

Rethinking bazaar economy in China: are they truly low-level economic activities?

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Abstract. The bazaar economy has often been perceived as an inefficient and low-level form of economic activity. However, in recent years, this traditional mode of transaction has been revitalized through government policies and supported initiatives, gaining new energy in China's evolving market landscape. This paper examines the characteristics of bazaar economy and transformation of the bazaar economy. Findings suggest that the bazaar economy is gradually transitioning from a closed, acquaintance-based trading network toward a more open, competitive, and solid market model. Traditional mechanisms, such as trust-based credit and rapid information exchange, yet new forces—including tourism integration, digital platforms, and third-party certification—are reshaping its direction of development which also enable bazaars to retain their cultural identity, such as bargaining and local reputation, while enhancing efficiency and attracting a wider target consumer group. Despite persistent challenges, the value generated by the development of the bazaar economy exceeds its traditional perception as a low-level economic activity. Future research should further investigate the positioning of the bazaar economy in modern markets and explore strategies to balance its traditional practices with modernization.

Keywords: bazaar economy, trust mechanisms, economic activities

1. Introduction

The bazaar economy, whether considered an early form of modern market economy or a distinct market form differing from modern capitalist markets, is often characterized by low efficiency or low professionalism [1]. In recent years, the bazaar economy has regained popularity in certain countries. In China, the lower market threshold barriers have enabled the bazaar economy to provide valuable employment opportunities for low-income groups, especially during the COVID-19 pandemic [2]. Furthermore, in some regions in China, the bazaar economy is undergoing updates and progress, entering a new stage of development that integrates more efficiently into the modern market economy with a more diverse range of content [3].

By introducing new modernization ideas and state-supported measures, the bazaar economy has provided new impetus for economic development in various regions of China. Therefore, we should rethink whether bazaar economies are truly low-level economic activities currently in China.

2. The characteristics of the traditional bazaar economy in China

In traditional Chinese society, due to limited territory available for cultivation and insufficient regional development, the areas suitable for farming were often small. As a result, people tended to live in close communities where they may not have been related by blood relationship, but they are usually familiar with their neighbors over time due to long-term settlement in the same area. These settlements can be seen as an "organic solidarity" based on the degree of relationship closeness, rather than the "mechanical solidarity" based on law and ethics found in Western societies [4]. Organic solidarity reflects intimate relationships between individuals. The market economy in rural areas is essentially doing business with friends and acquaintances.

"Here, as elsewhere in the bazaar, everything rests finally on a personal confrontation between intimate antagonists [5]." — Clifford Geertz

In the market economy created under this background, both buyers and sellers enjoy special benefits and are also in a state of taking a risk than a traditional trade. Buyers and sellers may complete a transaction rapidly because of their understanding of each other's personal needs; it may also lead to purchase on credit in the transaction because of the close relationship that has been formed.

2.1. Rapid exchange of information

In the context of China's society full of acquaintances, one characteristic of the marketplace is the rapid exchange of information; it is also a feature of the bazaar economy [5]. With its small-scale site, calls or shouts, and simple trading process, the marketplace facilitates much faster information flow between sellers and buyers compared to transactions in a modern commercial mall, regardless of the success of the trade. Information exchanged in the marketplace may relate to commodities, interpersonal relationships, land, harvest, children, or other topics. These seemingly unconnected topics and conversations serve as a unique method of social interaction in the marketplace, bringing people closer together while maintaining existing intimate relationships. Consequently, a special "language" has evolved in Chinese marketplaces, embedded within regional dialects and serving as the jargon of the trade field. For locals, possessing ample information and engaging in frequent marketplace transactions enables them to determine whether they should purchase target goods through just simple words or dialogue with merchants.

However, when an outsider enters this marketplace without speaking the dialect, they are immediately perceived as "outsiders" by the sellers and are at a disadvantage in marketplace transactions. Compared to locals, merchants spend more time and energy explaining their products to outsiders, which is a very time-consuming and inefficient transaction. Even merchants may withhold certain information, thereby profiting more from information asymmetry in pricing. In other words, although the bazaar economy has a low threshold for merchants, there are very few consumers who can be considered "qualified" in that market. Once consumers make up for the information gap, they will realize it is a bad deal which discourages their enthusiasm to enter the bazaar economy. They no longer remain the main consumer group in the bazaar economy. The rapid exchange of information limits the entry of more potential consumers into the bazaar economy.

2.2. Commercial law

Commercial law largely appears in the form of moral obligations in the bazaar economy. Due to the nature of China's society full of acquaintances, seemingly simple verbal agreements between buyers and sellers are sometimes even more effective than written commercial contracts. Since both buyers and sellers may face condemnation within the community of acquaintances, once in the event of a breach of contract. Such social pressure from the public coming from acquaintances [4], continues to influence him in every aspect of life. It is more severe than the compensation in a contract. This seemingly stringent and rigid form of trade fosters a stable trust relationship between buyers and sellers and also eliminates the need for many additional "insurance mechanisms" in transactions. For instance, in the context of the bazaar economy in China, documents such as warehouse receipts [6] and contracts, which are products of modern market economies, are not necessary.

The accumulation of trust builds an "invisible" credit between parties, shaping their interactions. For instance, in a deal, a buyer may promise to choose the same merchant for future purchases as a bargaining chip to negotiate a lower price. This bargaining technique is commonly used by buyers in the bazaar market in China: leveraging the future purchase as a means to negotiate discounts for this time. Such deals rely on invisible credit, which, in turn, depends on flexible price manipulation mechanisms. Despite having clearly marked prices, the ultimate control over the final price lies with the merchant, allowing both buyers and sellers to continuously adjust credit limits to control pricing to reach an agreement. Merchants decide whether to give discounts based on their familiarity with buyers and the value of the goods. Under this context, the bazaar market economy gives trustworthy merchants a "brand effect" creating a positive reputation within the community, essentially forming natural "advertising".

However, the bazaar market economy embedded with invisible credit is not perfect. It brings about issues related to credit sales, where goods are obtained without immediate cash payment. Due to the reliance on verbal agreements, some consumers may continuously deplete accumulated credit to "freely" acquire goods. While this group of consumers may only represent a small portion of China's society full of acquaintances, each failed deal under the credit sales mechanism undermines the trust relationship established between the buyers and sellers, causing a devastating influence on future transactions. Undoubtedly, as the bazaar market economy tends to expand into broader regions and encounters larger consumer group bases, invisible credit doesn't play a critical role in the deal process, rendering the market economy more vulnerable.

3. Renewal and development of the bazaar economy in China

In the bazaar economy without advertisements and propaganda, merchants' shouting and reputation can attract enough consumers to sustain the operation of the bazaar economy. However, if there is a desire to develop the bazaar economy to become a larger and more efficient market, it is clear that the traditional interaction mechanisms between buyers and sellers are outdated. In order to break the closed and inflexible model of the bazaar economy in China's acquaintance society requires the involvement of more entities and mechanisms.

3.1. Expanding the target consumer group

In the traditional bazaar economy, many consumers are excluded from the market. Meanwhile, it is a challenge for merchants to accurately capture the needs of outsiders as consumers, leading to difficulties in rapid information exchange. To solve these issues, seeking additional informational support sources has become critical.

With official government support, the bazaar economy in some regions is linked to local development in the tourism field. Through slightly raising the prices of goods (compared to the traditional bazaar economy in China), the entry threshold for consumers gets lower. When the bazaar economy is located within popular tourist areas, clear information signals to merchants that the market needs to embrace more unfamiliar outsiders [7], encouraging merchants to adopt a more positive and inclusive attitude toward unknown consumers. During this process, foreign buyers also contribute to local tourism development through their overflow of benefits as tourists. Thus, developing the bazaar economy is sometimes seen as a part of some local rural revitalization plans for the government in China. In this process, it is evident that government actions are more inclined towards fostering the development of social marginal net product benefits [8]. The policy is biased towards the disadvantaged side in terms of access to information.

Other entities also play an important role in the deal process as informational supporters to close the information gap between buyers and sellers. For instance, in Guangzhou's bazaar economy, middlemen organize buying trips, coordinate with local manufacturers, and provide translation services during transactions [9]. Although accessing effective information brings costs, it creates additional services and more job opportunities for local people even for foreigners. The increase in job opportunities has brought diverse needs from the demand side and also brought improvement to the entire bazaar economy.

Currently, the bazaar economy in some regions of China has begun to expand into the international consumer market. Due to smooth mechanisms of communication, it brings more diverse needs or demands from consumers, fostering healthy competition among merchants.

“Like producers, small traders have to be quick in following fashions and have to be finely niched, constantly searching for goods that are slightly different from competitors [10].” — Biao Xiang

Absolutely, in addition to seeking a rapid exchange of information, merchants are also pursuing high-quality information to stand out in the market. Unlike the homogenized products sold in traditional bazaar markets, the diverse needs have brought the impetus for the development of the bazaar economy.

3.2. The solid trust relationship

Insufficient support for commercial law and the emergence of dangerous goods [11] in the market economy also disrupted regular trade. To settle this issue, policies have been introduced to regulate the market economy. The government has established uniform licensing standards for merchants and business licenses. These standards prevent the influx of low-quality goods into the bazaar market, improving the quality of the supply side.

Although the government sets uniform licensing standards, it does not set grades for specific products. Currently, the task of rating products is generally undertaken by third parties or some official institutions. In China's market economy, a more typical scenario is the collaboration between market merchants and e-commerce platforms. They recommend merchants for third-party verification. In other words, due to the variety of goods on e-commerce platforms, merchants are compelled to undergo third-party verification to enhance their competitive edge. Private entities selling goods with third-party verification marks benefit their market cachet [12]. It also preserves the traditional “brand effect” in the new market environment, which means the market continues to reward trustworthy merchants potentially.

Compared to previous private contracts in the traditional bazaar economy, the existing bazaar economy has become more transparent and open due to government policies and the involvement of third parties. Even if buyers and sellers are strangers to each other, they can quickly establish a basic trust relationship. Under that situation, the traditional “bargaining” in the market has developed a unique characteristic, attracting some consumers, sometimes even serving as a cultural experience for them. Buyers and sellers are not only engaged in transactions but also become communicators and recipients of culture. The dual identity they were given increases the cost of actions detrimental to trading. If consumers wish to buy on credit, they will reconsider whether such behavior might negatively impact the seller's view of “outsiders” from a cultural perspective. Merchants have improved the quality of their goods, and buyers have reduced the risky behavior of selling their credit, such as buying on credit.

From an informal, verbally casual credit mechanism to a documented, cautious trading bazaar market system, it has built a more solid foundation for buyers and sellers to form a strong trust relationship.

4. Conclusion

The development of China's market economy not only retains the advantages of traditional bazaars in their natural state but also ensures efficient development through the practice of multiple entities. Modern market economies are no longer perceived as low-level economic activities. They have become the core of increasingly popular innovation systems [13] and new cultural centers. Of course, the current development of the market economy faces a variety of challenges, such as some local governments taking direct control of the markets, which leads to a loss of vitality. Nevertheless, the development of China's marketplaces to date reveals that the potential of the market economy in the future is greater than we might have imagined. What position it should occupy or what role it should play, it is still a topic worthy of future discussion.

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