

# Moscow market's closure upsets Beijing

Thriving wholesale venue filled with Chinese goods stirs authorities' ire; owner punished for lavish move, some say

The abrupt shuttering of a giant wholesale market in Moscow dominated by Chinese traders has stirred trade tensions between Moscow and Beijing, highlighting large-scale smuggling between the two neighbors.

By Jeremy Chan in Beijing  
and Andrew Osborn in Moscow

Keen to defuse a potential diplomatic row, a Chinese delegation, led by Vice Minister of Commerce Gao Hucheng, held talks with Russian officials in Moscow this past weekend.

Chinese traders have complained they risk losing billions of dollars in impounded merchandise. Thousands of traders worked at the market, and police have prevented many from retrieving their stock since its closure. The Russians say they will ensure that legitimate businessmen get their goods back in the coming months.

Popularly described as the largest such market in Eastern Europe, the Cherkizovsky Rynok sold everything from clothes to food, often cheaply, to wholesalers and price-conscious Russian consumers. Local authorities closed it at the end of June, ostensibly for breaching sanitary and fire-safety norms.

Russian media, analysts and economists suggest the real reason was to punish the market's wealthy owner for hosting a star-studded hotel opening in Turkey. Prime Minister Vladimir Putin judged the event tasteless and unpatriotic at a time when Russia is weathering a fierce economic downturn, they say. Neither the businessman, Teiman Is-



Unemployed laborers walk with their goods at the Cherkizovsky market.

mailov, nor Mr. Putin's spokesman could be reached for comment.

Analysts say the move may also have been an effort to support Russia's ailing textile industry. Deputy Trade Minister Sergey Naumov said before the market was shut that every trading stand at the market meant a closed Russian clothing workshop.

The market's closure has highlighted the multibillion-dollar trade in "gray imports" between Russia and China. The trade has flourished since the early 1990s when the market first opened.

## Market traders

The unexpected shutdown of the sprawling Cherkizovsky market in Moscow has stirred trade tensions between China and Russia. Exports in billions of U.S. dollars

■ Russian exports to China  
■ Chinese exports to Russia



Note: All figures are in nominal terms and unadjusted for inflation.  
Source: Russia's Federal Statistics Agency

Moscow is keen to be seen to be clamping down on smuggling as part of its long-running campaign to join the World Trade Organization. Moscow says it wants to eradicate gray imports, or goods that cross the border thanks to payments to middlemen who in turn bribe Russian customs officials. Such shipments are seldom accompanied by paperwork. Closing the market will help stamp out such schemes, Russia says.

But the market's closure has sparked strong criticism within China, with state media charging that Russian customs policies are flawed. The state-run China Daily newspaper said it was "a matter of regret" that Chinese businesspeople had suffered financial losses, calling the closure "a tragedy."

China exported goods valued at \$34.66 billion to Russia in 2008, according to statistics from China's Ministry of Commerce. Ju Naqun, an expert on Sino-Russian trade at the government-backed Chinese Academy of Social Sciences, estimates that an additional \$8 billion in gray-market goods flow into Russia from China each year.

"The normal rate for customs duty is somewhere between 15% and 20%, but the gray customs clearance only amounts to 5% or 6%," Mr. Ju says. "Chinese traders prefer to go through the gray channel."

In September 2008, Russian police raided the Moscow market, confiscating goods they said had been illegally imported. The goods were valued at an estimated \$2 billion, making it one of the biggest counterfeit hauls in Russian history. Chinese traders offer an even higher estimate: \$7 billion.

Prime Minister Putin raised the issue—in his famously robust style—at a government meeting in June. Mr. Putin asked why the investigation had yielded no results. "A result would be to send people to jail," he said. "But where are the convictions?"

Soon afterward, the market was vilified as a den of criminality on Russian state TV. Law-enforcement agencies launched a criminal case, Moscow's Mayor Yuri Luzhkov vowed to close it, and senior government officials poured scorn on a place once called "a hell-hole." At the end of June, it was finally shut.

Sergey Saratov, chief executive of the Moscow-based Russian-Chinese Center for Trade and Economic Cooperation, a private consulting firm, said the market's closure was overdue and would usher in new civilized trading practices, including proper quality controls.

"It's the end of an era," he said. In the future, Chinese traders could play their wares in giant indoor malls in the Russian capital, he added. "The effect on trade will be positive."