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China's Big Tech sector braces for fallout as Xi secures third term

Article

The news: China's stocks fell sharply due to selloffs in **Hong Kong**, **Shanghai**, **Shenzhen**, and **New York** one day after a leadership reshuffle in China's Communist Party, per South China Morning Post.

Xi's reign spooks Big Tech investors: President **Xi Jinping** effectively secured ultimate power for life and filled the country's highest decision-making body with loyalists. Fears of tighter government control over businesses has resulted in multiple stock market crashes.

- The **Hang Seng Chinese Enterprise Index** was down 6.7% from Friday's close, with trading yesterday hitting the lowest level since the index's launch in 2005, per Asia Markets.
- The broader Hang Seng Index fell 6% to levels last seen during the 2008-2009 global financial crisis.
- Chinese tech stocks felt the brunt of the panic selling, with **Alibaba**, **Pinduoduo**, **Tencent**, **Baidu**, **Meituan**, and **JD.com** all posting declines of over 10%.
- The Nasdaq's **Golden Dragon China Index**, which follows the performance of major Chinese companies trading on US exchanges, dipped as much as 20% in early trading Monday.
- "Some investors may worry about the lack of checks and balances and the risk [that] potential policy mistakes evolve into major shocks to the economy," Bank of America told Nikkei Asia.
- The yuan also **weakened to a 14-year low** to pass 7.3 per US dollar Monday.

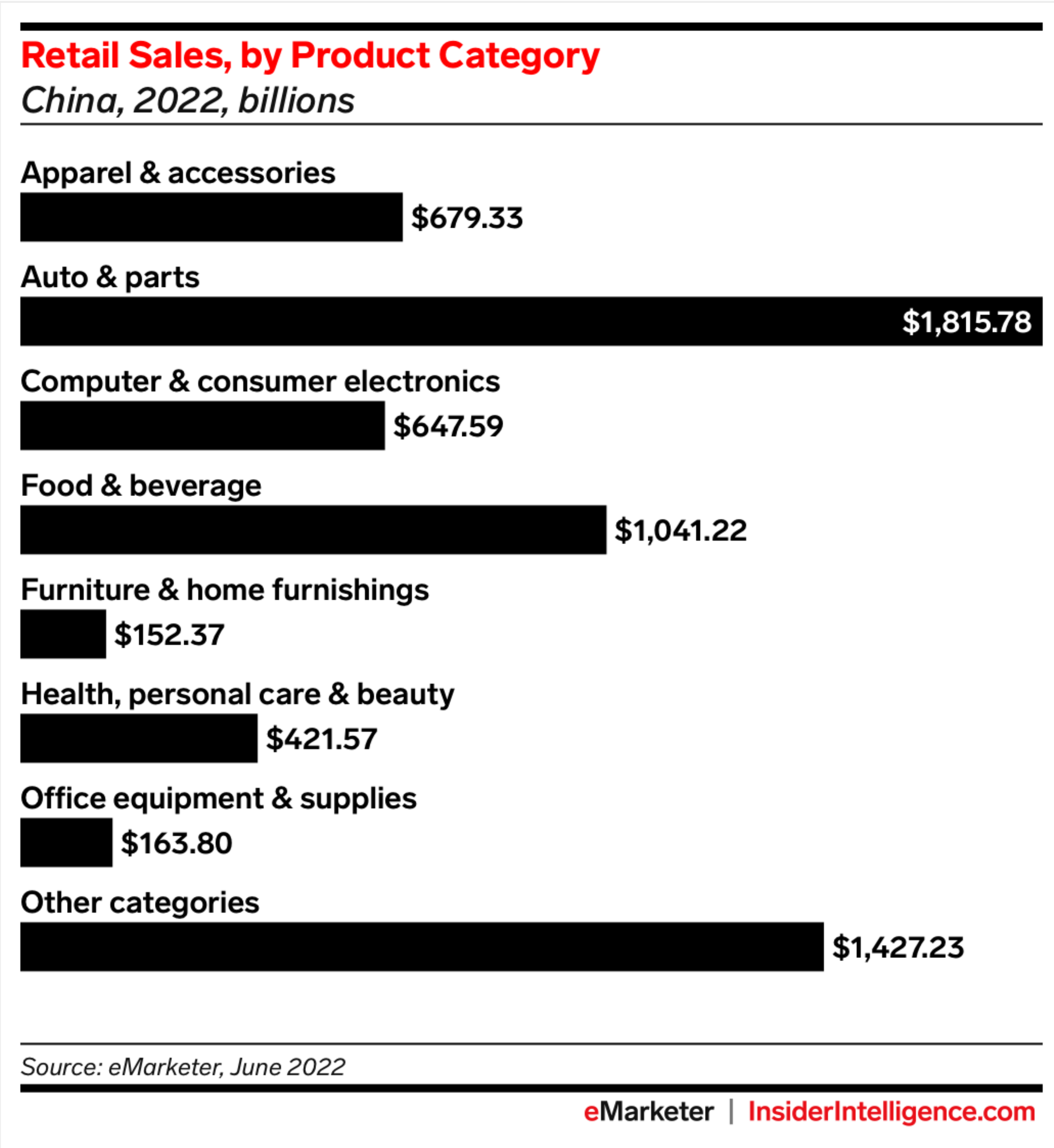
China's heavy-handed control over Big Tech: Various Chinese Big Tech companies have suffered through stringent regulation that has scared away investors, discouraged the listing in overseas markets, and compounded economic uncertainty from monthslong COVID-related closures.

- Ride-hailing firm **Didi** saw shares lose more than 60% of their value early this year after it was asked by regulators to delist from the NYSE.
- **$623 billion of Tencent's market value vanished,** per Yahoo—the result of slow government approval of new games and weakness in advertising revenue slowing down profits.
- **JD.com, Alibaba, and Tencent** laid off **thousands of employees in April** due to tightened regulations and a slowing economy.
- Some investors were already calling parts of China uninvestable in May, before the news of Xi's third term and government shuffle.

What's next? Expect China's government to quickly enforce control over the economy, which is growing at its slowest pace in three decades due mostly to pandemic-related closures and the government's zero-tolerance policy lockdowns.

- China's Big Tech companies could slow down innovation and product releases as they scramble to navigate the new political landscape.

- Any slowdown in China will have instantaneous global repercussions. In context, **the country produces more than 70% of the smartphones shipped to the US**, per Canalys.



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