

IAL OVERVIEW OF THE CHINESE MARKET FOR ELECTRONIC CHEMICALS

March 2005

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IAL Consultants is pleased to publish its first dedicated report on the Chinese Electronic Chemicals market, worth about US\$2.2 billion in 2004 and forecast to rise to US\$7.7 billion by 2009.

If China is to achieve its stated aim of accounting for 4% - 5% of global semiconductor chip sales (including chip design, manufacture, encapsulation and testing) by 2010, it has to develop its own electronic chemicals manufacturing base. In doing so China has made major advances in silicon and compound semiconductor wafer manufacturing technology.

Not only will a strong indigenous materials supply base reduce the high costs of imported materials, but it will also help overcome the US "export ban" of politically sensitive materials to China. Significant progress has been made in developing an indigenous manufacturing base for the printed circuit board industry but China will remain strongly dependent on foreign technology for semiconductor chemicals in the foreseeable future.

The Chinese foundry (SMIC) started its first 300mm silicon wafer production in late 2004 in Beijing. However the dominance of Taiwanese foundry technology is such that SMIC had to come to an out-of-court settlement with the Taiwanese foundry TSMC in January 2005. SMIC will make a "9 figure" settlement to TSMC over 5 years and this agreement does not grant SMIC a license to use any of TSMC's trade secrets.

To avoid a similar situation occurring, the Chinese government intends to invest heavily in other areas of semiconductor manufacturing, e.g. LED technology for lighting applications.

Areas of electronics manufacturing targeted for special government support include:

- Integrated-circuit cards
- Digital cameras
- High-definition television
- Mobile communication devices
- Network computers
- Electronic payment systems between banks and tax bureaux

In the PCB market, Chinese manufacturers are moving into the higher-value flexible and flexible-rigid sectors.

In the field of electronic chemicals, China will continue to develop and patent its own technology. However due to escalating development costs it will be selective in the commercialisation of these technologies. One such area is in the field of lead-free solders. Chinese OEMs are expected to implement "local" technology for the Chinese market, leaving foreign manufacturers to implement their own solutions.

CONTENTS

1. Introduction

2. Summary

3. Overview of the Chinese Electronics Industry

4. Chinese Semiconductor Chemical Markets

4.1 Substrates

4.2 Photoresists

4.3 Wet Processing Chemicals

4.4 Semiconductor Gases

4.5 Encapsulants

4.6 Liquid Crystals & Organic Light Emitting Materials

5. Chinese PCB Chemicals Market

5.1 Laminates

5.2 Resists & Photoresists

5.3 Plating & Processing Chemicals

5.4 Adhesives

6. Market Factors

6.1 Economic Constraints

6.2 Environmental Considerations

6.3 Market Opportunities

7. Profiles of Leading Chinese Companies in the Electronic Chemicals Sector

8. Directory of Electronic Chemical Suppliers in China

9. Sources of Information

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