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## The Chinese Connection—Informal Trade Relations between the Caucasus and China Since the Early 1990s

By Susanne Fehlings (Goethe University Frankfurt)

### Abstract

This article surveys informal trade between the Caucasus and China since the early 1990s. Starting with the initial commercial activities of singular entrepreneurs from the Caucasus—here taken to refer to Armenia and Georgia—who began travelling to China for purposes of trade immediately after the collapse of the Soviet Union, I move to current business relations between Caucasian businessmen and women and their Chinese partners and to the growing influence of Chinese entrepreneurs who come to the Caucasus for trade.

### Introduction

This article offers a survey of informal transnational trade between the Caucasus—specifically Armenia and Georgia—and China. Beginning with the initial wave of trade by singular individuals, who started travelling to China in the early 1990s, I move on to describe the proliferation of marketplaces (often described as bazaars) from this time, the emergence of a new generation of traders, their links to China, and finally the growing influence of Chinese traders and investors in Georgia.

Most of the data used in this article were collected during three and a half months of fieldwork in Tbilisi in 2014 and 2016. I relied on open-ended interviews, participant observation, and on a structured survey of approximately 200 traders in Lilo Bazaar, the biggest wholesale and retail marketplace in the Caucasus. My research is part of the current Volkswagen Foundation-funded project “Informal Markets and Trade in Central Asia and the Caucasus”, which aims to build a deeper understanding of informal economic activities in the region. The project seeks to add new empirical evidence from the Caucasus and Central Asia within the conceptual framework of “globalization from below”<sup>1</sup>. In particular, we pay attention to the relationship between state institutions, economic activities, and socio-cultural value systems.<sup>2</sup> The changing transnational economic practices I describe in this article may be approached as the initial results in this framework. They speak about shifting moral attitudes and values in Armenian and Georgian society, and offer insight into the changing relationships of people, traders, and businessmen with state-governments and state officials. I illustrate how states and globally operat-

ing large-scale companies, and individual entrepreneurs and local traders, similarly adapt to local business environments and political frameworks. Both engage in, and negotiate with, formal and informal practices and techniques ascribed to globalization from above *and* to globalization from below. They do so in a multitude of ways, as I seek to describe here. In this context, I approach informality not as criminal but as an activity, which is not explicitly regulated by official law and state institutions.<sup>3</sup>

### The “Chelnoki” of the 1990s

The dissolution of the Soviet Union was followed by a long and difficult period of economic transition that is frequently described by locals as “wild capitalism”. My interlocutors recall “wild capitalism” as chaotic and violent: everyone struggled and only the fittest—or the most brutal—managed to survive. It was during this time that many citizens, who could now travel abroad, started to work as petty traders, locally known as “chelnoki”.

The term “chelnoki” derives from the Russian term for “shuttle” (*chelnok*), which is a device used in weaving to carry the weft by moving back and forth. This motion describes the petty traders’ travel activity. To my knowledge, there is only limited literature about the “chelnoki” phenomenon.<sup>4</sup> One reason might be, as I was told, that “*people do not want to talk about it because [...] the experience was too painful for them*”.

This pain manifests at three levels. First, the 1990s in general are remembered as “dark years” of suffering, where there was a shortage of food, heating, and electricity. Many people lost their jobs and were forced to trade to feed their families.

1 Portes, A. (1997). *Globalization from Below: The Rise of Transnational Communities*. Princeton: Princeton University Press; Mathews, G., Ribeiro, G. L. & Vega, C. A. (2012). *Globalization from Below: The World’s Other Economy*. London & New York: Routledge.

2 Fehlings, S., & Karrar, H. (2016). *Informal Markets and Trade in the Caucasus and Central Asia: A Preliminary Framework for Field Research*. *Working Paper Series on Informal Markets and Trade*, 1.

3 Hart, K. (1973). Informal Income Opportunities and Urban Employment in Ghana. *Journal of Modern African Studies* 11(1): 61–89.

4 Holzlehner, T. (2014). *Shadow Networks: Border Economics, Informal Markets and Organized Crime in the Russian Far East*. Münster & Zürich: LIT Verlag; Cieslewska, A. 2013. From Shuttle Trader to Businesswomen: The Informal Bazaar Economy in Kyrgyzstan. In J. Morris & A. Polese (Eds.), *The Informal Post-Socialist Economy: Embedded Practices and Livelihoods*. London & New York: Routledge.

The second manifestation of pain is psychological. In Soviet times, trade was perceived as “speculation” (*spekulatsia*), which was condemned (and forbidden) as an immoral activity. Even though one could trade small quantities of local produce—agricultural products for example—and even though there were various informal economic exchanges in the sphere of a hidden, so-called “second” or “shadow” economy, most people shied from overt engagement in commerce. In the 1990s, having no choice but to engage in trade, citizens had to abandon such values which they had grown up with. In the old system, their self-esteem was based on their identity as “good workers” (schoolteachers, engineers or industrial workers). Now, they felt a decline in status and had to cope with deep ruptures that came from their having to question long-held beliefs.<sup>5</sup> For many, this was traumatic.

The third manifestation of pain is the activity itself. Uncertain conditions and a deficit of knowledge made trade a risky activity. Chelnoki travelled to distant destinations. This was *terra incognita*. They did not know the rules of the game, and they did not know the foreign customs and language. Their travels were exhausting and the conditions hard. Racketeering was commonplace. Women were particularly vulnerable. Many considered trade a threat to their reputation; sexual assault and harassment were a constant concern.

### Caucasian Business and China

In the 1990s, a large number of chelnoki travelled to China. The father of my Armenian colleague Shushan sold the family’s jewellery to go to Suifenhezhen. He took an airplane to Vladivostok and travelled to the Chinese border (Pogranitschny) by train. On the way back home, he took a bus to the border, then to Khabarovsk. There, he took a cargo airplane to Kuybyshev, where he waited a whole week for a connecting flight to Armenia. When he returned, the family organized a bazaar at home. Many people came to buy the Chinese merchandize, which, my colleague recalls, was ugly but cheap. However, her father never went to China again. “*He hated it*”, and, like many other chelnoki, tried to get a more “respectable” job as soon as the situation had recovered.

Although many stopped trading, local marketplaces and bazaars continued to grow. Today, Lilo Market, founded in 1991, has become the biggest marketplace for whole and retail sale in the South Caucasus, covering a territory of approximately 22 hectares, including more than 5500 trading units. Lilo is overflowing with Chinese merchandize. However, current Georgian traders have

little in common with the chelnoki of the 1990s. They describe themselves as professional traders (businessmen and women) and are proud of their jobs and their economic success. Their business is much more organized and the risk has reduced to almost mere economic factors. Their travel has become more comfortable. Trade links to China have developed into long-term relations with Chinese cooperation-partners who speak Russian. Information is abundant: there is little concern about where to go, where to sleep, and who to trust. For example, Dato, who owns three shops in Lilo, told us that his wife receives a call from Guangzhou as soon as there are sales opportunities. She then travels to China, where her Chinese partner receives her and accompanies her for about ten days. Another Georgian businessman, Zviadi, who goes to China once every three months to buy shoes and who we joined on his business tour, works closely with one particular Chinese wholesaler and factory. He orders the latest designs. The shoes are produced according to his specifications. The shipment arrives in the port of Poti, where it is transported to Lilo. Cargo and clearance have become routine.

Chinese produce, in Armenia as well as in Georgia, sometimes has a poor reputation. However, our interlocutors make good profit. They sell the merchandise in their own shops in Lilo, or to retailers in the marketplace. From Lilo, goods make their way to shops and boutiques in Tbilisi or Yerevan, and then across the Caucasus.

### Chinese Businessmen in Georgia— Encounters on the Ground

Lasha, the son of a Lilo trader, states that “the Chinese produce everything”. At the 2016 Georgia–China (Jiangxi) Featured Commodities Exhibition, which was hosted by the Georgian Chamber of Commerce and Industry, I grew convinced that this was true. China’s export goods range from tea, healing mushrooms and cultured pearls to chemicals, electronics, textiles, and building materials. All these goods range from low- to high-end quality.

For a few years, this merchandise was not only imported through Georgian intermediaries but also brought to the Caucasus by Chinese traders who may work in Georgian marketplaces. Lilo, for example, has developed a Chinese section, a small sub-bazaar with its own Chinese-style gate. The Chinese traders working there trade with small amounts of goods and live in very modest conditions.

Other Chinese entrepreneurs operate on a different scale. In recent years, the Georgian government supported foreign investment. As China has sought new venues for overseas economic investments over the last decade,<sup>6</sup> the Chinese Huanling Group has emerged as a key stake-

5 Niyozov, S., & Shamatov, D. (2007). Teaching and Trading: Local Voices and Global Issues from Central Asia. *Toronto Studies in Central and Inner Asia*, 8, 281–300.

6 Last but not least in the context of the OBOR (One Belt, One Road) initiative.

holder in Georgia. According to EurasiaNet's Weekly Digest from the 22<sup>nd</sup> of July 2015, China, thanks to Huanling's activities, has become Georgia's third largest source of annual foreign direct investment (\$195 million in 2014).<sup>7</sup> Since 2007, Huanling has launched different projects in Georgia, one of which was the so-called Tbilisi Sea Plaza. According to Huanling's website, the Plaza covers a territory of 150,000 square metres and shall "become the largest wholesale and retail trading centre of Georgia and [the] whole Caucasus region and in future [...] will [...] [have] an important role [as a] wholesale, retail and distribution centre [...] [in the] Euro-Asian region."<sup>8</sup>

We visited the Tbilisi Sea Plaza in September 2016. It consists of an enormous shopping mall and a marketplace area of flat buildings, which are clustered into four corporates (A, B, C, D) and tree lines (1, 2, 3). When we visited, my colleague and I felt like the only visitors. Entering a shop from the empty street, I was quite surprised that it was open. We talked to a young Georgian woman who worked at the desk of this shop. Her badge identified her as a "cultural mediator". She seemed to like her Chinese bosses and expressed her happiness about Chinese–Georgian trade links, emphasizing the benefits for both sides.

There are also other voices. During fieldwork in Georgia, I occasionally heard grumblings about the Chinese, who are suspected of "silently taking over the country". For example, Nino remembers that a few years ago, many Chinese migrants were coming to Georgia. She had heard that these first-wave migrants got support from the Chinese government, which for Nino—like for many other Georgians—looks like "a strategy that one can observe all over the world".

Thus, the investments of the Huanling Group are met with some anxiety. The construction of the Tbilisi Sea Plaza and its sprawling marketplace raise obvious concerns that shall be amplified with the more time passes: What does this mean for the Georgian economy? How shall it affect traditional marketplaces such as Lilo Bazroba? What does this signify for the Caucasian traders working in bazaars who travel abroad for business? Still, at the moment, the Georgian traders we talked to in Lilo seemed to not worry too much about Chinese competitors. Dato, the businessman mentioned above, told us that currently the Chinese trade volumes are low. "To get clients, one needs personal relations and networks", which according to him, the Chinese presently lack.

However, according to Irakli, a young Georgian who manages the custom clearance for the Huanling Group, this is not true. He reports that it is very easy to communicate with the Chinese. He is impressed by their interest in Georgian culture and people and about how they

establish social relations. Through Georgian intermediaries, such as Irakli, the Chinese enter into networks and learn how to negotiate local customs and official institutions. His Chinese boss, who joined the funeral of one of Irakli's relatives, fascinated him. Now, Irakli advises him: "I told my boss that he should invite the customs officials [...], show them what Huanling is doing, [...] give them some Chinese food. And that's what he did. It worked. These people came, looked at everything, and now [...], they make no troubles." Simultaneously, Chinese businessmen—at least those of the Huanling Group—maintain very close personal relations with representatives of the Georgian government.

Interestingly, the situation in Armenia appears different. According to Yulia Antonyan, an investigator in our project, seven to eight years ago, the Chinese started opening shops in Armenia, too. There even rose a Chinese operated market—"Shanghai"—next to "Malatia Market" in Yerevan. However, contrary to what is occurring in Georgia, the Chinese did not establish more formalized businesses. According to Antonyan, the Chinese failed to cooperate with the local oligarchs, particularly those controlling the Malatia district. As a result, the Chinese presence did not further increase. Many, in fact, were perceived as competitors and were forced to leave. More research on this topic is needed.

In Georgia, when we compare Chinese investors and traders with local businessmen and traders, it is evident that both use personal relationships and informal practices of hospitality, albeit in different ways. The Chinese—with the help of local Georgian intermediaries—seek cooperation with senior Georgian officials. Local traders, however, seek to avoid contact with state institutions. While Georgian traders usually plan daily, the Chinese evidently have long-term strategies, which they implement by investing huge amounts of money. Even though Caucasian traders seem to have an advantage because of their knowledge of the local environment, Chinese traders in Georgia so far appear successful in establishing and growing their business. The Chinese have become visible in Georgian markets and have become important new actors in the Georgian economy.

## Conclusion

Many local traders used to, and still, travel to China. Over the last twenty-five years, these businessmen have established transnational commercial networks, which are vital for local economies. At the same time, the Georgian government supports Chinese investment in Georgia, which means that Chinese investors enjoy favourable conditions in Georgia. Both groups of traders, and local and foreign entrepreneurs, adapt to local conditions using personal relationships and informal practices.

7 <<http://www.eurasianet.org/node/74341>>

8 <<http://huanling.ge/language/en/tbilisi-sea-plaza/>>

The different strategies of local and foreign entrepreneurs give insight into the nature of globalization, here manifesting through these local encounters. Interest-

ingly, we are at an important juncture as the roles of Chinese traders are growing, which will probably influence the economic landscape across the whole region.

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#### *About the Author*

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## Moscow Azerbaijani-Juhuro “Oligarchs” and the Eurasian Trade Networks

By Chen Bram (Truman Institute, Hebrew University of Jerusalem)

### **Abstract**

This paper analyses the role of ‘Juhuro’ post-Soviet Oligarch entrepreneurs in the evolving trade networks in Eurasia. ‘Juhuro’ is the self-described name of the Caucasus ‘Mountain Jews’. Several Oligarchs from a specific subgroup of Juhuro, mostly from the Jewish settlement of “*Krasnaya Slovoda*” in the northern Azerbaijani town of Quba, became active participants in cross-border trade and have been the most silent developers of new post-Soviet markets in Moscow since the 1990s. They later moved on to other businesses, such as real estate and investments. Based on long-term anthropological research and field work examining Caucasus Jews in various locations<sup>1</sup>, in this paper, I explain what enables the success of these Jews from the periphery of Azerbaijan and analyse their role in mediating and connecting Russia, Azerbaijan, other states and societies along the renewed ‘Silk Road’.

### **Introduction**

The difficult economic situation that occurred in many Soviet peripheries during the disintegration of the Soviet Union was clearly felt in the peripheral areas of Azerbaijan. This caused a growing number of labour migrants to leave Azerbaijan for major cities in Russia (Braux 2013). Jews of the Caucasus (Mountain Jews), particularly Quba Jews, soon started to establish a specific and important place among work immigrants from different Soviet peripheries. Building on their former experiences in the Soviet economy, many of them started to dominant new modes of trade. With the disintegration of Soviet Union, the initiatives of various entrepreneurs replaced the involvement of the state in trade operations across Eurasia.

Focusing on the trade of basic necessary goods, such as clothing and food, Caucasus Jews were involved in shipping goods from former Soviet Republics, Turkey, and especially China to Moscow and other Russian cities. By the mid-1990s, some of them had already become prominent controllers of this trade. Currently, there is already a second generation of Juhuro Oligarchs, and their businesses have expanded; whereas the first generation focused on trade in retail and wholesale markets, the second generation shifted to real estate, shopping malls and other modes of investment in the global economy. The Gilalov family are an example of this changing business profile within one generation. The father, the late Talhum Gilalov, was one of the first Juhuro Oligarchs and made his fortune in trade and the construction of open-air markets (especially *Izmailovo*). His sons, the late Zaur Gilalov and the current head of family Akif Gilalov, spent more time in Moscow than in Quba. The Zakharyayev brothers are another prominent Juhuro family (who oper-

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<sup>1</sup> The understanding of Juhuro Oligarchs was given additional insights during my cooperation with Yoann Morvan, while working together on a paper on this subject (Bram and Morvan 2016).