

Can anything prevent China becoming a major player in the global semiconductor industry? The announcements by several Taiwanese semiconductor firms that they are selling non-controlling stakes to China's Tsinghua Unigroup are an indication that Beijing is stepping up efforts to build its own semiconductor industry and reduce its reliance on foreign suppliers.

Those deals follow a trend of consolidation within the global semiconductor industry this year, as companies seek to counter slowing growth and rising costs. However, one implication of this tendency is that the industry might see disruption caused by the entrance of Chinese firms, as evidenced by the negative impacts of Chinese players on the solar power, LED backlight and LCD industries in recent years.

On Friday last week, Siliconware Precision Industries, the world's third-largest chip tester and packager, made public its intention to sell a 24.9 percent stake to Tsinghua Unigroup for NT\$56.8 billion (US\$1.72 billion). Hours later, Siliconware's subsidiary ChipMOS Technologies also announced that it is to sell a 25 percent stake to Tsinghua Unigroup for NT\$11.9 billion. These announcements came on the heels of Taiwanese memorychip packager Powertech Technology's decision in October to sell a 25 percent stake to Tsinghua Unigroup for NT\$19.4 billion. Also last week, Taiwanese audio electronics maker Merry Electronics announced it would sell a 25.4 percent stake to Chinese connector supplier Luxshare Precision Industry for NT\$3.78 billion.

Although these deals still need shareholder approval and a regulatory green light, they come at a time when growing competition and a challenging global outlook have prompted some companies in Hsinchu Science Park — Taiwan's high-tech cradle and home to the nation's prized semiconductor companies — to look for potential foreign buyers (including Chinese), according to a report published in the Chinese-language Business Weekly last week.

Taiwanese companies selling shares to Chinese investors does not signal the arrival of the apocalypse, as long as firms can protect their know-how while using new funds to improve operating efficiency. However, a slew of companies selling stock to overseas businesses does imply that local equities look relatively attractive to overseas investors, making them enticing takeover targets. According to Financial Supervisory Commission data, Taiwan's listed companies are currently priced at a median of 13 times their earnings, cheaper than their peers' price-to-earnings ratio of 16 times in Japan and nearly 15 times in South Korea. It is no surprise that wealthy Chinese investors, who have been on a global shopping spree over the

China's pursuit of semiconductor firms

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past few years, are now fixing their sights on Taiwanese companies.

Even so, the government must seriously consider whether Tsinghua Unigroup's investments would have a negative impact on Taiwan's semiconductor sector, because the combined global market shares of Siliconware, ChipMOS and Powertech are significant and the semiconductor industry is an important aspect of the nation's economy. In addition, in view of the aggressive acquisitions of Chinese firms in the semiconductor business the government has to consider whether the removal of a ban on Chinese investment in Taiwan's IC design sector would be appropriate, with Tsinghua Unigroup repeatedly expressing an interest in acquiring Taiwan's leading chip designer MediaTek and chip module maker Phison Electronics.

Several factors are driving China's push into the global semiconductor business, including government support, access to capital and reasonable prices. How well Taiwan's technology industry weathers the challenges facing it will provide insight into whether local firms have visionary plans for long-term development and can leverage their Chinese counterparts' strengths.

It will also reveal whether policymakers are taking the threat of Beijing's "Made-in-China 2025" policy seriously enough.

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