., Taiwan, and China," said Hammond-Chambers. "In addition, economic integration should also contribute greatly to bridging the political gap that remains between the two, and offer positive momentum to a relationship that has undergone an extended period of strain."

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These and other issues are featured in the Council's "**Semiconductor Report – Second Quarter 2005**", the latest in a series of quarterly reports examining emerging trends in the integrated U.S.-Taiwan-China semiconductor industry. More information on the report can be found online at www.us-taiwan.org/tech/products.html.

About the US-Taiwan Business Council:

The US-Taiwan Business Council (www.us-taiwan.org) is a membership-based non-profit association founded in 1976. The Council provides its members with business intelligence, access to a network of companies involved in business between Taiwan and the United States, and serves as a vital representative in dealing with investment, business development, and intellectual property matters.

Press Contact:

Judson Payne
JPayne@us-taiwan.org

Tel: (703) 465-2930
Fax: (703) 465-2937