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Investigation for the Differences of Futures Trading in China and United States

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Abstract: Futures trading is a financial mechanism whose key role is to allow buyers and sellers to speculate on the future prices of commodities and financial instruments. One of the fascinating aspects of this field is that the attitude and enthusiasm for futures trading varies from country to country. The main thrust of this article is focused on discussing the differences in futures trading between China and the United States. The article will explore the historical, cultural, and most importantly, regulatory aspects of the characteristics with the aim of revealing the reasons behind the relatively low enthusiasm for futures trading in China and the high enthusiasm in the United States. These factors mainly encompass the evolution of futures trading, contract types, duration, trading mechanisms, and regulatory structures. The weakness of this paper is that it does not examine a specific futures market or commodity in detail, but only describes the overall trend between countries, which does not form a tight structure.

Keywords: futures trading, Chinese finance, globalization, multi-level regulation, regulatory legal system

1. Introduction

In the realm of global financial markets, futures trading is a special dynamic mechanism that enables buyers and sellers to invest in upcoming commodities [1]. One of the fascinating aspects of this field is that the attitude and enthusiasm for futures trading varies from country to country. This paper provides an in-depth look at the popularity of futures trading in China as compared to the United States. By exploring the historical, cultural, and regulatory dimensions, the study seeks to uncover the underlying factors that contribute to this fascinating difference. In the article “Futures Trading Activity and the Jump Risk of spot market: Evidence from the Bitcoin Market”, Chuanhai Zhang emphasizes that one of the important uses of futures trading is that it can speed up the transfer of information [2], whether it be physical goods offline or virtual information services. In addition, futures trading improves the efficiency, liquidity, and depth of the spot market, making the entire market more flexible and thus further stabilizing the spot market. This undoubtedly makes it clear once again that in today’s economy or the future, the development of futures trading has taken a strong dominant position and won extensive research.

The main idea of this paper is to comprehensively analyze the differences in futures trading between China and the United States. The investigation is divided into three interrelated parts, which

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are the structural components of this paper. The first part focuses on the historical and social factors of China and the U.S., revealing the historical roots and cultural differences that have caused China and the U.S. to take very different paths in futures trading. The second part analyzes the types, duration, and trading mechanisms" and delves into the types, duration, and trading mechanisms of futures contracts. Part III explains the nature of the regulatory structure, revealing the intricate regulatory issues that have affected the attractiveness and growth of futures trading. Through this multidimensional exploration, this paper aims to reveal the intricate interplay between historical, cultural, and regulatory factors that have led to the different trajectories of futures trading in China and the United States.

2. Historical and Social Factors

This section reveals how the historical emphasis on agriculture and family values in China, compared to the exploratory and risk-embracing nature of Western culture, has influenced the development of futures trading in these nations.

2.1. Background of the Origin of Futures

The emergence of futures trading can be traced back to the 19th century when the United States was in the lead. The evolution of futures contracts can be attributed to the agricultural landscape and the need to stabilize commodity prices. Chicago, the economic metropolis of the United States, was the first to transform itself into a major grain distribution center, and the ensuing challenge of volatile grain prices created a need for mechanisms to mitigate price fluctuations. Farmers and merchants began to develop agreements that laid the foundation for modern futures contracts. In the 21st century, banks are the lifeblood of the economy, but how can they be successfully managed in the article related to bank capital structure and regulation, there is this sentence that emphasizes how future trading can bring the most benefits to banks, according to Biswas [3], Futures can provide banks with sufficient capital requirements to effectively keep bad banks out. In capital requirements, futures would be the only equilibrium in which economic factors would effectively keep bad banks out while allowing good banks to leverage up to a superior level". With such strong competitive pressures, those banks that can skillfully conduct efficient futures trading are powerful enough to weed out the weaker banks and ultimately emerge as winners.

2.2. Cultural Differences Between East and West

Different cultures play an important role in shaping financial markets and preferences, and this is where the differences begin. China's historical emphasis on smallholder economies and agricultural practices fostered an economic environment that emphasized family values and interpersonal relationships. In contrast, Western culture is rooted in exploration and adventure, laying the foundation for the early development of futures contracts through maritime exploration and trade. The attitude of adventure inherent in Western culture provided fertile ground for the development of speculative trading, which is the cornerstone of today's futures markets. The core elements of the modern futures contract, including the underlying, maturity, price, and contractual parties, are like its historical origins. These elements have evolved over time and continue to form the framework for futures trading.

2.3. Futures Trading US vs. China

The trajectory of futures trading in the U.S. over the past century has proven its enduring appeal, which can also be seen in the fact that futures trading has also contributed significantly to the growth

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rate of unproductive activities for the U.S. economy. Tomas Rotta [4] states that futures trading has made a net positive contribution to productivity and growth in the commodity series of unproductive activities. Futures trading has also addressed to a large extent the rapid rise in income inequality after 1980 the U.S. economy's meteoric rise this year has been a success of a combination of productive and unproductive activity, with futures trading leading the way in these responses. At the same time, China has not yet fully grown to have a stable set of conditions for future growth, in stark contrast to the evolving history of the United States. But with technological advances, the development of futures trading has made China an important tool for large capitalists to stabilize their costs, and for small farmers to obtain a reliable source of income. However, the emergence of speculative trading also brought with it complexity. The different attitudes towards speculation in China and the United States can be attributed to historical, cultural, and regulatory nuances.

3. Types, Duration, and Trading Mechanisms

In this section, the key analysis emphasizes the market differences in futures trading. Importance in shaping unique patterns of market participation and liquidity in China and the United States.

3.1. Futures Duration

China's domestic futures market is characterized by a narrow range of listed varieties, mainly focusing on commodities. In contrast, the international futures arena covers a wider range of financial derivatives, including foreign exchange, interest rates, stock indices, and options. Trading hours and mechanisms vary between China and the United States, reflecting the different market patterns of the two countries. China's trading hours are relatively limited and tailored to domestic participants and market conditions, with specific trading hours ranging from 9:00 a.m. to 11:30 a.m. and ending at 1:30 p.m. to 15:00 p.m., Monday through Friday. In contrast, the U.S. offers 24/7 trading with lower fees and greater flexibility, making it easier for participants to participate. This difference in convenience has a profound impact on market participation and liquidity (Figure 1).

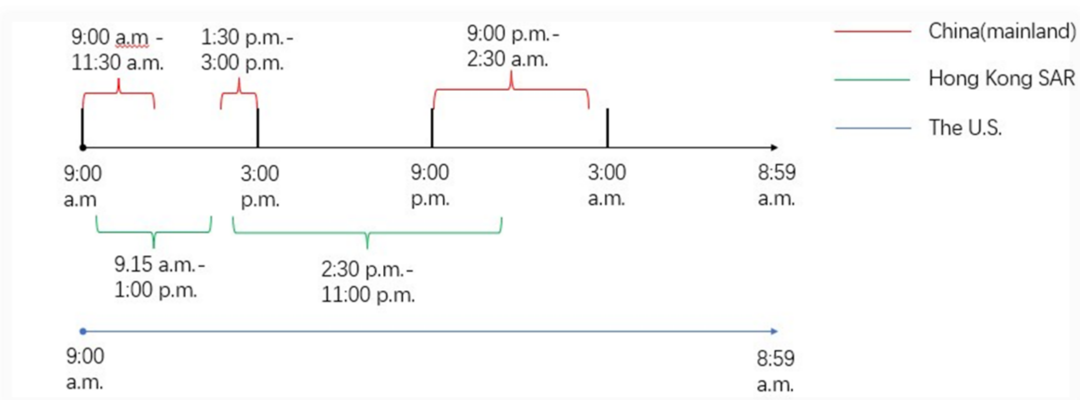

Figure 1: Transaction time of different market.

3.2. Trading Mechanisms

Trading behavior and mechanisms for risk management differ between the two countries. Circuit breaker mechanisms, which are implemented to curb high market volatility, are more common in the United States. In addition to this, the paper write by Zhang describes the fine steps in closing operations in the futures market, In their experimental report, it can be concluded that they tested several neural wavelet prediction methods on the closing prices of other futures contracts. The

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methods are similar to sfe3yb, credulous, and census, etc [5]. It can be concluded from these evaluations that multi-scale neural network architectures are usually more authoritative and beneficial than applying MLPs alone, and that rational utilization of the second-stage perceptron will lead to optimal performance. However, the implementation of these algorithmic convenience and application mechanisms in China has had mixed results, Their complexity needs to be further addressed, and their volume controls and position limits reflect the need for improved regulatory approaches These mechanisms affect market dynamics and participant behavior, leading to the observed differences in popularity.

4. The Nature of the Regulatory Structure

This section explores how China should adopt future measures to expand its national interests by comparing the comprehensive U.S. regulatory legal system with China's evolving regulatory environment. This section will also reveal how the regulatory framework affects market efficiency, investor confidence, and overall participation [6].

4.1. Maturity of the Market Economic System

Overseas countries, especially the United States, have developed and standardized market economic systems and their efficient futures markets have made important contributions to commodity pricing. The U.S. is a beacon of maturity in the global futures market, and the reform and development of its futures firms have been followed by other countries. According to Lane, The United States owes its world economic leadership to the favorable commodity development initiatives of its Foreign Trade Zones (FTZs), it refers to places where access is restricted, and in detail, where storage or manufacturing of domestic and foreign goods can take place [7-9]. The United States has many FTZs, so they have had a tremendous impact on promoting economic development and providing U.S. companies with a competitive advantage, as well as improving U.S. manufacturing companies' access to foreign markets.

4.2. Comprehensive Regulatory Legal System

In view of the risk characteristics of futures trading, the U.S. has established a relatively comprehensive regulatory legal system. The Futures Trading Act, the Commodity Futures Trading Commission Act, the Commodity Futures Modernization Act, and other famous laws have made detailed regulations on futures trading. the Dodd-Frank Act introduced in 2012 puts the swaps market under comprehensive regulation, which further strengthens the stability of the swaps market. Among them, the impact of The Futures Trading Act is the most influential, Rosen (1983) has published an article titled "The Impact of the Futures Trading Act of 1982 Upon Commodity Regulation.". Rosen (1983) published an article titled "The Impact of the Futures Trading Act of 1982 Upon Commodity Regulation." In this article, it is said that "With the passage of the Futures Trading Act of 1982, Congress has done more than merely extend the life of Commodity Futures Trading Commission, the independent federal regulatory agency for futures trading". With a robust regulatory system in place, the futures markets are ushering in a new

4.3. Multi-level Regulation

The U.S. adopts a multi-tiered regulatory approach to futures markets. Regulatory agencies such as the Federal Commodity Futures Trading Regulatory Commission (CFTC) and the Federal Securities and Exchange Commission (SEC) are the primary market watchdogs, ensuring macro-level

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regulation. Meanwhile, the National Futures Association (NFA) promotes self-regulation of the futures market and helps to strengthen the self-regulation of market participants.

4.4. Specialization and Competitiveness

Driven by mergers and acquisitions, U.S. futures firms have evolved into world-leading entities with superior expertise and competitiveness. Their strong position in the industry stems from the consolidation of expertise, which gives them the flexibility to navigate global markets. Levy has expressed that when trading futures, pit traders would argue that the offsetting process in the physical commodity validates the authenticity of the physical commodity, i.e., that futures trading can be hedged in the financial markets of future transactions. In the process of financial "hedging", futures trading strikes a balance between buyers and sellers, further energizing the market.

4.5. Highly Qualified Employees and Global Perspective

What makes U.S. futures firms superbly specialized in terms of professional perspectives and vocational instincts is the essential presence of outstanding employees who demonstrate high professional standards and possess a global strategic vision that surpasses that of their international counterparts. This is undoubtedly the foundation that allows future companies to flourish. A specific example of this can be expressed as a community of highly qualified employees is ideal for the workforce to become a competitive advantage for the business and to improve and maintain the health of the organization. For business managers, having high-quality employees who will act from a variety of perspectives is valuable to the improvement and survival of the business [10]. This excellence is reflected in legislation, regulation, futures firms, commodity exchanges, and futures practitioners, making the U.S. futures industry a benchmark for global standards.

4.6. The Need to Globalize China's Futures Business

In contrast, China's domestic futures market is in the process of development and improvement. The prices of many commodities were not influenced by futures markets but by monopolies. However, the globalization of China's future business is considered essential for several reasons. As a major consumer of raw materials and a manufacturing center, China's booming economy requires participation in the global futures business. Active participation in the global futures market is necessary to grasp the commodity pricing power currently held by the West. Through globalization, China can reap the benefits of its own economic growth and take advantage of the economic development dividends of emerging countries. As the country enters a level of world integration, the economy and commodity output will similarly move towards an era of development dividends. Mathews (2002) states that when a country enters into globalization, its economy gains the possibility of leverage by integrating into global value chains and taking advantage of initial low-cost advantages to create the linkages that underpin the country's economic development.

4.7. Improve the Efficiency of Market Resource Allocation

Effective futures pricing reflects accurate market information. Increased market participation leads to more efficient information, which produces accurate pricing. This, in turn, guides firms' production, pricing, inventory, and hedging decisions. The more efficient the market, the more attractive it is to businesses and speculative participants. Globalization facilitates the formation of efficient markets by optimizing the allocation of resources on a global scale.

With the development of marketization and internationalization, enterprises increasingly rely on the futures market for risk hedging and cost management. Through futures hedging, firms can reduce the risk of price fluctuations in the spot market. In 2008, the U.S. subprime crisis erupted, and global commodity prices fluctuated dramatically, According to Alvarez [1], "under the global umbrella, the Asian financial crisis was slightly different from elsewhere. During the global financial crisis, macroeconomic conditions did not vary as much because different policy and regulatory systems were in place." This speaks volumes about the importance of hedging and keeping the economy globalized. The ability to hedge through futures can enable domestic firms to avoid similar vulnerabilities.

4.8. Establish Globally Competitive Futures Companies

The intrinsic quality and competitiveness of China's futures market are critical to its development and to the pricing power of commodities. To gain a foothold in the international commodities market, Chinese futures companies must leverage overseas markets, accumulate cross-border experience, and learn from competitive entities in Europe and the United States. Prioritizing high-quality futures companies with potential global competitiveness can enhance China's international standing.

5. Conclusion

This paper focuses on the differences between futures trading in China and the United States. By examining historical, cultural, and regulatory factors, it seeks to find out the reasons for the differences and how China can further develop its future market.

Futures trading is a means for both buyers and sellers to invest in the purchase of future commodities. The United States, as an economic power in the world today, is bound to have a strong future market, and China, which is in the midst of development, should learn from the history of U.S. economic growth to improve its national development.

The results investigated in this paper are in terms of historical and social factors, and regulatory and market differences. The results of this paper summarize national differences in futures markets in terms of historical and social factors, regulatory and market differences, as well as globalization and future perspectives, and concludes that China needs to be more globalized and create a more complete monitoring system to expand and improve the size of its futures markets.

The weakness of this paper is that it does not examine a specific futures market or commodity in detail, but only describes the overall trend between countries, which does not form a tight structure. Future research can delve into the impact that some specific commodities bring to the futures market of a country, as well as the potential impact of technological progress on the development of China's futures market.

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