

Policy Briefing

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Briefing 3: Post-Soviet perspectives: Yiwu's Futian market as a model wholesale marketplace

INTRODUCTION

Present-day trade in small Chinese commodities within the city of Yiwu has contributed to the creation of various trade formations and regional marketplaces across the former Soviet space. This briefing assesses these developments in Georgia, Armenia and Ukraine. Based on ethnographic fieldwork in these locations, including several major marketplaces (the main destinations for Yiwu commodities) it outlines the ways in which small and medium-sized traders operating in these national markets view the Futian market in Yiwu.

Key findings

1. Slav traders, trading minorities and traders from the Caucasus comprise very distinct post-Soviet commercial networks of co-ethnics and compatriots who, more often than not, do not share a 'culture of trade'.
2. The first generation of post-Soviet traders in Yiwu have generally not learnt to speak Chinese yet they value a Chinese education for their children with the hope of maintaining an ongoing commercial presence in the country despite not seeing China as their new home
3. A general distrust of the Chinese by Slav traders isn't an obstacle to successful business in Yiwu
4. Different trading minorities adopt differing commercial strategies to achieve their objectives
5. Slav traders' distrust and suspicion of competitors has led to specific business models being adopted
6. The Futian Market, by contrast to comparable open-air markets in post-Soviet countries, is seen as a positive example of a civilised marketplace supported by the state

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Wholesale and novelty goods allow these marketplaces to compete with shopping malls and branded stores in town. Besides wholesalers and retailers, the open-air markets on the cities' outskirts are still attracting ordinary consumers – not so much by offering lower prices (the retail prices are often not very different from the prices in the city, especially in the chain stores and big supermarkets) – but by the vast range of merchandise and 'exclusive', novel commodities, most of which now come from China.

In Georgia, a key regional hub is Lilo market (officially called the Lilo Mall) located outside the capital city, Tbilisi. In Yerevan, Armenia, there are also several smaller wholesale and retail markets, including one in the centre of the capital called Petak in Armenian. There is also a huge container market, called the 7th km market, outside the city-port of Odessa on the Black Sea, Ukraine. These marketplaces came into being in the late 1980s and early 1990s as a result of the suitcase-trade or shuttle-trade with Turkey, Dubai, China and other destinations offering cheap commodities. More recently, since the mid-2000s, Chinese commodities have become particularly popular with wholesalers from Ukraine and the Caucasus. Some of the wholesalers have now largely shifted to online commerce while the number of internet shops/sellers functioning as middlemen between the wholesalers based in the marketplaces, both on- and off-line, is growing.

This development is particularly visible in Odessa where the new 'online segment' has largely moved outside the 7th km market to the so-called 6th km market (est. 2005) just across the road, also known as the 'New City' market (Nove mistse in Ukrainian). The online wholesalers in the 6th km market also resort to off-line – face-to-face – commerce with various middlemen, but mainly only to dispose of the old stock and during the off-season, 'quieter' periods. Like many wholesalers in the 7th km market, they often distribute their old stock among several individual internet-sellers who visit their offices in person to pick up the goods, pay for the sold commodities and return the unsold ones. (The whole system is reminiscent of the old Soviet '*komissionka*' shops, i.e. shops that used to sell goods on commission).



'Trade formations' refers to the ways in which long-distance networks, credit relations and practices of coexistence of different networking groups (e.g. 'trading minorities', regional sub-groups), constitute the larger framework of a shared commercial world. These trade formations are what enable trade in small Chinese commodities, in particular, and 'globalisation from below' in general. Historical and ethnographic research on commercial networks often highlights the role of kinship, ethnicity and legal institutions in securing some degree of trust and effective economic cooperation.

There is no doubt that trust is useful for long-term and long-distance trade, and that top-down regulations can, theoretically, create a trustworthy environment for transnational trade. The traders from the former post-Soviet locales in Yiwu generally feel protected against dishonest Chinese suppliers/manufacturers: both formal structures in the Futian market and informal information networks of traders and commercial agents in Yiwu contribute to trustworthy commercial environment. Yet, trade formations owe their existence not so much to the mutual expectations of trust, as to a different set of dispositions. National and transnational trade networks 'cross-cut' political, cultural and religious divisions thanks to traders' attempts to adopt a neutral, diplomatic façade to make things happen. It is a person's declared ability to maintain relationships in the absence of trust and shared cultural norms that is often at stake.

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TRADE FORMATIONS AND COPYRIGHT DILEMMAS

The idea of 'trade formations' allows us to draw attention to different 'social interfaces' that give individual traders and entrepreneurs working in China various new opportunities to modify and expand their businesses. A key issue for small and medium-sized traders coming to Yiwu concerns how to find or design a new item of merchandise that may become a 'best seller' back home whilst also safeguarding one's own designs or innovation from being immediately copied by their competitors.

Whilst there are not many, if any, efficient mechanisms that can help small-scale traders to protect their commodities from being copied, their approach towards the dilemma of copyright is conditioned by their culture of trade and the nature of commercial networks. For Slav traders from Ukraine and Russia as well as some traders from the Caucasus the issue at stake is their ability to find cheap but 'unique' or 'exclusive' commodities for home markets. The copying of new, 'unique' designs and ideas is less relevant to traders who are part of big transnational networks as they tend to order large quantities of identical goods, allowing them to command very competitive wholesale prices both in China and back home. These transnational networks of co-ethnics are often representing trading minorities/diaspora in the countries where they operate (e.g. the Afghans in Russia and Ukraine; the Azeris in Georgia and Russia).

Slav traders and trading minorities operating in the same national markets often follow different commercial strategies that directly impact on, and are conditioned by, the nature of the commercial networks at their disposal:

- Slav traders and some traders from the Caucasus tend to focus on 'exclusive' or unique commodities as a way of safeguarding their market niche and therefore are deeply distrustful of their compatriots and Chinese agents working in Yiwu.
- Trading minorities (such as Azeris and Afghans) are, by contrast, more open to cooperation and communication in Yiwu, and rely on their transnational networks of co-ethnics to command the best possible prices for wholesale and transport.

Despite pervasive distrust, suspicion and limited sociality among Slav traders in Yiwu, business trips to Yiwu may result in both an extension of commercial networks and new commercial solutions – for instance, by finding new partners, both within and outside one's networks of co-ethnics or compatriots, to place larger orders with Yiwu suppliers.

One example of such operations is an Algerian trader based in Odessa, Ukraine, who specialises in stationery, and who was introduced to several Russian traders by the Chinese owner of a factory nearby Yiwu where he used to order his supplies. The Algerian trader then met these Russian traders at a different factory and eventually they decided to place orders together and to share a brand name. In this way, small and medium-sized entrepreneurs representing different ethnic networks of compatriots could jointly secure better wholesale prices from Chinese manufacturers and establish a new transnational brand-name (used both in Ukraine and Russia).

In extreme cases, the Slav traders' low level of trust for their compatriots and fear of being copied lead to business models based on radical social segregation in Yiwu and the establishment of closed socio-economic enclaves on the city's margins. In one such case, visiting traders to the Futian market are asked to show their passports on entry to certain showrooms representing such an enclave and their compatriots are denied entry.

TRUST AND CREDIT RELATIONS

Credit relations are one example of a specific configuration of cooperation and reputation operating across national and ethnic divides. Small and medium-sized traders need credit all the time. In Georgia and Armenia, micro-financial institutions are the most common source of credit, but the interest rates are very high and the credit amounts are too low for wholesalers*. Banks may give better rates and larger amounts of credit but the interest rates are still high and many small and medium-sized traders may not qualify for these loans.

* Just under 19.000 USD in Georgia, and under 3.000 USD in Ukraine.

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Different types of formal and informal credit arrangements facilitate transnational trade in Chinese commodities. In Yiwu, credit is conditional on traders' relationships with certain Chinese manufacturers or suppliers; sometimes it is mediated and arranged by the traders' agent or transport company. A Chinese supplier provides credit usually after establishing a long-term relationship with their customer. As a rule, Chinese factories would give their Ukrainian or Georgian clients goods on credit after the fourth or fifth shipment. The timing of repaying the credit for supplied goods is crucial for securing good credit deals in the long-run: if the manufacturer suspects that their goods have been sold, but the merchant has invested the money instead of re-paying the debt immediately, the price of goods will increase proportionately next time to compensate for 'the delay' in the previous repayment.

There is no indication that closed or ethnic networks, or long-term relationships emerge in order to facilitate a credit infrastructure. The exact type of credit arrangements (or sending goods on credit) also depends on the 'size' of a wholesaler: the bigger the organisation, the better the deal.

The Chinese agents of foreign traders can also obtain credit from banks and then use the funds to make purchases on behalf of their customers. Traders from the post-Soviet world are impressed by the way in which their Chinese agents in Yiwu (who are often not even registered as firms or companies) can obtain these bank loans just by providing the bank with their business correspondence. Some traders use this option to their advantage by paying for several consecutive transactions only when they receive shipments from Yiwu back home.



“I used to have an agent who had to pick up my order at the factory and ship it to me, to Odessa. At that time, I was a ‘nasty client’ and I would pay for the whole container only when I received the goods in Ukraine. I did not make any pre-payments or deposits. And we were talking about ca. 70.000 USD. My timetable was strict – as soon as I received one container, the second one was sent off to me and a new order was placed for the third one. So, we were talking about 140.000 USD that my agent should have had at the time; he was also a novice and did not have many useful contacts in Yiwu. So, he just went to the bank, showed them our correspondence as a proof of our business arrangement, and he got 140.000 USD!”

In this way, from the perspective of a foreign trader, the whole transaction is effectively financed by the Chinese government.

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Traders from Ukraine and the Caucasus would prefer, however, to be able to obtain credit directly from Chinese banks because their Chinese agents and suppliers are not always willing or able to provide large amounts of credit or credit for long periods of time, e.g. longer than a three month period. This option would allow traders to avoid often prolonged or complicated negotiations with their Chinese agents or suppliers (or the *'bargaining for credit'* as it is often called) and to develop better, more trustworthy, relationships with Chinese manufacturers in the long run. It will, moreover, make credit arrangements both cheaper and simpler for them, since the cost of credit is always factored into the agent's fees on top of all other fees and commissions. As one Ukrainian wholesaler in stationery put it in 2019:

“Everything would be much simpler if done directly with a Chinese bank. I would take credit for a year and I pay it off, little by little. The rates are reasonable – 5-8% annual interest rate. In Ukraine, the annual rate is now 36%, this is too much. And Chinese currency is very stable”.

REPUTATION AND 'CULTURES OF TRADE'

Reputation is important for the successful functioning of the trade formations. Even though there is a perception that Yiwu is a global supermarket and that Chinese manufacturers and sellers may not care much about individual traders due to the presence of the mighty global flows of customers, there is such a thing as a 'reputable company'. A reputable company is not just a question of an established brand name: brand names can be changed, companies as legal entities can change, but the people who stand behind these brand names and legal firms remain the same. A 'reputable company' in this sense is about the stable presence of a 'set of people' or an entrepreneur who regularly visits the Futian market every year, even if they are not placing orders with the same manufacturers every year. The 'reputable companies' are also the ones which try to fit into the business or commercial culture of their Chinese partners and understand how to behave properly in dealings with these partners. This is often one of the key stumbling blocks for Slav traders and traders from the Caucasus who come to Yiwu and don't adapt their behaviour in this way.

Many Slav traders make the assumption that if they come with money to China, they should be served and treated in a special way because they are contributing to the Chinese economy; they tend to see themselves as benefactors of the Chinese economy. This Slav self-perception is generally not shared by various trading minorities (both recent migrants and natives) who also operate in Russia, Ukraine and beyond. The trading minorities attribute the Slav traders' attitude to their lack of 'culture of trade' due to their historically limited experiences of cross-cultural networking, transnational and even local trade. Hence, many Slav traders fail to understand the real-life hierarchy and 'culture of modesty' in China and have difficulties in building good long-term relationships with Chinese suppliers and manufacturers.

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Conclusion

YIWU AS AN EXEMPLAR

As more and more traders are travelling to China and specifically to Yiwu in search of commodities, the organisation of the Futian market comes to serve as an exemplar of a modern marketplace – a type of physical marketplace that many traders would like to have in their home countries or in the countries where they are based and work. With its clear sectoral structures and sectoral specialisation commodities, the Futian market is often seen as a desirable alternative to the old-style bazaars or chaotic post-Soviet outdoor marketplaces.

Although the key regional markets in Odessa, Tbilisi and Yerevan have been trying to move in a similar direction, and ongoing gentrification is impossible to overlook, there is still a great deal of resistance from the mass of small traders and retailers who are afraid of raising costs of infrastructure and rents resulting from such 'modernisation' or renewal. Moreover, key regional marketplaces are still often seen as 'states within states' or are opposed to the state/the city.

It therefore comes as no surprise that the global and long-standing success of the Futian market, as opposed to the post-Soviet marketplaces, is often attributed by the post-Soviet traders to the supportive role of the state in China.

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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>

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