

EXPLAINER: Why China is investigating tech firms like Didi

July 5 2021, by Zen Soo



Men look at a smartphone in Beijing on Monday, July 5, 2021. Days after China's largest ride-hailing app Didi Global Inc. went public in New York as the biggest Chinese IPO in the U.S. since Alibaba's 2014 listing, Chinese regulators clamped down on the firm, ordering it to halt new registrations and remove its app from China's app stores while the company undergoes a cybersecurity review. Credit: AP Photo/Ng Han Guan

Chinese regulators have clamped down on the country's largest ride-hailing app, Didi Global Inc., days after its shares began trading in New York. Authorities told Didi to stop new registrations and ordered its app removed from China's app stores pending a cybersecurity review. The government said it was acting to prevent security risks and protect the public interest. Didi is the latest company to face intensified scrutiny in a crackdown on some of China's biggest technology giants.

WHAT IS DIDI?

China's Didi Global Inc. is one of the world's largest ride-hailing apps. Three-quarters of its 493 million annual active users are in China. Beijing-based Didi operates in 14 other countries including Brazil and Mexico.

Years ago, Didi and Uber competed in China. In 2016, after a two-year price war, Didi bought Uber's China operations.

Didi raised \$4.4 billion in a June 30 initial public offering in New York. The company has a market capitalization of about \$74.5 billion.

WHY DIDI IS IN TROUBLE

China's cyberspace watchdog said it suspects Didi was involved in illegal collection and use of personal data. It did not cite any specific violations.

The state-owned newspaper Global Times said in an editorial Monday that Didi has the "most detailed personal travel information" of users among all large technology firms. It said the company could conduct big data analysis of users' habits and behavior, posing a potential risk for individuals.

THE WIDER CONTEXT

It's unclear if there are other reasons the Chinese government might be focusing on Didi. Officials have expressed growing concern about use of user data by large technology companies.



A woman looks at her smartphone at a mall in Beijing, Monday, July 5, 2021. Days after China's largest ride-hailing app Didi Global Inc. went public in New York as the biggest Chinese IPO in the U.S. since Alibaba's 2014 listing, Chinese regulators clamped down on the firm, ordering it to halt new registrations and remove its app from China's app stores while the company undergoes a cybersecurity review. Credit: AP Photo/Ng Han Guan

China's Cyberspace Administration announced Monday that it was also launching cybersecurity reviews of truck logistics platforms Huochebang

and Yunmanman, and online recruitment platform Boss Zhipin. Registrations of new users were halted pending those reviews.

Full Truck Alliance, which operates the Huochebang and Yunmanman platforms, and Kanzhun Ltd., which runs Boss Zhipin, also recently listed shares in the U.S.

A sweeping Data Security Law enacted in June requires companies and individuals to get approval from relevant authorities to transfer any data stored in China to overseas entities, such as law enforcement agencies. The law takes effect Sept. 1.

Violators can be fined between 2 million to 10 million yuan (about \$310,000-\$1.5 million) and could have their business suspended.

WHAT'S REALLY GOING ON?



The ride-hailing app Didi is seen near other Chinese apps on a phone in Beijing on Monday, July 5, 2021. Chinese regulators have clamped down on the country's largest ride-hailing app, Didi Global Inc., days after its shares began trading in New York. Authorities told Didi to stop new registrations and ordered its app removed from China's app stores pending a cybersecurity review. Credit: AP Photo/Ng Han Guan

China's Communist Party leaders are uneasy with the growing influence of big technology firms. Key issues are monopolistic practices and handling of user data.

Until recently, tech firms operated in a regulatory gray zone, with relative freedom to create their business models, demand merchants and vendors sign exclusive contracts with their platforms and collect user

data to better understand their customers.

After China introduced health monitoring and quarantine apps during the pandemic, it became clear that tech companies like e-commerce giant Alibaba and gaming company Tencent controlled huge amounts of data, said Shaun Rein, founder and managing director of China Market Research Group in Shanghai.

"I think it was in the last year and a half that you can start to see just how much power these technology companies have," said Rein.

Alibaba Group Holding recently was fined a record \$2.8 billion over antitrust violations. Other big tech companies have been fined or investigated for alleged anti-competitive behavior and lapses in financial disclosure.



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A woman shows her smartphone to another in Beijing on Monday, July 5, 2021. Chinese regulators have clamped down on the country's largest ride-hailing app, Didi Global Inc., days after its shares began trading in New York. Authorities told Didi to stop new registrations and ordered its app removed from China's app stores pending a cybersecurity review. Credit: AP Photo/Ng Han Guan



In this April 27, 2017, file photo, visitors walk past a sign for Chinese ride-hailing service Didi Chuxing at the Global Mobile Internet Conference (GMIC) in Beijing. China's internet watchdog said Friday, July 2, 2021 that it has launched an investigation into ride-hailing company Didi Global Inc. to protect national security and public interest, days after the company went public in New York. Credit: AP Photo/Mark Schiefelbein,File

"Two years ago Chinese consumers didn't care, they thought the convenience of apps outweighed any negative benefits," Rein said. "But now Chinese people are quite concerned about data privacy, because Alibaba and Tencent have so much data – even more data than the government."

Rein believes stricter oversight of the technology industry will make it more sustainable, with fairer competition that will benefit consumers.

WHAT'S THE IMPACT ON DIDI?

Didi said in a statement that having its app removed "may have an adverse impact on its revenue in China."

It promised to fix any problems, "protect users' privacy and data security, and continue to provide secure and convenient services to its users."

The app can no longer be downloaded in China, although those who already downloaded and installed the app can still use it, Didi said.

Didi's stock price sank 5.3% on Friday after the cybersecurity review was announced.

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