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## Fish and Chips — American Style

By **Christopher Whalen**

It has long been assumed that manufacturing — especially high-tech manufacturing — has moved away from the United States for good. But a recent decision by IBM proves that such decisions in today’s world are not permanent. Chris Whalen explains.

**Is IBM poised to revolutionize technology manufacturing yet again?**

**E**verybody knows that computer chips are the key building blocks of the information economy. And everybody knows that most chips are manufactured in the Far East.

### A body blow?

Long ago (as these things are measured in the high-tech world), that shift was considered a body blow to the United States. In the mid-1980s, the loss of chip production was thought to be a harbinger of the downward slide of the U.S. economy.

**East Fishkill, New York, is hardly the sort of address one expects for a high-tech manufacturing plant.**

Over time, the world got used to the idea that computer chips came from Korea and Thailand — just as diamonds come from Africa. It seemed almost natural.

Chips are now manufactured in “foundries.” These are factories that are essentially contract manufacturers. Big technology

companies, no matter where their headquarters are located, take their chip designs to the foundries in East Asia to be produced.

But those big Asian factories are now in trouble. Some analysts predict that the capacity utilization of the major Taiwanese chip producers will fall in the near term to about 50%.

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## Enter IBM

Worse, existing chip lines are aging rapidly — and the required investment in buildings and equipment for new product lines is a daunting burden on these companies, especially as sales fall.

Under those circumstances, the latest entry into the foundry business is — surprisingly — the venerable U.S. company IBM. Even more surprising, IBM is locating its factory quite far from the now-traditional locations in the Far East.

## From East Asia to ... East Fishkill?

East Fishkill, New York, is hardly the sort of address one expects for a high-tech manufacturing plant.

But IBM has decided to retain its newest technology for itself — and ended its cooperation with its previous producers from the Far East.

Instead of selling its know-how to such companies — as was the case in the past — IBM is apparently positioning itself to be the technology leader among the world chip foundries. And it is planning to do so through the world's most advanced chip production facility in East Fishkill.

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## Knowledge over all

Now the idea of a U.S. company located in New York competing with highly advanced foundries in Taiwan may seem ludicrous. But therein lies the power of technology.

The plant is all but entirely automated — and its operation depends on the knowledge of a very few, but critical, people who live and work in New York.

With virtually no people involved, the plant is almost like a science project involving processes that cannot be transferred to other manufacturers in bits and pieces as before.

## Knowledge is critical

That makes the knowledge so important that the plant can produce chips more cheaply than Asian plants — despite labor and operating costs that are as much as 30% higher

in East Fishkill.

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**Major Asian chip makers just one year ago were thought to own the global marketplace.**

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Big customers like Cisco Systems have shunned the approaches of the Asian foundries in favor of a chip factory that is located a two-hour drive from Manhattan.

More customers are likely to choose New York — and leave the Asian producers hanging.

## Back to the U.S.A.

IBM's dedication to pure science and technical execution has positioned a U.S. foundry to take market share away from the major Asian chip makers that just one year ago were thought to own the global marketplace. And IBM has the facilities, the people — and the manufacturing competency — to make good on its strategy.

But the revolution inspired by newly invigorated IBM goes further than that. It also makes mincemeat of another long-held truth in the IT sector.

## Two types of companies

It used to be said that there are technology companies — and there are manufacturers. Until recently, everybody assumed that they were very different animals. IBM may be on the way to proving the opposite — by showing the world they know how to turn a science project into a powerful business.

Since the United States is still the undisputed leader in technology design, that must make one wonder.

Just what will happen if the tech companies all follow IBM's lead — and take up the manufacturing challenge? Is the United States about to become the high-tech manufacturing center once again?

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**IBM is positioning itself to be the technology leader among the world chip "foundries."**

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McPherson Square, 927 15th Street, NW, Washington, D.C. 20005