

UMC duo indicted for PRC investment

VIOLATIONS: Prosecutors charged the firm's chairman and vice chairman with breach of trust for failing to gain approval from its board before investing in a Chinese start-up

By Rich Chang and Lisa Wang

STAFF REPORTERS

Two top executives at United Microelectronics Corp (UMC), the world's second biggest contract chipmaker, resigned and were indicted yesterday over alleged illegal investments in China.

"[Robert] Tsao and UMC vice chairman John Hsuan were charged with breach of trust and violating the Business Accounting Law," said Tsai Ten-yuan, spokesman for the Hsinchu District Prosecutors' Office at a press conference yesterday.

Violating the two laws could lead to a prison term of six months to five years, Tsai added.

The indictment said that the firm was suspected of making investments in the Chinese semiconductor start-up He Jian Technology (Suzhou) Co since 2002, by transferring capital, technology and personnel to the company.

The indictment added that the defendants invested in He Jian to circumvent the government's restriction on local semiconductor companies, which prevents them from setting up production lines in China, and that the firm conducted the investment



Then-President-elect Chen Shui-bian shakes hands with United Microelectronics Corp chairman Robert Tsao on March 28, 2000. Tsao was indicted yesterday for breach of trust over allegedly illegal investments in China, a prosecutor said.

without gaining the approval of the company's board.

Prosecutors are holding a number of lists of orders that UMC offered to He Jian, and evidence that the company transferred core technologies to He Jian, the indictment added.

Tsai said the defendants were in breach of trust for hiding the investment in He Jian from UMC shareholders. Tsai added that concealing the investments in the company's financial reports had violated the Business Accounting Law.

A UMC official surnamed Cheng was also indicted on suspicion of arranging the investment.

He Jian president Shyu Jann-hwa, who is also an executive of UMC, and 24 other UMC officials were not indicted yesterday because evidence was insufficient to indicate involvement in the investment policy, Tsai added.

"Shyu, as an engineer, just acted following the instructions of UMC executives," Tsai said.

To guard against a loss in competitiveness to Chinese firms, the government restricts local semiconductor companies from building more advanced factories in China.

The investigation was launched last February, and sparked a strong response from Tsao, who issued a statement asking the authorities to stop the investigation, calling it "white terror."

The prosecutors' office, however, pledged to step up the probe.

Meanwhile, UMC yesterday said the indictment of the two high-ranking company officials would not affect its operations.

"The two executives have already quit and the board elected Jackson Hu as the [new] chairman," UMC said in a statement filed to the Taiwan Stock Exchange.

The chipmaker's board approved the resignations of its chairman, Tsao and vice chairman, Hsuan, in a temporary meeting yesterday, according to an earlier statement.

UMC said on Dec. 30 that Tsao planned to offer his resignation during the board's regular meeting in March to safeguard shareholder's interests.

But Tsao and Hsuan may still be able to influence the new board, as they have been hired as senior consultants, making them qualified to attend board meetings.

Chief executive Jackson Hu will take Tsao's post as planned, the company said in the statement.

Alfred Ying, head of Grand Cathay Securities Co's research department, said that the charges against the executives will not greatly damage the chipmaker's stock price or its fundamentals, as investors factored in the allegedly illegal Chinese investment and the personnel shakeup.

"UMC will not lose any orders because of the management change as Tsao apparently will continue to have a say in the company's strategy over the next few years under a different status," Ying said.

UMC shares have risen by 15 percent on the Taiwan Stock Exchange from a historic low of NT\$16.35 on Oct. 28 last year amid a series of investigations. The stock closed at NT\$18.85 yesterday.



Taiwan eager to lend Nauru a hand, Chen tells envoys

By Chiu Yu-Tzu

STAFF REPORTER

Taiwan would like to sign agricultural agreements with Nauru, not only to supply more food to the South-Pacific island republic, but also to give it the necessary expertise to further secure its food security, President Chen Shui-bian said yesterday.

Chen received David Adeang, Nauruan minister of foreign and finance affairs, and Frederick Pitcher, minister of island development and industry, at the Presidential Office yesterday.

As Nauru relies heavily on Australia for imports of agricultural products and articles for daily use, Chen said that Taiwan would be glad to offer more technical assistance to ensure Nauru's food security.

"Nauru has no roots in agriculture. If agricultural agreements can be signed, Taiwan will do its best to offer the necessary expertise to advance Nauru's agriculture and secure its sources of food," Chen said.

Chen told the two ministers that future collaboration between the two countries could be extended beyond agriculture to include education, trade and social development.

During their five-day trip to Taiwan, the two ministers will visit marble and cement factories in eastern Taiwan, China Steel Corp, China Shipbuilding Corp and vocational training centers in Taipei County.

Nauru, which is 5,100km southeast of Taiwan, is one of the world's smallest independent countries both in terms of population and land area. Currently, 12,800 residents live on a coral reef island covering 21.3km².

Nauru existed as an independent island society until it was annexed by Germany in 1888 as part of the Marshall Islands Protectorate.

It became an independent republic on Jan. 31, 1968. In 2003, Nauru terminated diplomatic ties with Taiwan after 22 years. The relationship was re-established in May last year.

Chen said that he is looking forward to the visit of Nauruan President Ludwig Scotty in March.

"In May last year, when the World Health Assembly's annual meeting was held in Geneva, Nauru spoke out on Taiwan's behalf. In September last year, at the UN's General Assembly, Nauru expressed its strong support for Taiwan's entry to the organization," Chen said.

He added that when he visited Tuvalu and Kiribati, two of Taiwan's diplomatic allies in the Pacific Ocean, last year, the two countries asked Taiwan to help resolve the controversy about miners detained in Nauru.

Mining of Nauru's extensive phosphate reserves began in 1905. Foreign workers come from nearby islands, and as far as China.

"I'm glad to say that Taiwanese representatives eventually solved related problems through the operation of the Pacific Islands Forum," Chen said.



China trims troops in high-tech bid to overcome Taiwan

REUTERS, BEIJING

China's has military cut back its troops by 200,000, the official mouthpiece of the People's Liberation Army said yesterday, reinforcing its high-tech military ambitions to overtake Taiwan.

The *Liberation Army Daily* said the two year program to slim China's military was finished on schedule at the end of last year, and troop numbers were actually down by 230,000, or just over 9 percent.

China had 2.5 million serving military in 2003 when the cuts started. In 1987, it had about 4.2 million.

The reforms included reducing layers in the command hierarchy, cutting non battle units such as schools and farms, and rearranging officer duties.

"The personnel system reforms have brought heartening changes to our military development. They've compressed troop numbers and optimized the personnel structure," the paper said. "Our military is marching towards the goal of an appropriately sized, structurally balanced, lean, command-responsive fighting force."

After the proportion of military serving in the infantry had fallen to a "historic low," while the share in the navy, air force and Second Artillery Corps - which maintains China's nuclear missiles - had risen, the paper said.

The paper also said that "high tech" forces had increase. China has accelerated

developing or buying several advanced weapons, including surveillance satellites, missiles and "blue water" naval vessels and submarines.

Military analysts say that many of these innovations were intended to reinforce China's military threat against Taiwan and to counter US military dominance in the Asia Pacific region.

China's retired party chief, former president Jiang Zemin, was still head of the Central Military Commission (CMC) when the cutbacks began but an editorial in the *Liberation Arm Daily* and told its staff to "adhere to a correct political orientation."

China's official military budget last year was about US\$30 billion, a 12.6 percent rise on previous years.

But many foreign militaries and experts believe the country's real military spending is significantly higher.

A pentagon report in July said the US was concerned about China's military modernization and estimated China spent US\$90 billion on defense last year, an estimate that some US defense experts have said is probably an overcount.





Chen is his own worst enemy

In the wake of President Chen Shui-bian's New Year's Day speech, there has been much talk about his new cross-strait economic policy of "active management, effective opening." The speech suggests that a Cabinet reshuffle will follow the Lunar New Year, as has almost become traditional.

Taiwan's president has wielded power poorly. In a political structure in which great power is concentrated in the hands of one man, the premier is simply not in a position to oppose the will of the president -- and we have yet to see a Cabinet that dares ignore presidential dictates. Now, after an unremarkable six-year administrative track record, Chen is attempting to pick up the pace and make up for past failings in reform. In addition to his new economic policy, he has targeted the 18 percent preferential interest for retired civil servants, the stolen assets of the Chinese Nationalist Party (KMT), constitutional reform and a minimum tax. This flurry of activity brings to mind the saying "waiting until you are thirsty before you dig a well."

As a result of such tardiness, the Democratic Progressive Party (DPP) is not likely to win public support. The defeats suffered by the DPP in the 2004 legislative elections and last month's local government elections were not the result of the Cabinet's failure to carry out the presidential will, but rather because they carried it out to the letter. It is Chen who must shoulder responsibility for the government's failures. As for the scandals which have ensnared various senior government officials and which are now awaiting investigation by the judiciary, neither the Presidential Office nor the Executive Yuan is likely to escape blame.

Chen ignored calls to hold fast to former president Lee Teng-hui's "no haste, be patient" economic policy, and instead plunged headlong into the unrestricted opening up of commercial relations with China. It was under Chen's call for a "New Middle Way" that in 2001 the government launched the misguided policy of "active opening, effective management."

We can see now that this policy, which was intended to pander to Taiwanese businesses with interests in China and China itself, has had a pernicious effect on

Taiwan. Unemployment, broadly defined, has risen to a high of 7 percent, capital has fled the country and entire industries have relocated away. This kind of damage cannot be quickly remedied.

Based on past performance, Chen's new determination to better manage cross-strait economic ties prompts mixed feelings. Chen will hopefully become a fearless and charismatic leader who is undaunted by setbacks and unafraid to admit mistakes, rather than a politician who only pursues short-term advantage and bows to pressure from financial groups and trade associations. Such short-sighted behavior is exactly what has made DPP supporters lose faith in his promises.

Chen and his party must admit that the DPP has lost the ideals it once had as a local party under Chen's leadership. As a result of Chen's weakness, the public has also begun to let down their guard toward China's "united front" strategies and military ambitions, with some even espousing an absurd desire to unify with China. What Taiwan needs is a determination to press on with reform and a more consistent implementation of policy. In this effort, Chen has no greater enemy than himself.



Stronger regulation benefits the economy

By Huang Tien-lin

Foreign businesspeople often threaten the government by saying that they will pack up and leave unless direct transportation links across the Taiwan Strait are established. But foreign investors set a new record last year by making net investments of NT\$719.4 billion (US\$22.35 billion) in the nation's stock market.

Although the market didn't meet the expectations of foreign investors, offering them barely satisfactory returns on their investments, Taiwan's stock index, the TAIEX, did rise by 408 points, or 6.65 percent, last year.

Many people give foreign investors credit for this result. But over the past year, the government has refused to yield to pressure from the pan-blue camp and foreign investors, nor has it yielded to China on the trade issue. That is the main reason the

stock market saw a small increase.

Pan-blue leaders have joined hands with foreign investors to put pressure on the government, demanding immediate cross-strait flights and permission to set up chipmaking and other plants in China. Fortunately, the government has continued its efforts to prevent Taiwanese industry from becoming further undermined.

This persistence has finally paid off. The economy took off in the last quarter of last year, with growth estimated at 5.28 percent, while unemployment fell to 3.94 percent -- the lowest figure in five years. Foreign investors pumped more than NT\$700 billion into Taiwan. Companies which have kept their main production lines in Taiwan, in line with the "no haste, be patient" policy, remain valuable investment targets.

This is proven by the fact that foreign investors made net investments in Taiwan Semiconductor Manufacturing Co, Powerchip Semiconductor Corp, United Microelectronics Corp and AU Optronics last month. These companies have invested heavily in Taiwan, accumulated advanced technologies, increased their international competitiveness and attracted foreign investment, which has pushed up the TAIEX.

Many disagree with this argument. They say that it is because the government relies on ideology to govern the nation that the TAIEX's performance last year lagged far behind South Korea's and Japan's stock markets -- which rose by 53 percent and 42 percent. They believe that if direct cross-strait transportation was allowed and if regulations on investing in China were relaxed, the stock market would have grown by much more than 6.65 percent last year. This is an idea held by all pan-blue media outlets and academics who put "China" at the core of their thinking.

But it is diametrically opposed to thinking which centers on Taiwan. After President Chen Shui-bian said in April last year that without effective management, he would rather not have any opening, the ban on companies investing more than 40 percent of their net value in China has not been relaxed, there has been no response to the issue of advanced wafer foundries and packaging and testing plants moving to China, and direct transportation links still have not materialized. As a result, the fourth quarter last year still saw stable growth of 5.2 percent.

That reality indicates that effective management is the right course of action.

We could even say that if there had been no active opening in 2001, the TAIEX would

have outperformed the South Korean and Japanese stock markets, while foreign investors would have made huge profits.

The president's New Year's speech should be welcomed for its insistence that cross-strait trade will be more actively managed. As long as the government persists in this correct direction, Taiwan's stock market will continue to shine.

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