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SPECIAL REPORT: CHINA

A chip of China

Intel CEO Craig Barrett is bullish on the world's largest potential market.

By Eric W. Pfeiffer

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In 1985, Intel set up its first sales office in China. Twelve years later, to take advantage of China's educated but cheap labor force, it built an assembly -and- test facility, which it will expand in the next few years, investing a total of half a billion dollars. When we spoke with Mr. Barrett last August, he was about to leave for Southeast Asia. A few months earlier, he had returned from China.

For five years, Intel has had an assembly -and- test plant in China, but why haven't you set up a plant that manufactures chips there?

One of the major limitations is the export control restrictions imposed by the U.S. government. We only build state-of-the-art factories and the limitations are such that you're not allowed to export to China equipment or process technology that is state of the art.

If those restrictions were to go away, would you build a fab, or are there still problems with intellectual property and politics?

No, the major issue is the export restrictions. If you look at China's infrastructure, it is certainly capable of supporting chip manufacturing. I think about a third of all Chinese university graduates are engineers. That means the country graduates about four times the number of engineers as the U.S. does. There is a physical infrastructure, there is an educational infrastructure, and there is certainly government support for attracting this sort of technology. All the positives are there.

And yet there are some negatives.

Such as?

A number of chip manufacturers have told me they are wary of building fabs in China because they are afraid their intellectual property might get stolen.

Frankly, you have the issue of your competitors ripping off your trade secrets and intellectual property everywhere you operate. All you have to do is an employee go down the street and work for somebody else. I'm not quite sure of the rationale of that argument.

So you approach China the same way you approach other developing countries?

Basically correct. You always want to make sure that you have a basic rule of law for protection of your intellectual property. We have had 15 years of operating history there, and I don't see any substantial barriers from that continuing. I don't have a series of negative impressions about China. I do want to carefully point out, we are also not in the software business. So we are perhaps a little different from some companies.

That sounds quite different from the way many people talk about China. Usha Haley, who is just finishing a book on China, says that more than 50 percent of foreign companies in China aren't profitable because of the competition, because of price cutting.

This is a hell of a time to ask that question. Fewer than 50 percent of the companies in the world are making a profit. If you're in the commodity products business, it is difficult to make a profit wherever you are.

How about the growth of Linux in China? It has been a big growth area. Will Intel make a specific product to sell into this market?

I'm not sure what you mean by the growth of Linux. There's more talk about Linux in China than you have growth. Windows is still pretty profitable in China. We tend to work with everybody who has an operating system to ensure that the operating system is tuned and runs best on our hardware, but we're not specifically promoting Linux by putting in additional instructions.

Look ahead to 2005. Can you put a number on the employees you think you'll have or the number of plants you'll build in China?

No, I wouldn't forecast that for anybody. Even if Jiang Zemin asked me that question, I wouldn't tell him.

Write to Eric W. Pfeiffer.