What’s happening to Didi, China’s largest ride sharing app?

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Background Info:

Didi is China’s dominant ride sharing company. They are to China what Uber and Lyft combined are to the US. They are a near monopoly in China and were valued at $73 billion. That is nearly the size of Uber which is currently valued at $78 billion. They operated a variety of branches throughout Asia, however, as of the first quarter of 2021 90% of their revenue came from their markets in China. They had at the time 377 million annual active users and 13 million annual active drivers. They also held around 30-90% of the market share in the combined China-Hong Kong markets. This made them one of China’s tech giants. Among a new generation of Chinese tech innovation, following the likes of Alibaba and Tencent. Joining China’s next generation of startups, like ByteDance.

These amazing numbers meant that Didi had investors lined up. From giant investment fund’s such as Japan’s softbank to smaller investors waiting to buy shares at it’s hopeful IPO. Therefore an IPO was planned for June 30th, 2021. It was a success. Shares started at 14 dollars and within the first trading day hit a high of 15.99. The IPO raised $4.4 billion for Didi and it’s success was expected to continue. However, the Chinese government decided to crack down.

What’s Happening:

On July 2nd, 2021, China ordered Didi to stop adding new users to the app as they review it’s cybersecurity. Then 2 days later, they pulled Didi from Chinese App stores, Including the Apple Store in China. The Chinese government stated that Didi had been illegally collecting private and sensitive information from its users and will be conducting a probe into the app. Supposedly, Chinese regulators had already warned Didi of this and told them not to go ahead with their IPO until the investigation was complete. The regulators in Beijing had even assumed that Didi would pause their IPO. However, this wasn’t the case.

This sudden huge loss in possible revenue and even concerns about whether the app would be in use again caused panic among US investors. This caused a huge selloff in Didi’s stock which currently sits at 14% under its IPO price as of 7/9/21. Along with various class action lawsuits in the US due to the companies lack of transparency in warning investors about a possible probe by regulators. It has also lead to US regulatory action in which lawmakers are attempting to push for further regulations on the IPO of foreign countries. Specifically they want all foreign companies using the New York Stock Exchange for an IPO to meet US audit requirements.

Chinese regulators also aren’t backing down. With a removal of more of Didi’s businesses on July 9th, 2021, Beijing is showing that they won’t show Didi any leniency. They have not backed down from their claim that Didi has had cyber security concerns and may have illegally collected data on it’s users. China wants Didi to reduce its data collection and stop it’s monopolistic practices. Its monopolistic practices have, however, been shown to have cracks. It’s market share has been decreasing with other startups filling specific niches Didi cannot cover, such as luxury rides.

Implications:

With the crackdown of Didi, it shows another step the Chinese government is taking in regulating its tech industry. Most notably along with cancelling Ant Group’s IPO, this is another huge step for Beijing. Concerned that the tech giants in Shenzhen have too much power, the politburo has become increasingly strict on what it allows the tech industry to do in China. Hoping that more of it can be made into state entities. Most notably data collection, which the Chinese government hopes to do itself. Therefore it is cracking down on tech companies that not only collect large amounts of data, but also those who refuse to listen. Whether or not this play will allow China’s technology sector to continue to flourish remains to be seen.

The crackdown of Didi also has huge implications to investors here in the US. Chinese companies have raised a total of $12.6 billion from IPOs within the US in the year 2020 alone. This intertwines US and Chinese tech companies increasing globalism and increasing the economic cost if the two superpowers were to engage in a conflict. However, with this move and China’s increasing hostility towards companies that choose to list on the NYSE instead of Shanghai’s own stock exchange, an era of US-China technological investment cooperation may be coming to an end. Along with US investigators making it harder for foreign companies to list, it could be possible that US and Chinese tech giants could become more independent of each other, possibly leading to further escalation in the Cold War-esque tensions between the US and China.

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