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Comparative Analysis of Futures Differences Between China and America

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Abstract: It is an interesting question why futures trading in China is not as popular as futures trading in the United States. The futures market is the product of the development of the market economy and also constitutes an important part of the modern market economy system. There are many differences between Chinese and American futures. This paper compares the origin and cultural differences of futures between the East and the West, the different nature and trading mechanisms of Chinese and American futures, and the different regulatory structures of Chinese and American futures. Points out the shortcomings of the Chinese futures market compared with the American futures market, and gives suggestions on the direction of development in the Chinese future market. Compared with the US futures market, China's futures market was established more than 100 years later, and the trading mechanism, market supervision, and laws and regulations need to be improved. We should learn from the advantages of the US futures market in different aspects, promote the effective allocation of resources, and further integrate into the international market.

Keywords: futures, comparation, China, America

1. Introduction

The futures market is an important part of the modern financial system and an important part of the continuous development and improvement of the capital market [1]. Since the futures market appeared in the United States in 1867[2], it has experienced the process from commodity futures to financial futures, with increasing varieties of transactions and expanding transaction scale, and has gradually become an important part of the global financial system. All the major futures exchanges in the world are the Chicago Board of Trade, London Metal Exchange, and Tokyo Industrial Products Exchange.

By referring to the literature on history, trading procedures, market supervision, and other aspects, this paper compares different aspects of Chinese and American futures and compares and analyzes why China's futures market is less mature than the American futures market and also has less recognition among traders. Analyzing the advantages and disadvantages of China's futures market are found, and development suggestions are given to solve these problems as far as possible. Among them, the United States futures appeared more than 100 years earlier than China, futures trading is more common and convenient, and the regulatory structure is more complete.

The development of China's futures market plays a very important role in improving the structure of the domestic capital market and promoting the opening of the capital market and will also play a greater role in enterprise risk management and maintaining national economic security. Since the establishment of the Zhengzhou Commodity Exchange in 1990[3], China's futures market has developed for more than 30 years. Under the supervision of basic laws and regulations, under the unified supervision of the China Securities Regulatory Commission, a futures market consisting of four futures exchanges (Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, and China Financial Futures Exchange) and a number of futures companies, with the participation of all market entities, can meet the requirements of the development of the socialist market economy under the new situation The system. With the continuous development of the market economy in our country, we should gradually expand the futures market, improve the trading mechanism and regulatory structure, and make futures trading play a greater role in economic development.

The remainder of this paper is organized as follows. Section 2 presents the difference in history and social factors of the future between the two countries. Section 3 describes the different natures and trading mechanisms of Chinese and American futures. Section 4 compares the regulatory systems of the two countries, the deficiencies of China's futures market supervision are found, and solutions are given. The conclusion follows in Section 5.

2. History and Social Factors

2.1. Origin of Futures

In the mid-19th century, the United States began to develop the Midwest, and Chicago became an important grain distribution center. In the face of the agricultural depression after World War I and the Great Depression, the United States adopted the fiscal policy of trade protection and high tariffs, but this policy did not solve the long-term depression of agriculture but even aggravated the depression of the agricultural economy. Because of the lack of transportation and unpredictable weather, grain prices float largely every autumn. Farmers can't get a good price for their food, and when the spring is dry, there will be a shortage in the grain market, so the prices soar [1]. Even city people are distressed by the surging price. Later, farmers found a way to sign an autumn supply agreement with the seller each spring, and the seller paid a certain deposit as a guarantee, which gradually developed into the current futures trading.

2.2. Cultural Differences

Chinese: The origin of the development of the Eastern countries led by China is the farming culture, in other words, the small-scale peasant economy [4]. People plant fields and weave cloth, emphasizing the family concept and interpersonal communication by individuals.

West: The origin of Western culture is nomadic, is to expand the soil, is sailing, is the spirit of adventure. Nobles always like strange things, but they cannot go to the world and search, cause it's too dangerous for them to navigate as the art of navigation is immature. So, they will ask some young men with the strength to do the exploring for them at a good price. The voyage fee is usually a large sum of money and always attracts a large number of poor but young "sailors" to come.

But this money is not for nothing, but all the things on the way to explore, whether it is valuable things: pearls and agates, gold and silver, or invaluable things like sand and stones, copper and iron, but it doesn't matter if it's valuable or not, all of them, will be owned by the nobility.

These are the most primitive signs of the future dating back to the 16th century [5], the great age of navigation, spending money in advance, buying products with uncertain future returns, either losing or winning will be left to chance.

Hiring people to sail, this thing itself is very risky, not only will they face the risk of mishaps, but also includes the probability of sailors escaping halfway and hiding items, but the income will usually

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be a large sum of money, and the things brought back from each voyage are often rare treasures, basically can be worth the money, and even exceed the value.

Therefore, in order to be able to get the items for sure, the aristocrat will draft an agreement for the sailors to sign.

In this way, futures-like contracts have successfully appeared in people's vision.

2.3. Contents of the Futures

The elements in the age of navigation already look a lot like today's futures contracts. Valuable treasures found by the sailors are similar to the object that trades in the future today; the term of voyage is similar to time; salary to sailors is similar to price; two parties in the draft, nobilities, and sailors are similar to the buyers and sellers in the futures market.

So far, the United States futures development is about a hundred years [5], has been quite completed, while the first domestic futures in China was signed in Zhengzhou agricultural market in 1990[3]. So the history of the future in China cannot be on par with the future in Western countries. That is one of the reasons futures are not as popular in China as it is in the United States.

3. Types, Duration, and Transaction Mechanism

3.1. Futures Types

The main types of futures in China and the United States are different.

In the field of commodity futures, both China and the U.S. have multifarious futures. There are more commodity futures than financial futures in China [6].

In the field of financial futures, there are only two types in China: treasury futures and share price index futures (SPIF)[6]. On the other hand, the U.S. has almost all types of financial futures such as interest rate futures, stock futures, SPIFs, etc.

3.2. Futures Duration

For commodity futures, the domestic day trading time in China is 4 hours. China generally opens at 9:30 and closes at 3 p.m., with a two-hour lunch break in between. Trading hours in the United States are longer, it is Monday to Friday 24 hours trading [7].

3.3. Margin Fee and Service Charge

In terms of service charges, international futures fees are lower, bilateral fees are charged more flexibly, while domestic futures fees are high, and the operation is more cautious [7].

The domestic futures trading time is 4 hours, the trading threshold is low, the funds are convenient, and 5-10 times leverage (the so-called margin trading), the disadvantages are relatively small trading volume, the trading is discontinuous, the trading time is short, the trading volume is limited, and the trading volume is easily affected by domestic policies.

International futures have almost all the advantages of domestic futures, large trading volume, 24-hour system (daily rubber minimum, 8 hours), and many trading markets. The disadvantage is that the funds are inconvenient, affected by the exchange rate, and the transaction threshold is high.

3.4. Transaction Mechanism

The trading mechanism design is also different, such as the rise and fall limit.

First, is the circuit breaker mechanism, which means that when the market's intraday rise or fall reaches a certain threshold, the market suspends trading for a period of time, and then resumes trading.

This is for when the market goes to extremes. Or irrational panic, giving everyone involved time to cool off. This mechanism is very common in the United States, for example, stock index futures have 7%, 13%, and 23% circuit breakers. But when China introduced the system domestically in 2016, stock index futures fell sharply that day, triggering circuit breakers. It seems that this mechanism not only fails to control panic at home but actually increases it. The circuit breaker was removed the next day.

The second is the limit that exists in both China and the United States, and the threshold set by the United States is larger than that of China. In terms of the number of withdrawals, there are restrictions on the number of withdrawals in China, and they are stricter, and each futures variety is only withdrawn 500 times a day. There are no restrictions in the United States, but there are certain penalties for withdrawing too often.

China sometimes carries out trading volume control on some varieties, and monitors warns, and restricts accounts with excessive trading volume. That doesn't happen in the United States. The larger the volume of customers, the more welcome the exchange. At the same time, there are position limits in both China and the US.

There are more retail participants in the domestic futures market, the proportion of speculation is large, and the proportion of corporate and institutional customers is low. Foreign futures market participants are mainly institutions and enterprises and have a high correlation with economic activities.

4. Nature of Regulatory Structure

Foreign countries boast well-developed and standardized market economic systems, with efficient futures markets that play a crucial role in commodity pricing.

While domestic listed varieties are fewer, the coverage is not large. There are more commodities, and there is currently only one financial futures-share price index futures (SPIF)

Among them, the United States leads as the most mature country in the global futures market [8]. Its futures companies are coveted targets for other nations seeking to catch up in reform and development.

4.1. The Leading Position of the US Futures Industry in the World

The United States is the most mature country in the global futures market, and its futures companies are the targets that other countries want to catch up with in reform and development [8].

4.1.1. Comprehensive Regulatory Legal System

The United States has developed a relatively complete regulatory legal system for the risk characteristics of the future. The current legal provisions on futures in the United States, such as the Futures Trading Act, the Commodity Futures Trading Commission Act, and the Commodity Futures Modernization Act, have made detailed provisions on futures trading. The Dodd-Frank Act, released on January 11, 2012, brought the swaps market under full regulation.

4.1.2. Multi-level Supervision

The United States implements multi-level supervision on the futures market. The Federal Commodity Futures Trading Regulatory Commission (CFTC) [9] and the Federal Securities and Exchange Commission (SEC) are the main market regulators [10], responsible for supervision from the macro level, while the National Futures Industry Association (NFA) is responsible for the self-regulation of

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the futures market, and multi-level supervision improves the self-discipline of futures market participants.

4.1.3. Strong Professionalism and Competitiveness

After mergers and acquisitions, American futures companies have become the world's leading futures companies with strong professionalism and high competitiveness.

4.1.4. High-quality Staff and Global Strategic Vision

The staffs of American futures companies have high professional quality and global strategic vision, which are better than the futures practitioners in the same industry. Considering various factors such as legislation, regulation, futures companies, commodity exchanges, and futures practitioners, the US futures industry has become the benchmark of the global futures industry.

4.2. The Necessity of Globalization of China's Futures Business

While the domestic future in China is still developing and improving, many prices are not determined by the futures market, but by monopolies and "guidance".

4.2.1. China's Futures Market Supervision System

Since the development of China's futures market for more than 30 years, because it was born out of the planned economic system, in the process of shifting to the market economic system, the supervision of the futures and derivatives market has learned from the regulatory framework and successful experience of mature markets in Western countries such as the United States, combined with the socialist market economic system with Chinese characteristics.

First, market supervision has formed a "five-in-one" regulatory system. It mainly refers to the monitoring framework for market risks formed by the China Securities and Futures Regulatory Commission and its agencies, the China Futures Market Monitoring Center, futures exchanges and futures operating institutions, and the regulatory system formed thereby, in order to prevent systemic risks in the futures market.

Second, the customer deposit safety deposit monitoring system. The implementation of this system is mainly to eliminate the risk that customers' deposits will not be misappropriated by futures companies, and the function of monitoring is carried out by the China Futures Market Monitoring Center, and the data of futures exchanges, futures companies, and margin depository banks are checked day by day and accurate. So as to ensure that the customer's margin in the futures company account is absolutely safe.

Third, the China Securities Regulatory Commission has urged futures exchanges to use the "three board strength and reduction" system when dealing with systemic risks. This is an effective way to prevent the occurrence of market risks in our country in advance of the disposal of risks in practice because we know that the futures market has never been a strong international market. Its trading market fluctuations and global futures and derivatives market fluctuations are closely related, but due to the national conditions of China's holiday are inconsistent with the outside world, it is inevitable that during the holiday trading shut down, due to the violent fluctuations of the outside market, resulting in the resumption of the first trading day of extreme market occurrence, but with the implementation of the "three board strong reduction" system in China, It can effectively resolve the risks faced by the futures market, and avoid the futures companies caused by the extreme market, resulting in losses, which is equivalent to the strong stop loss of the futures market, so as to avoid greater losses and the resulting systemic risks. At the same time, it has prevented speculative forces

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in the market from using the "three board strong and weak" system to operate the market for profit. In 2002, the company took the lead in providing for the use of a "three board strong reduction" and market-oriented "expanded suspension" system to cooperate with the application, thus creating a market monitoring system that meets China's national conditions to prevent systemic risks in the market, and practice has proved that this unique market monitoring system is particularly suitable for China's current market risks that may be brought about by more "long holiday closure". Thus, protecting the interests of the majority of investors and ensuring the stability of the market.

4.2.2. Improve China's Futures Market System

China's futures and derivatives market is developing towards the direction of legalization, marketization, and internationalization, also the futures supervision system has a process of continuous enrichment and development.

First, China's futures and derivatives market law - the Futures law - should be introduced as soon as possible, so as to adapt to the development trend of Chinese futures and derivatives being increasingly integrated into the global futures and derivatives market. With the futures law, China has the right to speak on the supervision of the futures market, the regulatory exchange with the global futures market will be smoother, and there will be a common regulatory standard on the regulations of market supervision.

Second, futures regulation should include the regulation of over-the-counter derivatives markets. So far, the development of China's futures market and the development of the internal and external markets is extremely unbalanced, but the two are unified and coordinated development of the whole. After the 2008 financial crisis, major countries and regions in the world continue to strengthen the supervision of the OTC derivatives market [11], and the regulatory rules are gradually unified, and the exchange market replaces part of the OTC market has become the international regulatory requirements and development trend in the next few years. In the United States, for example, it has long been controversial whether the over-the-counter derivatives market, such as futures and options, needs government regulation. In practice, there is indeed a laissez-faire attitude towards the OTC market, but it is the unregulated OTC derivatives market that triggered the subprime loan crisis in 2007, and then the problems of subprime loan bond derivatives, which became the fuse of the financial crisis in 2008. As a result, G20 leaders met in Pittsburgh in 2009 to discuss financial issues. Leaders agreed that OTC derivatives should be regulated: in July 2011, the US included OTC derivatives in its revised Commodity Exchange Act and empowered the CFTC to regulate them [12]. The experience and lessons of the United States are worth learning. Only when OTC derivatives are regulated and the basic systems such as the single master agreement termination net clearing and performance guarantee clearing, which the development of the OTC market depends on, are incorporated into legal provisions through legislation, will a solid legal foundation be formed for the future supervision of OTC derivatives market?

Third, it is the right choice that the regulatory rules of the market should be revised and improved in a timely manner according to the changes in the market. At present, China's futures and derivatives market is developing step by step in the direction of marketization and internationalization, naturally, our supervision law should also adapt to this change direction to develop. For example, we encourage the futures market to serve the real economy. As an important intermediary for managing risks, the regulatory requirements of futures operating institutions include whether futures companies can collect margins based on their net positions instead. If so, companies can also be allowed to conduct credit transactions with product customers on the basis of self-financing. There are rules that can be used for reference in the mature over-the-counter futures and derivatives markets.

Fourth, China's market supervision should pay attention to today's global scientific and technological development trends, and some scientific and technological financial institutions and

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products involving futures and derivatives should be laid out as soon as possible. Driven by big data, cloud computing, blockchain, digital currency, artificial intelligence, and other technologies, the derivatives business under the Internet will surely come into being. In reality, there are already bond derivatives produced using financial engineering techniques.

4.3. The Benefits of the Globalization of Futures Business in China

4.3.1. Conducive to Strengthening the Right to Speak in Commodity Pricing

As a country with a large demand for raw materials, a manufacturing country, and a foreign trade import and export country, China's rapid economic development makes the consumption of resources increasingly increasing, and constantly increasing imports to meet the needs of economic growth has become a must. Any change in commodity prices on the international market is likely to have a significant impact on our economy. Yet the pricing power of commodities is in the hands of Western countries. To master the pricing power of commodities, it is necessary to participate in the global business of futures and use the rules of the global futures market to obtain benefits for China's economic development and enjoy the dividends of the economic development of emerging countries. This also shows that emerging countries like China need to realize the globalization of the futures business, establish a global futures market, attract futures traders from other countries to trade, and gradually enable international enterprises to use the price of the futures market as the pricing standard of commodity prices so that the futures market has become the pricing center of bulk commodities closely related to the development of the national economy.

4.3.2. Helps to Improve the Efficiency of Market Resource Allocation

Helps to improve the efficiency of market resource allocation. An efficient futures price reflects the current price of all known information, and the more participants in the market, the more valid information is brought in, and the more the resulting price reflects the true price. The use of this price to guide the production of enterprises, pricing, stocking, and hedging will be more able to achieve good results. The more efficient the market, the more it can attract the attention of corporate customers and speculative customers, the size of the market will gradually expand, and the more efficient the market will be. The globalization of futures business enables idle funds and resources to be effectively used on a global scale and promotes the optimal allocation of global resources.

4.3.3. Facilitates Enterprises to Participate in Hedging

With the development of marketization and internationalization, the production and operation activities of enterprises increasingly need to rely on the futures market for risk hedging and cost locking. In the practice of futures trading, more and more enterprises have a profound understanding of the two basic functions of price discovery and hedging in the futures market. Through the hedging of futures, the business risk that may be caused by the price fluctuation of the spot market can be avoided, and the future price forecast of the futures market can be used to arrange production and management better. In 2008, the US subprime mortgage crisis triggered sharp fluctuations in the world economy, and the prices of commodities such as oil, copper, and aluminum rose to the highest point in history in the middle of the year and fell to the lowest point in nearly five years at the end of the year. According to FIA statistics, in 2008, the global exchange traded a total of 1.11 billion commodity futures products, an increase of 41.7% over 2007, of which agricultural products, energy products, and metal products were traded 614 million, 215 million, and 281 million, respectively, an increase of 52.9%, 16.7% and 42.2% over 2007. From the data, we can see that more and more enterprises, funds, and speculators participate in futures trading when the financial crisis is coming.

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Because most of China's enterprises cannot participate in overseas futures trading, in October 2008, when the global commodity prices in a large area of rapid dive, domestic coal enterprises, steel enterprises, etc. due to the lack of corresponding derivatives tools to hedge, inventory shrank sharply, enterprises suffered huge losses. In the modern society of global economic linkage, the economic crisis in a certain country is likely to endanger the whole world, so enterprises need to hedge in the futures market to ensure the healthy development of enterprises.

4.3.4. Conducive to the Establishment of Globally Competitive Futures Companies

As the main force of China's futures market, the intrinsic quality and competitiveness of futures companies are very important for the development of the market and for the pricing power of bulk commodities. In order for China to make a voice in the international commodity market, futures companies must go out, take the initiative to use the overseas futures market to serve domestic enterprises, accumulate experience in acting for overseas businesses, train talents for overseas agency businesses, take the initiative to learn from the companies of the competitive future in Europe and the United States and enhance their own strength in the competition with European and American futures companies. In the classification supervision of futures companies, we should create conditions for those high-quality futures companies with potential competitiveness to expand and strengthen, so as to enhance the international competitiveness of our futures companies.

5. Conclusion

This article starts with why futures trading in China is not as popular as futures trading in the United States and answers this question from three aspects: the origin and cultural differences of futures in the East and the West, the different nature and trading mechanisms of futures in China and the United States, and the different regulatory structures of futures in China and the United States.

Through comparative study, the origin of futures in Europe and the United States originated from the age of navigation from the 14th century to the 16th century, and the history is far more than that of China, which introduced futures trading at the end of the 20th century. People in Europe and the United States are more familiar with futures trading than the Chinese. At the same time, the futures trading market in the United States is more convenient and cheaper than that in China in terms of trading mechanisms such as futures trading types, duration, and fees, which is conducive to more convenient trading for futures traders. In addition, the regulatory structure in the United States is more developed than in China. The United States is the most mature country in the global futures trading market and has formulated a series of regulatory legal systems for the risk characteristics of futures trading, implementing multi-level supervision. China should also learn from the advantages of the US futures market in terms of laws and regulations, market supervision, and market trends, so as to improve itself.

The development of China's futures market system and supervision can bring better prospects for the development of China's futures market. The development of China's futures market and the improvement of its system are conducive to strengthening China's right to price commodities in the international market. While improving the efficiency of resource allocation in China's own market, we should promote the efficiency of resource allocation in the world market to the extent that we care about it. In addition, for Chinese enterprises, it is beneficial to establish a globally competitive futures company and participate in hedging in the futures market more effectively.

The study has its shortcomings. First of all, there is less data analysis and a lack of mathematical model analysis methods to test the effectiveness of the Chinese futures market and the American futures market. Second, there is a lack of systematic research on the major reform practices and changes in the futures markets in China and the United States. Third, there are research data on the

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types and sizes of bulk futures in the futures market, so the addition of data can more effectively reflect the differences between the Chinese and American markets.

The following issues require further study. In terms of historical and social factors, further field market research is needed to understand the real thoughts and needs of buyers and sellers in the Chinese and American futures markets respectively, and to extract and summarize the different views and viewpoints of Chinese and American futures traders on the cognitive level of futures trading in the ideological system. In terms of trading mechanism and regulatory structure, it further compares the development trend of hot futures in China and the United States in recent years, as well as the changes in the two countries.

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