China a big player in commodities

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The country's raw materials consumption makes it a major player in the global market

Being the top consumer of raw materials and the second-largest economy, China plays an essential role in the global market - economically, financially and politically.

There are two parts of the global economy: the fictitious and the real. The gap between demand and supply in the real economy determines the international price of commodity futures in the fictitious economy. Price changes are also derived from players' collective response to a turbulent global financial climate, their economic bargaining power and their international logistics and financial positions. Countries ambitious enough to take a lead in both real and fictitious economies have to collaborate effectively at institutional, political, financial and economical levels.

Some of the declining prices in the global commodity trading market are a result of the depressed global economic and financial climate following the EU debt crisis, declining global consumer demand and negative market sentiment. Such factors have not only led to a depreciation of the euro and reduced European import volumes, but also lowered demand for commodities. Along with the first layer of consequences, the problem has emerged in the existing financial structure.

Many claim that with the US economy seemingly recovering, even as the EU remains burdened by the debt crisis, China will be a critical player for future change in the global economic and financial climate. Although commodity futures trading market, which mirrors and predicts risk in the real economy, is down, spring will eventually come, supported by fast-growing economies collaborating and breaking the negative loop from the shrinking supply-demand gap in the real economy.

With China's reduced growth during economic transition, many people predict the country's demand for commodities will fall. However, the latest data of China's imports of raw materials and export of steel from January to June show the opposite.

Despite reduced overseas demand that affected China's exports in the semi-manufactured and final goods market, China is still positioned as the largest consumer of key raw materials such as crude oil, iron ore, copper, and as a large exporter of steel. By the end of June, China's crude oil imports rose 27 percent compared with the same period last year, iron ore rose 16 percent, copper 12 percent; and steel exports 25 percent. Not surprisingly, China has reduced coal imports by 37.5 percent, a result of the government's action in changing from coal consumption to sustainable resources. This, without doubt, will help the global commodities trading market recover to a healthy level.

To be a major global economic player, the Chinese government and Chinese firms need to play together in the offshore and onshore markets both in the real and fictitious economy. We see that in the fictitious economy there are roughly more than 100 government-backed companies participating in commodity futures trading, besides trading internationally in the real economy.

In the domestic market, the government plans to open up the Chinese futures market to overseas investors in crude oil futures. Following the creation of the Shanghai free trade zone and the launch of the Shanghai gold exchange international bourse, more overseas investors have been allowed to invest in the Chinese gold market with offshore Chinese renminbi.

The real economy is always the backbone of the fictitious economy. In the real economy, other efforts saw heavy Chinese investment overseas with the increasing prominence of the Chinese renminbi in the financial currency map. Taking Chinese overseas investment in Europe as an example, the country leapfrogged Japan to become the fifth largest investor in Europe by 2014 with 364 FDI projects and more than 11,718 European jobs created in sectors such as automotive, food, plastic and rubber.

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Much change has been seen from the multi-level collaboration across continents, such as the London Stock Exchange being the first group to allow the use of the Chinese currency to trade commodity futures.

China will continue to have a major impact on the world's commodity markets and will continue to influence business and economic decisions across the world.

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