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TECH

IBM Allows Chinese Government to Review Source Code

China has been pressuring U.S. tech companies to hand over source code to prove there are no security risks

IBM is the first major U.S. tech company to comply with Beijing's requests to review source code. Above, IBM's exhibition stand at the computer fair CeBIT, for which China was the partner country, in Hannover, Germany, on March 17, 2015. *PHOTO: EUROPEAN PRESSPHOTO AGENCY*

By **EVA DOU**

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BEIJING— International Business Machines Corp. has agreed to let China review some product source code in a secure room, according to two people briefed on the practice,

making it the first major U.S. tech company to comply with Beijing's recent demands for a stronger hand in foreign technology there.

IBM has begun allowing officials from China's Ministry of Industry and Information Technology to examine proprietary source code—the secret sauce behind its software—in a controlled space without the ability to remove it from the room, the people said. It wasn't clear which products IBM was allowing reviews of or how much time ministry officials can spend looking at the code. The people said the practice was new and implemented recently.

IBM said in a statement Friday that it had established in several countries the capability to conduct limited tests in a controlled IBM environment to reassure clients and others that there was no way for third parties to access its technology.

"Strict procedures are in place within these technology demonstration centers to ensure that no software source code is released, copied or altered in any way," the statement said.

IBM reiterated it didn't give government access to client data or build "back doors" into its technology.

Chinese media reported that IBM Senior Vice President Steve Mills disclosed the source-code sharing in a speech in Beijing Thursday, saying that IBM needed government support to continue its growth in China. Mr. Mills' remarks couldn't be immediately confirmed.

IBM's move could rile the Obama administration and some other U.S. tech firms, which have been trying to present a united front against Beijing's demands for technology sharing. Many U.S. companies are drawn to the massive Chinese information-technology market, which research firm Forrester estimated is worth $136 billion this year. But they worry that allowing access to sensitive material like source codes will put their proprietary information in the hands of Chinese rivals and essentially help future competitors.

IBM has been willing to strike closer partnerships with China's government than many of its fellow U.S. tech companies, people familiar with the company's strategy said.

Still, it isn't clear to what extent IBM's move might be a symbolic gesture. The people briefed on the practice said Chinese officials can look at the code only during visits and can't remove it for a thorough review. In a short amount of time, it would be extremely difficult to comb through all the code for a product for potential "backdoors" that would allow spying on users.

China has been pressuring U.S. tech companies to hand over source code for its products

to prove there are no security risks, after former U.S. security contractor Edward Snowden disclosed in 2013 that the U.S. government tapped into overseas electronic gear to spy on other governments. U.S. tech firms have grappled with a sales chill in China since then.

"U.S. companies have to think of new ways to get back their market share in China," said Nicole Peng, an analyst for research firm Canalys. "That includes letting the authorities check they don't have backdoors."

China has long tried to get access to source code and other sensitive material from foreign tech companies. In 2010, years before Mr. Snowden's disclosures intensified Beijing's efforts, Microsoft said it would share source code for Windows 7 and other products with the Chinese government.

U.S. tech companies are striking more alliances with Chinese counterparts to retain market share. Examples include Hewlett-Packard Co. 's sale of a controlling stake in its China networking gear unit to state-owned Tsinghua Unigroup in May, and Qualcomm Inc. establishing a joint venture in June with Chinese chip foundry Semiconductor Manufacturing International Corp. to help it develop more advanced chips.

IBM said Wednesday it will offer its cloud-computing platform Bluemix in China through a collaboration with 21Vianet Group Inc., a Chinese company that also partners with Microsoft Corp. IBM also co-founded the China Power Technology Alliance with China's technology ministry in 2014 to license IBM technology to more Chinese companies.

But U.S. companies have largely resisted pressure from Beijing to share source code. Disclosing source code would reveal the companies' core intellectual property and raise the risk that Chinese competitors could copy their products. Earlier this year, under pressure from the U.S. government and trade groups, China's banking regulator suspended the implementation of rules that would force Chinese banks' equipment suppliers to open their source code for review.

—Lilian Lin contributed to this article.

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