U.S. Stock Markets Drop Sharply Amid China Worries

According to Dow Jones, the first week of 2016 was the worst five-day start for the Dow on record. Over the course of the week, the Dow lost 1,079 points, over six percent of its value. Investors saw markets plunge last week as fears about Chinese markets dealt a heavy blow to markets worldwide.

Chinese markets began the year with an astounding 12-percent drop. On the morning of January 7, Chinese markets dropped so severely a Chinese government tool manufactured to stabilize market volatility was triggered and trading was halted after having been open only 30 minutes. Investors and traders alike were left seemingly confused by the new so-called circuit-breaker mechanism that halted trading in Shanghai and Shenzhen markets as stocks fell below the trigger point of a seven-percent drop.

In a statement later Thursday afternoon, China said it would temporarily suspend its new “circuit breaker” correction mechanism as speculation mounted that it was contributing to market unrest. After the market-correction tool was deactivated, Chinese stocks rose about two percent on January 8. The Shanghai Shenzhen 300 Index (CSI300) closed at 3,361.56 on Friday and the Shanghai Composite Index (SSEC) closed at 3,186.41 points.

As the Chinese markets have struggled through the first week of the year, anxiety is spreading across the globe. Hong Kong’s Hang Sang market index fell 6.7 percent as they felt the weight of Chinese companies dragging their markets down. In Europe, Stoxx 600 also saw a 6.7-percent decline, its largest decline for a single week since 2011. Japan’s Nikkei Stock Average and Australia’s S&P/ASK 200 each lost more than two percent, and as noted above, markets in the United States followed suit with a near 1,100-point drop in the Dow. Also in the United States, the S&P saw $1.1 trillion vanish, and NASDAQ dropped over five percent.

Fears about Chinese markets also spread to global commodity markets. U.S.-traded oil was down over two percent closing Friday at $32.88/barrel as concerns spread about future demand from the second-largest consumer of crude oil. Base metals such as copper and nickel fell as well.

Furthermore, as Beijing allowed a steeper-than-expected fall in the value of the Chinese yuan verses the U.S. dollar, investors in Chinese markets are apparently worried that policymakers in China are more willing to meddle the country’s economic affairs, potentially leading to further economic problems, than had been assumed.

As Chinese market volatility and yuan devaluation has dominated the first week of trading across the globe, analysts also have increased concerns that the devalued yuan may cause neighboring countries to devalue their own currencies in an attempt to avoid a decreased Chinese demand for imports that would cause turmoil in their own economies.

Investors and traders alike are speculating how unrest in the Chinese markets and currency might have long-term effects on world markets. It is widely believed that the first half of 2016 will be volatile, as many of the market problems experienced last week were a reflection of the entire year of 2015.

There's a saying that goes, "When China sneezes, the world catches a cold." That saying is, in part, the product of manufacturing and production moving to China over the course of the last 30-plus years and Chinese consumption of commodities from nations the world over. However, that consumption has been waning as of late.

China, with its massive population, is also a chief consumer of products exported from countries around the world. Nearly eight percent of all U.S. exports are destined for China. About 20 percent of Japanese exports go to China, and approximately 30 percent of South Korean exports are destined for China. Most major world markets will find a way to ride out the effects of China's economic turmoil, but there are a multitude of smaller nations throughout the world that are significantly more dependent on Chinese consumption of their exports. For example, smaller countries such as Sierra Leone, Mongolia, Gambia, and Sub-Saharan Africa see as much as 50 percent of their exports consumed by mainland China.

The drop in Chinese consumption has even been felt in common "Mom and Pop" businesses across the United States that export to China. Since its high four years ago, iron ore prices have dropped an astonishing 70 percent, copper is down about 50 percent, and aluminum is down over 40 percent, all largely due to decreased Chinese consumption. The result is many businesses such as mining, recycling yards, and auto salvage yards either closing their doors completely, or struggling to keep them open even after cutting jobs.

As the Chinese government continues to toy with the nation's currency and meddle with the stock market, and Chinese businesses continue to suffer, the effect is likely to be an ever-weakening Chinese consumption demand. This could leave markets and countries around the world feeling the effects for years to come. As *The New American* has noted:

> Of course, more than a few analysts have long warned about economic instability in China even while its economy seemed to be growing at breakneck speed. Despite slight "market-oriented" reforms over the past few decades, the Communist Party regime still controls most of the economy through central planning in credit allocation, so-called state-owned enterprises that dominate the markets, tight management of its fiat currency, and much more. As central planning always does everywhere, all of that leads to massive malinvestment, wasted resources, and other problems. That is becoming increasingly obvious in China as stock and real-estate bubbles collapse. And it may get worse, soon.

Many have now been left wondering as to the solutions to the effects of Chinese turmoil here at home. Those solutions are largely found in the stability of a sound but limited government and free markets. What is more likely to be seen in China and countries across the world is more meddling and increased government interference.

As Ronald Reagan once said, "I hope we once again have reminded people that man is not free unless government is limited. There's a clear cause and effect here that is as neat and predictable as a law of physics: As government expands, liberty contracts."

His words ring ever true and the solution to much of the turmoil felt in volatile Chinese and world markets lies in the expansion of liberty and the contraction of government.