

I. ***The Chinese Stock Markets: Where They Were, Where They Are, and Where They're Trending***

A. **Introduction**

1. *The Chinese Stock Market Crash of 2015*

Over the past decade, the world's second-largest economy has crashed, failed to rebound anywhere near pre-crash heights, and now looks to be on the verge of another disaster. Many scholars are worried that the lack of a rebound from the 2015 crash has left Chinese markets in a fragile state, which is on the edge of collapsing once more.¹ To grasp the complete picture of how dire the situation concerning the Chinese markets truly is, one must start at the epicenter, the crash of 2015.

China's 2015 stock market collapse was sparked by a rapid bubble forming in the Shanghai Composite, over 5,100 points in a year, a 150% increase in points from the start of the bubble forming to its burst, which subsequently popped causing the market to lose thirty-two percent of its total value over eighteen trading sessions.² Since the crash, there have been studies and debates over what exactly led to the Chinese

¹ U.S. -CHINA ECON. AND SEC. REV. COMM'N: CHINA'S STOCK MARKET MELTDOWN SHAKES THE WORLD, AGAIN (2016) at 1, <https://www.uscc.gov/sites/default/files/Research/Issue%20brief%20-%20China%27s%20Stocks%20Fall%20Again.pdf> [<https://perma.cc/K7LQ-MCR4>] (“The combined rout erased more than \$1 trillion of value”); see also Vivek Shankar, *China Stocks Slump as Economic Gloom Spreads*, THE NEW YORK TIMES (Aug. 16, 2023, 7:23 PM), [https://www.nytimes.com/2023/08/16/business/china-hong-kong-stocks.html?login=smartlock&auth=login-smartlock](https://www.nytimes.com/2023/08/16/business/china-hong-kong-stocks.html?login=smartlock&auth=login-smartlock&login=smartlock&auth=login-smartlock) [<https://perma.cc/YAJ3-J2GH>].

² Chales Riley, *China has Spent \$236 Billion on its Stock Market Bailout*, CNN BUSINESS (Sept. 8, 2015, 5:49 AM), <https://money.cnn.com/2015/09/08/investing/china-stock-market-bailout-beijing/index.html> [<https://perma.cc/KA6B-TG3F>] (“The first signs of trouble came in June, after the Shanghai Composite peaked at more than 5,100 points, a gain of roughly 150% over the previous 12 months. When the bubble burst, the index lost 32% of its value in just 18 trading sessions.”).

bubble bursting. One robust research inquiry revealed a driving factor in the crash was how shadow-financed margin accounts were regulated.³

2. *Causes and Effects that Led to the 2015 Crash*

There are two major markets at play in the Chinese stock market crash of 2015, the brokerage margin market and the shadow margin market.⁴ The broker margin market is the official market of China.⁵ This market is beholden to China Securities Regulation Commission (CSRC) regulations.⁶ The CSRC has implemented what is known as the “Pingcang line” which applies to the brokerage market.⁷ This line refers to the “constant maximum allowable leverage ratios” that, if crossed, would trigger margin calls for Chinese brokers.⁸ The Pingcang line was instrumental in keeping the market in check, to avoid major financial crises, much like various Securities and Exchange Commission regulations help balance U.S. markets.⁹

However, the shadow margin market is not subject to CSRC regulations.¹⁰ The shadow margin market is a market that provides funding services to investors that cannot meet the CSRC’s brokerage

³ Jiangze Bian, Zhiguo He, Kelly Shue & Hao Zhou, *Leverage-Induced Fire Sales and Stock Market Crashes* 11 at 1 (Nat’l Bureau of Econ. Rsch., Working Paper No. 25040, 2018) (“We provide direct evidence of leverage-induced fire sales contributing to a market crash using account-level trading data for brokerage- and shadow-financed margin accounts during the Chinese stock market crash of 2015.”).

⁴ *Id.* at 2 (“Our data covers two types of margin accounts, brokerage and shadow margin accounts”).

⁵ Jiangze Bian, Zhiguo He, Kelly Shue & Hao Zhou, *Leverage-Induced Fire Sales and Stock Market Crashes*, VOXCHINA (December 03, 2018) <https://voxchina.org/show-3-109.html#:~:text=In%20contrast%2C%20the%20shadow%20margin,%2C%20a%20minimum%20wealth%20requirement> [<https://perma.cc/A5WY-EYK6>] (“The brokerage margin market is China’s official margin market”).

⁶ *See id.* (“ . . . the China Securities Regulation Commission (CSRC) sets constant maximum allowable leverage ratios (called the Pingcang line) that will trigger margin calls for all brokerage firms in China.”).

⁷ *See id.*

⁸ *See id.*

⁹ *See id.*

¹⁰ *See id.* (“In contrast, the shadow margin market, which has no regulatory rules provides funding services to investors who cannot meet the brokerage account requirements (for example, a minimum wealth requirement)”).

requirements, such as wealth requirements.¹¹ The focus of the 2015 crash is primarily on the shadow margin markets.¹² On June 12, 2015, the CSRC announced draft rules that would limit margin lending.¹³ Despite drafting this limitation in response to a growing equity bubble, the draft caused the Shanghai Composite to go into a downward spiral.¹⁴ The announcement created a market of fire sales that instilled fear into investors in the shadow margin market and in turn, flooded the market with “fire sale accounts” that were attempting to cash out of the market.¹⁵

3. *Post-Crash Attempts to Stabilize the Market*

The rapid downward spiral of the Shanghai Composite following the June 12th announcement prompted the Chinese government to step in to try and hem the bleeding. The government implemented a lock-up period of six months on July 8th, 2015, which meant directors, executives, and major shareholders that owned more than five percent of a company’s tradeable stock were barred from trading those shares until the lock was lifted.¹⁶ Additionally, the Chinese

¹¹ *See id.*

¹² *See generally*, Jiangze Bian, Zhiguo He, Kelly Shue & Hao Zhou, *Leverage-Induced Fire Sales and Stock Market Crashes* (Nat’l Bureau of Econ. Rsch., Working Paper No. 25040, 2018) at 34 (“In general, shadow accounts have more total assets held in fire sale accounts than do brokerage accounts”).

¹³ SAMUEL WHITE, HOUSE OF LORDS, LIF 2015/2022, CHINA’S STOCK MARKET ‘CRASH’ (2015) at 1 (“Commentator Timothy Lee observes that shares started to fall after 12 June 2015, the same date as the China Securities Regulatory Commission (CSRC) announced draft rules to cap margin lending in response to concerns about an equity bubble.”).

¹⁴ *Id (above)*; U.S. -CHINA ECON. AND SEC. REV. COMM’N: CHINA’S STOCK MARKET MELTDOWN SHAKES THE WORLD, AGAIN (2016) <https://www.uscc.gov/sites/default/files/Research/Issue%20brief%20-%20China%27s%20Stocks%20Fall%20Again.pdf> [https://perma.cc/K7LQ-MCR4] (“Policies pursued by the government in search of new sources of growth are at least partly to blame for the creation of the bubble that burst in the summer of 2015”).

¹⁵ Bian et al., *supra* note 5 (“For this reason, in our study, we refer to accounts with a DMC below 3 as ‘fire sale accounts.’”).

¹⁶ CHINESE SEC. REGUL. COMM’N, ANNOUNCEMENT NO. 18 (2015) (“Within 6 months from now, the controlling shareholders of listed companies and shareholders holding more than 5% of the shares will (hereinafter collectively referred to as major shareholders) and directors, supervisors and senior

government pressured firms to refrain from short-selling, through regulation and communications with the firms.¹⁷ Circuit breakers were also attempted, in which trading on the Shanghai Composite would be halted if the market spiraled too quickly, stopping the market from bottoming out in one trading session.¹⁸ The circuit breakers had the opposite effect, however, and caused more panic as they were triggered too often and too shortly after trading began.¹⁹ Thus, circuit breakers were ultimately scrapped only four days after implementation.²⁰ The use of various fail-safes by the Chinese government may have helped short-term volatility in the market, but the failure of circuit breakers and eventual extension of the lock-up period for trading panicked long-term investors, stopping a recovery from the initial crash.²¹

4. *Chinese Markets post 2015 to post-pandemic*

The Shanghai Composite never bounced back to the pre-crash high of just over 5,100 points.²² Instead, from July 2015 to January 2022, the Shanghai Composite never breached 4,000 points, hitting a high of around 3,700 in September of 2021.²³ There was another

managers are not allowed to reduce their holdings of the company's shares through the secondary market.”).

¹⁷ Saikat Chatterjee & Nathaniel Taplin, *China Stock Exchanges Step Up Crackdown on Short-Selling*, REUTERS (Aug. 4, 2015, 12:30 AM) <https://www.reuters.com/article/us-china-markets-shorting/china-stock-exchanges-step-up-crackdown-on-short-selling-idUSKCN0Q909E20150804> [<https://perma.cc/3CTW-CM4C>] (“The China Securities Regulatory Commission (CSRC) has declared war on “malicious” short-sellers and is also scrutinizing the use of automated trading strategies favored by hedge funds to profit from market volatility.”).

¹⁸ Danxue Luo, Wanying Rao & Wei Zhou, *Policy Effectiveness Analysis of China's Circuit Breaker Mechanism*, HINDAWI, Sept. 20, 2020 at 1. (“For this reason, the Shanghai Stock Exchange issued a notice on December 4, 2015, deciding to implement the circuit breaker mechanism on January 1, 2016.”)

¹⁹ *See id.* (finding higher volatility in all nine industries' breakpoints).

²⁰ *See id.* at 13. (“It should be pointed out that, due to the fact that the circuit breaker mechanism was only applied in four days”).

²¹ U.S.-CHINA ECON. AND SEC. REV. COMM'N, *supra* note 1 (“The mechanism itself fueled panic among investors, who rushed to sell before it kicked in.”); SAMUEL WHITE, HOUSE OF LORDS, LIF 2015/2022, CHINA'S STOCK MARKET 'CRASH' (2015) (describing the attempts at recovery after the 2015 crash).

²² TRADING ECONOMICS, <https://tradingeconomics.com/china/stock-market> [<https://perma.cc/2GMD-SMBV>] (last visited Sept. 24, 2023) (See graph).

²³ *See id.*

panicked market falloff in 2016 which the Chinese government had to step in to quell.²⁴ This falloff was due to a mix of factors. First, the Chinese economy as a whole did not have a good forecast, specifically showing that the “purchasing managers’ index” (PMI) was especially weak for a prolonged period.²⁵ Another factor was the expiration of the lock-up period.²⁶ Despite this expiration being a seemingly positive lift of trading restrictions, the fear came from the fact over four billion securities would be now available to trade overnight, resulting in speculation on whether there would be a massive dumping of stocks when markets opened.²⁷

Notably, the market did not have a massive falling-off during the pandemic like the U.S. markets did.²⁸ In fact, the market seemed to be relatively stable during this time, even gaining points in 2020 while other markets hemorrhaged.²⁹ Post-pandemic, this trend did not last. After reaching a high of 3,639 in December of 2022, the Shanghai Composite once again began a downward spiral, keeping the market consistently below 3,500 points.³⁰ Currently, the market sits below the 3,000 points mark.³¹ What exactly is hampering the Chinese markets currently? Why is there such a depression in the market now as opposed to during the pandemic? And what tools are being used by the Chinese government to stop the Shanghai Composite from further plunging?

B. The Current Chinese Market

1. Destabilization Post Pandemic

The post-pandemic Chinese market has been a mixed bag. Coming out of the pandemic in 2022, China’s markets seemed to have

²⁴ U.S.-CHINA ECON. AND SEC. REV. COMM’N, *supra* note 1 (detailing the 2016 crash).

²⁵ *See id.* at 1. (“Caixin’s unofficial estimates of China’s manufacturing purchasing managers’ index (PMI) were weak for the tenth month in a row.”).

²⁶ *See id.* (“Fearing that big investors would start selling once the ban expired, many small investors rushed to get ahead of any sell-off.”).

²⁷ *See id.* (above).

²⁸ TRADING ECONOMICS, <https://tradingeconomics.com/united-states/stock-market> [<https://perma.cc/EMK7-MZLE>] (last visited Nov. 2, 2023) (showing via graph falling off).

²⁹ *See id.*; TRADING ECONOMICS, *supra* note 21 (showing via graph the points rising).

³⁰ TRADING ECONOMICS, *supra* note 21.

³¹ *See id.*

survived the turmoil the pandemic caused most other markets.³² Despite this, Chinese markets did not have a boom once the pandemic was essentially over, instead, the Chinese markets began another round of flux.³³ 2021 was a good year for the Chinese economy all things considered, early pandemic containment measurements meant they were ahead of the curve when it came to recovering from the economic effects of the pandemic, and the Chinese economy exceeded growth expectations for the first half of the year.³⁴ However, as 2022 unfolded, the Chinese economy struggled with slowing growth that was exacerbated by Russia's invasion of Ukraine, the Chinese government's zero tolerance Covid policy, higher than expected inflation globally, and a host of internal issues such as an aging population.³⁵

2. *What has Caused the Chinese Market Flux 2022-2023*

China's current market turmoil has not been entirely their fault. As stated prior, China's economy had strong growth in 2021 and the first half of 2022.³⁶ China's economic growth projection by September 2021 was to be around eight percent.³⁷ China surpassed this forecast

³² *See id.* (judging based off historical graph); TRADING ECONOMICS, *supra* note 27.

³³ Geoffery W.S. Okamoto, Address at the International Monetary Fund on China's Post-Pandemic Growth: Deepening Reforms and Pursuing Rebalancing (Sept. 22, 2021) (transcript available at the International Monetary Fund) (showing the good end of 2021 and expected trends of 2022); Shanaka J. Peiris & Krishna Srinivasan, *Asia Sails into Headwinds from Rate Hikes, War, and China Slowdown*, INT'L MONETARY FUND (Oct. 13, 2022) <https://www.imf.org/en/Blogs/Articles/2022/10/13/asia-sails-into-headwind-s-from-rate-hikes-war-and-china-slowdown> [<https://perma.cc/5JEE-45VD>] (showing the struggles of 2022).

³⁴ Okamoto, *supra* note 33 (demonstrating the strong relative performance in start of 2021).

³⁵ Pierre-Oliver Gourinchas, *Global Economic Growth Slows Amid Gloomy and more Uncertain Outlook*, INT'L MONETARY FUND (July 26, 2022) <https://www.imf.org/en/Blogs/Articles/2022/07/26/blog-weo-update-july-2022> [<https://perma.cc/U5SB-T3PW>] (breaking down the numbers behind China's slowing growth.).

³⁶ Okamoto, *supra* note 33.

³⁷ *See id.* at 1 (“... we are projecting growth for 2021 at about 8.0 percent.”).

eventually ending 2021 with a growth of 8.45%.³⁸ This growth eventually slowed with the first quarter of 2022 having a Gross Domestic Product (GDP) growth of only 4.8%.³⁹ The slowing of the Chinese economy continued into the second fiscal quarter of the year where growth was a mere 0.4%, amassing only a growth of two and a half percent for the first half of 2022.⁴⁰ 2022's second half fared a little better, with 3.9% growth in the third quarter and 2.9% in the fourth, totaling three percent growth for the year.⁴¹

The Chinese stock market through 2022 showed a similar pattern to the Chinese GDP as it was fraught with highs and lows.⁴² The

³⁸ C. Textor, *Growth Rate of Real Gross Domestic Product (GDP) in China from 2012 to 2022 with Forecasts until 2028*, Statista (last updated Oct. 10, 2023) <https://www.statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/#:~:text=In%202022%2C%20the%20growth%20of,rate%20of%20around%205.01%20percent> [<https://perma.cc/48KW-GK3K>] (“In 2022, the growth of real gross domestic product (GDP) in China amounted to 2.99 percent. For 2023, the IMF expects a GDP growth rate of around 5.01 percent.”).

³⁹ *China Economic Quarterly Q1 2022*, PRICEWATERHOUSE COOPER (2022) <https://www.pwccn.com/en/research-and-insights/china-economic-quarterly-q1-2022.html> [<https://perma.cc/3TB7-LJWU>] (“Total GDP reached 27 trillion yuan with growth of 4.8% in Q1”).

⁴⁰ *China Economic Quarterly Q2 2022*, PRICEWATERHOUSE COOPER (2022) <https://www.pwccn.com/en/research-and-insights/china-economic-quarterly-q2-2022.html> [<https://perma.cc/BK54-38J5>] (“GDP increase was stunted due to new COVID-19 outbreaks, 0.4% in Q2 and 2.5% in H1.”).

⁴¹ Wang Cong, *China's Q3 Data to Highlight Sustained Recovery, though Pressure Remains: Economists*, GLOBAL TIMES (Oct. 12, 2023, 10:50 PM) <https://www.globaltimes.cn/page/202310/1299770.shtml#:~:text=Apart%20from%20downward%20pressure%2C%20another,the%20third%20quarter%2C%20economists%20noted> [<https://perma.cc/DAB6-2T6C>] (“Apart from downward pressure, another major factor behind the seemingly slower growth is a high base in the third quarter of 2022. GDP growth saw a rapid recovery from 0.4 percent in the second quarter to 3.9 percent in the third quarter, economists noted.”); see also *China Economic Quarterly Q4 2022*, PRICEWATERHOUSE COOPER (2022) <https://www.pwccn.com/en/research-and-insights/china-economic-quarterly-q4-2022.html> [<https://perma.cc/PQN5-GWTD>] (“China's GDP growth slowed to 2.9% in Q4 to an overall 3% growth in 2022, eyeing a full recovery in 2023.”).

⁴² Daniel Slotta, *Monthly Development of the Shanghai Stock Exchange Composite Index from January 2018 to September 2023*, STATISTA (Oct. 11, 2023) <https://www.statista.com/statistics/452963/monthly-sse-composite-in-dex-performance/#:~:text=In%202022%2C%20the%20Shanghai%20>

high of the year came in February when the Shanghai Composite ended at 3,462.31 points where a series of ups and downs led to the low point of the year coming in October when the Shanghai Composite fell to 2,893.48, the lowest the Composite had been since 2020.⁴³ The reasons for this turbulent time are many. The initial uptick in the markets can be attributed to the early recovery of the Chinese macroeconomy from the pandemic.⁴⁴ As China paved the way for post-pandemic economies, investors took note and China saw an increase in IPO investments especially in semiconductors.⁴⁵ However, this changed by the close of 2022 when U.S. dollar funding for China-focused venture capital and private equity funds fell 85% to \$14 billion in 2022.⁴⁶ What caused this downturn in economic interest in the Shanghai Composite?

There are several factors that have led to this slowing of interest at the tail end of 2022. One of the main factors has been China's zero-Covid policy in which lockdowns would be reenacted even if there were only a few cases reported in the area.⁴⁷ The issue came with the fact this

20Stock,mainland%20China%2C%20which%20was%20the
[<https://perma.cc/G7XM-W7RX>] (“In 2022, the Shanghai Stock Exchange recorded a market capitalization of over 6.7 trillion, which made it the third largest exchange globally. Not only market capitalization was a unique attribute, but the Shanghai Stock Exchange was also home to the most valuable stock in mainland China”).

⁴³ *See id.*

⁴⁴ Okamoto, *supra* note 33 (“Because China is ahead of the curve in the recovery, it is not surprising that it is one of the first countries to normalize its macroeconomic policies.”).

⁴⁵ Evelyn Cheng, *Here are the China Trends Investors Bet Money on During Sluggish few Months*, CONSUMER NEWS AND BUSINESS CHANNEL (Jul. 3, 2022, 1:36 AM) <https://www.cnbc.com/2022/07/04/here-are-the-china-trends-investors-bet-money-on-so-far-in-2022.html> [<https://perma.cc/VY2G-WWAS>] (“By the numbers, manufacturing companies in China snagged the most investment deals in the first half of the year among 37 sectors tracked by business database Qimingpian.”).

⁴⁶ Una Galani, *Investors' China Aversion is Bad for Everyone*, REUTERS (Sept. 6, 2023, 10:57 PM) <https://www.reuters.com/breakingviews/investors-china-aversion-is-bad-everyone-2023-09-07/> [<https://perma.cc/NP3R-XVB E>] (“And U.S. dollar funding for China-focused venture capital and private equity funds fell 85% to \$14 billion in 2022, according to Gavekal Dragonomics.”).

⁴⁷ *What is China's 'Zero-COVID' Policy?*, VOA NEWS (Nov. 28, 2022, 10:53 PM) <https://www.voanews.com/a/what-is-china-s-zero-covid-policy-/6854291.html#:~:text=China's%20national%20zero%2DCOVID%20policy,neighborhoods%20or%20even%20entire%20cities> [<https://perma.cc/QM44-YFX4>] (explaining about what China's COVID policy is).

policy was implemented frequently.⁴⁸ One of the lingering effects of this lockdown was that in port cities, tankers and other ships that were attempting to import goods were left waiting in the bay as a diminished workforce created lengthy unloading times.⁴⁹ This in turn slowed turnaround for companies, combined with the already slow GDP growth causing a chilling effect in the market.⁵⁰

Another issue that led to a decrease in the Shanghai Composite was the invasion of Ukraine by Russia.⁵¹ Following the invasion, Russia was hit with a broad swath of sanctions from Western countries in an effort to force the Kremlin to cease and desist in their invasion or risk the crippling of the Russian economy.⁵² Russia never relented and the sanctions were ramped up and their effects began to be felt.⁵³ As China and Russia have closely tied economies, the sanctions meant to affect Russia began to affect China as well.⁵⁴ The companies under the biggest risk of being affected by the sanctions were high-tech companies that relied on foreign technology and equipment for manufacturing.⁵⁵

⁴⁸ *China Stocks: Sanctions and Lockdowns Spell Disaster for Shares*, FINANCIAL TIMES (2022) <https://www.ft.com/content/63d686c3-1f89-4a57-aa22-4b6ad34cdf19> (highlighting how China COVID policy affected economy).

⁴⁹ *See id.*

⁵⁰ Evelyn Cheng, *China's Zero-COVID Policy Tests Small Businesses in a Make-or-Break it Year*, CONSUMER NEWS AND BUSINESS CHANNEL (Mar. 30, 2022, 11:55 PM) <https://www.cnbc.com/2022/03/31/chinas-zero-covid-policy-tests-small-businesses-in-a-make-or-break-it-year.html> [<https://perma.cc/K89Z-HABW>] (exploring the covid effects and government efforts on small business.).

⁵¹ FINANCIAL TIMES, *supra* note 48. (discussing impact Russia's invasion had on China's economic outlook).

⁵² Richard Martin, *Sanctions Against Russia- a Timeline*, S&P GLOBAL (Sept. 18, 2023) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/sanctions-against-russia-8211-a-timeline-69602559> [<https://perma.cc/H4AK-X7Z9>] (detailing the timeline and history of sanctions against Russia).

⁵³ *See id.* (showing via the ongoing timeline that Russia is still invading Ukraine and sanctions are still being applied).

⁵⁴ FINANCIAL TIMES, *supra* note 48. (discussing impact Russia's invasion had on China's economic outlook due to their close economic relation).

⁵⁵ *See id.*

3. *Sanctions and their Role in Effecting Chinese Markets*

Since the Russian Invasion of Ukraine, there have been sanctions aimed at not only Russia itself but its allies as well.⁵⁶ This has been done directly via sanctions on the Russian economy and indirectly to her allies by placing sanctions on their trade partners.⁵⁷ For the last year and a half, these sanctions have been brought and for the most part, they have been allowed to play out, as Russia has not relented.⁵⁸ The question for the Chinese markets is exactly how these sanctions affected the Shanghai Composite and as Russia does not seem like they will relent any time soon, how long can the market afford to have these sanctions?

There are several sanctions that have affected the Chinese markets and they can be placed into two categories: ones that were given against Russia that indirectly affected China and those that were eventually placed directly on China.⁵⁹ Looking at the former first, there are several that initially scared the markets. One of the largest sanctions that did this had to do with crude oil.⁶⁰ As soon as the Russian invasion started, the West delivered a series of three sanctions; one aimed at Russian president Vladimir Putin's personal allies and their travels, one aimed at banning credits to Russian oil and gas companies, and one aimed at banning technology used in Russian oil and gas companies.⁶¹ The latter two in particular hurt the Chinese economy and in turn the

⁵⁶ Martin, *supra* note 52 (noting sanctions falling on Belarussian targets).

⁵⁷ *See id.* (listing the sanctions, and that's how sanctions work).

⁵⁸ Mykola Bielieskov, *The State of Russia's War on Ukraine as it Nears 2024*, ATLANTIC COUNCIL (Oct. 16, 2023) <https://www.atlanticcouncil.org/blogs/ukrainealert/the-russia-ukraine-war-in-2024/> [<https://perma.cc/WB9J-5BD9>] (finding that Russia is still at war with Ukraine despite sanctions being upheld).

⁵⁹ Martin, *supra* note 52 (reporting that to prevent sanction evasion Chinese companies have been added to list).

⁶⁰ *EU Sanctions Against Russia Explained*, European Council (last reviewed Oct. 12, 2023) <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/> [<https://perma.cc/A6G9-VQHK>] (exploring the impact of EU oil sanctions on Russia).

⁶¹ Martin, *supra* note 52 (recording the date and breath of the listed sanctions).

markets, the most.⁶² China is the world's largest buyer and trader of crude oil.⁶³ As Russia and China have closely tied economies and are each other's allies against the West, they do an enormous amount of trade with each other, especially over oil.⁶⁴ The sanctions increased the price of crude oil and also stopped the U.S. dollar from being used in transfers of Russian goods, negatively affecting China's oil trade.⁶⁵

As the war has raged on and China has for the most part continued to supply Russia a lifeline with trade, the West has moved to more pointed sanctions.⁶⁶ In particular, the West has implemented a sanction on Russia that targets Chinese companies from selling technology to the Russians.⁶⁷ This technological sanction is aimed at curbing semiconductors from entering Russia.⁶⁸ Chinese company 3HC

⁶² Saibal Dasgupta, *Sanctions Imposed on Russia Hurt Chinese Economy*, VOA NEWS (Mar. 03, 2022, 10:44 PM) <https://www.voanews.com/a/sanctions-imposed-on-russia-hurt-chinese-economy-/6469664.html> [<https://perma.cc/L829-2K8B>] (“As the world's biggest trader and buyer of crude oil, China has been hit hard by the economic sanctions unleashed on Russia over its invasion of Ukraine.”).

⁶³ Nikos Roussanoglou, *Tankers: China is Now the Biggest Oil Importer in the World*, Hellenic Shipping News (May 16, 2023) <https://www.hellenicshippingnews.com/tankers-china-is-now-the-biggest-oil-importer-in-the-world/#:~:text=Banchero%20Costa%20noted%20that%20%E2%80%9Cmain land,the%20European%20Union's%202022.1%25%20share> [<https://perma.cc/657S-45HM>] (“China is now the single largest imported of crude oil globally.”).

⁶⁴ Phillip Meng, Maia Nikoladze & Jessie Yin, *How is China Mitigating the Effects of Sanctions on Russia*, ATLANTIC COUNCIL (June 14, 2023) <https://www.atlanticcouncil.org/blogs/econographics/how-is-china-mitigating-the-effects-of-sanctions-on-russia/> [<https://perma.cc/8NWA-LN8C>] (“Russia has compensated for lost market share in the West by exporting more energy to China.”).

⁶⁵ *See id.* (“Yuan becomes Russia's most traded currency after sanctions”).

⁶⁶ Martin, *supra* note 52 (demonstrating escalating Western sanctions in the timeline).

⁶⁷ *See id.* (“The new measures are also aimed at addressing sanctions evasion, with companies from China, Turkey and the United Arab Emirates added to the sanctions list.”).

⁶⁸ Vita Spivak, *How Sanctions have Changed the Face of Chinese Companies in Russia*, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE (May 18, 2023) <https://carnegieendowment.org/politika/89785> [<https://perma.cc/HP2V-646A>] (“Those companies include several semiconductor producers that have already been sanctioned by the United States, such as 3HC Semiconductors and King-Pai Technology.”).

Semiconductors had already been under U.S. sanctions prior to the E.U. deciding to follow suit.⁶⁹ Since semiconductor IPOs and POs were a large portion of securities in early 2022 that helped keep the Shanghai Composite stable, it is no surprise to see the drop in Shanghai Composite points post these sanctions.⁷⁰

The reason for the drop in the Shanghai Composite is simple, sanctions on Russia presented a giant risk factor for investors when looking at Chinese companies who rely on Russia for business.⁷¹ With the mix of sanctions on Russia and then subsequently on China and Chinese companies, the Shanghai Composite saw dips throughout 2022 leading into 2023.⁷² Despite the expectation this may continue, 2023 has been more positive for the Shanghai Composite.⁷³ Despite the positivity and stability of the 2023 Shanghai Composite, investors still have real fear over the market having another downturn and thusly are reluctant to buy into the market.⁷⁴

4. *Current Fears on the Shanghai Composite*

As the end of 2023 looms near, there is still apprehension by investors, especially foreign investors, to get into the Chinese market.⁷⁵

⁶⁹ *See id.*

⁷⁰ Evelyn Cheng, *Here are the China Trends Investors Bet Money on During Sluggish few Months*, CONSUMER NEWS AND BUSINESS CHANNEL (Jul. 3, 2022, 1:36 AM) <https://www.cnbc.com/2022/07/04/here-are-the-china-trends-investors-bet-money-on-so-far-in-2022.html> [<https://perma.cc/3DFZ-94M5>] (“In the first half of the year, the overall number of investment deals in China dropped by 29% from the same period a year ago, and declined by 25% from the second half of last year, according to CNBC calculations of Qimingpian data.”).

⁷¹ Andrew Galbraith, *China Shares Fall as Fresh Sanctions on Russia Dampen Sentiment*, REUTERS (Feb. 28, 2022, 12:12 AM) <https://www.nasdaq.com/articles/china-shares-fall-as-fresh-sanctions-on-russia-dampen-sentiment> [<https://perma.cc/54FD-EF5A>] (reporting drop in shares following Russian sanctions).

⁷² *See id.*; *Chinese Blue-Chip Index Falls as U.S. Sanction Risks Weigh*, THE ECONOMIC TIMES (last updated Feb. 08, 2022, 2:31 PM) <https://economic-times.indiatimes.com/markets/stocks/news/chinese-blue-chip-index-falls-as-u-s-sanction-risks-weigh/articleshow/89426621.cms> [<https://perma.cc/299Y-2SQQ>] (reporting dips in exchange).

⁷³ Slotta, *supra* note 41 (finding that line went up).

⁷⁴ Galani, *supra* note 45 (“Fund managers also fear being forced to sell if the United States expands investment restrictions relating to artificial intelligence and advanced chips, or slaps sanctions on China.”).

⁷⁵ *See id.*

China's GDP growth has continued to be downgraded this year with the Chinese economy expected to reach somewhere around five percent GDP growth at the year's end.⁷⁶ A lot of investor fear comes from a very familiar issue: the real estate market.⁷⁷ Many remember the 2008 United States stock market crash hinging on subprime mortgage loans and other real estate market issues.⁷⁸ The current Chinese real estate market worries are slightly different. For years, the Chinese economy relied on a housing market boom with a growing populous and continuing focus on increasing urbanization.⁷⁹ In the past few years this boom has slowed considerably, hinging on a mix of not enough of a populous increase and too many real estate projects being made that cannot possibly be rented out.⁸⁰ Due to this, housing prices are steadily dropping with some initial listing prices dropping as much as twenty-five percent in high

⁷⁶ Vivek Mishra, *China 2023 GDP Growth Forecast Cut to 5.0%, 4.5% in 2024, Reuters Poll Shows*, REUTERS (Sept. 12, 2023, 12:43 AM) <https://www.reuters.com/markets/asia/china-2023-gdp-growth-forecast-cut-50-45-2024-economists-2023-09-12/#:~:text=Some%20economist%20cautioned%20the%20government's,enough%20to%20stabilise%20the%20economy> [<http://perma.cc/4PRY-WMTK>] ("Growth was forecast to slow to 4.5% next year and 4.3% in 2025. After expanding 6.3% last quarter, the economy was expected to grow just 4.2% this quarter, followed by 4.9% in the next, and down to just 3.9% in the first quarter of 2024.")

⁷⁷ Rebecca Feng, *Investors Fear a Financial Contagion in China*, THE WALL STREET JOURNAL (Aug. 18, 2023, 4:13 PM) <https://www.wsj.com/finance/investing/investors-fear-chinas-lehman-moment-is-looming-4364855d> [<https://perma.cc/44B9-LJHV>] (reporting that investors fear a volatile real estate market).

⁷⁸ Paul Kosakowski, *The Fall of the Market in the Fall of 2008*, INVESTOPEDIA (last updated June 30, 2023) <https://www.investopedia.com/articles/economics/09/subprime-market-2008.asp#:~:text=FAQs-,What%20Caused%20the%20Financial%20Crisis%20of%202008%3F,the%20ofinancial%20crisis%20of%202008> [<https://perma.cc/338Y-FTVE>] (explain what cause the 2008 crash).

⁷⁹ Laura He, *China's Economy will be Hobbled for Years by the Real Estate Crisis*, CNN BUSINESS (Oct. 6, 2023, 5:47 AM) <https://www.cnn.com/2023/10/06/economy/china-economy-real-estate-crisis-intl-hnk/index.html#:~:text=Investment%20in%20real%20estate%20fell,next%20three%20to%20five%20years> [<https://perma.cc/7RY8-LYLM>] ("Investment in real estate fell last year for the first time in a decade, and with no bailout from Beijing in sight, the property downturn is likely to drag on, posing a major threat to China's growth prospects over the next three to five years.")

⁸⁰ *See id.*

demand areas.⁸¹ The mix between not being able to sell off properties and when properties are being sold the return is less than what was initially planned for is causing many real estate companies to be laden with debt that Beijing does not seem keen to bail out.⁸²

C. Future Outlook on Chinese Markets

1. How Investor's Fears are being Calmed

China is acutely aware of the housing market issue and has taken some steps to attempt to mitigate not just the housing crisis but also the effect it is having on the Shanghai Composite. Over the summer and into October, various Chinese cities have relaxed restrictions on property purchases, namely lifting a cap on the number of properties an individual can purchase and offering various subsidies for buyers while also giving tax cuts to sellers.⁸³ It will take time for plans like these to have any real effect on the Shanghai Composite. To further attempt and curb the stagnant nature of the real estate market, the Chinese government has implemented measures not used in over a decade. In August, China cut taxes on purchased stocks for the first time since 2008 in an effort to make the Shanghai Composite more attractive to

⁸¹ Bloomberg, *China's Bursting Housing Bubble is doing more Damage than Official Data Suggest*, FORTUNE (Aug. 17, 2023, 3:10 AM) <https://fortune.com/2023/08/17/china-home-sales-worse-than-official-data-real-estate-crisis/> [https://perma.cc/935F-HCM5] (“New-home prices have slipped just 2.4% from a high in August 2021, government figures show, while those for existing homes have dropped 6%.”).

⁸² Evelyn Cheng, *China sets the Tone on Real Estate, Local Government Support at a High-Level Meeting*, COMMERCIAL NEWS AND BUSINESS CHANNEL (Oct. 31, 2023, 10:49 PM) <https://www.cnbc.com/2023/11/01/china-sets-the-tone-on-real-estate-local-government-support.html#:~:text=But%20Beijing%20has%20stopped%20short,reasonable%20financing%20needs%20from%20developers> [https://perma.cc/W4EL-ALNL] (“But Beijing has stopped short of an outright bailout for a sector that’s widely expected to shrink from its roughly one-quarter share of China’s economy.”).

⁸³ Yew Lun Tian, *Three Chinese Cities Lift House-Buying Curbs*, REUTERS (Sept. 10, 2023, 2:38 AM) <https://www.reuters.com/world/china/three-chinese-cities-lift-house-buying-curbs-2023-09-10/> [https://perma.cc/YS4H-ZDM5] (“At least three major Chinese cities last week removed restrictions on home buying, as the Asian giant gradually rolls back a crackdown on the property sector in a bid to revive its economy.”).

investors.⁸⁴ This cut had a huge immediate impact on the Shanghai Composite as the market index rose 9.3% the next day of trading.⁸⁵ Following this, the CSRC enacted even more measures to attempt to spark investor interest such as restricting selling of stocks by major holders and reducing how much stock must be on hold with brokers at all times.⁸⁶ Even without these measures attempting to bump the market, the Shanghai Composite showed signs of a resurgence. The CSI 300 Index, an index that follows the top 300 stocks on the Shanghai Composite and the Shenzhen Stock Exchange, erased recent losses and grew around one percent.⁸⁷ This seems to have had the desired effect as investor interest in China has risen due to expectations of more measures to be taken if the markets do not begin to correct themselves.⁸⁸

2. *How U.S.-Chinese Relations Affect Market Futures*

The United States-Chinese relationship has directly affected market futures on the Shanghai Composite. This is nothing new, as both

⁸⁴ Laura He, *Chinese stocks get brief uplift from first share dealing tax cut since 2008*, CNN BUSINESS (Aug. 28, 2023, 5:23 AM) <https://www.cnn.com/2023/08/28/investing/china-stock-stamp-duty-cut-intl-hnk/index.html> [<https://perma.cc/N9VU-LDSR>] (“China has made a series of moves to restore investor confidence in the world’s second largest economy, including cutting a tax on stock trading for the first time since 2008.”).

⁸⁵ *See id.* (“That move immediately triggered a 9.3% surge in the Shanghai Composite Index, marking the second biggest daily gain on record at the time.”).

⁸⁶ *See id.* (“The measures included reducing the amount of collateral stock traders must hold with their brokers, slowing the pace of initial public offerings and restrictions on how much and how frequently major shareholders of listed companies can sell their shares on the stock market, according to multiple statements by the CSRC.”).

⁸⁷ Shikhar Balwani, Charlotte Yang, and John Cheng, *Sudden Rally in China Stocks Has Traders Scratching Their Heads*, BLOOMBERG (Aug. 22, 2023, 5:10 AM) <https://www.bloomberg.com/news/articles/2023-08-22/sudden-rally-in-china-stocks-has-traders-scratching-their-heads> [<https://perma.cc/SL77-R7RM>] (covering the recovery of the stock market).

⁸⁸ Tom Westbrook & Winni Zhou, *REFILE- China’s Pump-Priming Spurs Investor Bets on Further Monetary Easing*, REUTERS (Oct. 26, 2023, 2:24 AM) <https://www.reuters.com/article/china-markets-stimulus/refile-chinas-pump-priming-spurs-investor-bets-on-further-monetary-easing-idUSL4N3BV2IJ> [<https://perma.cc/H9PF-NL6Z>] (reporting on investor confidence in CCP action to aid market).

countries relied on each other in trade deals and for product movement for decades.⁸⁹ In fact, trade between the two countries has been steadily growing apart from a dip during the Trump Administration.⁹⁰ One of the largest facets of the U.S.-Chinese relationship that affects future markets is sanctions, especially in the technology field.⁹¹ Starting with the Russian invasion of Ukraine, the U.S. made sure to enact sanctions that would not only hurt Russian assets but also foreign assets that aided Russia.⁹² As previously discussed, Chinese companies have fallen under these sanctions either indirectly or directly. With China's refusal to stop helping Russia and even taking the opportunity to expand economic relations with Russia, it seems that U.S.-Chinese relations will continue to be strained.⁹³

Sanctions are also relevant in the face of one of the most contentious issues facing China and the U.S.: Taiwan.⁹⁴ Over the past few years, tensions have risen between the U.S. and China over

⁸⁹ Noah Berman & Anshu Siripurapu, *The Contentious U.S.-China Trade Relationship*, COUNCIL ON FOREIGN RELATIONS (last updated Sept. 26, 2023, 12:00 PM) <https://www.cfr.org/background/contentious-us-china-trade-relationship> [<https://perma.cc/VMG8-8JKY>] (“U.S. trade with China has grown enormously in recent decades and is crucial for both countries. Today, China is one of the largest export markets for U.S. goods and services, and the United States is among the top export markets for China.”).

⁹⁰ *See id.* (showing the Trump tariff affects via a graph).

⁹¹ Yukon Huang, *China's Sanctions Strategy and Its Implications*, THE NATIONAL BUREAU OF ASIAN RESEARCH (July 26, 2022) <https://www.nbr.org/publication/chinas-sanctions-strategy-and-its-implications/> [<https://perma.cc/VX2S-FLQJ>] (analyzing the whole of China's reactions to sanctions).

⁹² Martin, *supra* note 52 (showing that sanctions happened).

⁹³ Timothy Gardner, Michael Perry, Alex Richardson & Ryan Woo, *China Urges Deeper Trade Ties with Russia Despite Western Rebuke*, REUTERS (Sept. 19, 2023, 8:47 PM) <https://www.reuters.com/world/china-vows-deeper-trade-investment-with-russia-despite-western-rebuke-2023-09-19/> [<https://perma.cc/J4PF-8YTM>] (“China on Tuesday urged increased cross-border connectivity with Russia and deeper mutual trade and investment cooperation, as both allies vowed ever closer economic ties despite disapproval from the West after Russian forces invaded Ukraine last year.”).

⁹⁴ Jennifer Jett, Courtney Kube & Megan Lebowitz, *Taiwan: Explaining the U.S.-China Dispute and Why it Matters*, NATIONAL BROADCASTING CHANNEL NEWS (Apr. 7, 2023, 12:00 PM) <https://www.nbcnews.com/news/world/taiwan-us-china-dispute-why-it-matters-flashpoint-democracy-rcna78458> [<https://perma.cc/9VEL-MBNY>] (delving into the history of the Taiwan dispute).

Taiwan.⁹⁵ The United States, in the wake of the Russian invasion of Ukraine, has long been considering how to deter China from committing a similar act against Taiwan, namely in sanctions.⁹⁶ China has already this year imposed sanctions on U.S. companies, Northman Grumman and Lockheed Martin, due to their weapons being provided to Taiwan.⁹⁷ The U.S. has long held sanctions on China since the Trump administration on different technologies and equipment, but now the U.S. may attempt a preemptive sanction on China before any invasion.⁹⁸ This comes on the back of even more sanctions on Chinese companies in relation to the Russia-Ukraine war.⁹⁹ The tension between the U.S. and China on Taiwan seems to be only growing and, due to sanctions being thrown around by both countries at each other, this seems to be what will most affect Chinese markets in the near future.

⁹⁵ Haley Ott, *China-Taiwan Tension is Soaring and the U.S. is Directly Involved. Here's What to Know.*, COLUMBIA BROADCASTING SYSTEM NEWS (Mar. 31, 2023, 8:51 AM) <https://www.cbsnews.com/news/china-taiwan-us-tension-what-to-know/> [<https://perma.cc/G4PR-SHQZ>] (explain the increase in tensions over Taiwan and how the U.S. is involved).

⁹⁶ Alexandra Alper, Ben Blanchard, Trevor Hunnicutt, Yimou Lee & John O'Donnell, *Exclusive: U.S. Weighs China Sanctions to Deter Taiwan Action, Taiwan Presses EU*, REUTERS (Sept. 14, 2022, 5:18 AM) <https://www.reuters.com/world/asia-pacific/exclusive-us-considers-china-sanctions-deter-taiwan-action-taiwan-presses-eu-2022-09-13/> [<https://perma.cc/Q78M-LR2D>] (reporting that US has considered levying sanctions against China in face of increasing pressure over Taiwan).

⁹⁷ Joe Cash & Liz Lee, *China Sanctions Northrop Grumman, Lockheed Martin for Arms Sales to Taiwan*, Reuters (Sept. 15, 2023, 5:29 AM) <https://www.reuters.com/business/aerospace-defense/china-sanctions-northrop-grumman-lockheed-martin-over-arms-sales-taiwan-2023-09-15/> [<https://perma.cc/5J87-W2TW>] (“China will impose sanctions against U.S. aerospace and defense firms Northrop Grumman (NOC.N) and Lockheed Martin (LMT.N) for providing weapons to Taiwan, the Chinese foreign ministry said on Friday.”).

⁹⁸ Alper, *supra* note 96 (“The United States is considering options for a sanctions package against China to deter it from invading Taiwan”).

⁹⁹ Sareen Habeshian, *U.S. Sanctions Chinese and Russian Firms Over National Security Risks*, AXIOS (Sept. 25, 2023) <https://www.axios.com/2023/09/25/us-sanctions-russia-china-companies> [<https://perma.cc/34PN-3PSJ>] (“The U.S. approved new sanctions Monday on firms in several countries, including China and Russia, accusing some of them of supplying components for unmanned aerial vehicles used by the Russian military in Ukraine.”).

D. Conclusion

The last decade has been a rollercoaster for the Chinese stock market.¹⁰⁰ This is highlighted in particular by the Shanghai Composite, and its struggles with the crash of 2015 and now a stagnant real estate market that the Chinese government is desperately trying to fix before the bubble bursts.¹⁰¹ That paired with the rising tension with the United States and Russia's prolonged, sanction laden, war in Ukraine further muddies the outlook of what will happen to the world's second largest economy.¹⁰² Only time will tell if China's measures at fixing the real estate bubble will succeed and convince investors to return to the Chinese markets, but the uncertainty of where China's economy is going seems to be giving investors pause, at least for now.¹⁰³

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¹⁰⁰ TRADING ECONOMICS, *supra* note 22 (showing the line go up and down).

¹⁰¹ He, *supra* note 84 (demonstrating the desperate measures taken by Chinese gov via tax cut).

¹⁰² David Dollar & Eswar Prasad, *China's Uncertain Economic Outlook for 2023*, BROOKINGS (Mar. 6, 2023) <https://www.brookings.edu/articles/chinas-uncertain-economic-outlook-for-2023/> [<https://perma.cc/8AZS-DTMS>] (discussing investor feelings on China for the year and the worried with it).

¹⁰³ TOM WESTBROOK & JASON XUE, *Small Investors are Sour on China's Recovery*, Reuters (May 30, 2023, 7:59 PM) <https://www.reuters.com/world/china/small-investors-are-souring-chinas-recovery-2023-05-30/> [<https://perma.cc/C2VA-4M46>] (reporting the fading rally as small investors get cold feet on recovery).

¹⁰⁴ Student, Boston University School of Law (J.D. 2025).