

Taiwan tech industry faces up to Samsung

April 17 2013, by Annie Huang



In this April 10, 2013 photo, a customer doodles on a new Samsung smartphone at a retail shop in Taipei, Taiwan. Taiwanese companies have long viewed tech giant Samsung as a major threat and the battle has recently appeared to tilt in favor of the South Korean rival as Taiwan's smartphone, memory chip and display panel makers suffered sagging exports. The sales erosion has been driven by competition, some of it from South Korea, and a weak global economy but has also spawned fears on this export-reliant island of 23 million that Samsung has deliberately targeted Taiwanese firms as part of a campaign to undermine their competitiveness in markets around the world. (AP Photo/Wally Santana)

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Business Today, Taiwan's top business magazine, gave voice to those fears last month with an extensive cover story accusing Samsung Electronics of launching a "Kill Taiwan" effort and targeting some of the island's leading high-tech companies including [Taiwan Semiconductor Manufacturing](#) Co., the world's largest contract [chip maker](#).

Adding fuel to the fire, Taiwan's [Fair Trade Commission](#) recently launched an investigation into allegations that Samsung planted unflattering comments about Taiwanese consumer electronics on the Internet as a way of undermining their appeal to customers.

While [Taiwanese companies](#) are facing a challenge from Samsung, [industry analysts](#) such as John Brebeck, a Taipei-based adviser with technology development firm Quantum International Corp., says perceptions here that the South Korean company is setting out to crush Taiwan's lucrative technology industry miss the point.

Samsung is trying to make inroads in specific areas where it sees a big profit potential and these areas are also where Taiwanese companies have a major stake, he said. "It's not Taiwan as much as it's industry sectors that's motivating Samsung."

[Samsung Electronics](#) spokeswoman Jee Hae-Ryoung said [business strategies](#) like "Kill Taiwan" do not exist at Samsung.

That's all little comfort for Taiwan's technology industry, which knows it must remain nimble and innovative to avoid the downward spiral of famous Japanese companies such as Sony Corp. which were outrun by competitors including Samsung. Taiwan's high tech exports totaled \$98 billion last year, accounting for about 20 percent of the island's GDP.

Fearing they will lose more ground, a number of Taiwanese manufacturers are carving out alliances with high-tech companies in Japan and the United States that are also facing off against Samsung, in an effort to safeguard market share and give a boost to Taiwan's economy. A noted and longtime Taiwanese collaborator is Apple Inc., which was replaced last year by Samsung as the top smartphone maker in the world.

For its part, the Taiwan government is pressing the island's tech companies to work more closely with local component suppliers in an effort to achieve the kind of business integration that has helped to make Samsung such a formidable rival.

"We hope the tech companies can work together with their suppliers during the early product developing process, rather than wait till the new components are developed," said Stephen Su, a marketing analyst with Taiwan's Industrial Technology Research Institute, a state-funded institute that develops cutting-edge technologies and transfers them to the private sector.

Su said a major pilot project in the integration effort involves smartphone maker HTC Corp., which is trying to use processors made by local chip designers in its new handsets.

Until last year, HTC was a top global smartphone maker, cashing in on its status as the first company to make handsets using Google's Android operation system. Now, however, it is struggling as Samsung and Apple smartphones dominate.

Aside from smartphones, another emerging battlefield in the Taiwan-Samsung rivalry is the semiconductor industry, long a Taiwanese stronghold.



In this April 10, 2013 photo, a saleswoman displays new Samsung smartphones at a retail shop in Taipei, Taiwan. Taiwanese companies have long viewed tech giant Samsung as a major threat and the battle has recently appeared to tilt in favor of the South Korean rival as Taiwan's smartphone, memory chip and display panel makers suffered sagging exports. The sales erosion has been driven by competition, some of it from South Korea, and a weak global economy but has also spawned fears on this export-reliant island of 23 million that Samsung has deliberately targeted Taiwanese firms as part of a campaign to undermine their competitiveness in markets around the world. (AP Photo/Wally Santana)

With its seemingly unlimited supply of capital, Samsung has deftly moved from making [memory chips](#) that store data to more profitable logic chips that run as the brain of computers.

It is also ramping up its expansion into the foundry business that fabricates chips, posing a direct challenge to TSMC, which provides application chips to companies such as Apple and Qualcomm Inc.

TSMC founder Morris Chang has called Samsung a "formidable rival" but says his company is well prepared to meet the challenge.

In the past year, TSMC has significantly increased its capital spending to move more aggressively into the cutting-edge technologies of 20 and 16 nanometers that can make smaller chips which run faster at lower power.

The new technologies will enable TSMC to make the application processors that will run new iPhones and iPads. Apple currently gets such chips from its smartphone and tablet rival Samsung. But analysts say that Apple's transition will be complicated, because Samsung is involved in part of the processors' design, in addition to fabricating the wafers that foundries normally handle.

"Apple has been waiting until TSMC is ready and able to catch up," said Brebeck. "They are willing to wait because they want to get away from Samsung. TSMC understands it and is clearly moving rapidly in this direction."

Apart from the new processors, TSMC has—as of now—a clear edge in its foundry business with a well-established customer base.

Nicholas Chen, an attorney who advises many Taiwanese tech firms, said

global companies such as Apple may not trust Samsung as a chip supplier for fear the Korean giant could steal their designs when making its own products.

TSMC's advantage, he said, is that it is a pure foundry that does not make chips under its own brand and is known to be "proactively disciplined on protecting trade secrets."

"If somebody is committed to this in this industry, they are clearly the example," Chen said.

Aside from TSMC, another Taiwanese tech company under serious threat from Samsung is Hon Hai Precision Industry Co., also known as Foxconn, which makes gadgets for global clients, including Apple iPhones and iPads, at its massive plants on mainland China.

One of Hon Hai's problems involves its acquisition of Chimei Innolux Corp., a display panel maker. Since the deal was completed three years ago, Chimei has suffered large losses. A major factor has been its inability to compete with Samsung's substantial capital spending, and produce at a profit the energy saving AMOLED advanced display panel, known for its superior picture quality.

In an apparent effort to address the problem, Hon Hai Chairman Terry Gou last year negotiated to acquire a 10 percent stake in Japan's struggling Sharp Corp., the only major competitor to Samsung in display panels.

Apple was widely believed to be behind the Hon Hai move, reflecting its eagerness to find an alternative panel supplier to Samsung for iPhones, iPads and the future iTVs.

But the Hon Hai deal has been put on hold, apparently over Sharp's

refusal to involve Gou in its management, and in the meanwhile it sold 3 percent of the company to Samsung.

"Hon Hai is the biggest contract manufacturer, the most cost-efficient and successful," said Brebeck. "If you take down that giant, you hit a bunch of Taiwanese firms, and you hit Apple too."

Industrial Technology Research's Su says that Samsung has the upper hand in attracting first rate talent, a crucial element in the continuing high-tech battle.

The Korean conglomerate has aggressively hunted talent from Japan, China and Taiwan—often luring skilled staff away with higher pay—and has sent large number of Koreans to study abroad and learn about overseas markets, he said.

Su pointed to flexible panels—slated for use on watches, street lighting and a number of other applications—as the next battleground in the Samsung-Taiwan rivalry.

"Taiwanese makers can maintain their edge for least another three years, but after that it depends on how hard they can work," he said.

"The Taiwan government is trying to relax various rules to help our high-tech industries, but we are lagging behind South Korea in this area because they have made it the strategic national goal to attract and facilitate high-tech investments," he said.

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