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Bazaars and Trade Integration of CAREC countries

Scope, Directions, Policy Implications
and Significance of 'bazaar' foreign
trading

Structure of presentation:

- Background: taxonomy of foreign trade flows
- What is a bazaar and unique features of bazaar trading
- Unique features of the foreign trade 'bazaar' transmission channel and its significance
- Problems with assessment: need for a new methodology
- Goals of the project
- Potential policy significance of the proposed project

What is a bazaar

- A permanent merchandise area, a market place, where goods and services are sold
- An intricate trading arena in most Central Asian countries (supply chains, transport, distribution, employment, safety net etc)
- Vary in size (from enormous and small “spot” markets), wholesale or retail, trading both domestic and foreign goods
- Place for networking and social interactions



Foreign trade transmission channels in CAREC Central Asian economies

Intra-CAREC trade may be characterized as three-tier (varying in amount and impact on local economies), i.e., through three distinct channels:

- Formal or standard trade,
- Shuttle large-bazaar-destined (hub) trade,
- And cross-border trade.

Unique features of bazaar trading channel

- Bazaars can be found anywhere in Central Asia;
- Bazaars' aggregate turnover exceed that of retail stores in most Central Asian countries;
- Their size and importance vary; one may distinguish between 'hub' and 'spoke' bazaars. The latter include:
 - 'Spoke-Border' bazaars located near a border and fed by cross-border trading serving as a direct contact between suppliers and consumers across the border;
 - Other 'spoke bazaars' located in large and small communities in the center of a country.
- 'Hub-bazaars,' also the site of re-export activities, rely on purchases from both foreign and local sources, including 'border' bazaars.'
- Traders from 'spoke-bazaars' not only sell locally produced products but also use 'hub-bazaars' as a source of supply.
- Bazaar trading channel appears to be governed by a more liberal foreign trade regime than formal or standard trade channel.

Significance of the foreign trade 'bazaar' transmission channel

- Shuttle large-bazaar-destined trade takes place in regional 'hubs' with international reach and local 'spokes.'
- It is the major source of supply for most consumer products, with aggregate turnover exceeding that of retail stores in most Central Asian countries;
- It is also an important source of employment and livelihood for large number of traders and producers alike.

Problems with estimating the scope of 'bazaar' intermediated foreign trade

- Foreign trade statistics of importing countries do not cover imports and re-export activities through bazaars;
- Difficulties in identifying the scope of activities related to foreign trade in bazaars;
- Difficulties in assessment of imports intermediated by bazaars that are used domestically for consumption or inputs to further processing;
- Lack of information on final destination of re-exported products.
- Our research will rely on the combination of
 - Surveys of main 'hub' bazaars and
 - Examination of mirror trade statistics

Goals of the project:

- Identification of the 'map' of 'bazaar' trading activities in terms of sources of supply and direction of flows: hubs and spokes.
- Estimate of the scope and composition foreign trade flows intermediated by bazaars.
- Estimate of welfare effects of bazaars
- Identification of policy implications and developing recommendations

An examination of the bazaar channel and its welfare effects has important policy implications.

- First, a good understanding of factors driving this trade will shed light on weaknesses in respective foreign trade regime (as it applies to standard trade) or more broadly in business climate.
- Second, there are important lessons that can be drawn from its use for necessary policy reforms that would transform these flows into regular or standard trade flows.
- Third, an assessment of welfare impacts of these flows may tip the balance against taking measures designed to suppress this trade because of alleged foregone customs and tax revenues. One suspects that welfare gains in terms of employment and poverty reduction may be much higher than revenue losses