

(Bloomberg) — Investors rushed to offload Chinese tech stocks as a flare-up in Sino-U.S. tensions sparked fears that more scrutiny from Washington could be in store for the sector.

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The Hang Seng Tech Index, which tracks mostly Chinese technology firms traded in Hong Kong, declined as much as 3.9%, the most in more than a month. More broadly, the CSI 300 Index slid as much as 1.5%, while the Hang Seng Index lost 1.9%.

On Tuesday, the U.S. Federal Communications Commission voted to force China Telecom, one of three leading communications providers in China, to close its U.S. business. On the same day, Secretary of State Antony Blinken said that the exclusion of Taiwan, which China considers part of its territory, from the UN “undermines the important work” of the international body.

“The revoking of China Telecom’s operating license seems to dampen previous hopes that the U.S.-China relations may be turning for the better,” said Jun Rong Yeap, a market strategist at IG Asia Pte. “The move has raised some doubts as to whether further escalation may bring back more U.S. scrutiny on Chinese technology players.”

The selloff shows sentiment is still fragile toward China’s embattled tech sector, which saw a nascent rally losing steam. The Hang Seng Tech index has been in the red each day this week, down nearly 5% so far. The gauge has slid more than 40% from a peak in February amid Beijing’s clampdown on private enterprise in its push to reduce wealth gap and tame monopolistic behavior.

Though China Telecom doesn’t do a lot of business in the U.S., being barred from the market is significant, after moves against other giants of China’s burgeoning tech industry, including Huawei Technologies Co.

The stock declines followed a slump in Chinese shares listed in the U.S. overnight, with the Nasdaq

Golden Dragon China Index tumbling more than 4% in its biggest loss in over a month.

Investor confidence in China's tech stocks hasn't been fully restored "so they rush to dump those stocks at any negative news and signs of flows reversal," said Castor Pang, head of research at Core Pacific-Yamaichi International Hong Kong Ltd.

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