China extends probe into US-listed tech firms after Didi blow

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Didi recently pulled off a bumper New York IPO in which it raised over $4.4 billion.

Beijing widened a crackdown on its embattled technology sector Monday by announcing probes into two more US-listed Chinese companies, a day after banning ride-hailing giant Didi Chuxing from app stores following its huge New York initial public offering.

The country's major internet firms wield massive influence among its army of consumers, but have in recent months had their wings clipped in a regulatory crackdown that has scuppered listings and hit business as the government seeks to rein in their influence.

The latest targets are newly listed companies Full Truck Alliance—a merger between truck-hailing platforms Yunmanman and Huochebang—and Kanzhun, which owns online recruitment platform Boss Zhipin.

"The overarching message here from regulators is, you need to have your house in order domestically before listing abroad," said Kendra Schaefer, head of tech policy research at Beijing-based consultancy Trivium China.

The three platforms have been told to stop new user registrations during the investigation "to prevent security risks to national data, safeguard national security and protect public interest", the Cyberspace Administration of China (CAC) said.

Hours earlier, the watchdog ordered the removal of Didi from app stores following a similar probe, which it said found the firm's user data collection and use in "serious violation" of regulations. It also cited national security for the probe, an unusual move against a domestic tech firm.

However, there were few details on the probe or Didi's alleged violations.

Didi has pledged to rectify any problems, and said that the takedown "may have an adverse impact on its revenue in China".

The move does not prevent existing users from booking through Didi, but throws a wrench in the company's growth plans after its bumper New York IPO last week raised $4.4 billion, one of the biggest in the US over the past decade.

The investigation was announced just after China wrapped up tightly-choreographed celebrations for the centenary of its ruling Communist Party.

It also comes at a time of heightened tensions between Beijing and Washington with the tech sector a key issue of disagreement.

Dubbed China's Uber, Didi was founded just nine years ago by former Alibaba executive Cheng Wei. It has gone on to dominate the country's ride-hailing market after winning a costly turf war against the US titan in 2016 and taking over Uber's local unit.

Shifting landscape

It now claims more than 15 million drivers and nearly 500 million users, with services available in 16 countries, including Russia and Australia.

But its rise also comes amid what Kevin Kwek, senior analyst on Asian financials at Bernstein, called a clear "trend towards tightening on tech".

Chinese tech companies fell in Hong Kong Monday as investors assessed the situation, with e-commerce platform Meituan down 5.6 percent, Alibaba dropping nearly three percent and Tencent—which has a stake in Didi—sliding 3.6 percent.

Tokyo-listed SoftBank, which has a 21.5 percent stake in the firm, plunged 5.4 percent.

Didi, with a near monopoly on ride-hailing, is "the most high profile cyber security case" of its kind, University of Hong Kong law professor Angela Zhang told AFP.

But the action was lauded by state-run Global Times, which said the country must not allow "any internet giant to become a super database of Chinese personal information even more detailed than the state".

A top Didi executive took to social media over the weekend to rebuff rumours the firm had been sharing domestic data with the United States, calling it "absolutely impossible".

Last year, authorities pulled the plug on a planned record $34 billion IPO by Alibaba's financial arm Ant Group, before launching an anti-monopoly probe into the tech behemoth.

That marked a dramatic fall from grace for Alibaba's founder Jack Ma, who has gone from being the darling of China's internet entrepreneurs to becoming virtually silent.

And the rapidly shifting landscape for tech is fuelling uncertainty, with recent moves "very damaging for perceptions of the predictability and stability of China's regulations", said Martin Chorzempa, a senior fellow at the Peterson Institute for International Economics, a Washington-based think tank.

"They also illustrate that IPOs are dangerous in China, drawing regulator scrutiny to a successful firm," he added.

"Disclosures in IPOs give a sense of the scale of these firms in ways that otherwise would never be known to the public and much of the bureaucracy."