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# REPORT PREDICTS U.S. WILL EASE CONTROLS ON SEMICONDUCTOR EQUIPMENT TO CHINA

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A report by the U.S.-Taiwan Business Council to its members on the state of Taiwan's semiconductor industry predicts that the Bush Administration is preparing to ease export controls on equipment that can produce state-of-the-art computer chips, a move the report says could seriously challenge Taiwan's industry that is already facing severe competition from China. The report says U.S. intentions will be clearer on this issue in the coming months, but said U.S. officials in Asia have said confidentially that the U.S. will soon begin tracking semiconductor equipment sales transactions with China, which outside sources interpret as a sign that the U.S. will ease export controls.

"At the very least, we should be expecting a serious relaxation of the ban" on the export of high-technology chip-making equipment, the report said.

The report continued by saying that if cutting edge U.S. chip manufacturing equipment begins showing up in China, that country will have cleared a major hurdle in its effort to become a major, world-class producer of semiconductors. The report said China up to now has had difficulty obtaining advanced production equipment, a factor that has contributed to companies in Taiwan remaining competitive. If this advantage slips, it would undermine Taiwan's position in the industry to the point of seriously damaging Taiwan's national security interests.

These predictions come in the face of an already-beleaguered Taiwanese industry that has seen China take much of its key personnel and intellectual property to develop chip-making facilities on the mainland. The report said that while Taiwan's companies saw increased profits last year, they face increasing competition from China, whose own companies are beginning to take a larger share of the market for semiconductors.

The primary cause of this trend is the flight of capital and other resources from Taiwan to China, where companies can establish themselves and run factories for a fraction of the cost they would face in Taiwan. The report said this general trend is already threatening Taiwan's national defense, and noted that this has already led to one lawsuit against a Chinese company for its apparent theft of intellectual property from a Taiwanese company (Inside US-China Trade, Jan. 8).

China also has in place a value-added tax (VAT) that penalizes chips that are not made or designed in China, a policy that has fueled semiconductor investment in China and could become the subject of the first U.S. challenge to China in the World Trade Organization (Inside US-China Trade, Feb. 11). The Council's report added that the U.S. and Taiwan should work together with other WTO members to ensure that China eliminates the VAT.

Despite U.S. complaints about the VAT, the report said there is clear pressure on U.S. companies and the U.S. government to allow cutting edge chip-making equipment to be sent to China for the purpose of producing chips in that country. The report said that while even the U.S. has reason to worry about China's growing dominance in the industry, U.S. companies in the long run would benefit from being able to produce the latest technology chips in China, because many European companies have already taken this step. For this reason, continuing U.S. restrictions could hurt U.S. companies more than it would hurt them to relocate all of their production in China.

U.S. officials have said in the last few months that there is no across the board U.S. policy of keeping the latest technology manufacturing equipment away from China, and that export control decisions are made on a case by case basis. The U.S. government requires licenses for any equipment that can be used to produce chips below line widths of 0.5 microns. Chips with smaller line widths are more advanced, as more circuitry can be placed on the silicone wafer (Inside US-China Trade, Oct. 29).

Nonetheless, the U.S.-Taiwan Business Council report said the U.S. has effectively denied licenses to equipment used to make chips of a line width of 0.25 microns or less. If this threshold were lowered, U.S. companies would be in a much better position to compete with European companies that are already producing latest technology semiconductors, the report said.

Despite this reality, the report stressed that there have so far been no firm indications of whether or when the U.S. might lift controls. It did say, however, that the U.S. might give some sense of how it wants to change its policy during a March industry trade show in Shanghai.

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