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The TikTok Hearing, China and Russia, and the CCP's Campaign to Isolate Taiwan

China Insider #16

TRANSCRIPT

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Wilson Shirley:

Hello and welcome back to the China Insider, a podcast from the China Center at Hudson Institute.

It's Tuesday, March 28th, and we have three topics to discuss this week. The first is the hearing last week in front of the House Energy and Commerce Committee featuring TikTok CEO, Shou Zi Chew, talking about the app and concerns about security and its effects on children. The second topic is China's diplomatic moves around the world to isolate Taiwan in the context of Honduras's recent decision to switch relations to the PRC over the Republic of China. And then the third topic we'll go into is the growing relationship between Xi Jinping and Vladimir Putin after last week's summit in Moscow, and how Western countries and democracies are moving to counter that Eurasian block. All right, Miles, how are you doing?

Miles Yu:

I'm good, Wilson.

Wilson Shirley:

So, first on the docket today, we have the hearing last week that everyone was talking about, which happened on Thursday, when TikTok CEO Shou Zi Chew was in front of the House Energy and Commerce Committee. And Miles, the reviews of his performance were not very good. I'm going to give you just one line from Punchbowl News that said, "Chew had a very, very rough time as a witness. He wouldn't acknowledge that the Chinese government persecutes Uyghurs, Chew wouldn't answer if the Chinese government could access the data of TikTok's users. And there are over 150 million TikTok users in the United States, mostly young people." So, Miles, how did the hearing go?

Miles Yu:

I mean, the hearings are hard for anybody to chew. You know, it's painful to watch because this CEO from China is put in an unwinnable situation. I mean, you cannot really in open forum like this to defend the way Chinese government runs and controls a business like TikTok, right? So, if I may, this is just, it is just the tick of the iceberg, if you will, because it is not just one particular app. It really deals with a much larger issue. That is, are any Chinese companies able to say no to the Chinese government? The answer is no. If you are a Chinese company, [you] will register. You have a business in China, the Chinese government will force you to comply with their law. And so, you are bound to grant access to the Chinese Communist Party, and particularly it's the intelligence operations and security organizations. It says in the law. So, this is a problem. That's why Mr. Chew could not really perform very well.

Wilson Shirley:

And that's the 2017 national security law.

Miles Yu:

Even without, yes. Even without that law, the Chinese government can and has exerted effective control of all major companies it deems necessary to intervene.

Wilson Shirley:

So, what you're talking about right now is a concern largely about structure, the structure of TikTok, how it is governed in its relationship to the CCP, which was also a major concern shared by the congressman who were asking the CEO questions. So, I want to read a couple of the questions that get to that concern. So Representative Neal Dunn, a Republican from Florida, asked whether ByteDance, which is TikTok's parent, has spied on American citizens and Chew's response was, "I don't think that spying is the right way to describe it," which is not really an encouraging answer. Another one from Congressman Pfluger was, "do you disagree with FBI Director Wray and NSA Director Nakasone when they said that 'the CCP could have the ability to manipulate data and send it from the United States'" and TikTok CEO Shou Zi Chew said, "no, I don't disagree." So, get into a little bit more about how this actually works. What is the relationship between the CCP, ByteDance, and then the subsidiary TikTok?

Miles Yu:

Okay, so TikTok is basically the American version, overseas version of ByteDance. ByteDance, as you say, is the current parent company [and] is basically in Beijing. So, the CCP actually has instructed TikTok to masquerade as a company based in United States. But that's actually very false because TikTok has tried its best to assure the American government, particularly FTC, saying that all our servers are now outside of China, therefore it's safe. That's a very disingenuous because it's not whether you stop your servers, it's who has access to it. The Chinese government, from China, can easily access the servers of TikTok that are based out of China. So, it still doesn't have solve problem. By the way, TikTok has been fined by FTC severely. I think about a couple years ago it was fined something like close to \$6 million for all kinds of violations.

Secondly, the Chinese government recently is short of money. So, they have gone after big companies like Alibaba, like ByteDance for money and for control, precisely because of the very sensitive nature of companies like Alibaba, like ByteDance. So, they have almost a hundred percent control already. In the case of TikTok, for example, ByteDance was the owner and founder was a guy by the name of Zhang Yiming. In December of last year, 2022, all of a sudden the ownership of ByteDance mysteriously changed hands in a very, very dramatic way. That is the owner and its founder was totally out of it, very much like the way Jack Ma was forced out of the ownership structure of Alibaba. So, there is one tiny company that is registered in the Chinese southern city of Xiamen, and that has only about 1 million Chinese yuan investment in the company of ByteDance, but that company owns about 98% of the whole company. And that company is a primary investor, it is Chinese government owned entities. The Chinese government entity in that company actually in theory is something is only about 1% ownership, but that 1% is called special management stock.

Wilson Shirley:

Is that the same thing as a golden share?

Miles Yu:

That's right, golden share. In Chinese it's called special management stock. That stock has complete veto power. And its kind of scheme is very clever and convoluted, but in the end the reality is the Chinese government controls not only how the companies, companies like TikTok

or ByteDance operate, but also they actually own you. So that's the problem. And I think the Congress asks some tough questions and I don't think that Mr. Chew really could come up with any answer other than just to imply defeat and surrender because there's no other way to answer the questions. You cannot even say whether China has committed genocide in Uyghur area in Xinjiang, not just the old hearing shoot.

Wilson Shirley:

They didn't ask him to say, "is there genocide," they asked, "is there repression?" And he couldn't even say repression in Xinjiang. But I want to talk a little bit about Mr. Chew himself because while I was watching it, it was hard for me to really get a picture of how much control he actually has. You just described a really complicated ownership structure that eventually ends with the CCP, but Mr. Chew, he is the CEO in name, at least. A little over a decade ago, he was an intern at Facebook, he went to Stanford Business School, he's from Singapore. When he was in front of the Committee and you were watching him testify, did you think this is the man who's calling the shots or is he extremely limited and kind of a figurehead?

Miles Yu:

Figurehead is a very good word to describe his position. I have no doubt that's the case. I mean, any company that is legally bound to comply with the Chinese government's demand should not have any license to operate in the United States. And I can tell you virtually every company of any significance out of China is in that category.

Wilson Shirley:

So, let's talk a little bit about what that means. What you just hinted at is sort of a next step. Where do we go from here? And the morning of the hearing, there was kind of a bombshell announcement from China. They basically said, we will not allow the sale of TikTok, a kind of technology export control. And the spokesperson for the Chinese Ministry of Commerce warned that forcing the sale of TikTok would seriously damage the confidence of investors from all over the world, including China, to invest in the United States. So, it looks like a sale is off the table. During the Trump administration there was an attempt to ban it, but the courts got in the way of that. Now in the Senate there's the Restrict Act, which is a bill by Mark Warner and John Thune. Where do you see this going from here?

Miles Yu:

I think the Chinese government is bluffing because the argument is bogus as well. If China really cares about the investment environment in the United States, this is precisely the measure that Congress should take that is to guarantee a very fair, safe investment environment in the United States to prevent companies like TikTok, which is controlled by the Chinese government, from gaining even further influence in America, on American soil. So that's why if we ban TikTok and WeChat, and I think the investment environment will improve.

Wilson Shirley:

And the United States, it's important to point out, would not be the first country to ban TikTok. India banned TikTok in 2020. Taiwan has a ban on TikTok on public devices. Canada has a

similar ban. The European Parliament has a similar ban. So, do you see this as kind of a global movement against TikTok and is that part of kind of a wider version of splitting the internet, which has been called a “splinternet” portmanteau? Do you think that's where we're going from here

Miles Yu:

Facing the world is the problem of not just one particular company, Huawei, Alibaba, TikTok, ByteDance. It's the whole issue of government-business relationship in China. And unless we address the issue systematically and comprehensively, you might have another TikTok, you might have another Huawei issue. So, because China has gained tremendously and has exploited the international free trade system and enriched and empowered itself over several decades, and I think it is now high time for the world to think about the mistake we made in the past to reconsider whether it is fair, whether it is healthy to allow a non-market entity like China to fully benefit from the international free trade system. And that is the major question that we should consider. And the only place that this kind of change can be made from beginning I think is legislatures like the US Congress. That's why I think Congress having hearings like this is very helpful. It's not just educational to the public, but also it clarifies the stake we have in allowing this continuation of this massive exploitation of a free trade system by a sovereign state like China.

Wilson Shirley:

Sure. So, China is also pushing not only technologically but also diplomatically to kind of split the world in at least two blocks. And we saw another example of that last week, which is our next topic, where the Honduran Foreign Minister, Eduardo Reina, went to Beijing to promote efforts for the reestablishment of diplomatic relations between Honduras and the PRC. So, for people who weren't aware before this Taiwan, the Republic of China, had diplomatic relations with 14 countries, Honduras among them, a lot of them are in Latin America and Central America. And over the decades, Beijing has been slowly chipping away at that diplomatic, at that diplomatic recognition to the point now where they likely just got Honduras. So, talk about what that means and the wider campaign to isolate Taiwan.

Miles Yu:

I mean, my view is that the number of countries that recognize Taiwan is important, but it's not really that the most important thing. The most important thing is Taiwan has gained international trust, has gained international support. Taiwan has government representations in over 70 countries in the world. If you look at the global support index, and China has becoming near-pariah state on issues of war, on issue of trade, on issue of governance, transparency, Taiwan is leading. And Taiwan has a gained economic miracle in recent decades. I mean last year, GDP per capita of Taiwan has surpassed that of Japan and South Korea. I mean it's just remarkable. It's a number one in East Asia. So, just look at the value of the Taiwanese passport and the Chinese passport and you do a comparison. You will see which one is more powerful, has more inspirational power.

Taiwan is recognized, has like a visa-free agreements with over 150 some countries. China has no more than like 20, right? It's even fewer than that. So, it is a very, very interesting to see how this kind of situation is developing. That's why I think some very important American politicians,

most prominently former Secretary of State Mike Pompeo, have called on the United States to recognize the reality. The reality is that Taiwan deserves our diplomatic recognition. That doesn't necessarily mean we would not recognize China. We'll continue to recognize China, but you cannot ignore 23 million free, democracy-loving people in Taiwan.

Wilson Shirley:

23 million people who even though it's one small island, it's the United States, as you pointed out, our ninth largest trading partner in terms of goods around the world, which is pretty stunning.

Miles Yu:

I think, Wilson, I hate to correct you because you are always right most of the time. Taiwan actually is number eight in terms of trade.

Wilson Shirley:

Number eight.

Miles Yu:

Yeah.

Wilson Shirley:

Okay.

Miles Yu:

China is number three. Our number one trade partner is Canada. Number two is Mexico. Number three is China. And number eight is Taiwan. Not only in terms of volume, but also quality. Taiwan commands some of the most critical components of global economic machine, right? So like chips, for example.

Wilson Shirley:

You're talking about TSMC, the Taiwan semiconductor company.

Miles Yu:

That is just one side of that. Taiwan also has the first-rate business, managerial talent pool. So, Taiwan is an amazing powerful country despite its size. Small countries, you know, can make a big presence in global affairs. Look at Ireland, look at Israel, and Taiwan is another example. It's a shining beacon of freedom, democracy, and an economic miracle in the world. The reason Honduras is switching diplomatic recognition from Taiwan to mainland China is purely opportunistic. It's basically almost like blackmailing because Honduras asked Taiwan to give \$2.5 billion in aid. Taiwanese government say, "no, we can't do that." This is like a, you know, this is almost like a bribe. So, Honduras say, "if you don't give [it to] me, I go to China." So, Honduras asked China for over \$6 billion in aid. China said, "okay." So, this is basically

reported, it is not confirmed, but this is definitely the deal, particularly on communication between Honduras and Taipei.

Wilson Shirley:

Yeah, I think, thank you for bringing up the money point because the foreign minister of Honduras actually did acknowledge that in one of his own statements when he said, "Honduras is up to its neck in financial challenges and debt," including, apparently, it owes \$600 million to Taiwan. The CCP obviously said that that is not the case, but there's obviously more to the story as well. So, to finish up on our last topic for the week Miles, which is the fallout from the summit last week, a three-day summit between Vladimir Putin and Xi Jinping, everyone was watching Moscow to see what was happening. The two reached an agreement on a pipeline in Siberia. They expressed concern about NATO's presence in Asia, including things that you've talked about in this podcast, cooperation with places like Japan and South Korea. Really importantly though, they also signed two joint documents. One was about economic cooperation and then the other was a 9-point plan about deepening Russia and China's partnership. So, I haven't been able to find an English translation of the plan yet, but tell us a little bit about what was in it and what it means.

Miles Yu:

Well, Xi Jinping went to Moscow disguised as the peacemaker for Ukraine with his 12-point peace plan for Ukraine. The world has seen that it has a lack of total credibility and honesty. So didn't buy it. Even Vladimir Putin thought Xi Jinping was so naive that this will be really accepted by Ukraine. Xi Jinping probably sort of lost face in that regard because if you look at the two concluding documents you mentioned earlier, Ukraine features very little, if anything at all. So, the whole trip is far less about Ukraine than about solidifying Russia-China unity against the West. So, China has been most gung-ho about challenging the United States front and center. Moscow has been going back and forth, back and forth until the Ukraine war, and so Russia is absolutely anti-US and anti-NATO. So, Xi Jinping saw the opportunity and then went over there and say, "listen, let's have a united front."

But we should always remember that the China and Russia have signed a whole bunch of agreements in the past, economic, political, or otherwise. For the last, in the last 20 some years, none of it has really amounted to anything. For example, about nine years ago, China and Russia signed a \$400 billion gas deal. That's the largest ever known to mankind, to that point. It really didn't go very well because China has reneged its obligation and promises to pay some of the down payment to build this gas pipeline in Russia, in Siberia. And China obviously has formed some regional alliance, most prominently Shanghai Corporation Organization that includes Russia. But Russia has felt very uncomfortable because China has suddenly become the dominant figure in that organization and Russia has suddenly become a junior partner. So yes, they have a united front against the West, against the United States in particular, but they also have clash of ambitions and I think, you know, we'll see how these agreements will pan out. My doubt, my sense is that probably [it] has 50/50 chance of coming to its fruition.

Wilson Shirley:

How important do you think the personal relationship between Xi Jinping and Vladimir Putin is to this partnership going forward?

Miles Yu:

I think Xi Jinping is a very eager person to have Russia as a strategic partner. Putin has been playing hard to get and very coil. Putin wants to play balanced diplomacy in Asia. He knows that if he gets too close and exclusive with Xi Jinping, and he will definitely alienate some of the traditional friends like Vietnam and India, where Russia has a huge market in terms of arm sales and energy export. And also, Russia would like to have some kind of a better relationship with Japan despite its consistent missteps because Prime Minister Abe and Vladimir Putin came really close to solving some of the Northern Territory issues. Had there not been the annexation of Crimea in 2014, that problem probably would've been solved, and you will see a much better Japan Russia relationship. Keep in mind, Vladimir Putin fancies himself as a Japan expert. He's a judo expert. He would admire Japanese culture.

Wilson Shirley:

Yes, he cried at the funeral of his judo instructor a couple years ago.

Miles Yu:

That's right. So, there is a kind of personal affinity for the Japanese as well.

Wilson Shirley:

That's actually really interesting and I'm glad you brought it up because last week also we've talked about all these visits. Japanese Prime Minister Kishida visited Kyiv as well. So, is this war in Ukraine jeopardizing that relationship with Japan too? Japan has rearmed or is rearming right now. The Prime Minister, as I just said, went to Kyiv. So, it seems like what you just talked about isn't going to happen, that relationship isn't coming back.

Miles Yu:

I should make it clear that I don't think after 2014 there was any meaningful significant improvement between Russia and Japan. Because Japan, after the Crimea annexation, joined the West resolutely sanctioning Russia for its aggression and illegal annexation of Crimea. So that's not the issue. The issue is that there are opportunities there to improve Russia-Japan relationship had Russia not been acting so aggressively and irresponsibly. So, you mentioned about Prime Minister Kishida's visit to Kyiv. It's actually very important because of [the] China threat and because of [the] Russia threat, Japan has decided to play an international role in promoting global security. Japan doesn't want to be just a regional power. Japan wants to be a global leader in global peace, and Prime Minister Kishida has announced a very ambitious and comprehensive defense rebuild plan, and Japan is going to spend somewhere in the neighborhood of \$330 billion by 2027.

Japan has already fundamentally changed its defense posturing from purely defensive to developing a significant counter strike, preemptive offensive capabilities. That actually is pretty amazing. Japan has significantly closed gaps between itself and NATO. NATO has extended open arms for Japanese initiative. So well, Japan holds the presidency of the G7 this year. It's going to have a very big meeting in Hiroshima, I believe in later spring. And so, Prime Minister Kishida went to Kyiv as the president of this year's G7. So, it's an expression of international will and international support. So, that's why it also cast a sharp contrast to the hobnobbing in

Moscow between Xi Jinping and Putin. So, the world, you're right here, the line has been drawn in the sand.

Wilson Shirley (24:16):

Sure. And I want to finish on that line drawn in the sand really quickly because there was a statement out of the foreign ministry of China this past week that reminded the world that Xi Jinping has talked a lot about what he calls “a community of common destiny for mankind.” And that remark comes from a speech that he gave 10 years ago in Moscow. So right after the visit, the foreign ministry reminded that that was the global ambition that he laid out then. So, I want to close off on if there is this coordination between the North Atlantic and the Indo-Pacific through mechanisms like NATO and the G7, what kind of Eurasian cooperation are you going to be looking towards between Russia and China going forward? If it is as precarious as we've seen over the last few months.

Miles Yu:

I mean the coming together of Russia and China in terms of economic and also security and global strategic outlook has actually meant a lot to the global defense. That is the NATO model of collective defense and the Asia-Pacific alliance model of bilateral mutual defense system. They're coming together, and I envision in the near future there will be some kind of convergence organizationally between these two alliance systems, NATO and America's alliance system in Asia. So, I've been saying this should be something called North Atlantic Indo-Pacific Treaty Organization, NAITO. People say I'm, that's too grandiose. It's a dream. Hey, listen, I've been accused of being a dreamer many times, and sometimes the dream may come true.

Wilson Shirley (25:59):

And you're not the only one Miles. On that note, thank you so much for another great episode. It's always good to talk to you and I'll see you again next week.

Miles Yu:

Thank you, Wilson.

Wilson Shirley:

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