

# IBM Reaction to New York Times Reporting on Sloppy Study of its China Initiatives

Washington, D.C. (30 October, 2015) — IBM today issued the following response to a paper released by The Defense Group, Inc. and reported by *The New York Times*:

“This misleading study wholly mischaracterizes IBM's initiatives in China. The [OpenPOWER initiative](#) is global and not unique to any one country. All technology provided through the OpenPOWER Foundation is commercially available, general purpose, and does not require a U.S. export license. In addition, all IBM sales and technology licensing agreements comply with U.S. export regulations, and require that partners in any country do so as well.

It is disappointing that *The New York Times* would choose to publish a sensational and erroneous story funded by an anonymous source and without regard to the underlying facts.”

## How the report gets it wrong

**The report fails to mention that many of the activities it cites have been thoroughly vetted by the U.S. Government.**

- All IBM technology partnerships are reviewed against the U.S. Government's lists of restricted end-users and activities, including military end-users and proliferation screening. Additionally, our agreements mandate that all partner companies also comply with U.S. export control regulations, including restrictions on military end use.
- The report states “IBM's strategy has even extended to the sale of whole product lines to Chinese firms, including its low-end x86 servers to Lenovo in October 2014.” What it neglects to say is that the sale of this commoditized product area was cleared by The Committee on Foreign Investment in the U.S. (CFIUS) after a thorough national security review.
- The report describes a microprocessor developed by a Chinese partner that licenses IBM technology. What it neglects to say is that multiple U.S. Government agencies were briefed on that effort last year, and IBM demonstrated that the technology being shared did not rise to the level of technology that would require a U.S. Government export license.
- The report states the sale to Lenovo has resulted in the U.S. Navy having to find new sources for procuring servers for its Aegis Combat System. What it neglects to say is those servers are x86 servers, not POWER servers, and that there are a number of alternate suppliers to meet the Navy's needs. Again, the sale to Lenovo underwent careful CFIUS review for national security implications and was cleared by all agencies, including the Department of Defense.
- Two of the software products mentioned in the report — IBM WebSphere MQ and IBM WebSphere Liberty — have been approved by the U.S. Government for export to any commercial customer in non-embargoed countries. Chinese use of another referenced software product — IBM Informix — complies with all U.S. export regulations

**The report attempts to cobble together unrelated details and hollow insinuations in an effort to prompt U.S. national security and economic concerns.**

- The report dramatically cites “deep and troubling ties” — inferring malicious activities simply because organizations IBM does business with in China sell products to various government organizations. What this oversimplified allegation fails to take into account is that all OpenPOWER participants have the same access to the same basic technology, no matter their country, and that OpenPOWER and IBM’s other sales and licensing efforts in China operate in full adherence with U.S. Government export control policy.
- Throughout, the report infers that IBM is transferring its latest technology to China. The facts are that the OpenPOWER technology available to China is the same technology available to other IBM partners around the world and does not rise to the level of requiring an export license to China. Other IBM software and intellectual property provided to China complies with all U.S. export regulations.
- The report states that the transfer of technology to China enhances the Chinese military’s technology capabilities. What it neglects to say is the technology in the OpenPOWER Foundation is all commercially available, general purpose and, again, does not require a U.S. export license. In addition, agreements concerning intellectual property and software licensed directly by IBM to its Chinese partners require those partners to comply with U.S. export regulations, including restrictions on end users and military end-use.
- The report states that IBM has raised the possibility of helping Chinese clients develop indigenous encryption for the IBM z13 mainframe. IBM z13 cryptography does not involve a transfer of encryption software by IBM to anyone — rather it provides the z13 the capability of inter-operating with third-party devices independently performing encryption functions.
- The report insinuates a relationship between IBM and Shen Changxiang, whom it describes as having close relationships with various Chinese government organizations. As far as we have been able to determine, we were present at a conference sponsored by a third party during which Mr. Shen spoke. IBM has no other relationship with Mr. Shen.
- The report claims IBM has transferred core intellectual property, source code and usage rights to Chinese organizations. In reality, IBM has licensed elements of POWER8 chip design, explicitly excluding encryption technology, floating point technology/know-how and some connectivity elements in compliance with U.S. export regulations. It also has licensed certain software products, such as IBM Informix, IBM WebSphere MQ and IBM WebSphere Liberty, again, all in compliance with U.S. export regulations.
- The report intimates that the transfer of technology by a U.S. company to China results in dire negative consequences. In fact, companies have long made their proprietary technologies available as a means to stimulate market acceptance, create standards or otherwise push the market forward. The prime example for this is the decades-old practice of open sourcing software. In fact, increased information technology security implementations are becoming more and more dependent on openness—unless there is transparency a client is not sure what it is getting or if there are viruses or monitoring elements in the code.

**Establishing technology partnerships is not a new concept in today’s information technology industry. It is well established and recognized around the world as a**

**sound market strategy and a way to promote innovation. China is no exception and IBM is not alone in establishing partnerships there. The sole focus of the report on IBM raises questions as to its sponsor and its objectives. To cite just a few examples of activity in China by other U.S. companies:**

- The recent announcement by Cisco that it is investing \$10 billion in China overall and \$50 million in an alliance with Inspur.
- The establishment of a subsidiary by Microsoft — Microsoft Open Tech Shanghai — which the company said will “...participate in existing open source and open standards efforts, and collaborate with the community of open source developers in China.”
- The investment by Intel of \$1.5 billion for a 20 percent stake in Tsinghua Unigroup, which runs Chinese mobile chip manufacturers Spreadtrum Communications and RDA Microelectronics. The report notes that Tsinghua Unigroup is part of the Tsinghua University family of companies with alleged strong ties to the People's Liberation Army and other government organizations.
- Intel also has launched a strategic research and development alliance with China's Huawei Technologies Co. Ltd. to focus on server, storage, data center and cloud technologies. Intel has created what it calls the China Technique Ecosystem project to team up with several other Shenzhen vendors.
- In August, Intel hosted the Intel China-U.S. Innovation Summit in San Francisco attended by representatives of both U.S. and Chinese businesses to discuss its strategies and activities in China.
- Intel has put almost \$70 million into eight Chinese start-ups in areas ranging from the Internet of Things to Big Data and transportation. Intel recently was quoted as saying these “investments demonstrate Intel's commitment to fostering Chinese technology innovation and accelerating China's technology ecosystem development.”
- Oracle has said it is in discussions to partner with a number of Chinese companies on a data center to support cloud services in China, which it claims will represent a big business for the company.
- Dell has said it will invest \$125 billion in China over the next 5 years. CEO Michael Dell said “Dell will embrace the principle of ‘In China, for China’ and closely integrate Dell China strategies with national policies in order to support Chinese technological innovation, economic development and industrial transformation.”

**The report speculates that the delivery of IBM chip and server technology will somehow allow the Chinese to close what the authors see as a computing gap with the rest of the world.**

- The Chinese have long worked with a multitude of outside partners to push the development of information technology throughout their economy.
- The dominant supplier of high performance processors to China today is Intel, which provides the processors for 82 percent of the world's TOP500 systems.
- China currently boasts the fastest supercomputer in the world — using readily available Intel chips.
- If one looks at the TOP500 list for the fastest supercomputers in the world, China has 37. Thirty-three of those utilize Intel or AMD, not IBM, microprocessor technology.

- The report states the POWER8 chip is an advanced technology “leaps and bounds” ahead of what China currently is able to develop. In reality, POWER8 indeed represents advanced technology, but China only receives the portions of that technology available to it under U.S. export regulation thresholds, which, as a general matter, limit the performance of that technology behind that currently in production in the U.S. or other countries.
- The embrace of OpenPOWER by Chinese firms and institutions does not in any way restrict others from using IBM's POWER technology, nor does it mean that IBM will stop innovating its POWER technology separately and independently from anything the Chinese might do.
- IBM’s OpenPOWER strategy is similar to the ARM instruction set development model, which has been around for many years and in which numerous Chinese companies participate, resulting in worldwide innovation in smart phones, laptops, tablet and notepad computers. Under that model, ARM Holdings in the UK develops advanced intellectual property for microprocessors, then provides that intellectual property and electronic design automation (EDA) tool sets to help companies worldwide build state-of-the-art microprocessors.
- The POWER8 is a 22nm microprocessor.