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Revitalizing U.S. Semiconductor Manufacturing: The Strategic Impact of the CHIPS Act on Advanced Packaging and Fabrication Technologies

Shubham Rajendra Ekatpure

Global Supply Chain, Kulicke and Soffa, Horsham, USA
Email: *srekatpure[at]gmail.com*

Abstract: ***The semiconductor industry is integral to modern electronics, yet the United States has seen a decline in its manufacturing capabilities due to offshoring. The CHIPS Act of 2022 aims to revitalize U.S. semiconductor manufacturing by providing substantial funding and incentives. This paper explores the U.S.s position in the global semiconductor market, analyzes the potential impact of the CHIPS Act, and evaluates investment strategies that could enhance domestic production. A high growth investment scenario, focusing on advanced packaging and leading-edge fabrication technologies, is proposed to meet rising technological demands, strengthen supply chain security, and maintain global competitiveness.***

Keywords: Semiconductor Manufacturing, CHIPS Act, Advanced Packaging, Supply Chain Security, Investment Strategy

1. Introduction

Semiconductor manufacturing is a complex and highly specialized process that involves the production of semiconductor devices, which are essential components in nearly all modern electronic systems. The manufacturing process encompasses several stages, including design, fabrication, assembly, testing, and packaging. Semiconductor devices, such as microchips, and integrated circuits, are used in everything from smartphones and computers to automobiles and industrial machinery. The intricate nature of semiconductor manufacturing requires advanced technology, precision engineering, and a robust supply chain to produce high-performance, reliable products. As demand for semiconductors continues to grow, particularly with the rise of artificial intelligence, 5G, and electric vehicles, the industry's importance to the global economy has never been more pronounced.

The semiconductor industry is spread across the globe, with key players in the United States, Asia, and Europe. The United States has historically been a leader in semiconductor design and innovation, home to major companies such as Intel, AMD, and NVIDIA. However, over the past few decades, much of the manufacturing and assembly processes have shifted to Asia, particularly to countries like Taiwan, South Korea, and China. Taiwan's TSMC (Taiwan Semiconductor Manufacturing Company) and South Korea's Samsung are among the world's largest producers of semiconductors, particularly for advanced nodes. Meanwhile, China has been rapidly expanding its semiconductor industry as part of its strategic goal to reduce reliance on foreign technology. This global distribution has created a highly interconnected and interdependent supply chain, but it has also introduced significant vulnerabilities, especially in light of geopolitical tensions and supply chain disruptions.

Despite the offshoring of many manufacturing activities, the United States remains a leader in several key areas of semiconductor manufacturing. The U.S. excels in semiconductor design, research, and development, with American companies at the forefront of cutting-edge innovations. The country is also home to some of the most advanced semiconductor manufacturing equipment companies, such as Applied Materials, Lam Research, and KLA, which provide critical tools for chip production. Additionally, the U.S. maintains leadership in specialized areas like microprocessor design and high-performance computing chips. However, the U.S.'s share of global semiconductor manufacturing capacity has declined over the years, prompting initiatives like the CHIPS Act to revitalize domestic production and reduce reliance on foreign suppliers.

The CHIPS Act represents a strategic effort by the U.S. government to address the challenges facing the semiconductor industry and to strengthen America's position in the global market. By providing financial incentives for domestic manufacturing, research, and development, the U.S. aims to reclaim its leadership in semiconductor production. This includes not only enhancing traditional manufacturing capabilities but also investing in advanced packaging and supply chain security. As the global semiconductor industry continues to evolve, the United States is poised to play a critical role in shaping its future, leveraging its strengths in innovation, technology, and strategic policymaking. Understanding the CHIPS Acts impact on the semiconductor industry is vital for strategizing U.S. economic resilience and maintaining technological leadership in an increasingly competitive global market. This paper aims to analyze the U.S. semiconductor industry's current state, the implications of the CHIPS Act, and the potential investment strategies to bolster domestic manufacturing capabilities.

2. Literature Review

The U.S. semiconductor industry has faced significant challenges due to geopolitical tensions, supply chain disruptions, and increased competition from foreign markets. The CHIPS Act, introduced in 2022, is central to revitalizing U.S. semiconductor manufacturing by providing substantial investments in domestic production and reducing reliance on foreign suppliers [1]. This legislative initiative is critical in

reasserting U.S. leadership in the global semiconductor industry, which is projected to become a trillion-dollar market by 2030 [2]. The act also focuses on securing semiconductor supply chains from geopolitical risks, particularly in the context of the U.S.-China tech rivalry, and ensuring the stability of these supply chains [3].

Effective supply chain management, particularly in mitigating demand uncertainty, plays a crucial role in the semiconductor sector. With the complexity of semiconductor manufacturing and the lengthy lead times, fluctuations in demand can lead to significant disruptions.[4] emphasize the importance of incorporating stochastic programming models to optimize production planning and inventory management. The COVID-19 pandemic further exposed vulnerabilities in global supply chains, particularly in the automotive industry, underscoring the need for greater systemic resilience [5]. As the industry evolves, companies must adapt to these challenges to remain competitive.

The global semiconductor market is experiencing unprecedented growth, driven by the increasing demand for advanced technologies. According to McKinsey's analysis, the semiconductor industry is expected to grow by 6% to 8% annually, reaching a market value of $1 trillion by 2030 [2]. The automotive, data storage, and wireless communication sectors are predicted to drive approximately 70% of this growth. The automotive sector, in particular, is expected to see a tripling of demand, fueled by innovations in autonomous driving and electric vehicles. This trend highlights the need for the U.S. to invest in semiconductor technologies that cater to these high-growth areas.

The U.S.'s current reliance on Taiwanese and South Korean semiconductor manufacturers for leading-edge chips poses significant risks, especially in light of potential geopolitical conflicts [3]. Taiwan, which manufactures approximately 85% of global leading-edge logic chips, and South Korea, a major producer of DRAM chips, are critical to U.S. semiconductor supply chains. However, any disruptions in these regions could severely impact U.S. access to these crucial components. The CHIPS Act addresses these concerns by promoting the reshoring of semiconductor manufacturing to the U.S. and reducing dependency on foreign production.

The U.S.-China trade war has further exacerbated challenges within the semiconductor industry. [6] discusses how U.S. policy measures, such as restrictions on Chinese companies like Huawei, have intensified global supply chain disruptions. These measures have created uncertainties for U.S. semiconductor companies, which rely on access to international markets and global supply chains. The CHIPS Act addresses these challenges by focusing on strengthening domestic production and mitigating the impact of geopolitical tensions on the industry.

In addition to reshoring manufacturing, the U.S. must also focus on building a skilled labor force to support its growing semiconductor industry. The CHIPS Act is expected to create thousands of new jobs, but the current U.S. labor market may not be sufficient to meet this demand [3]. To address this challenge, the U.S. government must invest in STEM education and explore visa programs to attract foreign talent, particularly from countries like Taiwan and South Korea, where semiconductor expertise is abundant. These efforts are essential for ensuring the success of the CHIPS Act and maintaining U.S. competitiveness in the semiconductor industry.

3. Methodology

This section outlines the key areas where the United States currently lacks in semiconductor manufacturing, provides an overview of the CHIPS Act, and explores potential investment strategies for allocating CHIPS Act funding to strengthen the U.S. semiconductor industry. The methodology used involves a detailed review of existing literature, including government reports, industry analysis, and academic studies, to identify gaps in U.S. semiconductor capabilities and propose targeted investment areas.

a) Identifying U.S. Weaknesses in Semiconductor Manufacturing

The U.S. has seen a steady decline in its share of global semiconductor manufacturing capacity, which has dropped from 37% in 1990 to around 12% today [1]. This decline is primarily due to the offshoring of manufacturing, assembly, testing, and packaging (ATP) activities to Asia, where labor costs are lower, and governments offer significant incentives [7]. The U.S. lacks sufficient capacity in leading-edge semiconductor fabrication (particularly at nodes below 10 nanometers), advanced packaging, and the production of crucial materials such as substrates [3]. Moreover, the U.S. supply chain for semiconductor components, particularly in advanced packaging and ATP processes, is underdeveloped, making the industry vulnerable to supply chain disruptions and geopolitical risks [7].

b) Overview of the CHIPS Act

The CHIPS Act, formally known as the "Creating Helpful Incentives to Produce Semiconductors for America Act," was enacted in 2022 as a strategic response to the challenges facing the U.S. semiconductor industry [1]. The act aims to boost domestic semiconductor manufacturing by providing $52 billion in funding for research, development, manufacturing, and workforce training [3]. The CHIPS Act seeks to reverse the trend of offshoring by offering financial incentives to companies that build or expand semiconductor manufacturing facilities in the U.S. Additionally, the act supports investments in advanced research and development (R&D), supply chain security, and workforce development, ensuring the U.S. remains competitive in the global semiconductor market [7].

c) Proposed Investments Under the CHIPS Act

To maximize the impact of CHIPS Act funding, the U.S. should prioritize investments in several critical areas. First, the act should support the expansion of leading-edge semiconductor fabrication facilities, particularly those capable of producing chips at nodes below 10 nanometers [1]. This will reduce reliance on foreign foundries, such as Taiwan's TSMC and South Korea's Samsung, which currently dominate advanced semiconductor manufacturing [8].

Second, the U.S. should invest in reshoring advanced packaging capabilities, which are increasingly important as semiconductor design evolves and Moore's Law slows [7].

Advanced packaging, including techniques such as wafer-level packaging (WLP) and fan-out packaging, can enhance chip performance and power efficiency. Incentives should be directed toward building co-located fabrication and packaging facilities, reducing the dependency on overseas ATP services [7].

Third, investments should be made in bolstering the semiconductor materials supply chain, particularly in the production of substrates, which are critical for advanced packaging [3]. The U.S. should consider forming public-private partnerships to establish domestic manufacturing of these essential materials [7].

Finally, the CHIPS Act should fund R&D initiatives that focus on emerging semiconductor technologies, such as chiplets, heterogeneous integration, and automation in packaging processes [3]. By fostering innovation in these areas, the U.S. can maintain its competitive edge in semiconductor design and manufacturing, positioning itself as a global leader in the semiconductor industry.

4. Results

The graph above illustrates two critical aspects of the future of the semiconductor industry, particularly focusing on advanced packaging. The three growth scenarios (low, medium, and high) for the advanced packaging market indicate that the sector could see significant expansion, with the market value potentially reaching between $40 billion and $80 billion by 2034, depending on the level of investment and technological advancement.

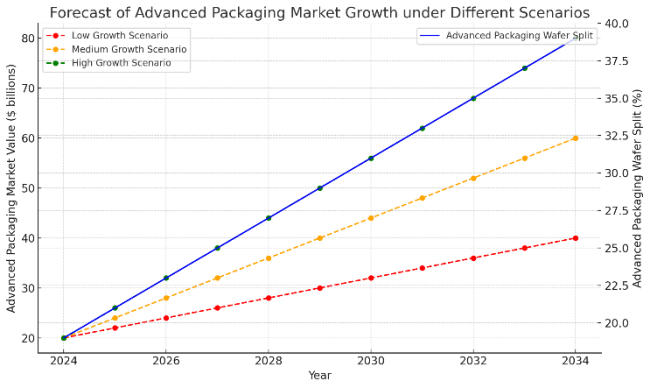

Figure 1: Forecast of Advanced Packaging Market Growth and Wafer Split (2024-2034) under Different Investment Scenarios.

Concurrently, the forecasted increase in the wafer split for advanced packaging—rising from 19% to 39%—demonstrates that an increasing portion of semiconductor manufacturing will rely on these sophisticated packaging methods. This trend underscores the growing importance of advanced packaging in enhancing chip performance and meeting the demands of cutting-edge technologies such as AI, 5G, and electric vehicles.

For the U.S., these projections highlight both opportunities and challenges. If the U.S. can strategically invest in advanced packaging technologies and infrastructure, as envisioned in the CHIPS Act, it stands to gain a competitive edge in the global semiconductor market. However, achieving the high-growth scenario will require significant investments in R&D, workforce development, and reshoring of manufacturing capabilities.

If the U.S. fails to capitalize on these opportunities, it risks falling behind other global leaders like Taiwan and South. These charts show the distribution of semiconductor processes in the U.S.. The leading-edge logic and legacy logic processes account for significant portions of the market, each with a 25% share. DRAM follows closely with 22%. Discretes and sensors, though categorized separately, are also notable with shares of 45% and 44%, respectively. NAND Flash, Optoelectronics, and Analog processes occupy smaller fractions, indicating the U.S.'s focus on more advanced and critical semiconductor manufacturing sectors [9]

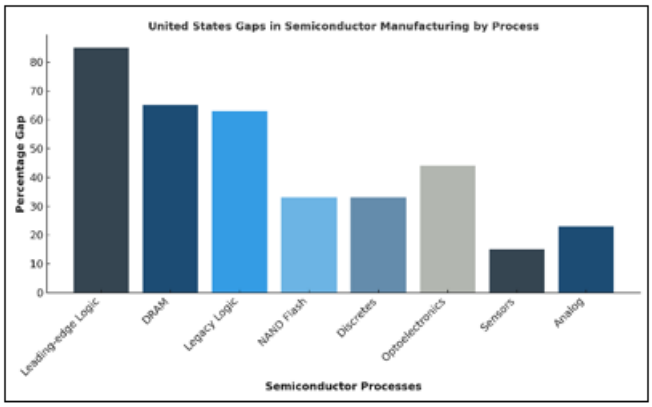

Figure 2: U.S. gaps in semiconductor manufacturing by process.

These visuals underscore the need for strategic investments and policies, such as the CHIPS Act, to boost domestic semiconductor manufacturing. By addressing these gaps, the U.S. can reduce its vulnerability to global supply chain disruptions and ensure continued leadership in this vital industry. As the semiconductor industry continues to evolve, closing these gaps will be critical to maintaining the country's competitive edge [9].

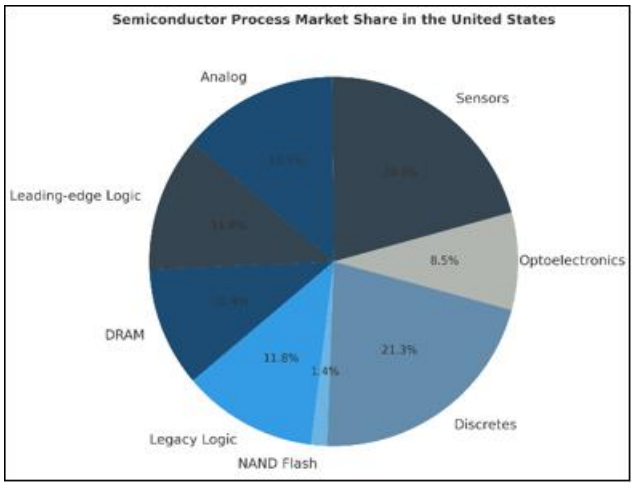

Figure 3: Distribution of semiconductor process market share in the United States.

These charts depict the distribution of various semiconductor processes within the United States. The leading-edge logic and legacy logic processes account for significant portions of the

market, each with a 25% share. DRAM follows closely with 22%. Discretes and sensors, though categorized separately, are also notable with shares of 45% and 44%, respectively. NAND Flash, Optoelectronics, and Analog processes occupy smaller fractions, indicating the U.S.'s focus on more advanced and critical semiconductor manufacturing sectors [9]

5. Conclusions

Semiconductor manufacturing is not only the backbone of modern technology but also a critical element of national security and economic strength. As the demand for advanced technologies like AI, 5G, and electric vehicles continues to grow, so too does the need for robust and resilient semiconductor manufacturing capabilities. The United States, despite its leadership in semiconductor design and innovation, has seen its manufacturing capacity decline over the years. The CHIPS Act provides a timely and strategic opportunity to reverse this trend by investing in domestic semiconductor manufacturing and reducing reliance on foreign supply chains.

The high-growth investment scenario, as illustrated in the projections, offers the most promising path forward for the United States. By committing significant resources to advanced packaging and leading-edge semiconductor fabrication, the U.S. can position itself as a global leader in semiconductor manufacturing. This scenario not only meets the rising demand for critical technologies but also strengthens the domestic supply chain, reduces vulnerabilities, and creates high-skilled jobs. The economic and technological benefits of such investments will extend beyond the semiconductor industry, driving innovation across various sectors and ensuring that the U.S. maintains its competitive edge in the global economy.

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