Institute of World Economics

Eötvös Loránd Research Network

Centre for Economic and Regional Studies
Institute of World Economics

Working paper 264.

April 2021

Tamás Peragovics

CHINA'S MERGERS & ACQUISITIONS ACTIVITY IN THE UNITED STATES – THE CASE OF TIKTOK

WP

Centre for Economic and Regional Studies - Institute of World Economics ELRN
Working Paper Nr. 264 (2021) 1–25. April 2021

China's Mergers & Acquisitions Activity in the United States – The Case of TikTok

Author:

Tamás Peragovics

junior research fellow

Institute of World Economics
Centre for Economic and Regional Studies
ELRN

email: peragovics.tamas@krtk.hu

ISSN 1215-5241
ISBN 978-963-301-712-8

Centre for Economic and Regional Studies - Institute of World Economics ELRN
Working Paper (2021) 1–25. April 2021

China's Mergers & Acquisitions Activity in the United States – The Case of TikTok

Tamás Peragovics[1]

Abstract

One of the protagonists of globalization in the past decade has been China. Its economic and financial footprint has deepened across the globe, and its companies are active in all industries, with few countries left untouched by such interest. A key instrument in this expansion are mergers and acquisitions (M&A) projects pursued by Chinese companies, many of which are focused on technologically advanced, and thus politically sensitive, businesses in Western countries. This expansion is fueled in large part by China's Go Global strategy, initiated in 1999, and, more recently, the Made in China 2025 campaign. The US has drawn considerable interest from Chinese companies since the 2010s, many of which are aimed to buy into key American businesses. This working paper discusses Chinese M&A activities in the US during this period, focusing on the political obstacles and regulatory difficulties they encounter. In so doing, the study demonstrates that the American M&A market showed more receptivity towards Chinese projects in the first half of the 2010s, while it became more politically charged after 2016, in large part due to the steady deterioration of ties between Beijing and Washington. The case of TikTok and other high-profile Chinese businesses are used to illustrate these developments.

JEL: G34, G11, P33, P45

Keywords: China, USA, mergers, acquisitions, TikTok

1. Introduction

One of the protagonists of globalization in the past decade has been China. Its economic and financial footprint has deepened considerably across the globe, and its

[1] Junior research fellow, Centre for Economic and Regional Studies – Institute of World Economics ELRN, Tóth Kálmán str. 4, H-1097 Budapest, Hungary. Email: peragovics.tamas@krtk.hu

companies are active in virtually all industries, with few countries left untouched by such interest. A key instrument in this expansion are the mergers and acquisitions (M&A) deals pursued by Chinese companies (Muralidharan, Wei, and Liu 2017), many of which are focused on technologically advanced, and thus politically sensitive, businesses in Western countries. This expansion is fueled in large part by China's Go Global strategy, initiated in 1999, and, more recently, the Made in China 2025 campaign. The latter is meant for China to build a more robust and advanced manufacturing base, by relying on technological know-how acquired from abroad ("Is 'Made in China 2025' a Threat to Global Trade?" 2019). M&A transactions are perceived to help achieve this objective, which explains why Western countries have grown suspicious of Chinese investments and M&A projects. The US, in particular, has drawn interest from Chinese firms in the 2010s, many of which were aimed to buy into, or completely overtake, target American companies.

The Dalian Wanda Group has been at the forefront of this process, and its ups-and-downs illustrate the political hurdles and other difficulties Chinese companies encounter in the US. Wanda acquired the American company AMC Entertainment Holdings in 2012 (Newman 2012). The purchase of the chain of movie theaters operating mostly in the United States was struck at a price of 2.6 billion dollars, which at that time held the record of a Chinese company taking over an American firm. The Committee on Foreign Investment in the United States (CFIUS), the inter-agency body responsible for assessing the national security implications of foreign acquisitions, approved the acquisition, but concerns about the deal remained (Newman 2012). Critics argued AMC belongs to the national asset of the country, and as such it should remain under American control and ownership, regardless of the money offered. They worried about the close ties Wanda entertained with the upper echelon of the Chinese Communist Party (CCP), expecting that the transaction may lead to growing Chinese influence in the American film industry. If propagandistic movies lauding the People's Republic China start mushrooming in the American market, then the transaction is a politically substantive matter, and not simply one of culture and entertainment.

The Chinese takeover of the AMC is part of a larger pattern in which Chinese companies and firms, usually with the central government supporting them, buy into foreign assets to secure natural resources and technologically advanced know how. While China's *Go Global* strategy has received intense academic attention in recent years ("Going

Global Strategy and Change Prospects and Challenges for Chinese Companies on the World Stage" 2006), this paper will focus on how Chinese companies attempt to increase their ownership via mergers and acquisitions (henceforth M&A) in vital American industries. More specifically, the paper will look at how and why some of these attempts failed due to American political intervention, and why in other cases they were cleared without much opposition. To illustrate the relevance of this focus, the case of TikTok will be discussed, with an emphasis on the nature of the national security threat it allegedly poses as well as on the response it warrants from Washington's perspective.

For the purpose of this topic, the paper will first discuss the concept of economic nationalism from a realist perspective. As China's M&A attempts are argued to concern issues of national security and other vital interests of the United States, the potential policy prescriptions of a *realist* reading of economic nationalism should be in line with how American policy-makers react to the financial onslaught of Chinese firms. The paper then presents important aspects of Chinese-American bilateral economic relations in the 21st century to understand China's pronounced interest in buying foreign assets within the so-called Go Global strategy. The discussion then moves on to empirical cases, with a focus on high-profile deals both present and past. Finally, the paper concludes by presenting some implications for future attempts by China to take over American companies.

2. Economic Nationalism – From Mercantilism and Nationalism to Realism

The literature on the concept of economic nationalism and its variants makes for a difficult reading, the challenge being that many notions seem to refer to similar, if not identical, phenomena. As Matthew Watson pointed out, the concepts of statism, realism, mercantilism and nationalism are all substantively contested, with no consensus as to their meaning (Ravenhill 2008). Watson argues that mercantilism and nationalism are more historical terms than statism and realism. Mercantilism and nationalism draw on 19th socio-political insights, having emerged as a reaction to a specific historical context characterized by the rise of nation-states and a growing interaction among them. Mercantilism theorizes the accumulation of precious metals and natural resources, while nationalism, a broader sentiment, went beyond the realm of inward-looking economic policies. It seems the academic debate has largely enmeshed the nation and the state, implying that studies of economic nationalism boiled down to an analysis of state policies. To remedy the conflation, Eric Helleiner argued, following in the footsteps of George Crane (2001), that a reinsertion of the *nation* in economic nationalism is indispensable. Helleiner further claimed that Friedrich List, widely accepted to have coined economic nationalism in the first place, advocated a particular ideology whose peculiarity lay precisely in its nationalistic content (Helleiner 2002). The resulting distinction between nationalism and mercantilism is thus not only conceptually warranted, but practically necessary. A diverse set of policies can be subsumed under economic nationalism, not only those dominated by an autarkic, inward-looking purpose. The sacrosanct goals of nationally defined interests can be secured in more than just the mercantilist way.

Despite the restoration of the nation in economic nationalism, there is a widely held belief that neither the nation nor the state can withstand the powerful forces of globalization today. Such a belief raises the question of whether this kind of conceptual language is appropriate at all in the conditions of an ever-globalizing world. If the manifold connections created and intensified by globalization eat away the autonomy of the nation-state, then its toolkit is analytically irrelevant in the 21st century. Nevertheless, David Levi-Faur, drawing on the work of Friedrich List, claimed the nation-state is still the basic economic unit, and its roles and functions are either unchanged or adapted to the challenges posed by the global world (Levi-Faur 1997). List's recurring emphasis on a regulated form of trade, for instance, materialized in the framework of the World Trade Organization composed of individual nation-states, and the investment in infrastructure and education still constitutes an indispensable part of any nation's policy objectives. Furthermore, as Levi-Faur pointed out, key concepts of contemporary economic theories all refer to the nation as a unit – national balance of trade and national product per capita all indicate that the nation is probably to stay (Levi-Faur 1997). In a similar vein, Stephen D. Krasner conceives of the state as a fundamental unit whose roles and functions cannot be surpassed or replaced regardless of the level of globalization (Krasner 1976). Though the influence of transnational actors and institutions continues to increase, the very structure from which they blossom rests on individual nation-states. Thus, were it not for the *a priori* existence of sovereign countries, the very globalization that is argued to transcend the Westphalian states-system would not be possible.

Building on the centrality of the state, realism has grown to become a key theory of both International Relations and International Political Economy. Realism assumes that the primary actors in the international system are individual states concerned with pursuing their own selfish agendas (Lebow 2007). The utmost objective of each state is to assure the survival of the nation, and thus they enact various policies considered to be beneficial for their respective interests. The basic rules of the game within the international system are set by nation-states, and international organizations articulate, rather than contradict or deny, the very sovereignty underlying their possibility. This also means that though they wield influence in certain issue areas, the ultimate decisions about state policies in all walks of life are taken by governments.

This understanding of realism is largely in line with what Robert Gilpin calls state-centric realism, a sub-school of the broader realist branch of thought (Gilpin 2001). He argues that the interests and policies of the state are defined by the incumbent political leadership, the lobby activities of influential societal groups, and the particular nature and structure of the given nation's economy (Gilpin 2001). Gilpin also emphasizes that the state as a human institution emerged to satisfy specific needs. In return for the loyalty of the people the state was required to provide the political and economic security to those living on its sovereign territory (Gilpin 2001). It is argued that this function of the state proved to be resilient in time, and in fact remains the same even today.

It stands out from this theory that any foreign attempt to penetrate vital industries of the national economy should be met with popular opposition from the state. As the primary concern of the state is to assure political and economic security to its population, foreign takeovers of domestic companies are likely to be hindered if they are made within a sensitive industry. Such theoretical expectations seem to have contemporary relevance, as many Western countries establish legal-political instruments to screen and potentially ban foreign investments targeting sensitive domestic industries (Peragovics 2019). Chinese companies, in particular, are often implicated in these processes, and their M&A often raise concerns from the recipient state's perspective. With this in mind, the paper now moves on to discuss the so-called Go Global strategy of China, and then the Chinese takeovers of American firms and companies.

3. China's Go Global Strategy

A comprehensive overview of China's Go Global strategy would exceed the boundaries of this paper, but a brief summary of the phenomenon should suffice to get the gist of it. The CCP initiated the Go Global strategy at the end of the 1990s with a pronounced intention of sending Chinese companies and firms overseas to expand (Ricz and Szunomár 2020). The overall price tag of the assets took over by them, amounting to more than 1.5 trillion dollars, indicates that the CCP's call resonated with Chinese businessmen (Xu 2012). In 2001, the Go Global was adopted as China's national economic strategy, which to this very day mirrors key economic principles. The foreign expansion was to a large extent fueled by China's need for overseas markets to sell its goods ("Going Global Strategy and Change Prospects and Challenges for Chinese Companies on the World Stage" 2006). In parallel with recent attempts to kick-start domestic consumption, satisfying the almost insatiable appetite of China's export-led economy necessitates deeper penetration of the Chinese companies in the global world to sell their products. Part of the rationale behind Go Global is also the imperative of securing natural resources indispensable for fueling China's growth. Unlike other economies only muddling through the economic downturn engendered by the Covid-19 pandemic, the Chinese economy bounced back and its V-shape recovery is so far successful ("China Reports Strongest Growth in Two Years after Covid-19 Recovery" 2021). The third incentive behind the Go Global was to gain advanced technological know-how in some key industries such as the IT sector and electronics (Yoko 2006). China's shift from the manufacturing of basic goods to producing technologically sophisticated commodities requires know-how that can be procured through engagement with foreign companies and competitors (Marsh 2010). And lastly, by purchasing foreign businesses each Chinese company contributes to a global economic and political atmosphere conducive to accommodating the interests of a rising China. In fact, the CCP believes that the newly acquired assets will be translated into more global political influence.

Driven by these four factors the Go Global strategy informs an army of Chinese companies going abroad purchasing foreign assets to diversify and enrich their economic activities. Since 2001 until today there have been over 18000 Chinese ventures overseas, and this dynamic expansion has endured despite the current slump generated by the Covid-19 pandemic (Xu 2012). Prior to it, however, statistics show that China started navigating its investments towards Europe and North America after the 2008 crisis hit these economies. Chinese businesses shifted their attention from developing economies and refocused their efforts in North American industries (Rosen and Hanemann 2012). Because of the interconnectedness of the American and Chinese economies, this focus is hardly surprising. China possesses 3 trillion dollars in foreign exchange reserves as a result of years of excessive purchasing of US government securities (Cameron 2012). To anticipate the potential long-term depreciation of this sum, Beijing turned to translating this amount of money into tangible assets, in large part by intensifying M&A activities of in the United States. Ranging from banks to technology and computer companies, Chinese businesses are busy increasing their stakes in key industries, a growing tendency that troubles many Americans concerned about what this might imply for the national security and other vital interests.

4. Chinese M&A Activity in the US under Barack Obama – Threading the Needle

Political reactions to various M&A attempts made by the Chinese are diverse, proving that the dilemma between national security and financial investment is a difficult one. On the one hand, most countries cannot afford to scare off an investor like China when crisis-ridden economies are all hungry for foreign capital. On the other hand, most countries would feel uncomfortable negotiating about the potential sale of iconic and crucial businesses that are considered a national asset, even if they are otherwise on the brink of bankruptcy. Thus, while Washington's insistence to prevent the Chinese from infiltrating vital American industries is hardly surprising, the political leadership must remain cautious to avoid an overall impression that the country as a whole is not open for business with Beijing. In fact, the ambivalence of Washington's political responses, particularly their *ad hoc* character, testifies to the difficulty of such a consequential choice.

The first widely debated encounter with a Chinese offer took place in 2005, when the China National Offshore Oil Corporation (CNOOC) proposed to buy the Union Oil Company of California (Unocal) (Steger 2012). Retrospectively. it seems obvious that the deal was doomed to fail from the start for a number of reasons. The political opposition triggered by the deal was due to the fact that CNOOC belonged to the state-owned China National Offshore Oil Corporation, which means that an approval would give the Chinese state gained direct control of a key company in an economically crucial industry (Rosen and Hanemann 2012). Political circles in Washington feared such a scenario also because such a position would have translated into political and economic leverage that could be used against the United States (*The Economist* 2010). CNOOC's bid was bound to enter the American political spotlight also because of the high price the Chinese company was willing to pay. Until then, no firm offered a total of 18.5 billion dollars to take over an American business, and thus the sheer size of the proposal must have made it a point of discussion in Washington. Overall, the intended takeover was considered a significant threat to US security interests, which made Congress put pressure on both CNOOC and Unocal to forsake the planned merger. In the meantime, Unocal started negotiating over the conditions of a potential takeover by an American company. Unocal asked CNOOC to raise the bid to compensate for the delay of the merger caused by the pending regulatory approval, but the Chinese company decided not to make a new offer, surrendering instead in the face of the manifold difficulties (*China.Org.Cn* 2005). As a representative of CNOOC later confessed, the attempted deal received "*unprecedented political opposition"*, and this was one of the major reasons why the Chinese company withdrew the offer (*China.Org.Cn* 2005).

This experience was nevertheless useful because China concluded that fishing for smaller fishes is more manageable than going for the big ones. In fact, both the US and China showed restraint after 2005, which led to more fruitful and successful engagements between American and Chinese companies (Steger 2012). Washington was more cautious not to intervene as often in China's M&A pursuits in the United States, and China learnt that a smaller bid for a company operating in a politically less sensitive industry does the trick more often than not. Therefore, 2007 saw the purchase by China Investment Corporation of stakes in Morgan Stanley for 5 billion dollars and in Blackstone Group L.P. for 3 billion dollars (Rusnak 2012). In certain cases, the parties interested in a specific transaction configured a particular deal as a joint venture in order to circumvent US regulatory probe. For instance, Chesapeake Energy announced in February 2013 that it would enter into a joint venture with Sinopec, China's biggest oil company, to sell some of its possessions at a price of 1 billion dollars (Farrell 2013). Chesapeake Energy faced no significant political challenges doing business with Sinopec. The lack of any considerable opposition to the deal is puzzling because Chesapeake Energy is the largest producer of natural gas in the United States, and thus the foreign takeover of the company certainly had implications for national energy security. More concern was voiced during the sale of the California-based Complete Genomics in December 2012 (Pollack 2012). American scientists were worried that the Chinese acquisition of the American DNA firm could put China in a strategic position in the industry to undermine the dominance of US-based companies.

No particular political opposition was discernible in the case of the sale of the Bank of East Asia U.S.A, though the application of the Industrial and Commercial Bank of China (henceforth ICBC) to purchase some of East Asia's assets has been pending for regulatory approval for almost two years (*CBS DC* 2012). In fact, the Chinese negotiators backed by the central government offered certain concessions, such as letting foreigners including Americans acquire bigger stakes in Chinese security companies, which helped bring the negotiations to a successful conclusion. But the acquisition did not raise serious concerns of American national security as the transaction from US ownership to Chinese moved less than one percent of overall market deposits. However, the ICBC indicated several times that the purchase has both symbolic and strategic value (*CBS DC* 2012). Penetrating the American banking sector is an important step for Chinese companies. It symbolizes that so crucial a segment of the American economy as banking is accessible if an appropriate offer is made. If successful, these purchases help the Chinese partner use American know-how in areas of banking regulation and financial guidance (Bradsher and De La Merced 2012). Such a transfer of best practices is not necessarily detrimental to the US. The Federal Reserve praised China, for instance, for beginning to regulate its own banking sector through various financial scrutiny measures.

These acquisitions touched upon politically and economically sensitive areas such as energy security or the banking sector, but nevertheless failed to trigger large-scale opposition either from American societal groups or decision-makers. The targeted companies' poor financial situation and the badly needed Chinese capital probably outweighed any serious concern about the deals, hindering the build-up of opposition against the planned purchases. Some deals were nevertheless such that they warranted Washington's intervention. In September 2012, Barack Obama issued an Executive Order that barred a Chinese company from purchasing a wind farm in the close neighborhood of the Naval Weapons Systems Training Facility located in Boardman, Oregon ("Order Signed by the President Regarding the Acquisition of Four U.S. Wind Farm Project Companies by Ralls Corporation" 2012). The Chinese Sany Group's intention to buy the wind farm in such a geographically sensitive location made was disconcerting, and many in the American news media emphasized the questionable implications the purchase may have for national security. In fact, the Sany Group at the time of the offer was already in possession of other wind farms across the United States, which means that in the absence of a strategically crucial military establishment nearby the Chinese company was more than welcome to purchase assets (*Shanghai Daily* 2012). Many feared that the Sany Group, its leader appointed by the Beijing government, would take advantage of the situation and install surveillance appliances to acquire information on military operations and other sensitive issues, though such concerns are not mentioned in the Executive Order (Helman 2012). It was nevertheless widely believed that a Chinese company backed by the central government and operating in the backyard of a key American military establishment would be highly detrimental for national security, and thus societal groups and political circles mobilized to obstruct the deal. It turned out that president Obama was also largely receptive to these concerns because of the timing of the offer (Helman 2012). In the lead-up to the presidential elections, Obama was willing to show determination against China to prove he is ready, much like his hawkish counterpart, Mitt Romney, to stand up for American interests. In a highly politicized context, Sany Group was essentially fighting an uphill battle, and its project was bound to run into insurmountable resistance.

5. Chinese M&A Activity in the US under Donald Trump – Politicization and Worsening Prospects for TikTok and Others

More recent Chinese M&A attempts are equally illuminating of the difficulties encountered in the American market, even if there are novel developments to keep in mind. CFIUS' oversight competences have been strengthened in early 2020, made possible by the implementation of the 2018 Foreign Investment Risk Review Modernization Act ("Final CFIUS Regulations Became Effective in February 2020" 2020). The new powers acquired by the agency make it a robust watchdog that surveils and bans projects more intrusively. Under Donald Trump, there was also a tendency to politicize M&A interactions even further, to make their approval dependent on the overall health of Chinese-American bilateral relations. That Washington embraced such a holistic approach to everything Chinese meant worsening prospects for Chinese M&A attempts. Many of them, as will be discussed below, were caught in the whirlwind generated by the trade war and the rivalry over pandemic management. Two cases, that of Dalian Wanda Group and TikTok, are particularly revealing in this respect, but the lessons to be learned from them are different. One has fallen victim to its own insatiable appetite for foreign assets, with the intervention of the Beijing government putting an end to its spending spree, while the other appears to be the very litmus test that registers the twists and turns of Chinese-American relations writ large.

The Dalian Wanda Group has been a notorious spender in the 2010s, undertaking nothing short of a massive purchasing spree and reaching the peak of its global outreach in 2017. The acquisition deals Wanda orchestrated in a brief span of time were outstanding, and they caught the attention of the mainland authorities. Market observers have long suspected that Wanda is borrowing massively to pay for its acquisitions, and that the financially exposed situation of the company is unsustainable if not seriously fragile. In July 2017, the Chinese government decided to intervene by telling Chinese banks to stop lending to projects associated with the Dalian Wanda Group (Frater and Chu 2017). As its access to funds dried up, the company suspended some of its deals and started selling ownership in assets. The regulatory intervention was swift, and its timing was not a surprise. It came shortly after Wanda had sold its theme parks and hotels for a price of 9.28 billion dollars to Sunac China Holdings. The peculiarity of the deal consisted in that Wanda helped finance the acquisition by lending almost 50% of the price money to Sunac. To be able to do so, Wanda took out a three-year loan of around 4,5 billion dollars (Fong and Ma 2017).

The unicorn of China's global ambitions in the early 2010s, Wanda's position has gradually deteriorated in the period following the acquisition of AMC. Its rise and fall serve to illustrate that the foreign expansion of Chinese companies, long encouraged and supported by the Beijing government, is not without limits. Expecting that the Chinese state is a lender of last resort, Wanda took for granted that its reliance on bank loans is an acceptable cost in the name of the Go Global strategy. The Beijing government tacitly approved of the aggressive acquisition campaign for a decade, and Wanda expanded until its indebtedness and irresponsibility reached an intolerable level. In 2016, Wanda failed to purchase Dick Clark Productions as restrictions were imposed on capital outflows and the company was unable to move money out of China (Schwartzel and Ma 2017). Some of Wanda's acquisitions also fall short of delivering on their promises. In 2016, the company's CEO, Wang Jianlin, boasted of wanting to crush competitor Disney in the Chinese market, whose financial prospects he openly questioned, only to walk back his ambition a year later (Pham 2017). In March 2021, Wanda decreased his ownership in AMC to less than 30%, with a corresponding decrease in voting rights to about 10%. The withdrawal is meant to help address the company's outstanding debt portfolio, a staggering 5.7 billion dollar of which will have to be refinanced in 2021 (Zhao and Wilkins 2020). Once the posterchild of Chinese M&A activity, Wanda is on a leash today, and its financial possibilities pale in comparison with the golden era of the 2010s.

By contrast, the story of TikTok in America is telling of the degree to which regulatory intervention, the not-so-invisible hand guided not always by national security concerns but by naked political interests, has become an integral part of the M&A market and a fundamental influence shaping the expectations of Chinese companies.

TikTok is a short video-sharing social networking service owned by the Chinese company ByteDance. Since its release in 2016, it has steadily grown in popularity, reaching over 2 billion downloads, and registering close to 700 million active users every month. Young people, in particular, are drawn to the platform in large numbers, with the age group 10-29 responsible for over 60% of all users in the US. TikTok's success lies in its virtually uncontested appeal among teenagers, enticing those that grew out of Facebook with a fresh alternative. Its feed offers an endless stream of short videos, with algorithms working in the background to make sure content is tailored to the viewer's preferences. The app is more in sync with the digital spirit of the age, in which users are the producers, and not primarily the consumers, of the very substance that is monetized by the company running the application. Facebook is trying to stem the exodus of teenagers and win back the fleeing masses, but with little success so far. Its first challenger, Lasso, was rolled out in 2018, only to be shut down in January 2020 (Leskin 2020). In March 2021, Instagram Reels, already an imitation of TikTok in many ways, received a new feature, Remix, which resembles the popular Duet feature of TikTok. Contenders thus rely on the very properties that make TikTok such an unrivalled hit, and there is no indication that TikTok, whose fortune over the past years translated into a worth of around 250 billion dollars (Dailey 2020), has much to worry about for now.

In August 2020, Donald Trump issued an Executive Order targeting TikTok's parent company, ByteDance. The order banned all transactions with ByteDance and demanded that the company shut down TikTok in the US unless it finds a new owner for the application. In essence, the US president stated that TikTok will be forced to abandon its 100 million American users, but it can survive if ByteDance complies by divesting TikTok to an American company. The concerns raised by President Trump build upon previous problems American regulators associated with TikTok's presence in the American market. The Chinese app was subjected to a review by CFIUS. In November 2019, TikTok came under scrutiny for an earlier acquisition, that of American karaoke application Musical.ly (Roumeliotis et al. 2019). ByteDance bought Musical.ly in November 2017 for a price of 1 billion dollars, absorbing and rebranding it as TikTok. As ByteDance did not seek regulatory approval prior to the purchase, the deal passed under CFIUS's radar at the time. ByteDance claims its failure to notify was not meant to mislead the agency, it simply did not anticipate that such an acquisition would necessitate CFIUS overview, as Musical.ly is an entertainment application used overwhelmingly by American teenagers. The Executive Order of August 2020 arrived in this context, despite the fact that CFIUS had not yet completed its review of TikTok.

The demand articulated in the Executive Order of August 2020 is controversial on numerous counts. First, the CIA, among others, stated that there is no evidence American users' data are harvested by the Chinese government through TikTok, a key concern that dominated the American discourse and legitimated such drastic action in the first place (Sanger and Barnes 2020). A review conducted by a cybersecurity group further added that TikTok's source code contains no signs of an overtly malicious behavior, and that its algorithms pertaining to data privacy seem well within the accepted norms followed by other similar applications (Xiao 2021). Finally, American lawmakers also charged that TikTok is used by the Beijing government for propaganda purposes. As the New York

Times noted, however, even if such worries about content are borne out, they imply that TikTok is more of a parenting problem, to be handled accordingly, rather than a national security issue.

The second concern about the Executive Order has to do with the way Trump is personally invested in making life difficult for TikTok. The Chinese application caught the attention of the American president because many of its American users employ it with a political purpose, at one point tanking a Trump rally in Tulsa, Oklahoma, by registering for the event and not showing up (Lorenz, Browning, and Frenkel 2020). President Trump is known to have been highly insecure about his approval ratings, and he often boasted of the historical masses that his rallies summoned. The partial sabotage orchestrated by TikTokers was one reason the Chinese app came under closer scrutiny, which means there is a distinctly personal aspect underlying the decision to threaten TikTok with being expelled from the American market.

The third issue is that the executive bullying of TikTok is likely to have been welcomed by authoritarian regimes across the globe, many of which manipulate their own social media landscapes. TikTok has been banned in multiple countries, including India, Indonesia and Bangladesh (Agrawal 2020). Most recently, Pakistan reinstated access to TikTok for the second time, having suspended it previously for vulgar, immoral content ("Pakistan Lifts TikTok Ban for a Second Time" 2021). This is a well-known practice by regimes that put a premium on policing social media interactions, specifically those that undermine and challenge dominant social and political values. Coercing TikTok into compliance by the US government is reminiscent of such intrusions, even if the case is on hold until the Biden administration's review of it is concluded (*BBC News* 2021). The damage seems to be done, and it is a worrisome development not just for social media platforms moving across national boundaries, but for internet governance at large in the 21st century.

Lastly, the purpose of the August 2020 Executive Order is similar to the authoritarian practices of the Chinese Communist Party so often criticized and condemned in the West. If Trump wishes to force TikTok into an American-owned company to be allowed operation in the American market, then is this demand not reminiscent of the hurdles foreign businesses have to clear before entering the Chinese market? Such requirements, which regulate the presence and activity of foreign companies operating in China, are as numerous as they are intrusive (Froese et al. 2019). Western firms are forced into partnerships with Chinese businesses, their supply chains modified to favor domestic input, and foreign entities in high-tech sectors are pressured to share know-how and technology with Chinese counterparts (Wernau 2019). China has for long relied on these instruments to distort competition and skew its internal market to the benefit of home-grown industries and businesses. If replicated in the US, such barriers would constitute a serious deviation from the liberal ethos underpinning the openness of the American market. If Chinese applications come under increased scrutiny for *ad hoc*, trumped-up reasons, as it seems likely in the case of TikTok, then Washington may inadvertently mimic the behavior of the very foe against whom such discriminations are argued to be necessary. The result would be another blow to the international liberal order, and a further strengthening of the Cold War mentality that many claim is already discernable between the US and the PRC (Kaplan 2019).

With Donald Trump out of office, however, there is a possibility that cooler heads may prevail. Though the March 2021 high-level talks between China and the Biden administration proved to be a spectacular fiasco, ByteDance scrapped its plan to merge with Oracle and Walmart as this is unnecessary with the new American administration in power. Details of a possible deal for TikTok broke in November 2020, and the idea was for TikTok to create a new company, TikTok Global, along with American businesses Oracle and Walmart (Novet, Kimball, and Sherman 2020). Though the ownership structure was subject to debate, the breakdown of respective responsibilities is clear. Oracle would have offered cloud infrastructure to make sure privacy and data management practices comply with US regulations, or, in a politically more transparent language, to protect American user data from getting into the hands of the Beijing government. To be able to do so, Oracle would have gained access to TikTok's source code, along with the possibility to flag and stop questionable updates. Trump often boasted that TikTok Global would be under the exclusive control of the American partners, but this is hardly accurate. Oracle and Walmart would fill four seats of the new company's five-member board, while the fifth would be filled by ByteDance CEO Zhang Yiming. However, the recommendation algorithm, the magical recipe of TikTok's popularity among American users, would be beyond the reach of Oracle and Walmart.

Hypothetically, based on available data, the deal would not have been able to fully address all concerns of the American side, particularly the possibility for Chinese regulators to tailor substance displayed by TikTok for its American viewers. That TikTok complies with the political preferences of the Beijing government is hardly a secret (Hern 2019). TikTok has been deleting references to the Dalai Lama, Tibet, Tiananmen (Sharma 2020), and other sensitive matters over which no free discussion is allowed. Such censorship comes in the name of avoiding controversy and minimizing conflict, both of which are potentially laudable objectives, but in actual practice TikTok is simply toeing the line prescribed by Beijing. In and of itself, however, the propagandistic effect of TikTok is insufficient to qualify as a national security threat.

Notwithstanding the regulatory upheaval around TikTok, the trend of worsening prospects for Chinese M&A activities in the US has been clear for quite some time. In 2018, the Chinese Ant Group, owned by Jack Ma, was not allowed to purchase MoneyGram, an American money transfer company, after the two sides failed to demonstrate to CFIUS that US citizens' data would be properly protected (Roumeliotis 2018). This was a high-profile deal, and one of the first ones to be blocked by the Trump administration. Later on, acquisitions done and dusted would be derailed retrospectively. In 2019, CFIUS scrutinized the acquisition of Grindr, a dating application, by the Chinese gaming company Beijing Kunlun Tech. The deal had been closed in 2018 and reopening it for investigation was an unusual move that created uncertainty over M&A deals and foreshadowed similar disruptions in the M&A market. CFIUS identified a privacy concern that Kunlun failed to address, and thus required it to divest Grindr ("US Pushes Chinese Owner of Grindr to Divest the Dating App: Sources" 2019). The 2018 acquisition of StayNTouch, a cloud-based suite of hotel management solutions, by Shiji Group was likewise undone in March 2020 with an Executive Order. Reasons for the decision were not discussed, but StayNTouch handles travel-related information, and Chinese ownership over and access to such sensitive data may have raised concerns for American regulators. That these regulatory interventions picked up pace when they did is not a coincidence, as M&A transactions became politically charged during the second half of the Trump administration. The whirlwind generated by the US trade war against China upended business practices both past and present, and many Chinese companies paid a hefty price as a result. If bilateral relations further deteriorate, and there is no immediate indication this is unlikely, Chinese M&A projects may continue to suffer.

6. Conclusion

The discussion of China's high-profile M&A attempts in the US reveals that there is both continuity and change from the early 2010s until today, specifically in terms of how the American market is regulated. For instance, the absence of concerns of *high politics* meant that a Chinese offer was more likely to pass in the early 2010s. The Dalian Wanda Group's proposition to buy AMC made many Americans to wonder about the implications of such a transfer, but the deal remained within the confines of the entertainment industry, and efforts to politicize it did not gain sufficient traction. Further, there is evidence that an M&A strategy that seeks minor stakes in American businesses is much less likely to generate resistance, and thus if Chinese companies are attentive to both size and the sensitivity of the targeted industry, they are better positioned to anticipate the regulatory and other hurdles they need to clear for approval. During this period, a reliable, even if competitive, normalcy still underpinned US-China ties, with leadership on both sides responsible enough to make sure economic and financial relations are not seriously harmed. This *modus vivendi* under the Obama administration is what protected many, if not all, Chinese M&A attempts from overt politicization.

The year 2016 proved to be a turning point. The election of Donald Trump brought an insatiable appetite for adversity in American foreign policy. Feeding on a demonization of his enemies, Trump set himself to undoing the relative stability of the US-China relationship, an objective articulated most aggressively by the trade war. A totalizing view thus dominated Washington's perspective of China, an all-encompassing vision in which the boundaries of the political are blurred, and mundane economic interactions become suspect. Chinese M&A activities in America have drawn interest not simply because of their volume or their intrusion into valuable industries, but because of the growing security paranoia that they inadvertently trigger. The case of TikTok is an example in which widespread allegations of security exposure hold no water in light of available evidence, clearly illustrating that the dilemma is not one of verification. The political economy of American response to Chinese M&A attempts demonstrates the growing tendency for national security considerations to include other objectives, such as bilateral trade distress and changing political preferences (Tingley et al. 2015). Framing TikTok at a time when CFIUS review competences are strengthened testifies to the influence of an overarching political narrative about China under which M&A projects are subsumed.

References

Agrawal, Ravi (2020): "Asian Countries Are Waking Up to the Dangers of Social Media." *Foreign Policy* (blog). https://foreignpolicy.com/2020/07/23/asian-countries-waking-up-dangers-social-media-net-neutrality-TikTok-india-bangladesh-pakistan/.

BBC News (2021): "US President Joe Biden 'pauses' TikTok and WeChat Bans," February 12, 2021, sec. Technology. https://www.bbc.com/news/technology-56041209.

Bradsher, Keith, and Michael J. De La Merced (2012): "China Woos Overseas Companies, Looking for Deals." *The New York Times Dealbook*, December 11, 2012. http://dealbook.nytimes.com/2012/12/11/china-woos-overseas-companies-looking-for-deals/.

Cameron, Duncan (2012): "The CNOOC Nexen Takeover: China Plays Chess, Harper Plays Checkers." *Rabble.Ca*, December 11, 2012. http://rabble.ca/columnists/2012/12/cnooc-nexen-takeover-china-plays-chess-harper-plays-checkers.

CBS DC (2012): "Federal Reserve Approves Chinese Takeover Of American Bank," May 9, 2012. http://washington.cbslocal.com/2012/05/09/federal-reserve-approves-chinese-takeover-of-american-bank/.

"China Reports Strongest Growth in Two Years after Covid-19 Recovery" (2021): The Guardian. January 18, 2021. http://www.theguardian.com/world/2021/jan/18/china-growth-covid-19-coronavirus-pandemic.

China.Org.Cn (2005): "CNOOC Withdraws Unocal Bid," August 3, 2005. http://www.china.org.cn/english/2005/Aug/137165.htm.

Crane, George T. (2001): "Economic Nationalism: Bringing the Nation Back In." *Millenium* 27: 55–75.

Dailey, Natasha (2020): "TikTok Owner ByteDance Is Worth More Than Twitter, Coca-Cola: Report." 2020. https://www.businessinsider.com/TikTok-owner-bytedance-ipo-worth-more-than-twitter-coca-cola-2021-3.

Farrell, Maureen (2013): "Chesapeake Energy Sells Assets to China at a 'Discount.'" *CNN Money*, February 25, 2013. http://buzz.money.cnn.com/2013/02/25/chesapeake-energy-sinopec/.

"Final CFIUS Regulations Became Effective in February 2020" (2020): JD Supra. 2020. https://www.jdsupra.com/legalnews/final-cfius-regulations-became-76482/.

Fong, Dominique, and Wayne Ma (2017): "Wanda to Lend Borrowed Billions to Sunac to Close Deal - WSJ." 2017. https://www.wsj.com/articles/wanda-to-lend-borrowed-billions-to-sunac-to-close-deal-1499773733.

Frater, Patrick, and Henry Chu (2017): "China Blocks Banks From Lending to Wanda for Overseas Deals (Report) - Variety." 2017. https://variety.com/2017/biz/news/china-blocks-banks-from-lending-dalian-wanda-overseas-deals-1202497281/.

Froese, Fabian Jintae, Dylan Sutherland, Jeoung Yul Lee, Yipeng Liu, and Yuan Pan (2019): "Challenges for Foreign Companies in China: Implications for Research and Practice." *Asian Business & Management* 18 (4): 249–62. https://doi.org/10.1057/s41291-019-00084-0.

Gilpin, Robert (2001): *Global Political Economy Understanding the International Economic Order*. Princeton: Princeton University Press.

"Going Global Strategy and Change Prospects and Challenges for Chinese Companies on the World Stage" (2006): IBM Business Consulting Services.

Helleiner, Eric (2002): "Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the Nineteenth Century." *TIPEC Working Paper*, March.

Helman, Christopher (2012): "Obama Blocks China's Second-Richest Man From Owning Wind Farm Near Secret Navy Base." *Forbes*, September 29, 2012. http://www.forbes.com/sites/christopherhelman/2012/09/29/obama-blocks-chinas-second-richest-man-from-owning-wind-farm-near-secret-navy-base/.

Hern, Alex (2019): "Revealed: How TikTok Censors Videos That Do Not Please Beijing." The Guardian. September 25, 2019. http://www.theguardian.com/technology/2019/sep/25/revealed-how-TikTok-censors-videos-that-do-not-please-beijing.

"Is 'Made in China 2025' a Threat to Global Trade?" (2019): Council on Foreign Relations. 2019. https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade.

Kaplan, Robert D. (2019): "A New Cold War Has Begun – Foreign Policy." 2019. https://foreignpolicy.com/2019/01/07/a-new-cold-war-has-begun/.

Krasner, Stephen D. (1976): "State Power and the Structure of International Trade." *World Politics* 28 (3): 317–47.

Lebow, Richard N. (2007): "Classical Realism." In *International Relations Theories. Discipline and Diversity*, 52–70. Oxford: Oxford University Press.

Leskin, Paige (2020): "Facebook Dumps TikTok Clone Lasso to Make Way for Clone on Instagram." 2020. https://www.businessinsider.com/facebook-shutting-down-lasso-TikTok-clone-instagram-reels-2020-7.

Levi-Faur, David (1997): "Friedrich List and the Political Economy of the Nation-State." *Review of International Political Economy* 4 (1): 154–78.

Lorenz, Taylor, Kellen Browning, and Sheera Frenkel (2020): "TikTok Teens and K-Pop Stans Say They Sank Trump Rally." *The New York Times*, June 21, 2020, sec. Style. https://www.nytimes.com/2020/06/21/style/TikTok-trump-rally-tulsa.html.

Marsh (2010): "When China's Companies Take Over U.S. Firms." SFO Innovation Asia. http://www.cfoinnovation.com/content/when-chinas-companies-take-over-us-firms.

Muralidharan, Etayankara, William Wei, and Xiaoyu Liu (2017): "Integration by Emerging Economy Multinationals: Perspectives from Chinese Mergers and Acquisitions: Integration by Emerging Economy Multinationals." *Thunderbird International Business Review* 59 (4): 503–18. https://doi.org/10.1002/tie.21850.

Newman, Alex (2012): "China Buys Hollywood Influence with Takeover of Top U.S. Cinema Chain." *The New American*, May 29, 2012. http://www.thenewamerican.com/economy/markets/item/11537-china-buys-hollywood-influence-with-takeover-of-top-us-cinema-chain.

Novet, Jordan, Spencer Kimball, and Alex Sherman (2020): "Trump Agrees to TikTok Deal with Oracle and Walmart, Allowing App's U.S. Operations to Continue." CNBC. September 19, 2020. https://www.cnbc.com/2020/09/19/trump-says-he-has-approved-TikTok-oracle-deal-in-concept.html.

"Order Signed by the President Regarding the Acquisition of Four U.S. Wind Farm Project Companies by Ralls Corporation" (2012): Whitehouse.Gov. September 28, 2012. https://obamawhitehouse.archives.gov/the-press-office/2012/09/28/order-signed-president-regarding-acquisition-four-us-wind-farm-project-c.

"Pakistan Lifts TikTok Ban for a Second Time" (2021): 2021. https://www.aljazeera.com/news/2021/4/1/pakistan-lifts-TikTok-ban-for-a-second-time.

Peragovics, Tamas (2019): "Protection without Protectionism? Foreign Investment Screening in Europe and the V4 Countries Today – a Comparative Analysis." *Working Paper*, no. 252: 1–31.

Pham, Sherisse (2017): "China's Richest Man Gives up on Plans to Beat Disney." 2017. https://money.cnn.com/2017/07/10/news/wanda-theme-parks-disney-wang-jianlin/index.html.

Pollack, Andrew (2012): "U.S. Clears DNA Firm's Acquisition by Chinese." *The New York Times*, December 30, 2012. http://www.nytimes.com/2012/12/31/health/chinese-firm-is-cleared-to-buy-american-dna-sequencing-company.html?_r=1&.

Ravenhill, John, ed. (2008): "Theoretical Traditions in Global Political Economy." In *Global Political Economy*, 2nd ed. Oxford University Press.

Ricz, Judit, and Ágnes Szunomár (2020): "Az Állam Szerepe a Feltörekvő Multinacionális Vállalatok Terjeszkedésében : Kína És Brazília Esete." *Külügyi Szemle* 19 (4): 82–104. https://doi.org/10.47707/Kulugyi_Szemle.2020.4.06.

Rosen, Daniel H., and Thilo Hanemann (2012): "The Rise in Chinese Overseas Investment and What It Means for American Businesses." *China Business Review*, September 2012. https://www.chinabusinessreview.com/public/1207/rosen.html.

Roumeliotis, Greg (2018): "U.S. Blocks MoneyGram Sale to China's Ant Financial on National Security Concerns." *Reuters*, January 3, 2018. https://www.reuters.com/article/us-moneygram-intl-m-a-ant-financial-idUSKBN1ER1R7.

Roumeliotis, Greg, Yingzhi Yang, Echo Wang, and Alexandra Alper (2019): "Exclusive: U.S. Opens National Security Investigation into TikTok - Sources." *Reuters*, November 4, 2019. https://www.reuters.com/article/us-TikTok-cfius-exclusive-idUSKBN1XB4IL.

Rusnak, Karl (2012): "AMC Acquisition Largest-Ever Chinese Takeover of a U.S. Company." Economy in Crisis. http://economyincrisis.org/content/chinese-firm-buys-amc-entertainment-in-largest-ever-chinese-takeover-of-a-u-s-company.

Sanger, David E., and Julian E. Barnes (2020): "Is TikTok More of a Parenting Problem Than a Security Threat?" *The New York Times*, August 7, 2020, sec. U.S. https://www.nytimes.com/2020/08/07/us/politics/TikTok-security-threat.html.

Schwartzel, Erich, and Wayne Ma (2017): "Dalian Wanda's Dick Clark TV Deal Hits Hurdle." *Wall Street Journal*, February 21, 2017, sec. Business. https://www.wsj.com/articles/dalian-wandas-dick-clark-deal-hits-hurdle-1487656163.

Shanghai Daily (2012): "Chinese Private Firm Sues Obama over US Wind Project," October 2, 2012. http://www.china.org.cn/business/2012-10/02/content_26691087.htm.

Sharma, Palki (2020): "TikTok: An Entertainment Platform or Chinese Propaganda Company?" WION. 2020. https://www.wionews.com/world/TikTok-an-entertainment-platform-or-chinese-propaganda-company-299518.

Steger, Isabella (2012): "Cnooc's Unocal Lessons." *Deal Journal* (blog). July 23, 2012. http://blogs.wsj.com/deals/2012/07/23/cnoocs-unocal-lessons/.

The Economist (2010): "Chinese Takeovers Being Eaten by the Dragon," November 11, 2010. http://www.economist.com/node/17460954.

Tingley, D., C. Xu, A. Chilton, and H. V. Milner (2015): "The Political Economy of Inward FDI: Opposition to Chinese Mergers and Acquisitions." *The Chinese Journal of International Politics* 8 (1): 27–57. https://doi.org/10.1093/cjip/pou049.

"US Pushes Chinese Owner of Grindr to Divest the Dating App: Sources" (2019): CNBC. 2019. https://www.cnbc.com/2019/03/27/us-pushes-chinese-owner-of-grindr-to-divest-the-dating-app-sources.html.

Wernau, Julie (2019): "Forced Tech Transfers Are on the Rise in China, European Firms Say - WSJ." 2019. https://www.wsj.com/articles/forced-tech-transfers-are-on-the-rise-in-china-european-firms-say-11558344240.

Xiao, Eva (2021): "TikTok Doesn't Pose Overt Threat to U.S. National Security, Researchers Say - WSJ." 2021. https://www.wsj.com/articles/TikTok-doesnt-pose-overt-threat-to-u-s-national-security-researchers-say-11616425626.

Xu, Fei (2012): "Chinese Companies Need to Learn Lessons as They 'Go Global.'" *Crienglish.Com*, March 12, 2012. http://english.cri.cn/7146/2012/03/12/2702s686168.htm.

Yoko, Hagiwara (2006): "Outward Investment by China Gathering Stream under the Go Global Strategy." *Economic Review* 1 (17).

Zhao, Shirley, and Rebecca Choong Wilkins (2020): "Hobbled by Virus, China's Wanda Faces $5.7 Billion Debt Bill - Bloomberg." 2020. https://www.bloomberg.com/news/articles/2020-03-04/hobbled-by-virus-china-s-wanda-has-5-7-billion-bonds-to-repay.