



# Drexel Hamilton

A Service-Disabled Veteran Owned & Operated Business

## Outside the Wire

### U.S. National Security Unfriends Chinese Social Media

Who would have thought that the popular TikTok app that allows users to make short, silly videos would become a foreign policy flashpoint? The United States has decided to unlike and unfollow the Chinese on this platform. The U.S. has also put WeChat, owned by Chinese-based Tencent, in the crosshairs. However, several recent federal court injunctions have prevented both apps from being banned for now.

While the last few years have seen U.S.-China escalations rise primarily through tit for tat tariffs, the Trump Administration has broadened its strategy. In May, the White House published the [\*Strategic Approach to the People's Republic of China\*](#). The publication of the document effectively declared a new Cold War. It cited several of the administration's early documents including the 2017 [\*National Security Strategy\*](#). The key takeaway is that the Administration is leveraging U.S. power to check China's continued growth and influence. There are four major areas of focus: Protecting the American homeland, and way of life; Promoting American prosperity; preserving peace through strength; and advancing American influence.

With respect to protecting the American homeland, the attempted ban on the social media apps has become the latest salvo. To summarize the TikTok case, the Trump Administration is attempting to force TikTok parent company, ByteDance Ltd., to sell its U.S. operations. It has done so by threatening to cut the app off from service in the U.S. citing national security concerns. In response, several U.S. companies submitted bids to buy TikTok's U.S. operations. Oracle and Wal-Mart's bid is under review and subject to U.S. government approval. While the ban has temporarily been blocked by a federal court injunction, deal talks remain in place with a Nov. 12 deadline for the sale.

U.S. actions against China have often been done to hold the cards in future negotiations as we saw with U.S. imposed tariffs. But the TikTok and WeChat cases appear less about negotiating tactics. Indeed, the action toward TikTok and WeChat fits within the first pillar of the *Strategic Approach* which is to protect the American homeland. The U.S. government has concerns about the ability of the Chinese Communist Party to access data on millions of American citizens.

In the near term, China may look at ways to retaliate. However, it is hard to determine on what front directly. America's most prominent social media companies- Facebook, Twitter, Instagram, and Snapchat- are banned in China due to the Chinese Communist Parties' censorship.

On the other hand, there has been a trend of U.S. listed Chinese companies either de-listing from U.S. exchanges, being taken private, or doing secondary offerings on overseas exchanges. Over the last week, we have seen U.S. listed Sogou Inc., a Chinese web search firm, being taken private by Tencent Holdings for \$3.5 billion. This comes after U.S. listed Sina Corp, a Beijing-based Internet company, also agreed to go private.

The trend seems likely to continue due in part to increased regulatory scrutiny, but also as U.S. actions towards companies like TikTok and WeChat signal a further "decoupling" between the world's two largest economies. With deals like Sina and Sogou, Chinese media lauds these companies for "returning home." Thus, the response could be less overt in terms of Chinese state action and rather accelerate activity of Chinese capital markets notably in Shanghai and Hong Kong.

Nevertheless, the U.S. IPO pipeline does remain dotted with Chinese companies coming to market including this week's \$500M IPO of Chindata Group Holdings (NASDAQ: CD). With this deal specifically, Chindata is a datacenter company. Their operations are based primarily in China. However, they are building data centers in other parts of Southeast Asia to include India. The U.S. has worked to strengthen its alliance with India. Meanwhile, the Chinese and Indians have had several conflicts this summer. One of these standoffs between Chinese and Indian soldiers at the Himalayan border resulted in multiple Indian soldiers being killed.

Important consideration needs to be given for China's operations either in the U.S. or U.S. allied countries. Will the U.S. work with allies to force sales of Chinese assets? These are not unrealistic considerations. If we take seriously the stated objectives of the *Strategic Approach to the PRC*, then nothing is off the table with respect to China. We understand that the U.S. will work on all fronts to curb and check Chinese influence not only at home but also in the Indo-Pacific with our allied partners. Banning Chinese business operations like WeChat and forcing a sale of the U.S. component of TikTok begins to set a precedent for future actions for the U.S. and its allies.

### **Outside the Wire: Military Actions**

#### ***U.S. Completes Indo-Pacific Joint Training Exercise, China responds***

On September 25, the United States concluded a massive biennial joint exercise called exercise Valiant Shield 2020. The exercise involved 11,000 personnel across the U.S. Navy, Air Force, Army, and Marine Corps.

It included the Ronald Reagan Carrier Strike Group under the flagship USS *Ronald Reagan* (CVN-76) and amphibious assault ship, USS *America* (LHA-6) among others.

As veterans, we recognize the importance of training between different services. Each branch of the military is unique and has its own set of processes and procedures. Thus, these exercises are important to synchronize U.S. military branches. Also, it is a chance to test new doctrines and protocol. Finally, massive training exercises are a show of strength and an important strategic signal to our allies and geopolitical adversaries.

Valiant Shield did not go without notice. During this time, China deployed its only two aircraft carriers- *Liaoning* and *Shandong*. They went underway together for the first time, which was reported as a milestone since the *Shandong* came into service in December 2019.