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Column: China's butterfly effect on U.S. markets is no small thing

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A Chinese stockbroker hiccupped on the floor of the Shanghai exchange on a recent Wednesday and by Friday, the U.S. markets had dropped hundreds of points.

Yes, I realize this is a hypothetical variation — and exaggeration — on one element of the chaos theory that says the fluttering of a butterfly's wings on one continent can create a hurricane on another. I don't mean to be trite. The effect of economic conditions in China on the U.S. and other world markets is no small matter.

If the Chinese markets plunge, major world market selloffs occur with seemingly predictable regularity. Even when other factors are at play, such as a glut of oil reducing world prices, there still are echoes of Chinese economic factors involved. If, conversely, the Chinese markets surge, a sigh of relief is heard across the planet and other Asian, as well as European and American markets, surge along with it.

China's challenges have been debated for years, but in recent months, they have taken on a greater importance in the minds of investors and policymakers. We focused on China when stocks sold off sharply during the summer, and such worries have again been a major influence on global markets' decline in recent days.

The Standard & Poor's 500-stock index, for instance, plunged 2.4 percent on Jan. 21 after the Chinese currency continued to fall and trading halted on its stock market. The Dow Jones Industrial Average now sits at nearly 10 percent below the all-time nominal high that it reached last year.

China's convulsions have come at an inopportune time. The Federal Reserve recently increased interest rates for the first time in nearly a decade, a move that may have intensified an exodus from riskier investments. And there are a few signs of weakness in the U.S. economy, particularly in the manufacturing sector.

It seems to me that the wise investor should take heed of not only those companies with facilities in China, or that trade directly with China, but also those affected by other firms' ties to the Chinese economy.

As an example of the reach China has in international trade, consider that it became the world's largest exporter in 2013, and in 2014, it exported $2.343 trillion in goods, far outpacing the European Union at $2.173 trillion, and the United States, at $1.633 trillion that year. China shipped 17 percent of its exports to the United States in 2014.

Meanwhile, China is increasing its trade with Japan and South Korea, and also focusing increased attention on Africa. China also is pushing for trade agreements with other Southeast Asian nations and with many Latin American countries.

A major attraction of doing business in China is that it provides significant manufacturing facilities for foreign businesses. Raw materials are shipped to China, where less expensive labor builds the final products, which then are exported, often back to the United States. Among the country's major exports are electrical and other types of machinery; this includes computers and related equipment. China also is a leader in medical and optical equipment and, as many people know, exports fabric, textiles, and apparel.

What many people don't realize, however, is that China is the world's largest exporter of steel.

Thus, a slowdown in the Chinese economy has a ripple effect on other countries in that the amount of raw materials they provide to China for processing is reduced by the falling demand in China.

Despite the apparent mushroom effect that China's economic woes are having on world equity markets, there remain many significant investment opportunities — and even some bargains — for those willing to spend the time doing proper research. Fear of investing in a market under pressure can mean missing out on long-term opportunities.

Chaos, after all, is not an investment strategy.

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