



COVID-19's Toll in China, Beijing's Charm Offensive at Davos, and the Real Power Behind Chinese Tech Companies

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TRANSCRIPT

Miles Yu, *Senior Fellow and Director, China Center, Hudson Institute*

Wilson Shirley, *Media Fellow, Hudson Institute*

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Wilson Shirley:

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

I'm Wilson Shirley Media fellow here at Hudson, and I'm joined by Miles Yu, the Center's director. It's Tuesday, January 24th. And before we get to our topics for today, I just wanted to say thank you to everyone who's made the first few episodes of China Insider such a success. This is a lot of fun for Miles and me, and we hope that it's also something that you're learning from and engaging with. And speaking of engagement, we would really appreciate it if you could rate and review the podcast. As you know from all of the other podcasts you listen to. I'm sure it really helps with visibility it draws in new listeners with right now in the early stages we're trying to do so please Raden review Miles and I would be very, very grateful for that. And also, for any feedback you have, feel free to leave it in the reviews.

With that said we have three big topics for today. The first, as Covid continues to go through China, that China's CDC, Chief epidemiologist says that 80% of Chinese people have been infected with Covid 19 over the last couple of weeks. We'll talk about what that means. Then we will go through China's New Year's charm offensive, including the Vice Premier's recent speech at Davos where he said that he was confident about China's economic growth in 2023, mostly to an audience of investors. And then we'll finish up with a conversation about Chinese social media, TikTok and the ownership structure of the company that owns it, byte Dance. Miles Happy lunar New Year.

Dr. Miles Yu:

Same to you.

Wilson Shirley:

What do you say in China for happy lunar New Year? Is there a greeting?

Dr. Miles Yu:

It varies in region to region and also depends on what kind of political sensibilities you might have. So, some people say that (inaudible) could also be used for the Happy New Year that starts in January. But also, traditional greeting will be [inaudible] We should get rich.

Wilson Shirley:

Okay, well, I hope that happens in the year of the rabbit for both of us. But the Chinese Lunar New Year means a lot, including that it is the largest annual migration for human beings in the world. Every year, there's a stat out that the Chinese Department of Transportation expects there to be 2.1 billion trips throughout China, which means that a lot of people are talking about how Covid is going to spread over the next week or so during lunar New Year's celebrations. And there's a stat that's come out of China recently that raised a lot of eyebrows last week. We talked about how the CCP has been manipulating Covid stats for a while, COVID deaths were in the single digits. Then there was a lot of pushback. People said, that's impossible. And China said there were 60,000 covid deaths. The latest really remarkable statistic comes out of the

CDC in China's chief epidemiologist who said last week that 80% of Chinese people have been infected with covid over the last couple of months. So, what do you make of that statistic?

Dr. Miles Yu:

Okay, so this is very remarkable because the Chinese CDCs chief epidemiologist fellow by the name of (inaudible), and he said the other day 80% of Chinese population have been infected with Covid since December. Yeah. Now in little over a month, you have 1.1 billion people that is 80% over 1.4 billion Chinese are being infected with covid. Now you think about this. This is a very political number because Mr. Wu never bothered to elaborate about the death rate of this 80% 1.1 billion infected cases. Yeah. Now we have three variants of covid in China throughout the world. Delta is most lethal. Death rate is about 0.7%. There are two omicron variants in China, one with a slightly higher mortality rate that is about 0.4%. The one with the least mortality is 0.3% of mortality rate. Now, if you do even the most benign, the one with the least mortality rate, 80% of China's infected population would mean minimum at least 3.3 million deaths.

That's more than three times bigger than the death row in the United States. And in China's calculation of Covid death is also very, very funny and manipulative. Now, why would a Chinese government official would come out to admit this? I believe it has something to do with the timing that is, as you mentioned earlier, this is the biggest holiday in China. So, you got like, yeah, hundreds of millions people want to go home to have New Year. If the Chinese government say nobody travel because of the situation so bad, and then that will be a political time bomb because you have hundreds of millions people frustrated, cannot go home. So, Chinese calculated this political risk. Now, if the government say, okay, overwhelming, majority of you have already been infected. So okay, just go home. Yeah. This is a calculated decision to come out to admit this number.

Wilson Shirley:

And you talk about people going home, that migration, a lot of the time it happens, people moving from the cities where they work back to the countryside, where they're from, where their families are. And a lot of the play over the last couple of weeks has been that the cities may have reached their peak places like Beijing or Shanghai, but the countryside hadn't yet reached the peak. So, people who had been infected or are currently infected in the cities going to the countryside will spread it to people who hadn't yet been infected. Does that urban rural divide play into this at all?

Dr. Miles Yu:

Yes, we have had some very grim pictures and reports about the covid impact on the rural area, which basically is not reported. And the rural area, because of the medical and healthcare facilities are so lacking and because they were far away from the political center and spotlight. So therefore, the situation must be very, very grim. Chinese government is not a responsible government. Everything is based upon; every decision is made based upon how it will affect the ruling of the regime and monopoly of the power.

Wilson Shirley:

And the healthcare infrastructure in rural areas is not as good as urban areas. Also, I think that because the urban areas are so much more wealthy, those are the people who can afford drugs. Is PAX LiFi still allowed in China or is it not covered by the National Insurance scheme?

Dr. Miles Yu:

It depends. I think it's a highly coveted, it's the most coveted medicine. Not only that, I mean because one of the major symptoms of covid is high fever, so therefore fever reduction medicines like a Baer, ibuprofen, they become very, very expensive in China.

Wilson Shirley:

So a lot of the conversation about the 80% number has been how it, how you alluded to a second ago, if 80% of Chinese people have already been infected, then fine, they can go into the countryside. They have immunity through whatever vaccines they've had and through being exposed to the virus. But also there's a conversation that if 80% of people have been infected, there's not going to be a second or third wave in China. So that's sort of gets to the political nature of it as well. Do you think that's part of what's going into the CCP's calculus in terms of spreading numbers? Like 80% have been infected.

Dr. Miles Yu:

Again, the 80% number, even that number is we don't know on what basis it was calculated. So, it took the West to almost 40 years to discover this horrendous death toll of close to 45 million death during the great famine of late 1950s, 1960s. So, history will tell.

Wilson Shirley:

How many people were infected and died. Yeah, I think it's pretty clear that Beijing wants to move beyond COVID. And that gets into our second topic which is China's new year charm offensive. There have been a few different meetings that have suggested that the CCP is kind of softening its tone a little bit. So, you had Xi Jinping and President Biden met at the G20 summit. We have the top spokesperson for the foreign ministry, Xiao Li Zhan, who has been moved over to a different bureau, kind of a lateral mover, a demotion. We've had some shuffling at the foreign ministry as well. But the most interesting recent one happened in our favorite Swiss mountain village Davos, where the vice premiere of China, (inaudible), who I think is stepping down in March where people say he is stepping down in March, went and he gave a very, very sort of welcoming speech to the Davos crowd. And a lot of people interpreted it as courting investment. He said, we're confident China's growth, most likely will return to its normal trend in 2023. Talked about recalibrating China's relationship with the West. So, what do you make of this New Year's charm offensive, which seems to be going on for several weeks now?

Dr. Miles Yu:

I think the CCP was cornered. I mean, economy was in shambles. China's International reputation has suffered tremendously. I mean, nobody really believes what the government is saying nowadays from covid numbers to its domestic repression to Xinjiang, to Tibet, to Taiwan. This is why they have to change tactics. Xi even admitted a few weeks ago that he faced

resistance to his Covid policies and at Davos somebody wrote something, I think the headline of the piece was very accurate. Everything (inaudible) said at Davos was a lie.

Wilson Shirley:

Yeah.

Dr. Miles Yu:

For example, (inaudible) said it's impossible for China to go back to a plan economy. China has never been away from a planned economy and it's a new foreign minister the current ambassador to the United States and Chinese diplomats saying, oh, China is all kumbaya and hunky dory. He even made a trip to Africa with a very conciliatory tone. But this is all always for show. For example, Xi, He says he faced resistance to his covid policy, but China has never stopped arresting, jailing those protestors against his policy even up to this day. And the crackdown continues on entrepreneurs like Jack Ma, like Byte Dance and the Premier said, China is now carrying out the socialist economy, a market economy with socialist characteristics. Yeah, that's total nonsense because for the first time in the history of Davos, you do not have a single Chinese entrepreneur showed up.

Wilson Shirley:

Oh, that's interesting, yeah.

Dr. Miles Yu:

Jack Ma was never nowhere to be found in Davos. He was there all the time. And both Xi and China's foreign minister Chiang have been making speeches in the last couple of days. The focus on one thing that is struggle, struggle against international forces against China, struggle to fulfill the commitment of the Chinese Communist party.

Wilson Shirley:

So you mentioned bite dance and entrepreneurs, which we'll get to in a second. What I wanted to ask about speeches like Luz at Davos is it seems like there's a real readiness on the part of some, particularly in the investment community, to every time they hear words like this sort of sheep's clothing, words to believe that China has changed, we're going to go back to the golden days of investment of the S when it looked like nothing was going to change, everything was up into the right in terms of growth. Why do you think there is that readiness even over the last couple of years? And is there anything that could change that perception? Because I mean the world has changed a lot since Covid, and you mentioned Davos. This is the first Davos that's happened in the post Covid era. So, it's been a while.

Dr. Miles Yu:

China's economy is fundamentally dependent upon international investment and also China heavily depends on the international market. Yet the Chinese communist party maintains the strict control of access to Chinese market. What you do here is you develop a professional class of lobbyist. China paid a lot of money to foreigners and of substantial stature. So that's why they pay a lot of attention to forums like Davos, to sound the chairman pitches, and then to be

echoed by those professional consultants that get paid a lot of money by the government of China. But major corporations, they only care about one thing. That is the bottom line. If China's economy, an investment environment is so bad and no responsible CEOs or major corporation could continue to believe in the kind of illusion and delusion about China. So, you can see there are a lot of foreign companies moving out of China and Apple and all these companies.

Wilson Shirley:

To the extent that they

Dr. Miles Yu:

Can. That's so that's why there's an urgency for China to go to places like Davos to change the tone because they have no other choice.

Wilson Shirley:

And I mean it's in fairness to these companies, it's hard to ignore the second largest economy in the world. So, before we move on to the next topic, let's talk about what you think China's economy in 2023 will look like. So there's an idea that China opening up a little bit end of zero Covid, the first quarter is going to be pretty rough because Covid is going through the country because a lot of people are dying, as you talked about it just a second ago, q2, q3, q4, maybe stronger growth as restrictions not only are let up, but people get used to sort of the new normal within China, but then structural factors like demography, debt could weigh it down. Do you think and by it, I mean economic growth, do you think that's right? Or what are you looking at as you assess the prospects for the Chinese economy going forward?

Dr. Miles Yu:

The Chinese economy is not going to be very rosie, at least for the substantial part of 2023. That's because the best reality is that the Chinese state-owned enterprises and the Chinese bureaucracy, the party live on the ingenuity and productivity of non-state factors because of Covid policies. Because of this harsh line, Carried out by Xi and Communist party in the last three years, the sector that suffer most are non-state factors, medium size businesses, they were closing by the tens of thousands, which led to several things. One is this staggering unemployment rate.

Wilson Shirley:

Particularly youth unemployment's really terrible right now

Dr. Miles Yu:

That's right about 20%. And secondly, because the most productive sector of Chinese economy are not producing, therefore the parasites, the state, the SOEs could not really milk as much.

Wilson Shirley:

That's state-owned enterprises.

Dr. Miles Yu:

So therefore, everybody's suffering. So that's why you have this chain reaction. So, I don't have a very sort of sanguine prediction of Chinese economy. Anybody will say otherwise is just self-cheating.

Wilson Shirley:

Yeah, well, only time will tell us. So, let's talk about some of those specific companies in this third segment today, you flagged a story for me, which I hadn't seen widely reported in the press. And it's about the company that owns TikTok, which is called Byte Dance. So, whenever people talk about Chinese social media companies, the first company that comes to mind is TikTok. It one year replaced Google as the most visited site in the world, but Byte Dance owns TikTok. Byte Dance is not a state-owned enterprise in China but there are CCP members throughout its organizational structure on its board. And if TOS governance structure owned by bite dance is what matters. You flagged a story that bite dances governance structure or ownership structure has changed over the last couple of weeks. So, what's that about?

Dr. Miles Yu:

Well, first of all, Byte Dance like all other major companies in China can be totally controlled by the Chinese Communist Party.

Wilson Shirley:

You have the national intelligence law that requires..

Dr. Miles Yu:

That's right. Not only that, the way the Chinese Communist Party control all those major companies is very tricky. For example in the case of Byte Dance the official government ownership of the stock is just about 1%, but that 1% government owned stock, it's called gold stock, has total veto power. It can decide on virtually every major decision of this company that has been going on for years.

Wilson Shirley:

Yeah, but just 1%. Yeah,

Dr. Miles Yu:

That's right. 1%. The government would have some kind of representative in that organization. What happened is, around the New year, Byte Dance changes ownership structure completely. There is one registered company in the southern city of Shama, that register only about 1 million Chinese Yuan, which is very small. That little company, however, now owns close to 81% of the entire Byte Dance stock. Now that company is very, very suspicious because the reason this is down because the founder of Byte Dance gentleman by the of Jiang Yin Min is no longer in that ownership structure. So, he's totally eased out. He's very much like Jack Ma

Wilson Shirley:

But he's still around. He still lives in China.

Dr. Miles Yu:

No, no. Nobody knows where he is.

Wilson Shirley:

So are they Jack Ma'ing him right now?

Dr. Miles Yu:

Is, yeah, he's like Jack Ma. Most likely he's probably living in a place like Singapore somewhere. So this basically means that Chinese government might have total, a hundred per percent control of Byte Dance even without any disguise. So, this could be that, this tiny company that has only a small fraction of the total assets of the Byte Dance now owns 98.81% of the company by that, which is very peculiar.

Wilson Shirley:

So, let's talk a little bit about how the CCP uses these companies to exert control, both inside of China and outside of China. So, with TikTok, you hear about tracking data, tracking keystrokes and then a little bit of influence too. They can censor different stories. Say making it so that people don't see stories about Uyghurs or about the anniversary of Tiananmen Square. What is the long game here in terms of the control of these companies? Do you think?

Dr. Miles Yu:

The long game is for the Chinese communist party to control the critical infrastructure of telecommunication. Right. You can do that in many ways. One is related to governments defense intelligence, but social media is so powerful, they want to control that part as well. TikTok obviously is one way to do it, and by creating a highly popular app and you can hook the hundred millions of users,

Wilson Shirley:

Yeah, it's the most popular social media app in the world right now.

Dr. Miles Yu:

But most importantly, all the user data will be in the hands of the Chinese communist party. They can do all kinds of big data analysis and to figure out the way to manipulate the public opinion and put out the government information. So, this is basically another one. The other way to do this is they can use TikTok as kind of a bridge to reach to other aspects of the information infrastructure. So, this is a very dangerous tool used by the Chinese Communist Party.

Wilson Shirley:

And what do you think of us efforts to push back against TikTok? TikTok? So, in the last administration, there was an attempt to change the ownership structure of TikTok. So, it'd be

owned by a US company. That didn't work out. But now you have a bill in Congress to ban TikTok that I think Mike Gallagher and Senator Marco Rubio are sponsoring. You also have all these state initiatives. Now, I went through a list and it's like 30 states mostly run by Republicans, but not all have banned the use of TikTok on government devices. You also have the University of Texas, Texas a and m just banned TikTok on university Wi-Fi network. So, is this hodgepodge approach now something to watch for? What is the correct response to TikTok?

Dr. Miles Yu:

TikTok in order to deceive the American government, the regulators. So TikTok says, alright, we're going to have all the servers of TikTok built outside of China. Yeah, that's fine. But that is very deceptive because TikTok can never answer straight. Who has the access to the server's stationed outside of China? The answer is very obvious. The Chinese government.

Wilson Shirley:

And there have been leaks to that effect over and over again.

Dr. Miles Yu:

Yeah, that's right. So, no matter, doesn't matter where your servers are put up because the Chinese Communist Party still have access, still has access to it. So that's one reason I think there should be some kind of legislature to ban all the telecommunication technologies and apps that the Chinese Communist party has direct access to.

Wilson Shirley:

And also the governance structure you talked about a little bit, there's a party cell within by dance I think Byte Dance's. Editor in chief is the secretary of its internal CCP committee. So, there's a lot of layers within layers of influence.

Dr. Miles Yu:

Not only that, at every level of by dance, there is a party sale party committee. So, they run this place. So TikTok is completely corrupted and manipulated, so we should have a clear understanding. Now there's also, there's another aspect of that you asked, you asked me earlier about how we should respond to this. The United States government is an open society. We are, we're the society, rule of law. That's the strength, but also the weakness there. In 2019, President Trump issued an executive order banning TikTok and WeChat, but that order was overturned by the court in California. Wow. On account of discrimination against company. Now the issue here therefore is we should no longer treat China as if it is a normal country that kind of occasionally misbehaves. These were totally different systems. We have to recognize the extraordinarily different political and ideological systems between China and the United States. So we have to put the national security at the top

Wilson Shirley:

And recognize that there are structural things like there are CCP committees in large companies in China. There are not such committees in companies in other parts of the world. So that's a big difference.

Dr. Miles Yu:

Yeah, we should put also, yeah, we should basically have some kind of legislature saying if any Chinese company have any connection with the Chinese Communist Party and then we're not going to deal allow you to operate in the United States.

Wilson Shirley:

That seems like a pretty large percentage. I think that's all the time we have for this week though, Miles. I think there's going to be a lot of action, particularly on TikTok throughout the rest of the year which we'll be sure to continue the conversation about. Again, wishing you a Happy Lunar New year and I'll see you next week.

Dr. Miles Yu:

I'll see you next week. Wilson,

Wilson Shirley:

Thanks for tuning in to this episode of the China Insider, a podcast from the China Center at Hudson Institute. We appreciate Hudson for making this podcast possible follow miles and all of the additional great work we do@hudson.org. Please remember to rate and review this podcast and we'll see you next time on the China Insider.