

Policy Briefing

POLICY@SUSSEX | SPRING 2020



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Briefing 2: Social Infrastructures of the “New Silk Road”

INTRODUCTION

The factors determining the transitory nature of immigrant traders in Yiwu
Yemeni and Syrian traders residing in Yiwu are not simply economic migrants hailing from ‘problematic’ countries, but are part of broader, historically-rooted networks which connect different regions across Eurasia. As such, they can be thought of as a *social infrastructure* which complements but also pre-dates the hard infrastructure of *Belt and Road Initiative*. To remain viable, this infrastructure depends on keeping the paths of circulation open, through remittances and visits.

Many small-scale microentrepreneurs from the Middle East have also been attracted to do business in Yiwu. They are drawn by the city’s unique market structure and procurement model which lowers the barrier to entering international commerce for first time buyers. Yet even those who have established trading offices see themselves as transitory rather than permanent. This situation is a consequence of the relative lack of accessible and viable schooling for their children and limited avenues to longer-term residency arrangements. These factors also drive those who command significant capital resources to explore investment opportunities in other nodes of their Eurasian networks rather than put their money into Yiwu.

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UNDERSTANDING THE SIGNIFICANCE OF TRUST TO THE TRADING NETWORKS THAT CONNECT CHINA TO THE WORLD

Key findings

1. Syrian and Yemeni traders who are resident in Yiwu are not economic migrants or refugees from ‘problematic’ countries but part of **broader networks** which connect different regions within the landmass of Eurasia
2. Networks are often rooted in the **legacy of Soviet-Middle East and China-Middle East diplomatic, educational and commercial ties**
3. **Migration for education** often serves as the basis for commercial networks to develop. Networks and infrastructures of student and merchant life are closely entwined in commercial cities such as Moscow and Yiwu. Migration-for-education continues to underpin the commercial connectivity of China with markets and skills across Eurasia
4. Yiwu’s **unique market structure and procurement model** have lowered barriers to entering international commerce for a new generation of **micro-entrepreneurs** hailing from Middle Eastern states
5. **Trust** is important within these coalescing networks of entrepreneurs and is **established in informal institutions** within local neighbourhoods in nodes such as Yiwu
6. Syrian and Yemeni merchants – both longer-established traders and newer micro-entrepreneurs – see themselves as **transitory rather than permanent inhabitants of Yiwu** due to the barriers to longer-term residency arrangements and uncertainties to schooling their children
7. Uncertainty leaves longer-established merchants **reluctant to inwardly invest** in Yiwu and more widely in China even though they have significant resources of capital and so explore investment opportunities in **other nodes of the Eurasian network**



Context

THE LEGACY OF SOVIET-MIDDLE EAST TIES IN CHINA

Since the late 1990s, the city of Yiwu in China’s south eastern commercially vibrant Zhejiang province has become a major wholesale market supplying low-grade commodities to international traders who visit the city. It is famous among these merchants for its Futian market, which houses some 70,000 wholesale outlets for Chinese manufacturers of small household items, ranging from socks and kitchenware to toys and cosmetics. Several thousand merchants, mainly from Central and South Asia, Russia, the Arab world and Africa, are resident in the city, having established trading offices to coordinate exports and provide logistical and customs support to merchants visiting from across the globe.

Analysts have described the supply routes between Yiwu and its outpost markets in Asia, the Arabian Peninsula and North Africa, as a new ‘Silk Road’ that runs across an East-West axis, arguing that the evolution of this supply chain was the consequence of Arab merchants turning east to seek new trading partners after finding Western societies harder to penetrate following the political watershed of 9/11.

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However, the trajectories of Syrian and Yemeni merchants active in Yiwu reveal a more complex story of commercial careers built in Moscow, facilitated by Soviet and Russian higher education scholarships, and circuits of mobility connected to Soviet and post-Soviet worlds.

Many Syrian and Yemeni traders currently resident in Yiwu were able to establish themselves in commerce thanks to the legacy of Soviet, Russian and Chinese patronage of Middle Eastern states. As part of its efforts to cultivate client states in West Asia, the USSR had, through the 1970s and 1980s, offered free places at Soviet universities to Syrians and Yemenis from both north and south Yemen. On graduating, students often turned to commerce, first in Russia and then, from the late 1990s, in China. Syrian and Yemeni traders have been in Yiwu since the late 1990s, when they started visiting the city to provision wholesale markets, particularly in Moscow and Dubai.

From the late 1990s, the local authorities in China positioned Yiwu as a gateway to Sino-centric Eurasia, expanding the Futian market until it comprised some 70,000 booths. Attracted by the capacities of the market, Syrian and Yemeni merchants then moved from Moscow and the remnants of a Soviet vision of Eurasia, to Yiwu and an emerging Sino-centric vision of this expansive transregional space. Around a decade later, the vision of Eurasia being connected by Chinese commodities and infrastructure became a hallmark of Xi Jinping's presidency under the 'Look West' (Li et al. 2016) policy and most recently the 'Belt and Road Project'.



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YIWU HAS BECOME A DOMINANT NODE IN TRANSNATIONAL TRADE FOR MIDDLE EASTERN MARKETS IN RESPONSE TO THE FOLLOWING FACTORS:

STRUCTURES AND POLICIES

Market Structure

Yiwu's Futian market functions as a permanent commercial fair. It maintains a diversified wholesale market structure, consisting of five interconnected mega-malls divided into sections each specialising in particular ranges of goods used in household consumption and light manufacturing. The wide range of wholesale commodities available in a single market complex enables visiting merchants to add value through processes of composite manufacturing, i.e. combining items purchased in different parts of the market (boxes, ribbons, labels, clips) into a single composite product. This enables merchants with relatively little capital to participate in light industrial manufacturing and design, and encourages micro-entrepreneurialism.

Intellectual Property

The low degree of institutionalisation and enforcement of intellectual property rights in Yiwu encourages the swift adoption of, and innovation from, rival product designs, both within the market and between Yiwu and outpost markets in Dubai. This also encourages informal micro-entrepreneurship.

Tax and Regulatory Policies

In December 2008, in order to tackle the slowdown in export growth after the international financial crash, the Chinese government supported export demand through **VAT rebates** on low-cost goods. These stimulated demand for Yiwu's low-grade commodities in the Middle East and in other markets in Asia and Africa. This export bonus was designed to establish the dominance of Chinese manufactured goods in Asian markets, and enabled importers in outpost markets from the Suwaiqa wholesale market in Aleppo to the Dragon Market in Dubai to pursue aggressive pricing strategies – in some cases offering Chinese commodities for sale in these sites in the Middle East at virtually the same price that they could be purchased in China.

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In November 2014, Yiwu market authorities introduced a **simplified customs regime** which has since been replicated elsewhere in China in a series of pilot studies. The new arrangements reduced customs reporting and VAT invoicing requirements, treating purchases made by international merchants in Yiwu as if they were 'tourist shopping'. The aim was to lower the barrier to market entry, and the effect was to attract first-time micro-entrepreneurs from the Middle East to Yiwu's markets, who purchased cargo space in smaller units, by the cubic metre (rather than by the container).

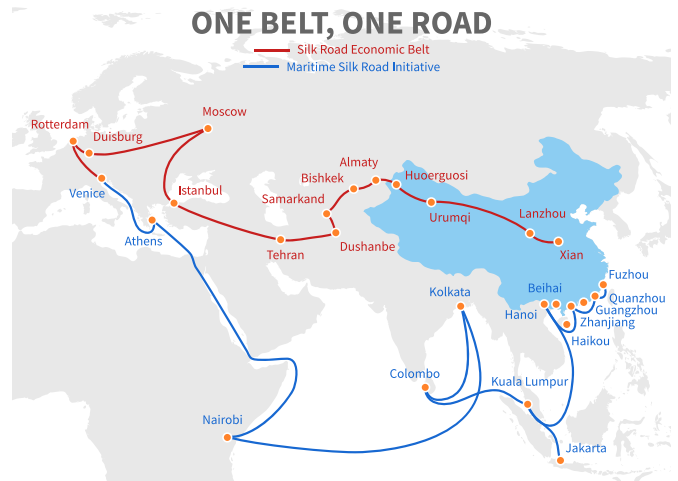
TRUST AND 'INSTITUTIONS OF NEIGHBOURHOOD'

'Institutions of neighbourhood', such as restaurants and cafes located amidst clusters of commercial offices, play a critical role in ensuring the viability of Syrian and Yemeni merchant networks in Yiwu by **regulating trust and reputation**. By hosting **informal diaspora associations** and gatherings, these informal venues allow merchants to **pool knowledge about reputation**, exclude those guilty of bad behaviour, and access mechanisms of informal dispute resolution. Trust is therefore not simply embedded in relations of shared kinship or ethnicity, but is constantly remade through face to face interactions in these 'institutions of neighbourhood'.

RESIDENCE, SCHOOLING AND CULTURAL CITIZENSHIP

The paucity of avenues to permanent residence or extended residence permits, as well as restricted access to schooling, leads even the longest established Syrian and Yemeni merchants to view Yiwu as a temporary base and **discourages investment** in industrial and commercial ventures, as well as the **formation of cultural institutions**. The perceived temporariness of their sojourns in China leads many to actively maintain social and commercial networks across nodes in a formerly Soviet geography, as well as across other migratory geographies such as the Gulf and more recently Turkey. Both Syrian and Yemenis increasingly **invest in alternative commercial nodes** such as Istanbul, which has been positioning itself as a pole of an alternative and **culturally Islamic vision of Eurasian connectivity** since the accession of the Justice and Development Party in 2002. While some Syrian and Yemeni merchants have intermarried with Chinese nationals – in cases that have attracted positive publicity in Chinese state media – many view alternative settings across Eurasia as more favourable

to intermarriage and to the expression of cultural identity. This implies that the durability of Yiwu as a transregional trading city must be seen in part as depending on its **competitiveness vis-à-vis rival Eurasian commercial hubs**.



Conclusions

- 1. Migrant networks are a vital infrastructure of global commerce.** Syrian and Yemeni traders resident in Yiwu are not simply economic migrants hailing from 'problematic' countries, but part of broader networks which connect different regions within the landmass of Eurasia. While these individuals hail from countries that are marginal to wider Eurasian geopolitics, they have flourished by moving around and acting as brokers between different nodes in a connected Eurasia. These networks form a historically rooted and geographically expansive social infrastructure which complements but also pre-dates the hard infrastructure of **Belt and Road Initiative**. These networks depend on keeping the paths of circulation open. They are maintained through regular visits from their clients based elsewhere in the markets in which they operate in Eurasia, as well as through the sending of remittances to communities and families within these regions.
- 2. Informal institutions support trust within these networks.** To the extent that trust is important within these wider networks, it develops in informal institutions within local neighbourhoods in nodes such as Yiwu. These institutions, such as restaurants and cultural institutions, are often not formal organisations regulated by the state. But they are nonetheless a critical element of the broader social infrastructure of trade, and need to be recognised as significant in order to foster harmonious business relations.
- 3. Weak residence and schooling rights obstruct social investment in Yiwu.** The collectives of Syrian and Yemeni merchants resident in Yiwu are organised in informal hierarchies: some merchants who are longer established act as 'pillars of the community', while others, more recently arrived, depend on inserting themselves into these longer-established networks. However, even the longer-established 'pillars of the community' who have been trading in Yiwu for more than a decade often see themselves as transitory rather than permanent, due to the absence of avenues to longer-term residency arrangements and uncertainties over the possibilities for schooling children.
- 4. China faces competing visions of Eurasian connectivity.** While many Syrian and Yemeni merchants have found significant opportunity in Yiwu and some command significant resources of capital, it is difficult for them to think in terms of inward investment into China because of issues such as residence and schooling rights. This means that they are left to explore investment opportunities in other nodes of the Eurasian network.
- 5. Social policy levers can support the human infrastructure of commerce.** The development of China's Belt and Road Initiative is at the heart of competing visions of Eurasian connectivity and is likely to continue to be subject to geopolitical rivalries. While much policy-related analysis of the **Belt and Road Initiative** focuses on the allocation of capital to hard infrastructure projects and the shifting ground of state-to-state diplomatic relations, the distribution of human networks and skills is also affected by policy relating to immigration, cultural institutions, and migration for education. The distribution of skilled human networks will play a critical though less-trumpeted role in shaping the outcomes of emerging forms of trans-Eurasian connectivity. These can be encouraged or discouraged through levers such as policy relating to market procurement systems and regulations, immigration, cultural institutions, and migration for education.

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FURTHER INFORMATION AND RESOURCES

For more information about the TRODITIES project and the Sussex Asia Centre:

<http://www.sussex.ac.uk/global/research/researchprojects/yiwu>

FUNDING

This work was supported by H2020 European Research Council [grant number 669 132 – TRODITIES, Yiwu Trust, Global Trade].