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The Current Situation of Chinese Migrants and Chinese Enterprises in Russia

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Introduction

China today sends more of its citizens abroad than ever before. Most of them are concentrated in Asia and North America. Though less visibly, Chinese migrants have been moving *en masse* into Russia since the early 1990s, when the fall of the Soviet Union turned the economy into chaos. Many Chinese people and Chinese enterprises ventured into Russian market because it was underserved by domestic and multinational manufacturers. The Chinese created an efficient import route to bring products from the PRC to local consumers, which was much welcomed. The “New Chinese migrants” (*xin yimin* ; generally, Chinese migrants from 1978 onward, particularly after the easing of emigrations in 1985) are analogized as conduits between the mighty production centers of China and the new consumers of Russia (Pieke [1998] ; Larin [2006]).

The emergence of Chinese communities in Russia coincides with the rise of China—as a source not only of human capital, but also of cheap consumer goods and investment funds. To put it into another way, China as a source of migrants is intertwined with China as a source of commodities and wealth (Chang [2012] p. 2).

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Comparing with 20 years ago, Chinese enterprises in Russia have made great improvements in business management and competitiveness. While their presence became more and more visible, scaring rhetoric such as “China threat” or “yellow peril” spread around.

Are their economic activities welcomed by the local governments and people? Do they have a cooperative relationship with local enterprises and local society? And what is the reason that, while the bilateral relationship is strengthening and improving, the Russian government continues to limit the number of Chinese migrants? In this paper, I will introduce the present situation of Chinese enterprises in Russia and then examine their relationship with local economy. In the third part, I will analyze the conflicts and contradictions of the current situation.

1 Chinese and Chinese enterprises in Russia

In the last ten years, the Russian-Chinese trade developed rapidly. In 1999, the bilateral trade volume was only 5.7 billion dollars. It increased nearly 14 times to 79.3 billion dollars in 2011. During the same period, mutual investment also increased, however, it is just a small fraction of bilateral trade. By the end of 2011, China's direct investment stock in Russia is 3.1 billion dollars, which increased rapidly by more than 3 times from the end of 2006 (Asia Times, March 23, 2012; MOFCOM [2010] p.91). However, it is far below the Chinese government's goal of investing 120 billion dollars in Russia by 2010. China's share in the Russia's inbound direct investment stock is only 1 percent and China's investment in Russia is less than 1 percent of China's outbound direct investment stock. Most of China's investment has been related to trade and it has been concentrated in the natural resource, agriculture, consumer appliance, wood processing, microelectronics, telecommunication, construction, and service sectors. This rapid development of trade and investment relationship is the result of the

domestic economic growth in both countries ; meanwhile, we cannot ignore the contribution made by the Chinese enterprises in Russia. Nowadays, there are several groups of Chinese migrants and Chinese enterprises in Russia.

(1) Expatriates from state-owned enterprises (SOEs) and big enterprises

From the first stage of Russian reform in the early 1990s, Chinese state owned enterprises (SOE) have sent expatriates to explore the Russian market. Despite of their efforts, most of them failed to open the Russian market and had to go back to China.

Nowadays, China's big companies send expatriates to facilitate their cooperation projects with Russian partners. In Russia, there are nearly tens of representative offices or branch companies as the beginning of 2009 according to the Economic and Commercial Counselor's office of Chinese Embassy in Russia.¹⁾ The number of staff in these representative offices range from a few persons to tens of them. Most of them are well-educated personnel with rich business experiences and good understanding of Russia. They are engaged in the mainstream trade and investment business between Russia and China.

For example, the representative personnel of China National Nuclear Corporation (CNNC) have been in operation in Russia for more than ten years ; they are responsible for the communication and coordination between CNNC and Russia's Atomstroyexport.²⁾ They have succeeded in assisting CNNC to complete the first stage of the construction of the Tianwan Nuclear Power Plant which consists of two reactor units constructed by Russia's Atomstroyexport. The breakthrough in Russian-Chinese energy cooperation cannot be achieved without the hard work done

1) <http://ru.mofcom.gov.cn/aarticle/zxhz/zzjg/200902/20090206034023.html>, accessed May 22, 2012.

2) Atomstroyexport is a leading Russian engineering company of State Corporation "Rosatom" specializing in the construction of nuclear power facilities abroad.

by the representative offices of China Petrochemical Corporation (SINOPEC) and China National Petroleum Corporation (CNPC) (Hong [2011]).

With the deepening of banking cooperation, in addition to the Bank of China, which has been operating in Russia for more than 10 years, China Commercial and Industrial Bank, Export-Import Bank of China, and China State Development Bank also opened their representative offices or branch offices in Russia. Chinese banks serve primarily Chinese-owned enterprises, including many small and medium-sized businesses which have difficulty accessing finance from Russian banks and lack Chinese government support (Krkoska and Korniyenko [2008] pp. 48-49).

Chinese European Business development and investment center—shortened in European Center—(authorized and funded by China’s biggest sovereign wealth fund China Investment Corporation)—developed a shopping center Druzhba (“friendship”) in Moscow. Recently European Center constructed a 15 story building as an office building for Chinese enterprises. China Shipbuilding Industry Corporation (CSIC), China North Industries Corp (NORINCO), China State Construction (CSCEC) and some Chinese major airline companies also opened their representative offices or branches in Russia (Hong [2011]).

All these representative offices or branches of China’s SOEs and big companies play a great role in promoting bilateral trade and mutual investment.

(2) **Representative offices and branch companies of High-tech enterprises**

Though Chinese high-tech enterprises started late, they have grown strong in a short period of time to “go out” to the Russian market. Two successful examples are Huawei, a private enterprise and ZTE, a SOE.

Huawei³⁾ started to explore the Russian market from 1996. However, at that time, because of the depreciation of the Ruble and lack of fund, Huawei met numerous difficulties in its business development in Russia. Though other major

communication equipment manufacturers left the Russian market, Huawei stayed. Business environment improved after 2000 when Putin took the presidency, and Russia entered a period of stable development. Huawei took the opportunities of a new round of procurement of communication equipment. After bidding it's time for 8 years, Huawei's products finally became the principle brand in the Russian communication equipment market. In 2003, the sales volume rose to 0.3 billion dollars in the CIS countries. Huawei adopts localization strategy.⁴⁾ 90 percent of its employees in Russia are Russians (Hong [2011]).

ZTE⁵⁾ first started its representative office in Russia in 2002. Now it has 7 branch offices in Russia with 200 Russian employees. Since March 2003, ZTE signed its first 100,000 Dollars mobile exchange center equipment contract, the products of ZTE have covered Russia, Belarus, Ukraine, Kazakhstan, and Turkmenistan. Its products have become an important part of the communication network of the CIS (ibid.).

The keys to the successful entries into the Russian market of Huawei and ZTE lies in their localization strategy. They employed the local personnel into the company's business and management. Doing this allows to cut the operating costs, and it also helps to explore the underserved local market.

(3) Salesmen dispatched by large or medium enterprises

In the last ten years, many Chinese manufacturing enterprises have rapidly

3) Huawei was founded in 1987 as a private company. Its core activities are building telecommunications networks ; providing operational and consulting services and equipment to enterprises ; and manufacturing communications devices for the consumer market. Now it is one of the major global information and communications technology solutions providers.

4) http://www.huawei.com/ilink/en/about-huawei/newsroom/press-release/HW_142696, accessed June 26, 2012.

5) ZTE, created in 1985 by a group of state owned enterprises associated with China's Ministry of Aerospace. It is now a Chinese multinational telecommunications equipment and systems company.

emerged both in traditional sectors such as textile, clothing, daily necessities, furniture and home electronics appliances, but also in new sectors such as electronics, automobile parts, automobile manufacturing, construction materials and machine manufacturing, China has become a new competitor in the global market. Comparing with the products from Europe, America and Japan, even though Chinese products are still lagging behind in terms of quality, design and after service, they have higher cost performance ratio. The image of “Made in China” has improved in Russia. So in recent years, Russian merchants stopped to keep the Chinese brands hidden, and the Russian consumers gradually have stopped taking Chinese goods as fake goods with poor quality. Since 2000, many Chinese enterprises began to enter into the Russian market bypassing intermediate companies. They actively attended trade fairs and exhibitions in Russia with the aim of attracting new customers. To name a few, Boston down jacket, Anta shoes, Bubugao home electronic appliance all gained a foothold in the Russian market and opened their own representative offices or branches. By cooperating closely with their local partners, they to increase their market share (Hong [2011]).

(4) **Private enterprises or traders**

From the 1990s till now, the existence and development of private enterprises have gone through many ups and downs. 80 percent of them work in the free markets all around the Russia. Their population fluctuated with the business environment in Russia. When the policies loosen up and doing business becomes easier, their number increases. When the Russian authorities start a crackdown operation, making it harder to gain profit, their number shrinks. From 1991, except students and expatriates, the majority of Chinese in Russia are traders. At the beginning of the Russian reform, it was easy to do business; however, the social order was in turmoil, and the personal securities of those traders could not be

assured. They just wanted and still want to make some quick money and then go back to China or immigrate to another country. Few of them harbor the intentions to stay in Russia permanently.

According to the 2002 census of Russia, there were only 4,000 Chinese citizens in Russia, including the Chinese who entered the country before and during the Soviet era. Since then, few Chinese got naturalized. There are two principle reasons for the low naturalization rate. The first reason is that the Russian naturalization law tightened the conditions of acquisition of the Russian citizenship. The second reason is that due to the last 10 years' rapid economic development in China, the overseas Chinese do not intend to stay in Russia for a long period of time. Except for marriage with Russian citizens, the Chinese nationals rarely get naturalized in Russia (Hill [2004] ; Larin [2006b]).

From these factors, we can presume that not many Chinese hold Russian passports. From 1992 to 2006, according to the Russian Yearbooks, 17,000 Chinese citizens were granted permanent residence in Russia. The majority of Chinese in Russia hold a business visa, and business visas have to be renewed every year.

In 2004, Putin's foreign policy adviser Sergei Prikhodko estimated the number of Chinese in Russia at 150,000~200,000.⁶⁾ Moreover, the number of Chinese has actually been declining as a result of restrictions on foreign market traders, the tightening of Chinese passport regulations, and the growing ambition of Chinese businessmen who are looking farther into Europe.

To work legally in Russia, the Chinese traders have to go through many procedures. Specialized firms sell tourist package and make arrangements to get a legal work permit. The fee to get a business visa or tourist visa is about 3,000

6) "We should not be afraid of China", *Izvestiya*, March 21, 2004.

Yuan (approximately 400 Dollars). The costs to get a work permit used to be around 10,000~12,000 Yuan (approximately 1,333~1,600 Dollars), but the price has risen to 30,000 Yuan (4,000 Dollars).⁷⁾ Yet, even for those willing to pay this price, work permits are not available because there is no remaining quota anymore. Thus workers have had to go back to China to renew their tourist visas and then come to Russia again.

Obtaining work visa is extremely complicated, expensive, and time-consuming. To work legally, one has to apply in one year before. Even where quotas exist, it is subject to corruption on a large scale, at every level of the process (Hill [2004] p. 3).

Thus, except those who have legal working documents, Chinese who work in the free market buy their working visa through intermediate companies or from false document forgery companies. For those small traders who cannot afford to buy a fake work permit, they stay and work in Russia “in the black market”. Illegal workers can earn five or six times bigger a salary than that of China. When they are caught by the OMON⁸⁾ or policemen, sometimes they will be deported to China, but most of the time, they will be released after paying fines.⁹⁾

(5) Students

Because the university tuition fee is less expensive than America's and Europe's, in recent years, the number of students going to study in Russia is increasing. The figures show more self-financed students than government-sponsored students. There are about 10,000 Chinese students in Russia. Among

7) Author's interviews in the Balyaeva market and Sportivnaya market in Vladivostok, September 4, 2007.

8) OMON (Special Purpose Mobile Unit) is a generic name for the system of special units of police.

9) Author's interview in Blagoveshchensk on March 16, 2012.

them, 600 students are studying to get a PhD degree.¹⁰⁾

Students are regarded most favorably among all the Chinese in Russia by Russian officials and the local population (Larin [2008]). Although a few universities have made efforts to attract Chinese students, the Russian education system has failed to effectively compete with those of Australia, Europe, and the United States in attracting Chinese students. In part this reflects ambivalence about encouraging more Chinese to come to Russia, and concerns about the obvious language divide.

Many Chinese students are inclined to live in Russia and they will work after their graduation either for the Chinese companies in Russia or for the Russian companies doing business with Chinese companies. Due to the small pool of Chinese students in Russia, this situation adds up to a quite limited scale of highly skilled Chinese migrants to Russia.

(6) A survey about Chinese in Russia in 2007

In 2007, A. Larin conducted a survey in Moscow and the Russian Far East about the Chinese experience in Russia. 900 Chinese migrants were covered. 60 percent were male and 40 percent were female. 69 percent were married. Age distribution was as follow : 18~24 years, 23 percent ; 25~34 years, 36 percent ; 35~44 years, 28 percent ; 45~49 years, 12 percent ; 60 years and older, 1 percent. 21 percent have high level education. 52 percent, high school education ; 25 percent, junior high school education ; 2 percent only finished primary school or were illiterate. When asked about their levels of Russian, 58 percent possessed a basic working knowledge of Russian or were studying the language, however they rarely reached up to more than a rudimentary understanding of the language.

10) "Chinese Students in Russia Number over 10,000", Xinhua News Agency March 22, 2007, <http://www.china.org.cn/english/education/203973.htm>, accessed June 26, 2012.

Nearly half of them acknowledged that they poorly speak or understand Russian. When asked about their aims in Russia, 45 percent answered that they were there looking for a better business chance, 40 percent were unemployed in China and came in order to find a job, 8 percent were expatriates, 5 percent were students, and 2 percent were there for other objectives (Larin [2012]).

From these numbers we can see that most of the Chinese come to Russia for better employment opportunities. I was told by a female trader in the Blagoveshchensk market that she was coming from a farmer's family background, and there was no job available or possible, except being a farmer.¹¹⁾ The social security system for Chinese farmers is underdeveloped, so they had to come out to earn more money. Traders being a majority among Chinese, some of them have relatives owning factories or doing business in China; others import goods directly from China. But those coming from a farmer's background, who have neither good education nor capital, work as porters, farmers or cooks.

2 Opportunities and challenges for the Chinese enterprises in the Russian market

The Chinese enterprises in Russia can be divided into three groups. The first group consists of those Chinese enterprises which came to Russia in the 1990s. They have at least struggled more than ten years; they have gained enough experience and gathered enough capital. Most of the employees of the surviving companies are well educated and have a good understanding of Russian and Russian laws. They can employ Russian workers, and communicate directly with customers and Russian authorities. Most of them also have their trade partners in China. They are in charge of receiving orders from Russian customers and imports from

11) Author's interview in Blagoveshchensk on March 16, 2012.

China. Companies in the second group are intermediate trade companies, dealing with procurement of chemical raw material, woods and minerals in Russia, and then exporting them to China. Companies in the third group are concentrated in the service industry. For example, opening Chinese restaurants, customs clearance service, visa service, travel service, advertising service, etc. Those enterprises have strong capacity to adapt to the local conditions and policy changes and operate legally in Russia ; most of them are developing smoothly (Hong [2011]).

However, there are also some old Chinese entrepreneurs who are rich in capital, but nonetheless not well-educated and unable to speak Russian. They stick to the old business style and have difficulties in adapting to the environmental changes. In other words, they are still doing the wholesale and retail trade of clothing, shoes and other household necessities in the free market as in the 1990s. The profit margin is high ; however, the risk is also very high, since business in the market is conducted in cash and all their revenue is sent to China through underground bank. And nearly all their goods come through “grey customs clearance” companies or even worse through “black customs clearance” companies. During the whole process of their business, they are confronted with a great deal of problems. For example, they get into trouble whenever verification checks on behalf of the Russian law enforcement agencies are conducted (Ma [2007]).

Open-air markets in Russian cities are attractive for many Chinese medium or small enterprises and small traders. It is because that is a huge business network specialized in low-level and medium level goods. The main actors in the markets are Russians, people from central Asian countries, China, Vietnam and Afghanistan. The merchandise came from China, Turkey and Russia. These markets are popular and facilitate the establishment and subsequent activities. It is neither necessary to speak fluent Russian nor to have a diploma. Business can get started just by renting a booth. Everybody can find his own way to do business there. Traders

with sufficient capital can import goods directly from China and make a high level profit. For example, some factories in South China set up their own storage house in the markets and engage in wholesale business. For the small traders with little capital, they have the possibility to organize into groups so that they can get goods for sale with a deferred payment arrangement. For those without capital and without business skills, they work as porters in the markets. There are many companies which provide service to their Chinese compatriots to meet the needs of the operation of the market. For example, there are transportation companies, grocery store, Chinese restaurant, barber shop, express delivery. The market is like a small society; living and working in the market, for a Chinese who cannot speak Russian, seems similar to his life in China (Ma [2008]; Hong [2011]).

Since the birth of free market, risks have been always very high. In the 1990s, Russian society was not safe, and robberies happened quite often. The Russian mafia was widely extending its influence. They forced the businessmen to pay protection fees due to the fact that they don't have a legal status (Ma [2008]). Policemen often come to check and confiscate all the cash earned by the traders, or they take away all the goods and stock, since the Chinese traders do not have a business license or are operating illegally. From the year 2000, social order improved, however, the legal problem of doing business in the markets remained an issue. OMON police forces were leading crackdown operations every few weeks. Each time millions of dollars, even ten millions of dollar were lost. However, after each crackdown, the markets reopen again, all the goods still coming through "grey clearance system", and consequently nothing was ever changing in the open market. It was even put out in these terms, "During 1990s all the Russian economy is 'grey', and how could the Chinese market operate in 'white'" !

3 Economic relations between Chinese enterprises and Russian local economy

(1) Conflicts with the Russian government policies

First of all, when Putin became President in 2000, he went on the market reforms and since then, Russian government started to take measures to restore agricultural and industrial productions, and made several policy adjustments. The government made it clear that Russia welcomes foreign investors for direct investment and participation in the modernization of enterprises, especially high-tech companies to set up factories in Russia. During this period, Russia has raised its trade barriers against cheap products from China: import tariffs rise, export tariffs rise on raw materials and limitations of exportations of raw materials. Russian economic policy changes made it more and more difficult to continue doing business according to the old pattern between Russia and China.

Secondly, Russian government is concerned with the probability that one day there will be more Chinese than Russian in the Russian Far East. The Russian media was flooded with articles about the threat posed by China and the Chinese people. Russia's migration policies changes also increased the hurdles for ordinary Chinese to work or do businesses in Russia (Wishnick [2000]). The limitations set on migrant and work permit quotas almost eliminated the possibilities for small traders and laborers to make a living in Russia.

In the early 1990s, traders were allowed to travel across the border without visas. This facilitated border trade to expand and it did rapidly expand between the Russian Far East and the adjoining Chinese regions. Though the shuttle traders helped the Russian people go through hard times, the Russian government viewed the shuttle trade as a "backward" way of trading, and criticized it for bad effects on local industries (Gelbras [2002]). So it kept, and still keeps, on putting limits on

it. In the beginning, the Russian government allowed duty-free import of goods costing less than 10,000 Dollars ; afterwards it was lowered to 2,000 Dollars. In 1998, duty-free items were limited to goods of 1,000 Dollars in value and weighing less than 50 kilograms. As a result, a new form of business emerged, *i. e.* cross-border carriers of goods. On February 26th, 2006, Russia's government imposed a new law limiting the amount of goods one can carry into the country without paying customs duties, thus striking a hard blow to shuttle-traders. The new rules stipulate that the maximum amount of goods an individual can bring to the country is 35 kilograms of goods per month, decreasing from the former limit of 50 kilograms per week (Ma [2007] p. 93).

Last, in order to crackdown corruption, money laundry, contraband goods and tax evasion, Russian government closed many open air markets where most of the Chinese traders had been working for nearly 20 years. These measures inflicted heavy losses among the Chinese traders in Russia, especially those in Moscow and the Russian Far East. Since 2008, Chinese traders in the Russian Far East had to liquidate all the goods at low prices and pack up to return to China (Ma [2008]). Most of the traders in Moscow, due to the confiscation of their goods, lost everything and stranded in Moscow (Yu [2009]).

Needless to say, media reports of Chinese “invasion” and public perceptions of Chinese networks dedicated to importing and smuggling underpriced consumer goods have fuelled hatred and resentment against Chinese. This volatile environment has inhibited Russian policy makers from openly engaging with Chinese communities to harness their local and global linkages for broader national interests. Under these circumstances, the Russian government succumbed to public opinion (Larin [2012]). Other than adopting sensitive regulations to entice Chinese businessmen into formal registration and tax compliance, Moscow took radical measures and sent shockwaves right to Beijing.

(2) **Conflicts with the urbanization policy of Moscow city**

Retail trade has been the most immediate and visible sign of the shift to a market system. Shvidkovsky has described how with Perestroika the pavements of Moscow became crowded with people selling stuff from their own hands on small tables (Shvidkovsky [1997]).

Comparing with other cities, Moscow had more purchasing power and because of that most foreigners, including the Chinese, gathered there. Retail trade developed most rapidly. Before long it became the wholesale center for the CIS countries. At that time, there was neither commercial network nor commercial facilities. So the open space around the exits of subways became the first places where retail trade started in Moscow city. Little by little, shopping centers formed around the subway exits. Now, there are open air markets with different scales at the exits of tens of subway exits in Moscow. There are three giant open air markets, Luzhniki Stadium Market, Dinamo Stadium Market and Cherkizovsky Market in Moscow. The markets are filled with stalls, warehouse containers and mobile booths, and their original function as stadiums has been lost (Hong [2011]).

With the economic recovery, City governments started to take measures to improve the image of their cities. Moscow city government started to build a major shopping development housing the global names of international retailing and consciously modeled on the underground shopping mall Les Halles in Paris.

After years of development, retailing industry in Russia has greatly changed. In the suburbs, giant shopping malls and shopping centers which are funded by European retailing companies and Russian new conglomerates showed up. Most of the Moscovite found that the free market do not meet sanitary standards and are not good for the image of Moscow city. Moscow is replacing the old open air free market with modern shopping centers and malls. In the last ten years, Moscow city authorities have already shutdown more than 100 open air free markets and it will

continue to close the others. With the closures of the open air free markets, many Chinese traders will lose their places to work (Hong [2011]).

(3) **Conflicts with corrupt officers**

Since the disintegration of the Soviet Union, the transition to market economy was chaotic and “shock therapy” nearly killed the “patient”. Many people working in the public sector suffered from salary arrears and pay decrease. The consequence was aggravated corruption. People paid (and continue to pay) bribes to enter university, to escape military service, to stay out of prison, and to land a good job. Policemen and tax collectors tried to use their powers for illicit bribes and kickbacks (Ma [2008]). In light of the serious shortage of commodities on the domestic Russian market and under the influence of interest groups, the Russian Customs Committee permitted so-called “customs clearance companies” to provide one-stop services that cover both transportation and customs clearance procedures for the owners of commodities. These services were usually called “chartered truck (flight, container) and customs payment” (Goncharov [2003]). In other words, the commodity owner could receive his commodities without paying customs taxes and fees at the usual rates. But he has to pay the customs clearance company an agreed-upon sum. This kind of practice which is called as “grey customs clearance” became a widespread and ubiquitous method in Russian-Chinese trade at the beginning of the 1990s. Many Chinese business people often go to the “customs clearance companies” in Russia to cut costs and to improve efficiency (China Daily, May 28, 2004).

The clearance company, as a rule, could not provide the commodity owners with the necessary accompanying documents and invoices. So commodities arrived at the customs house on an apparently legal basis, but in fact they were undeclared contraband goods. That is why it is called “grey custom clearance”.

Grey custom clearance created conditions for the commodity owners to avoid taxes and other charges at the sales stage. However, because of lacking proper customs documents, these goods are considered as “smuggled” and “contraband” goods. When they are subject to inspections by Russian police, these commodities are usually confiscated (Li and Zhang [2006]).

In the 1990s, Russian authorities turned a blind eye on the “grey customs clearance”. In the last few years of 1990s, the reason for the policemen’s confiscation of the goods of Chinese traders was that the traders did not have commercial license, not because their goods came through smuggling or “grey customs clearance”. It is possible that the policemen took into account that these cheap goods would help the Russian people to survive the economic hardship, or they just wanted to take some bribes for themselves. However, since 2000, Russian government started a crackdown on corruption. The chartered flights with fix tax for the whole cargo were considered illegal. Even though, “grey customs clearance” still exists. This problem happens not only to goods from China but also to goods from other countries (Asia Times, July 31, 2009).

Since 2000, Russian law enforcement agencies check and confiscate more often than before the goods of Chinese traders for lack of customs declaration documents (China Daily, May 28, 2004). All the confiscated goods would be sold and all the revenue would go to the pockets of the corrupted officials. Even though Chinese traders could register their company in Russia, the hurdles to import goods legally are very high. First, the procedures to legally clear the customs are complicated and the process is time-consuming, and secondly, the goods will not be easily sold because they will lose to other competitors whose goods come through “grey customs clearance”. So many Chinese traders had no other choice but to close their stores.

Chinese traders are the weakest one in the whole chain of “grey customs clearance”. Because every time there is a crackdown, the confiscated goods in the

warehouses are those whose costs had been already entirely paid, including transportation fares and customs clearance fees. The Chinese government had since late 2008 discussed the issue several times with Russia, urging Moscow to handle the issue according to the rule of law, to respect the legal rights of the Chinese businessmen in Russia, and to safeguard the broad interests of Russian-Chinese relations. For example, on September 11, 2008, some 6,000 containers from China were inspected and confiscated in ACT market. On June 29, 2009, Cherkizovsky Market was closed and 2 billion Dollars' worth of these "illegal" cargos of Chinese traders were announced to be destroyed. As a result, about 60,000 Chinese businessmen in Moscow were directly affected (Asia Times, July 31, 2009; Yu [2009]).

Even the Chinese embassy and consulate, pushed by the outcry of netizens in China, came out to negotiate for the Chinese traders. Nonetheless, traders could not get any help, because the Chinese traders do not have the necessary customs declaration documents and goods are presumed as smuggled goods.

Russian authorities have declared many times their will to eradicate the "grey customs clearance" and to operate a crackdown on corruption. The reason is that the declared value of imported cargo is usually only ten percent of its true value which cause enormous loss of import tax revenue. And those low-priced goods harmed Russian consumer goods industry (Li and Zhang [2006]). On the other hand, Chinese government expressed concerns about the traders' interests. In 2004, Russian-Chinese sub-committee on trade order regulation was founded. However, it is a tough task to change something that has existed more than 20 years. In order to eradicate goods imported through "grey customs clearance" system, from April, 2007, Russian government banned all foreigners from working as sellers in market stalls and kiosks. Then Russian cities also took measures to close the free markets. It seems that things would only become worse in the near future for those Chinese

merchants.

(4) Competitions with local companies and traders

More than 10 years ago, when the Chinese traders entered the Russian market they did not meet any competitor in the local market. Basically, Chinese traders got their goods from Chinese wholesaler and then sell them in the local market or sell them to Russian retailers. Because at that time, after the fall of socialism, Russians didn't know how to do business, and large-scale private companies did not even exist. Facing the difficulties of a new life, many Russians went to Beijing, Suifenhe, etc. to carry goods back to Russia and then resold them in the free market.

After more than 10 years' efforts, traders in both countries have gained more experience. Nowadays, big trade companies with sufficient capital and high-powered personnel can be found everywhere. In the time of the internet and electronic dictionaries, the language barrier has been lower than before. The Chinese companies can attend trade fairs in Russia and look for new customers and cooperation partners.

Entering the 21st century, Russia's small and medium-sized enterprises, after years of being depressed by a maddening array of red tape and bureaucratic harassment, have increased steadily in numbers. The Russian companies can easily go to China, and demand Chinese companies to manufacture according to their orders then resell in Russia with Russian brands. Many Russian companies invest in China and register their own brand in Russia. With the growth of Russian companies, they get the control of the distribution channels. The distributors who own the brand demand Chinese manufactures to supply them products. This kind of OEM model has rapidly taken over the Russian domestic market. With Russian's design and brand, their "Made in China" products cater more to the tastes

of Russian customers. In the Russian supermarket, “Made in China” products are everywhere ; however, they all get Russian brands. Under these circumstances, the old-fashioned Chinese traders lose their competitive edges in Russia little by little (Hong [2011]).

The increasing output of Chinese enterprises will put more pressure on both local companies and foreign investors (Krkoska and Korniyenko [2008] p. 49). In Russia, media reports of Chinese networks dedicated to importing and smuggling underpriced consumer goods have fuelled fears of a Chinese economic “invasion.” Many Russian domestic manufacturing companies show concerns about imported cheap Chinese products (Gelbras [2002] p. 146). They repeatedly petitioned the Federal government to raise import taxes. This volatile environment has forced policy makers to crack down on the “grey customs clearance” system and restrained Chinese traders doing business in Russia (Li and Zhang [2006] ; Asia Times, July 31, 2009).

All these examples show that Chinese small enterprises and Chinese products are not only facing the competition pressures in the market, they are also facing pressures from the Russian society and Russian government.

During the presidency of Medvedev, “Modernization” became the slogan. Russian governments welcome foreign companies to invest in the manufacturing industry. And they also expect to introduce advanced technology and develop their own high-tech industries. Under these circumstances, Chinese enterprises in Russia face both challenges and opportunities.

(5) **Competitions with the western companies in the Russian market**

Big companies from Europe and America have monopolized the Russian market since the 1990s. It is natural that they do not welcome the entries of Chinese companies into their territory. In the past, many Russian companies imported

Chinese goods through the hands of European companies due to lack of fund or insufficient information between China and Russia. Nowadays, with the improvement of communication between Russia and China, Russians try to avoid the intermediate processes and purchase directly from China (Hong [2011]).

With the Chinese communication, electronic, machine manufacturing companies entering the Russian market, the aforementioned Chinese companies have broken the monopoly of the Russian market by a few MNCs with its high cost-performance ratio. However, lack of product management skills and international experience is one of the critical factors for the limited success for Chinese companies in the international market. Chinese enterprises will face harsher competition in the future (Krkoska and Korniyenko [2008] ; Hong [2011]).

(6) Conflicting mentalities

Sharing the same ideology and socialism system, Russia and China have many features in common. In spite of that, as pointed out by Trenin, “as great power relationships go, the reversal of China’s and Russia’s fortunes at the close of the 20th century could not have been more dramatic. For the first time in their recent history, Russians have to deal with a China which is more powerful and more dynamic than their own country” (Trenin [2012] p. 1)

Russians hold ambivalent feelings toward the Chinese people. On the one hand, they still look down on China as a “junior brother” as in the old socialism times and keep their superiority mentality. However, on the other hand, facing the rapidly developing China, the Russian people are very uneasy about the changing of positions. The uncomfortable predicament of the Russians owes much to national economic insecurities generated by nearly 20 years of ineffective policies, the debilitating socio-economic impact of the shock therapy and the several financial crisis. This politically charged backdrop has intensified the bitterness of the

nation's downgrading to a "resources provider" to China (Wu [2005] ; Wang [2009]).

Meanwhile, the majority of the Chinese in Russia are market traders and they have their "shuttle trader mentality". "Shuttle trader mentality" means that (1) their objective is quick prosperity in Russia then leaving for China ; (2) to reach that aim they are not afraid of incompliance with the laws ; (3) they prefer to work with their own capital and work on their own or just with their family members rather than founding a company and expand it, (4) they work hard and stay only in the Chinese community, and make no efforts to communicate with local people and integrate into the local society. Most of them are from China's rural areas and are not well educated. So the majority of Chinese are not respected by the Russians. Furthermore, some Russians think that the immigrants from China, Vietnam and Central Asian countries take their jobs away, and at the same time exploit Russia's social resources and natural resources (Hong [2011]). Therefore sometimes they become easy targets of xenophobic skinhead group's attacks.¹²⁾ According the an interview, Ji Wennan, the chairman of Huayu company, said that in Dongning county, a region near the Russian-Chinese border, about 200 person went missing and 60 died while doing business in Russia (Xue [2011]).

Generally speaking, the Russian people are friendly to the Chinese people. Even so, due to the facts that some Chinese in Russia have illegal status (Chinese illegal immigrants consist of 20% of illegal immigrants in Russia), the Chinese people are seldom respected in Russia. In an opinion survey of 1,010 Russian respondents in Primorskiy Krai in September 2000, Alexseev found that "respondents viewed Chinese migration as predominantly beneficial to agriculture, trade, availability of consumer goods, and the budget". The respondents also

12) Chinese migrants are not the only target of hate crimes. Migrants from Central Asian countries have to face the same problems.

perceived that “the economic activities of Chinese migrants as helping to reduce the prices”. However, “the same respondents associated the Chinese presence with more harm than good with respect to its impact on local industry, job availability, the environment, and crime” (Alexseev [2001] p. 128).

Paradoxically, Chinese businessmen’s illegal statuses are partly caused by the Russian complicated rules and red tapes. In addition, the Russian officials, when they make policies, laws and especially migration laws and residential laws, usually follow the traditional ways of the Soviet era rather than taking into account the necessities of economic development.

The staffs in the Russian immigration bureaus, police stations and border checkpoints, are paying special attentions to people with Chinese passports. In the Moscow airport, it takes half an hour for a Chinese to pass the immigration check whereas for people from other countries, it takes less than 3 minutes. Sometimes a Chinese passport holder has to pay tips even all the documents do not have any problem (Xue [2011]). Sometimes the Chinese passport holder has to open all his/her luggage and wait patiently to be checked, even when the Chinese passport holder is a university professor with the aim of attending an international conference, who can only wait and watch other foreigners passing the checkpoint without a hitch. It is a humiliating experience for the Chinese professors.¹³⁾

During a visit to the city of Blagoveshchensk in July 2000, President Vladimir Putin warned the residents that if they did not take measures to improve their economy, their children would be speaking Chinese¹⁴⁾ (Nakai [2000]). While almost certainly intended as a way to encourage economic initiative, this sound beat was picked up and repeated as a warning about Chinese migration. By 2005 Putin called for a policy to attract overseas Russian migrants (CIS) to migrate in the

13) Author’s interviews with two Chinese professors in Vladivostok on September 4, 2007.

14) Actually more and more Russians in the Russian Far East are learning Chinese.

Russian Far East.¹⁵⁾

Concluding Remarks

Through interviews, anecdotes and published research, we have obtained a glimpse of the Chinese enterprises in Russia.

We can see that some Chinese enterprises have reached a certain level and they have managed to succeed notwithstanding—or, because of the economic chaos. Chinese enterprises, in the beginning, despite of unfamiliarity with the language and culture, provided affordable goods to the Russian people. Now the surviving ones have built up transnational distribution network and have become a major driving force for developing a mutual beneficial relationship.

Chinese traders can set up their business quickly when economic pull factors and ease of entry are aligned, but they can leave just as quickly if it becomes too difficult to do business. While Chinese traders harbor strong entrepreneurial capacities, local perceptions that commercial codes are too rigid and out of step with their priorities have discouraged compliance. To a great extent, the small Chinese traders are embedded in the Russian shadow economy, circumventing customs and evading immigration laws. And their easiness to use bribery to buy a way out has the effect of corrupting bureaucrats and undermining the rule of law.

The short duration of Chinese entrepreneurs' stay and language barriers do not allow them to integrate into the local society easily. Their independent communities have triggered resentment in the local society. Sometimes, Chinese became the targets of hate crimes. Laws must assume the task of suppressing national hatred while protecting migrants; at the same time laws must also regulate the entries and business activities of Chinese migrants, keeping them from hiding in the informality

15) "Putin Says Russia Needs a More Liberal Migration Policy," BBC Monitoring International Reports, March 2005 from a Channel One broadcast.

and the shadow economy. Chinese enterprises need to discard their inclination of not following the laws for maximizing their profits.

Many conflicts still remain. The reasons of those conflicts can be attributed to both sides. To solve those conflicts, the Chinese people need to learn more about Russians and Russian culture and abide by and obey all the Russian laws. Meanwhile, the Chinese government needs to do more to ensure the legality of Chinese citizens abroad and eliminate the fake documents forging companies. Furthermore the Chinese government should organize labor export to Russia so as to avoid unnecessary misunderstanding on the Russian side. More activities aiming to develop people-to-people diplomacy should be promoted. For instance, Russia organized a “Russia Year” in China in 2006 and China organized a “China Year” in Russia in 2007. This kind of activity with the aim of promoting mutual understanding will bear fruit one day.

In 2012, Russia joined WTO. In the years ahead, the environment for Chinese enterprises in Russia will be more complicated. It will depend on the interplay of economic, cultural, social dynamics and how they will be managed by the policies of Russia and China.

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