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TAIWAN'S DOMESTIC POLITICS, STRAINED CHINA TIES SEEN TO BE THREATENING TECHNOLOGY COMPETITIVENESS: US-TAIWAN BUSINESS COUNCIL

According to a report by the US-Taiwan Business Council, domestic political divisions over Taiwan's relationship with China have resulted in a tightening of regulations and guidelines limiting cross-Strait technology investment.

This development has come at a time when the Taiwan government appeared open to more liberal China investment policies, and Taiwan-China relations were thought by many to be moving in a more positive direction. Principally, the semiconductor industry was poised to see a greater relaxation on chip manufacturing in China, including the approval of additional fab projects, the transfer of 0.18-micron process technology, and the movement of chip packaging & testing operations.

Unfortunately, statements in January by Taiwan President Chen Shui-bian and his Democratic Progressive Party (DPP) have signaled a more restrictive stance on cross-Strait investments. The retrenchment was made in response to DPP losses to the opposition Kuomintang (KMT) and its allies in December's local city and county elections. According to Council President Rupert Hammond-Chambers, "The economic challenge China poses to Taiwan cannot be solved solely through restricting cross-Strait investment. Domestic economic reform should be the focus for raising Taiwan's competitiveness. A legal, liberalized, and regulated cross-Strait business framework would allow Taiwan to benefit from further increases in trade, increased tax revenue, repatriated profits and a return of overseas capital, and greater transparency in overall economic activity."

"The impact of the tightened China investment restrictions is not just a domestic matter, but one that reverberates through the entire technology supply chain," commented Hammond-Chambers. "The highly integrated nature of the technology industry, with an increasing share of manufacturing taking place in China, means that Taiwan's ability to continue as a significant partner, supplier, and customer to the industry is undermined."

More information on the Council's "**Semiconductor Report – Annual Review 2005**" 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.

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