Spotlight: China

China's markets are still a long way from embracing all the tenants of the free market. However, the country has made giant strides in this direction and is a nation in transition. Not only has China's capital market grown dramatically over the past decade, after 15 years of negotiations, its recent entry into the World Trade Organization (WTO) is a monumental milestone. It will mark a dramatic departure from the past, insulated, centrally planned, economic order, into one that will be defined by market forces and global trade. The WTO entry will thus set in motion sweeping changes across the entire Chinese economy.

Among those affected will be the Chinese agricultural community. This nation's 500 million farmers will have to negotiate the combination of new obligations and new opportunities that will confront them. Protective tariffs must be lowered. Foreign products must be allowed to compete with local produce. Many of these transformations will require patience, engender pain, and take years to institute. Toward this purpose, expansion of China's futures markets should be given the highest priority. Chinese enterprises, both in agriculture as well as in finance, will find that WTO entry dramatically increases their need for sophisticated futures market tools with which to protect against inherent economic risks.

China's history in futures markets has admittedly been problematic. Its past experience was the consequence of an inadequate regulatory framework and unprofessional trading practices. These past errors have been corrected. Beginning in 1994 the Chinese government instituted an effort to close illegal futures operations and consolidate many others. Under the direction of the China Securities Regulatory Commission, from over 60 futures markets only three remain: The Shanghai Futures Exchange (SFE) which specialises in trading of aluminium, copper and natural rubber, the Zhengzhou Commodity Exchange (CZCE), primarily trading in wheat and mung bean, and the Dalian Commodity Exchange (DCE) trading in soybeans, soybean meal and beer barley. The DCE is today the second largest soybean futures market behind the CBOT.

We applaud the National Peoples' Congress's recent acknowledgement for the need for additional futures instruments. We urge the government to open China's futures markets to foreign investors and brokerage firms, and we encourage the China Securities Regulatory Commission to look favourably on the application by the SFE to enter into the arena of financial futures. The SFE's goal to become the major futures market in the Asia-Pacific region is predicated on its ability to launch stock index futures, as well as contracts in interest rates and foreign exchange. We advocate this development.

The people of China are resourceful, determined and resilient. There is clear proof of their desire to improve their market efficiencies and expand their market structures. We have no doubt that this nation can achieve these results. The people in America, in turn, stand ready to help. The Chicago Mercantile Exchange is specifically here to extend its hand and provide expertise. Our common goal is to strengthen China's capital market, smooth out the difficulties posed by WTO entry, attract foreign participation and foreign investors, and raise the standard of living of the Chinese people.