An Investigation on the Status, Problems and Countermeasures of the Commodity Market of Zhejiang

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Abstract. With high-speed development of exported-oriented economy of Zhejiang province, international trade of commodity has enjoyed significant position in China. This paper has investigated the domestic and international commodity market, analyzed the basis conditions and advantages of Zhejiang commodity market, and proposed the basic ideas of building the commodity trading center. This paper put forward that the government should play a positive role in taking corresponding countermeasures in terms of guidance of market integration, financial tax, financial support, construction of talents etc.

Introduction

The demonstration area plan of Marine economy development of Zhejiang had been officially approved in February 2011 by the state council, which has been listed as national strategy. According to the plan, Ningbo, Zhoushan and the surrounding cities will become the core region of the marine economy development of Zhejiang. However, regarding the current situation, the commodity trading market of Zhejiang scatters, and has its limitation in normative operation mechanism. With the severe competition within Zhejiang province, it is challenging to coordinate the market. Take the whole situation of Marine economy development of Zhejiang into consideration, the current commodity trading market in Zhejiang province must be integrated and improved into a large-scale, specialized and efficient commodity trading market and thus become an influential trading center in China and abroad.

Commodity and Commodity Markets

Bulk stock refers to the material goods with the attribute of commodity that can enter the circulation field while it cannot be traded in retail. It can be used in the industrial and agricultural production and consumption and can be traded in large scale. In the financial investment market, commodity means homogeneous, tradable industrial raw materials which are widely used, such as crude oil, nonferrous metals, agricultural products, iron ore, coal, etc. It includes three categories, which are energy products, basic raw materials and agricultural and sideline products.

The commodity market refers to the commodity trading place. Electronic trading of commodity is a pattern of offering traditional spot wholesale trading on the Internet. Compared with the traditional commodity trading, this trading pattern has advantages in improving the efficiency of commodity trading, reducing the transaction costs and the logistics costs, ensuring the quality of traded goods, and preventing fraud, rebates and other conventional malpractices.

The commodity trading market is an important platform in expanding trade scale, enhancing the ability of concentration, consolidating the leading position in market. Commodity trading market and futures market have formed a multi-level commodity trading market system by supporting each other across the world. Currently, some influential commodity trading markets around the world, such as the crude oil market of New York Mercantile Exchange (NYMEX), fuel oil market of the Platts
Singapore Open Market (PLATT), non-ferrous metal of the London Metal Exchange (LME) and the agricultural products markets of the Chicago Board of Trade (CBOT), etc. are in need of spot trading center and logistics center with international trading of commodity. Up to now, there are more than seventy large-scale and influential commodity trading markets which cover twenty provinces and cities as well as many classifications of commodities, such as non-ferrous metals, oil, coal, agriculture goods and textile raw materials, etc.

The Status and the Advantages of Zhejiang Commodity Market

The Development Status of Zhejiang Commodity Market

The commodity trading platform of Zhejiang is mainly located in Ningbo and Zhoushan. It started earlier in Ningbo with good foundation of market. Zhoushan has also been developing rapidly because of the new district construction of Zhoushan Islands. At present, it has formed a few typical and professional trading markets, such as the Yuyao plastic market, Zhenhai liquid chemical trading market. However, it is still needed to be promoted and expanded.

In 2011, as Zhejiang marine economic development demonstration area planning put forward "one center, two platform", which aims at constructing international commodity logistics center and building Zhoushan commodity trading service platform and Ningbo production trading service platform, Ningbo and Zhoushan successively established “Ningbo Commodity Exchange” and Zhoushan Commodity Exchange. With the registered capital of 0.2 billion, Ningbo Commodity Exchange specialized in plastic, chemical raw materials, steel, non-ferrous metals, and rare metals. With the registered capital of 0.2 billion, Zhoushan Commodity Exchange mainly trades in oil chemical products, coal, nonferrous metal, iron ore, steel, paper pulp, wood, which has enrolled in stockholders such as Wuhan Iron and Steel Corp., State Power Corp., etc. Zhejiang is gradually forming “Ningbo-Zhoushan Index” of spot commodity trading, working together with the Shanghai futures index and trying to raise the reputation of China in commodity pricing mechanism which is mainly led by European and American markets.

The Advantages of Zhejiang Commodity Trading Market

First of all, it is superior in the port and geographical condition. As a world-class trading port, Ningbo-Zhoushan port is located in Yangtze River which is the main domestic commodities terminal consume market and is close to the commodity the terminal consume market. As the domestic and international distributing center of several commodities, including copper, nickel, coal, petrochemical, iron ore, grain, etc., Ningbo and Zhoushan has the basic conditions in forming national trading market. For example, Zhejiang province is the largest manufacturing processor in China. The output of copper material is a third of national production and processed copper consumption reaches more than 300,000 tons. There are more than 100,000 tons of input of copper materials go through Ningbo customs a year. Zhejiang is also a main producer and import area for the petrochemical PTA products. The number of import of Non-ferrous metal nickel of Zhejiang takes up more than 30% of total national imports.

Secondly, Zhejiang commodity market started early with its effective, specialized and standardized operation. The plastics town in Yuyao, China and Zhenhai liquid chemical trading market have been fairly influential in China due to their standard operations and trading scales. Meanwhile, they also have policy advantages. As the core area of Zhejiang marine economy development, this region has a free trade zone, bonded logistics park, bonded port area as its important special commodities trading areas.

The New Situation Zhejiang Commodity Trading Market Construction Faces

The Optimization of Domestic Commodity Market Environment

First of all, the domestic commodity markets have clear orientation. After one year of reorganizing, illegal activities concerning standardized contract and centered trading have been effectively curbed,
and long-term trading commodity is returning back to the spot markets in an orderly fashion. This 
rectification that refined the position commodity spot market is of great significance to the long-term 
development of the commodity market. The order of the commodity market has also been regulated. 
The vicious competition of speculation has been stopped by cutting off the disguised futures trading 
pattern. Secondly, the order of commodity market is standardized. Long-term trading commodities 
markets are gradually shifting to the spot markets, setting up spot supermarkets and online malls, 
launching special auctions, and providing information, verification and settlement services in order to 
implement electronic spot trading. Also the concentration of the commodity industry has been 
promoted. Thirdly, the commodity industry concentration has been promoted by closing exchange 
bourse of poor market foundation, small scale, and irregular operations. According to incomplete 
statistics, only around 150 domestic exchanges are acceptable among nearly a thousand exchanges. 
After calling off long-term trading mode which almost takes up 80% of the entire market, each trading 
platform is still facing survival problems, which means there is a beginning of a market reshuffle. 
Through this rectification, domestic commodity trading markets are under pressure of transiting into 
the spot market in the short term, but in the long run, location and industrial advantages will help 
commodity trading platforms get unattainable opportunities of development and the domestic 
commodity market environment will be optimized.

The Uncertainty of Domestic Regional Competition Structure

At present, the dominant species of Zhejiang commodity international trade and logistics are oil, 
chemicals, iron ore, coal, wood etc. But the transaction platform of these products is experiencing 
severe competition in the Yangtze River delta region. Take an example of the source market of Crude 
oil, there are markets in Zhangjiagang, Jiangsu, Shanghai Waigaoqiao, and Ningbo, Zhoushan, 
Zhejiang which are all of Zhejiang province along the Yangtze River. In North China, besides Tianjin, 
the Beijing ore trading center and Liaoyang port are also actively developing in commodity 
electronic trading. The timber market is concentrated in Zhangjiagang, Jiangsu province along the 
Yangtze river port as well as at Dalian port, and Guangdong Yantian port. Coal trading is blossoming 
everywhere, with the advantages in storage and transportation. Qinhuangdao, Tianjin, Dalian, 
Qingdao, Ningbo and other port areas are actively engaged in coal trading.

Suggestions on the Development of Zhejiang Commodity Trading Market

To Highlight the Focus of Development

We should upgrade the advantages of the existing varieties, such as plastic, petroleum and chemical 
and Take the advantage of port and waterways to develop the import potential of varieties such as 
coal, minerals and food. At present, Ningbo has formed fifteen commodity trading platform including 
Ningbo Bulk Materials Trading Center, Yuyao Plastics City, China, which are influential in China. 
China (Zhoushan) Commodities Trading Market started in June, 2011, specifically focusing on 
petroleum chemical, coal, nonferrous metals, commodities, iron ore, steel, pulp and timber contract 
trading business. In the future, we will focus on cultivating and promoting petroleum chemical 
products, ore, coal, grain, steel, wood and other building materials, industrial raw materials, shipping 
as well as other trade categories in order to become one of the important trading and pricing centers of 
China.

To Seek Continuous Improvements and Great Breakthroughs

We should make full use of special zone policy such as the bonded port area, the bonded area, and 
the bonded logistics park in Zhejiang, and explore international commodity trading platform. The 
commodity trading platform construction will still be focused on international perspectives. At 
present, since the commodity trading market based on the international trading is very scarce in our 
country, we should explore international commodity trading platforms, make it an influential 
international trading center, and improve the level of commodity markets in Zhejiang with a basis in
the textile chemical industry, non-ferrous metals, and iron ore. In Ningbo and Zhoushan, port logistics is the biggest advantage of commodity market development. Therefore, the range and deepness of the port affects the grade and level of Ningbo and Zhoushan commodity markets. First of all, it is significant to actively encourage Ningbo and Zhoushan to apply for the free trade pilot area, and also supporting eligible international commodity trading enterprises to carry out the financial innovation to form real international commodity trading markets. Secondly, it is crucial to fight for support of national and provincial bonded policies, promote the integration of a special customs surveillance zone and select a suitable area to set up bonded logistics park or bulk bonded port area. Thirdly, it is advisable to obtain policy support such as tax rebates, and an offshore financial services policy.

**To Perfect Supporting Services**

We should build a comprehensive service system to promote the development of the commodity market. The Strengthening of financial service support system could be achieved by improving and promoting the Everbright bank, Ningbo branch by successfully developing and operating a third-party depository system, which supports real-time trading market docking with Zhejiang Plastic City Online Commodity Trading to ensure the safety of transactions. And we should also strengthen the support of financial institutions to trading markets, actively implement close cooperation and interaction between financial institutions and the trading markets, and enhance the information service, logistics service and recruiting supporting services.

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