If America Bans TikTok, Who May Prevail in this Scenario?

By: Drew Bernstein

The surprise, lightning-fast passage of a bill to force TikTok's Chinese owner ByteDance to divest has sent a shockwave from Washington, D.C. to Beijing. It is the latest escalation of a “silicon curtain” walling off global technology into separate armed camps.

After passing the House by a vote of 352-65 in a rare moment of bipartisanship, the legislation still requires passage of the Senate (where only six senators, all Democrats, maintain a presence on TikTok) and being signed into law by President Biden (who has said he would sign it if passed, despite his own TikTok campaign clips).

Assuming all that happens, ByteDance would be given six months to arrange for a sale of the U.S. TikTok with its 170 million active users or face having the app deleted from app stores and blocked by internet service providers in the United States.

TikTok’s ardent fans appeared bewildered that the government might eliminate their diet of makeup tutorials, home cooking tips, pranks and quirky dance moves. After all, 170 million Americans is a bigger number than those who voted in the 2020 election (155 million) and more than three times the number of registered Democrats (47.7 million) or Republicans (35.3 million.) Politicians are generally not rewarded for taking such indulgences away from their constituents.

But anything is possible in an election year, with China anxiety as one of the sole remaining points of policy consensus. Many are striving to figure out who stands to gain, and who stands to lose, if America were to pull the plug on this viral Chinese import.

In this photo illustration the social media application logo for TikTok is displayed on the screen ... [+]AFP VIA GETTY IMAGES

The Potential Fallout

The Influencer Economy

Back in the day, kids with outsized personalities, good looks, a modicum of talent and commercial ambitions might gravitate toward television or pop music. Today, there is no need to wait on tables in hopes of being discovered – simply pull out your smartphone, select a niche and create content like crazy.

According to a well-timed study by Oxford Economics (underwritten by TikTok, of course), TikTok's influencer economy supports 224,000 American jobs and 7,000 small businesses and contributed over $24 billion to the U.S. GDP in 2023. As Axios, among others, reported, "TikTok was the most downloaded app in the U.S. in 2021 and 2022, per Apptopia. Chinese e-commerce app Temu replaced it on that list in 2023.” This army of influencers could presumably migrate part of their audiences to other social platforms.

However, none of those competitors have been able to match the virality of TikTok’s algorithm in forging new stars or the ease of monetizing newfound popularity. It is reasonable to expect howls of anguish if these creatives see their careers fizzle and end up on the digital breadlines.

The Bag Holders

TikTok’s corporate parent, ByteDance, was most recently valued at $268 billion in a share buyback offered to institutional investors at the end of 2023, based on its estimated $120 billion in revenues in 2023. The U.S. TikTok reportedly generated $16 billion in revenues last year. That would place its valuation somewhere in the range of $36 billion (based on the multiple of the parent) up to $160 billion if it were valued at 10X sales in line with the slower-growing Meta Platforms.

According to the company’s website, ByteDance is already 60% owned by overseas international institutions, including General Atlantic, Blackrock, and Susquehanna International Group (SIG). SIG head and Republican megadonor Jeff Yass reportedly has $3 billion of net worth tied to ByteDance. The company’s founder, Zhang Yiming, owns 20 percent of ByteDance’s shares but controls more than 50 percent of the voting rights.

In theory, a forced divestiture could offer foreign institutions an opportunity to finally get some liquidity after an IPO by ByteDance has been delayed for years amid rising U.S.-China tensions. A TikTok carved off from its Chinese parent would be the fastest-growing social media platform on the planet, with unrivaled access to younger consumers that brands covet and a juicy IPO candidate.

However, the Chinese government can veto any sale of TikTok, given that recommendation algorithms are considered a security-sensitive technology. Initial indications are that approval will be hard to obtain.

"So-called 'national security reasons' can be used to suppress other excellent companies at will," [a foreign ministry spokesman said](). “That's unfair and unjustifiable. When you see something good from others, you try to make it your own. This is robbery logic."

If TikTok divestment is viewed as a matter of national honor, ByteDance’s international investors may end up owning shares in a China-only social media company with limited voting rights and dim prospects of ever going public.

WASHINGTON, DC - MARCH 22: Congressmen Jamaal Bowman (NY-16), Mark Pocan (WI-2), and Robert Garcia ... [+]GETTY IMAGES FOR TIKTOK

The Bidders

The prospect of a forced sale has attracted eager would-be bidders, including former Treasury Secretary Steve Mnuchin, who helped oversee the Trump Administration's failed effort to force divestment of TikTok in 2020, and former Activision CEO Bobby Kotick. Presumably, they expect to be able to scoop up an incredibly valuable digital juggernaut at a fire sale price.

But even if ByteDance and the Chinese authorities were to consider approving a TikTok carve out, it is unclear what would be up for sale and how that sale would proceed. While the 170 million Americans scrolling through the app each month is impressive, that's a mere fraction of the one billion users TikTok has amassed worldwide as the number four ranked social media app. A U.S. version of TikTok walled off from the rest of the world is inherently less valuable to brands and creators seeking the broadest possible influence and would be at a competitive disadvantage.

More fundamental to any sale would be the status of TikTok's recommendation engine, the secret sauce algorithm that makes the app so addictive but, according to China critics, has the potential to manipulate Americans' informational diet. It is inconceivable that ByteDance would agree or that China would allow the underlying source code to be handed over to a potential foreign competitor. Yet without this, TikTok would be an empty shell.

TikTok's would-be acquirers will likely spend vast amounts of energy and fees trying to untangle the host of legal and technical complexities only to end up with a failed deal in six months.

The U.S. Capital Markets

The NASDAQ and the NYSE will likely feel a cold wind blowing from the east because of the TikTok fracas.

This year, fast-fashion giant Shein was expected to be the marquee IPO that excited investors about new listings. However, Shein is now reported to be shifting its ambitions to London following delays in the U.S. Securities and Exchange Commission (SEC) review of its registration statement and calls by lawmakers to block an American IPO.

TikTok and Shein are companies with roots in China that have been able to out-innovate and outcompete their entrenched Western competitors. The U.S. capital markets will be hard-pressed to attract the best global companies to list with a “not welcome” banner hanging over Wall Street.

Onward and Upward

It’s an ill wind that does nobody any good, and a TikTok ban would undeniably create some big winners.

Big Tech

While Meta and Google have remained conspicuously quiet during the latest debate over TikTok’s ownership, they are likely salivating at the prospect of recapturing lost ad revenues and eyeball time from their fiercest competitor. Much of TikTok's video content could be adapted to Google’s YouTube Shorts or Meta’s Instagram Reels. However, neither platform is able to replicate the infectious, attention deficit-inducing trance that TikTok produces in young consumers.

While Big Tech would likely become even bigger and more consolidated, some lawmakers are talking about the TikTok divestment as simply a first step towards more far-reaching reforms to social media’s reach. This could include tight restrictions on access by young users and strict controls on the harvesting and marketing behavioral data, such as the Kids Online Safety Act, which would require that users under 18 have the highest level of safety and privacy applied by default.

If lawmakers find a new enthusiasm for regulating online media, Big Tech will come to regret it.

Big Law

Lawyers, lobbyists and anyone else who bills by the hour will have the opportunity to make a fortune as the TikTok ban wends its way through the court system and various suitors attempt to become the app's next owner. Any potential deal would need to meet the requirements of regulators in both Washington and Beijing. At the same time, the company will simultaneously contest the ban's constitutionality on free speech grounds. Expect a big, messy, expensive shootout with hundreds of billions of value at stake.

Parents

Perhaps the biggest winners of a TikTok U.S. ban scenario would be parents desperate to get their children to engage in dinnertime conversation, pick up a book or play outside.

According to Gallup, the average 17-year-old spends 5.8 hours per day on social media, with TikTok, YouTube and Snapchat vying for the position of top attention vacuums. Most parents that I know, and speaking from experience, this level of screen addiction contributes very little to children's emotional, physical or educational development. Yet the majority of parents have to engage in daily conflict to redirect their kids' energies.

If Congress can summon the resolve to unplug TikTok, can America's parents finally get their kids to put down their phones?