



# Technology Currents...

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## How China won the TikTok Battle

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The US administration has set a deadline for TikTok to either become a US based app through the sale of Chinese company ByteDance’s app to a US company, or go dark for US users. The US government claims that TikTok presented a security risk as the large amount of personal data captured could be shared with the Chinese government. There were many potential suitors for the app, including Microsoft, Walmart and others, and negotiations were ongoing. The latest news is that TikTok has now secured a “partnership” agreement with Oracle that would make the app for US users to be hosted and secured on Oracle cloud based servers, and this was accomplished just before the deadline the US has set. While all the partnership details are not yet clear, what is clear is that this was a big win for ByteDance and China.

China was very politically astute in how it handled this battle, and basically got everything it wanted without giving away anything substantial. China saw ByteDance’s TikTok acceptance around the world as a vindication of China’s emergence as a major worldwide Internet player, especially in consumer apps. For China, the attack on TikTok was personal. They didn’t want to sell their unique AI-based technology to a US company and be forced from the large US market. To make this clear, and as a reaction to the demand for TikTok’s sale, the Chinese government essentially banned the export of TikTok’s base technology AI algorithms that powered the core of the app without the governments’ approval through an export license. It was unlikely that such a license would ever be granted. As a result, it wasn’t clear just what a US company would be buying, and that gave many potential acquirers pause.

What China needed was a way to make it look like the US administration won in their demands, but still kept the TikTok technology and business as part of the Chinese ByteDance company. In doing so, they created a “no-sale” strategy which required a front partner that was well connected to the current US administration to make it more politically viable and more likely to be approved, and without requiring a sale of the US operations of ByteDance in the process.

To implement this “no-sale” strategy, ByteDance announced it would be “partnering” with Oracle to create a US host for all TikTok’s US user data, and secured in the Oracle cloud. By doing so, they didn’t have to sell TikTok’s US operations, thereby giving up their customer base to Microsoft, Walmart or

anyone else who might have purchased the app. ByteDance already had the majority of US TikTok user data hosted on a US cloud so moving to Oracle Cloud was not a very big concession on their part, nor would it be disruptive to their operations, and ByteDance kept ownership of the assets so important to the Chinese.

What China and ByteDance got was incredibly important to them - they got to keep their IP and maintain control of their app for US users, thus sidestepping any possible shutdown or sale. They will have full access to the user data, although likely with some Oracle imposed security restrictions, and will maintain full ownership and control of the core app functions. This allows China to maintain its ownership of a key international app that provides it with a major endorsement of its ability to be a worldwide player in consumer Internet services, beyond just the success it's already had within its own borders. This has major implications beyond this one app and reaffirms China's role as the emerging consumer force it so craves.

What's in it for Oracle with this partnership? Oracle gets to host a very high volume app in their cloud that creates a way for it to both generate significant revenue but more importantly to show it's a true cloud player at scale. Oracle gets the ability to show how well Oracle cloud works, even though it's been a distant player in the major cloud wars begin fought primarily among Azure, AWS and Google Cloud. It also allows Oracle to show their cloud works well in consumer based uses, when in the past they've mostly been used in enterprise solutions. And finally it establishes a precedent for other potential Chinese (or other country) apps that may need similar fronting in the future.

The deal could still fall apart as the US government has to approve the partnership, and the devil may be in the details, which are yet to be fully announced. But given the close ties Oracle has to the current administration, the likelihood of approval is high. The result of approval would be that the US could save face by saying they won the battle as TikTok data is now hosted, run and secured on US servers, and China and ByteDance get to keep their application available to Americans while still owning the app, the base AI algorithms that power the app, and all of the data and manipulation potential it may offer (e.g., ad serving, etc.). That would be presented as a win-win, but a bigger win for China.

All in all, China played this expertly and came away with a big win for keeping their technology intact and more importantly their application still owned by Chinese company ByteDance, while also providing the US with a way to save face and show it made a difference in defending US user security. If this deal finally gets approved, it represents a major astutely played win for the emerging Chinese role in being a major Internet player on a par with many of the biggest players, most of whom are currently US based.

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