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Taiwan

Taiwan security officials want Foxconn to drop stake in Chinese chipmaker

Apple supplier's \$800mn investment in Tsinghua Unigroup endangered by rising tensions with Beijing



Foxconn is the world's largest electronics manufacturer but has sought to move into higher margin sectors such as chipmaking © Visual China Group/Getty Images

Kathrin Hille in Taipei 4 HOURS AGO

Taiwanese national security officials want to force Apple supplier Foxconn to unwind an \$800mn investment in Chinese chip company Tsinghua Unigroup, as Taipei seeks to align itself more closely with the US in the face of escalating threats from Beijing.

The investment by [Foxconn](#), the world's largest contract electronics manufacturer and the biggest private-sector employer in China, was announced last month and made the group the second-largest shareholder in Tsinghua. But the deal put one of Taiwan's biggest companies at the centre of Beijing's growing technology competition with the west.

"This will definitely not go through," said a senior Taiwanese government official involved in national security issues.

The cabinet's investment commission has yet to formally review the case, but officials from the president's National Security Council and the Mainland Affairs Council, which implements China policy, believe the deal needs to be blocked, according to another person briefed on the matter.

Hon Hai, Foxconn's [Taiwan](#)-listed entity, said on July 14 that it had acquired an indirect stake in Beijing Zhiguangxin Holding, the controlling shareholder of Tsinghua Unigroup.

The deal triggered warnings from the Taiwanese economy ministry's investment commission that Foxconn could be fined up to NT\$25mn (\$832,000) because it had not submitted the transaction for prior approval.

Officials said the group was not believed to have violated other regulations, as the deal was below the ceiling for China investments that Taipei had set for Foxconn Industrial Internet, the company's mainland-based subsidiary.

But national security officials have been brought in to review the case, according to officials familiar with the matter and people close to Foxconn — a procedure applied only to controversial investments with political or security implications.

“It is clear that now they have elevated this to the national security level, prospects are getting dim,” said one person close to the company. “With the soaring tension in the Taiwan Strait, this is looking even more difficult.”

China claims Taiwan as its territory and has threatened to take it by force if Taipei resists unification indefinitely. Beijing has driven home this threat over the past week with a series of [unprecedented military exercises](#).

Analysts said the investment in Tsinghua Unigroup made sense for Foxconn, which has traditionally focused on the low-margin, labour-intensive assembly of electronics products such as smartphones and manufacturing, but is trying to strengthen its semiconductor business.

Young Liu, head of the semiconductor division who took over as Foxconn chair three years ago, has pledged to expand the unit to increase profit margins and secure chip supplies.

He defended the deal on an investor call on Wednesday, saying it was a “simple financial investment” that would also benefit the company because some of Tsinghua's affiliates are its customers and suppliers.

Liu added that Tsinghua had already changed after being forced to shed its chip manufacturing assets in the debt restructuring.

“But we will of course comply with the strictest legal standards,” he said. “For that case, we also have a back-up plan.”

Although Tsinghua Unigroup had to let go of some manufacturing assets in a year-long debt restructuring process, the group is seen as a crucial asset in Beijing's plan to wean itself off its dependency on chip imports.

“I think Tsinghua Unigroup is still very important,” said Douglas Fuller, an expert on Chinese industrial policy in the chip sector.

Unisoc, Tsinghua Unigroup’s chip design arm, is a crucial part of that endeavour.

“Obviously, this asset would bring to the table for Hon Hai some of the incremental capabilities that they do not possess,” said Patrick Chen, head of Taiwan research at CLSA, the brokerage.

But Taipei is concerned that the deal could lead to Foxconn bankrolling an acceleration in Beijing’s tech ambitions. Although the group is gradually diversifying its production lines beyond China, 75 per cent of its capacity is on the mainland and analysts said it would be extremely difficult for the company to divest.

“The solution is, therefore, that their China-based affiliates localise more and put the money they can’t get out into new assets on the mainland,” said a Taiwanese technology industry executive in China.

Officials believe such a development could weaken Taiwan economically and give China more leverage to pressure it into submitting to Beijing’s control. “How can we have one of our largest enterprises become a key backer of a policy which aims to reduce our position in global markets?” said one official.

The Taiwanese government is particularly concerned that Foxconn’s partner in the deal, the Chinese investment firm WiseRoad Capital, has close links to the government in Beijing.

Moreover, officials said Taiwan must be particularly careful not to be seen as helping China in its technology rivalry with the US.

“Especially now, as the Chips Act has been adopted, Washington is stepping up initiatives to strengthen semiconductor manufacturing onshore, and working with allies and partners to control the flow of technology to China, we have to be careful about where we stand,” one said, referring to a [move by the Biden administration](#) to boost the US’s chipmaking industry.

