

## **The fall of the Shanghai stock exchange and the world economy**

CHIATCHOUA, Cesaire<sup>\*†</sup>, PORCAYO-ALBINO, Arianna Yanet<sup>''</sup> and CERVANTES-MORALES, Clotilde<sup>'</sup>

*Tecnológico de Estudios Superiores de Chimalhuacán.  
''Incubation Center Technology Based Firms.*

Received April 14, 2015; Accepted October 27, 2015

---

### **Abstract**

The news of the Shanghai stock market fall added to the slowdown of the Chinese economy has caused concern in the world. In Europe, the London recorded a loss of 6.36%, the Paris fell 8.28%, Frankfurt was down 6%, Milan lost 4.84%. Gold prices and oil prices declined between 2010 and 2015, from 175.29% to 3.34% and from 95% to 47.31% respectively. The falls were fatal in commodity prices in the countries of Latin America, the price of oil went from -43.12% in 2014 and -9.95% in 2015, the gold price -7.91% to -63.50% in 2014 and 2015. For silver step growth of -7.93% in 2014 and 3.63% in 2015. The Mexican Stock Exchange was not exempt from this global crisis which recorded a fall of 6.38%. In the case of raw materials, the growth of silver in 2014 and 2015 was -2.70% and -49.26% respectively. In the case of gold, resulting in falling 0.20% in 2014 and -45.59% in 2015.

**China, Economic Growth, Latin American, México, Raw Materials, Stock Exchange.**

---

**Citation:** CHIATCHOUA, Cesaire, PORCAYO-ALBINO, Arianna Yanet and CERVANTES-MORALES, Clotilde. The fall of the shanghai stock exchange and the world economy. ECORFAN Journal-Republic of Cameroon 2015, 1-1: 77-84

---

---

\* Correspondence to Author (email: chiatchoua@yahoo.co.uk)

† Researcher contributing first author.

The Stock Exchange is a private organization that provides tools for members, attending the mandates of its clients, enter orders and conduct negotiations for buying and selling securities, such as shares in companies or joint stock companies, public bonds and private facilities, degrees of participation and a wide range of investment instruments. China has several bags which can highlight the Shanghai Stock Exchange, one of the largest in the world with the Shanghai Stock Exchange or SSE index.

"On Monday August 24, 2015, the morning news radio, television and digital news portals in the country with great concern the reported fall of 8.49 percent of the Shanghai Stock Exchange, which caused major European stock markets also recorded sharp declines, so the London Stock Exchange closed the day of the day with a loss of 6.36 percent, the Paris fell 8.28 percent, Frankfurt was down 6 per cent, Milan lost 4.84 percent". [1]. This news is worrisome because China is the second largest trading partner in Europe and the United States, one of the main partners in Latin America. China's share in imports from the EU in the world increased from 11.1% in 2002 to 19% in 2012, this represents a growth of 71.17%. Second only to the area of NAFTA (Mexico and Canada). China was responsible for 30% of global consumption of coal, steel, cotton and rice and 15-20% of global consumption of aluminum, copper, soybeans, wheat and platinum; China is already the world's largest producer of coal, steel, cement, aluminum or copper; China is also the world's leading manufacturer of textile products, and the country is entering successfully in sectors such as computer manufacturing and biotechnology [2]. It goes without saying that a healthy Chinese economy is good news for developed and developing world.

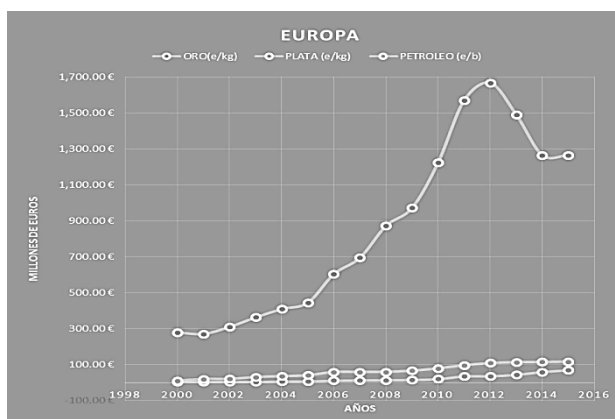
The aim of this study is to determine the impact of the fall of the Shanghai stock exchange in the world economy with particular emphasis on the situation in Mexico. In the first section the impact of the slowdown of the Chinese economy into the world economy, particularly in Europe, then in the second section, its influence on the Latin American economy are presented, focusing on the case of Mexico where exports and imports They were affected by this slowdown. Finally, conclusions and recommendations for Mexico and the world are presented.

### **The position of China and the world economy**

Strong growth in China has had major impacts on trade flows in recent decades, both on prices and on the volumes. The economic performance of China is crucial because it has one of the highest in the world Gross Domestic Product has grown at high rates of growth in recent decades, placing it in 2013 as the second largest economy after the United States and represents about 15% of the world population. As a result of strong GDP growth and the commercial boom that has occurred in recent years, China has become the leading power in world trade with 11% share surpassing the United States, which holds 10.4%. In other words, the second largest global economy adds an amount which amounted to 2.21 billion dollars, an increase of 8% over the previous year, down from China, the second place was United United. The greatest world power generated net 1.57 trillion, while Germany, the dominant economy in the euro area was ranked third with 1.45 billion in 2013, the value of world merchandise exports reached a value of 18.8 trillion (BDD), 2% higher than 2012, while world exports of commercial services recorded a growth rate of 6% equivalent to 4.6 BDD [3].

Chinese imports of agricultural, food and fishery products have grown at an average annual rate of 21.5% since 2001, while total imports have made 18%. Also in 2001, Chinese imports of food, agricultural and fishery products reached US \$ 9.8 billion, representing 2% of total global purchases, while in 2013 this figure was multiplied 10 to US \$ 100.8 billion, 6.7% of world imports of food [4].

The drop in the Shanghai stock market crash of the Chinese market and uncertainty about economic growth, problems in export industries and the decline in commodity prices, caused a chain reaction not only in equity markets but also in the price of oil, copper and other raw materials. Meanwhile, global stock markets have lost about US \$ 5 billion (nearly a third of US GDP). In Europe, the Milan Stock Exchange and Frankfurt were the most affected, with declines of 2.6 and 2.34%, respectively. They also closed in negative territory Paris (-2.06), Madrid (-1.81) and London (-0.56). The index compiled by Bloomberg Commodities fell to its lowest level since 2002 and accumulated a 7.2% so far this month, dragged down by the decline in oil prices, nickel and sugar [5].



**Graphic 1** Growth of prices of gold, silver and oil. Millions of euros. (2000- 2015). Based on data from the World Bank.

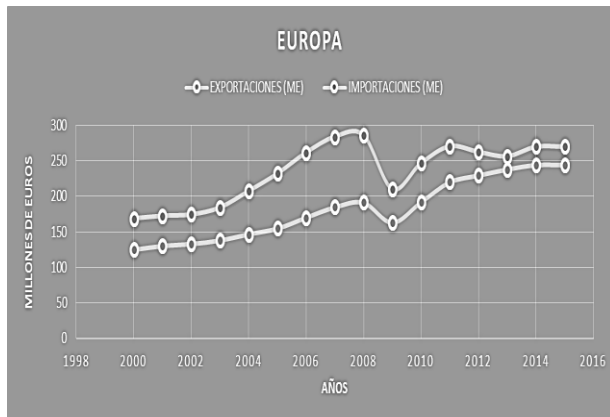
Graphic 1 shows the evolution of the prices of gold, silver and base oil in Europe. From 2000 to 2005 the price of gold fell to 444.80 € 279 per kg. What gives a growth rate of 59.4%. Between 2005 and 2010 prices increased from € 444.80 to 1224.50 per kg respectively. Which gives a growth rate of 175.29%. Finally between 2010 and 2015, prices are as follows, € 1,224.50 for the first year against 1265.60 for the next. Here the rate of price growth is 3.34%.

In the case of silver, the phenomenon is different. From 2000 to 2005 the price of silver rose from 5 € to 7.34 per kg. The growth rate is 46.8%. Then between 2005 and 2010, the price increase spending 7.34 € to 20.16. Which presents a growth rate of 174.65%.

Then, for the years 2010 and 2015, the price continued to rise, to go from € 20.16 to 69, with a growth rate of 242.26%. Finally, the oil has the following prices for 2000 and 2005: 10.14 and € 40.57 respectively.

Which gives a growth of 300%. Then between 2005 and 2010, prices are € 57 and 40.79.42. Growth slows to 95% and after 2010 and 2015, prices vary between € 79.42 and 117 respectively. This leads to a growth rate of 47.31%.

We can see a net decrease in the growth rate of gold in recent years, while the slowdown and the decline in demand for silver China have not affected the growth of the price. Therefore, the growth rate of the price of oil has fallen over the period 2000-2015.



**Graphic 2** Growth rate of foreign trade in Europe. Millions of euros. Based on data from the World Bank.

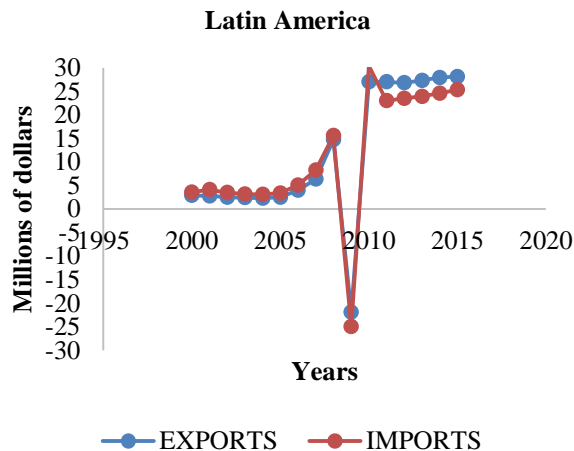
Is China presence in international trade affects the growth of export and import activities in Europe in current crisis? Graph 2 shows the evolution of international trade in Europe. Exports between 2000 and 2005 showed the following amounts: EUR 124 784 000 and 154 846 respectively. Which gives a growth of 24.09%. For the years 2005 and 2010, the amounts were 154 846 000 and 191 912 euros respectively. Which gives a growth of 23.93%. This decrease is mainly due to the financial crisis originated in the United States. Finally, for the years 2010 and 2015, exports totaled EUR 191 912 000 and 244 534. Representing a rate of 27%. It can be seen that exports to Europe after a slight decline grew favorably between 2010 and 2015.

In the case of imports, it can be seen that between 2000 and 2005, the amounts were EUR 169 059 000 and 232 124, resulting in a growth of 37.30%. For the period 2005 and 2010, the amounts are of EUR 232 124 000 and 246 674, an increase of 6.26% is obtained. Then between 2010 and 2015, the amounts vary from EUR 246 674 000 and 269 852. Here, the growth rate becomes 9.39%. A slight increase but far from the growth period of 2000-2005.

It can be concluded that the slowdown of the Chinese economy poses many problems for the world economy. In the case of Europe, the fall of the Shanghai Stock Exchange has affected financial markets as mentioned above, also prices of basic commodities like oil and gold. Foreign trade has not suffered, nor suffer much from this crisis.

### **The fall of Shanghai Stock Exchange and the situation of the Latin American economy**

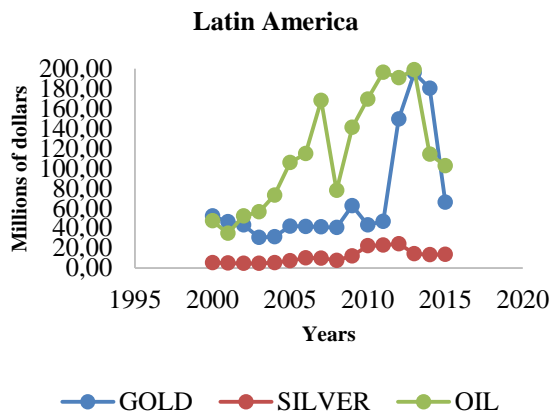
The biggest economic and commercial weight of Latin America in the world is unquestionable, even considering the economic slowdown experienced by the region in the years 2013-2014. From 1990-2012 the region's participation in economic activity in the world has gone from 5.1% to 7.8% in world trade from 4.1% to 6.1% and Foreign Direct Investment ( FDI) from 2.7% to 4.9%. The prices of raw materials on international markets rose sharply - in particular due to the rise of China in the world economy. [6]. In fifteen years, China has gone from being a relatively insignificant economic partner in Latin America to be the number one trading partner of some of the largest economies in the region. [7]. Figure 3 shows an evolution of Latin American foreign trade from 2000 to 2008. However, a tremendous slowdown seen in 2009 due to the severe financial crisis in the same year in the United States. After recovery in 2010, we see a significant drop in imports relative to exports. Since 2012, a stagnation of growth is observed



**Graphic 3** Foreign trade of Latin America (2000- 2015) million.

#### Based on data from the World Bank

Due to increased demand from China and other emerging economies, commodity prices have risen sharply since the beginning of the decade of 2000-2007, particularly in the case of minerals and metals, in this case gold, silver and Oil.

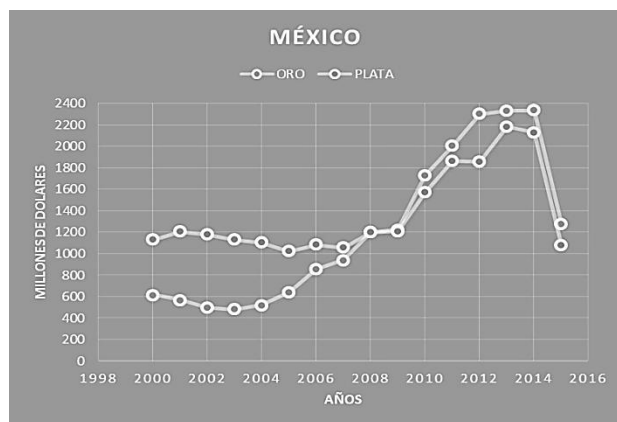


**Graphic 4** Evolution of the prices of gold, silver and oil in Latin America (2000-2015) Millions of dollars. Based on data from the World Bank.

This has favored the growth of the countries in the region that export these products, especially those in South America. Shown in the graph a slowdown between 2007 and 2008 explained by the global crisis occurred this year and next year. After a spectacular recovery in the case of oil, a slowdown in prices observed since 2013 to date. This represents a growth rate of -43.12% in 2014 and -9.95% in 2015. The case is similar gold after holding steady from 2002 to 2010, the price accelerated strongly through 2013. Months later, he observes a until the present slowdown with a growth rate of -7.91% - 63.50% in 2014 and 2015. Finally, the price of silver has been stable in the early 2000s until the years 2008 an increase was observed between 2009 to 2012. The price of silver has experienced a decline and stagnation at present growth rate of -7.93% in 2014 and 3.63% in 2015. This situation can be explained by reduced demand for raw materials by China. This decline in commodities results in difficulties for exporting countries. In recent months the turbulence resulting from this fall have rocked the middle globe, from Brazil and Chile, where the lower value of exports has led to a sharp slowdown in their economies asserts Stein of Oxford Economics [8].

The fall in global stock markets represents an announcement of a crisis in the major economies of the world and affects developing countries such as Mexico, which is heavily dependent on external factors. Below the graph 5 presents the evolution of prices of raw materials such as gold and silver. The two products have evolved steadily between 2000 and 2007. Then comes a period of continuous rise for gold until the beginning of 2014. Then come a drastic drop in the gold price in the course of 2014 and 2015.

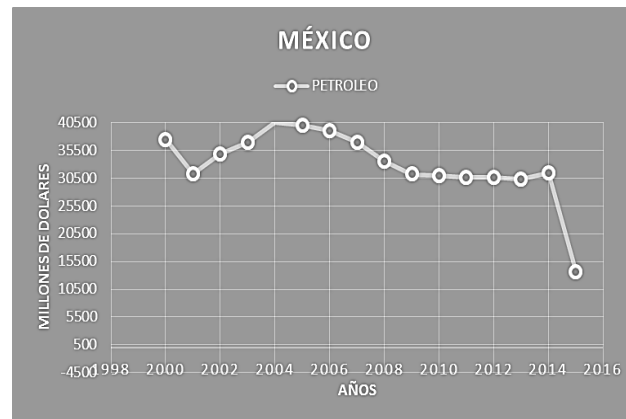
This period coincides with the slowdown of the Chinese economy and especially the fall of the stock market, this decline translates into 0.20% in 2014 and -45.59% in 2015. For the price of silver, the way is practically the same, unless recorded a small decrease in 2012, recovered very quickly in 2013. During 2014 and 2015 the price has slowed rapidly in 2014 and 2015 the growth rate was -2.70% and -49.26%.



**Graphic 5** Evolution of the prices of gold and silver in Mexico. Millions of dollars Based on data from the World Bank.

The news of the collapse in global stock markets including that of Mexico, was accompanied by a sharp depreciation of the peso against the dollar and falling oil prices in the international market as shown in the following chart. You can see a price decrease between 2000 and 2001, then a quick recovery until 2005. The global economic instability, the premises of a possible financial crisis in the United States and the stock market crash in Shanghai in 2007 may explain the decrease oil prices between 2006 and the early 2010. Then comes a time of stagnation in the course of 2010 and 2014. It is clearly seen that by 2015 oil prices fell sharply with a growth rate of -56.76%. The slowdown of the Chinese economy affects the price of oil because as we saw earlier, is the best buyer and consumer of commodities in the world.

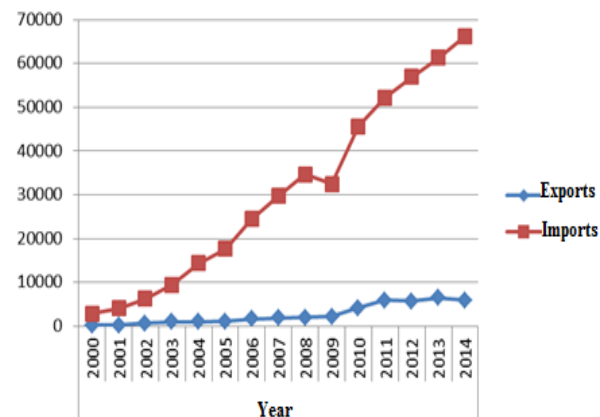
An economic slowdown implies a reduction in exports and consequently less revenue for Mexico.



**Figure 6** Evolution of oil prices. Million (2000-2015)

#### Based on data from the World Bank

The following graph represents the evolution of Mexico's foreign trade with China and it is no surprise to note that imports are much higher than exports. This situation is not close to finishing activities as imports continue to grow faster than the export growth rate. This shows the dependence of Mexico with China. The fall of the Chinese stock market means there is loss of confidence to invest, there is less demand for products and energy, which causes negative effects also in Mexico.



**Graphic 7** Foreign Trade of Mexico with China (exports and imports) [9].

## Conclusions

The aim of this paper is to show the effect of the slowdown in the Chinese economy through the stock market crash in Shanghai in the global economy. It was observed that in Europe You can see a net decrease in the growth rate of the gold while China decreased demand for silver has not affected the growth of the price. Therefore, the growth rate of the price of oil has fallen over the period 2000 to 2015. On the other hand, the fall of the Shanghai Stock Exchange has affected financial markets, foreign trade has not suffered much from the crisis . In Latin America, it shows a net decrease of foreign trade, going from 23% from 2006-2011 to 7.2% in 2012-2015 on average. Commodities have fallen sharply from 2012 to date, especially oil and gold. Finally, Mexico has not been exempt from this crisis. The prices of raw materials such as gold, silver and oil have declined dramatically from 2012 to date, also the Mexican Stock Exchange was affected. This imbalance in the world economy reflects the weight that China into the world economy. To avoid this situation country more generally exposed developing countries such as Latin America and Mexico will replace the Chinese market for the African market. It is time to diversify their exports and channeled to new horizons. The African market is the current trend; given its various funds, net population growth and political and economic stability it offers. In fact according to research, by 2015 it is projected that Africa will be the world's largest market with a population of two (2) billion.

## References

[2] **Bustelo, G.** (2005). China en la economía mundial fortalezas, debilidades y perspectivas. Cuadernos de Información económica, N° 186, 74-81.

**Dirección General de Relaciones Económicas Internacionales.** (2014). China como comprador mundial de productos agrícolas, pesqueros y alimenticios. Oficina de Estudios y Políticas Agrarias: Departamento de Estudios. Chile.

[1] **Esquivel, e.** (2015). “Importancia de las bolsas de valores del mundo y su impacto en México” spdnoticias.com, consultada el 20 de octubre a las 7:00 horas.  
<http://www.sdpnoticias.com/nacional/2015/08/25/importancia-de-las-bolsas-de-valores-del-mundo-y-su-impacto-en-mexico>

[6] **Estévez, A, B.** (2014). La explosión de la inversión exterior latinoamericana: tendencias y evolución reciente de las multilatinas. Latin American Program. Woodrow Wilson International Center for Scholars.

[3] **Orozco, M, N.** (2015). Los 15 países con más exportaciones a nivel mundial. Forbes México. Consultado el 20 de Octubre de 2015.  
<http://www.forbes.com.mx/los-15-paises-con-mas-exportaciones-a-nivel-mundial/>

[8] **Fariza, I.** (2015). La debilidad china lleva las materias primas a mínimos de 13 años. El PAÍS. Consultado el 12 de Noviembre de 2015.  
[http://economia.elpais.com/economia/2015/07/26/actualidad/1437937870\\_327794.html](http://economia.elpais.com/economia/2015/07/26/actualidad/1437937870_327794.html)

[7] **Ray, R y Gallagher, K.** (2013). Boletín económico china- américa latina. Global Economic governance initiative.

[9] **Secretaría de Economía.** (2014). Comercio Exterior de México con China. Subsecretaría de Comercio exterior. México.

[5] **Télam. (2015).** “Fuerte caída en principales mercados internacionales por temor a nueva desaceleración de la economía a nivel global”. Agencia Nacional de Noticias. Consultada el 20 de agosto de 2015 <http://www.telam.com.ar/accesible/notas/201508/117039-economia-china-revalorizacion-euro-mercados.html>.