

**Informal Economy and Formal Governance Structure:
A case-study of Batkhela Bazaar, Pakistan.**

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Governance of the informal economy, especially of the informal marketplaces has attracted considerable attention in the recent decades. This paper contributes to this literature by arguing that conception of the informal economy is an empirical reality is shaped by the formal governance structure. The development of informal governance institutions for governance of informal marketplaces and their role in local governance are shaped by the design of formal institutions. Beyond simplified dynamics of enforcement related to taxation, and incentive structure shaped by electoral politics, governance of informal marketplaces is rooted in the 'deep governance structures'. This article asks: How formal governance structure, shape the emergence of informal governance institutions in marketplaces that are informal? And, if taxation is not the defining feature of linkage to local government institutions, in what ways informal marketplaces impact on the local governance of their respective regions? To answer this question, this article draws on a wide range of literature on the informal economy, marketplaces, and informal traders associations-local government interface. It presents original empirical findings from an ethnographic study conducted in Batkhela bazaar, Pakistan. The contributions of this paper are two-fold. First, it shows the relevance of informal marketplaces and their traders associations to formal governance structure, a subject that is hardly investigated in the context of Pakistan. Second, it demonstrates, beside electoral politics, the dynamics of powers links these marketplaces to local political actors with implications for formal governance of the region.¹

Keywords: governance, economy, marketplaces, ethnographic

The informal economy has been a subject of considerable attention since publication of Keith Hart's (1973) seminal work. Employment in the informal sector is often regarded as necessity emerging as an outcome of cumbersome legal procedures, inability or unwillingness to join formal economy, or simply as a failure of governance (Chowdhary, 2005:105). Labelled variously in the literature such as 'black', 'gray', 'shadow', 'underground', 'informal', 'illegal', 'undocumented', and 'unrecorded' makes its relation to governance more complicated (Williams, 2014). However, any characterization has much to do with the institutional environment (Williams and Shahid, 2014), or more broadly, formal governance institutions under which informal economy operates (Web et al., 2009;2014).²

More recently, the conception of informal economy as an ungoverned space has been challenged in the literature (Schoofs, 2015). Its linkages to local governments, and impacts on local governments have been investigated from various dimensions and in various contexts (Lindell, 2008; Lund & Skinner, 2004; Polese et al., 2017; Holland, 2015). This article contributes to this literature by looking at the role of formal and informal institutions in the governance of informal marketplaces. It argues that governance of marketplace activities are influenced by the governance structure (Monteith, 2016). Effectiveness or ineffectiveness of formal institutions is a major explanation of governance of economic activities in bazaars. Besides taxation and registration, there are more urgent governance issues fundamental to governance that require prior consideration instead of

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¹ This paper draws in part on: bazaar and local governance: the case of legalize informal economy in the batkhela bazaar, pakistan. in eds, c.c.williams et al. informal economy: exploring drivers and practices. routledge (2017).

²For various conceptualizations and definitional issues see more generally, Kanbar, 2009; Godfree, 2011; Chen, 2012; and Meagher, 2013)

formality/informality dichotomy (Guha-Caznabis et al., 2007:1-2). These areas of informal economic governance are integrated with the local governance structure, regardless of the status of a marketplace being formal or informal.

This argument is elaborated by drawing on a wide literature on the informal economy, marketplace-governance interface, and the findings from the case-study of Batkhela Bazaar in the Malakand region of Pakistan. The case study has purposefully been selected to speak to the wider literature on the informal economy and marketplaces. The context is characterized by pervasive, legalized informality which is an outcome of the special governance arrangement. Thus, before assigning any label to informal economic activities, institutional arrangement that governs marketplace activities require attention. This Article explores the linkages of informal marketplaces to formal governance structure and asks: How formal governance structure, shape the emergence of informal governance institutions in marketplaces that are informal? And, if taxation is not the defining criterion of linkage to formal governance, in what ways informal marketplaces impact on the local governance of their respective regions?³

To answer this question, It draws on the origin and development of Trader's Association of Batkhela bazaar and its increased political significance as a consequence of the growing size of the marketplace. The emergence, development and increased political involvement of the traders association is not the outcome of state repressive policies in terms of taxation, but a specific historical context where the traders community was politically excluded (Jan, 2010; 2014).

In what follows, this paper first deal with the conceptual issue of defining informal economy and informal marketplaces to situate the conception of legalizing informality in perspective. Section two presents an ideal-type distinction of marketplaces of separating formal and informal marketplaces/ or bazaars in terms of their relation to governance, structure. Section 3 reviews the literature on marketplace-local government's interaction to develop an interactional framework that explains the role of Batkhela bazaar and its traders association in the governance structure of the region. Section four outlines the methodology. In section five empirical findings from the case-study of Batkhela bazaar, Pakistan are presented. While section six concludes.

Defining informal economy in context

Before delving into the issue of governing informal economy, setting out a clear conceptualization of the phenomenon is a pre-requisite. Castells and Portes (1989:15) define the informal economy as "a specific form of income generating production unregulated by the institutions of society in a legal and social environment in which similar activities are regulated". This definition views informal economic activities not only as unregulated, but also illegitimate. A growing body of literature takes issue with this definition and defines informal economic activities as legitimate (Web et al., 2009; 2014). Informal economy, even if entirely unregulated by the laws of the state, is regulated by the institutions of society. This perspective differentiates informal economic activities from criminal and illegal activities (Williams & Harodonik, 2016). The complexity of defining these activities does not end here, there exist in some countries what this article conceptualizes as legalized informality.

Though legalized, the economic activities that form the subject of this study are yet informal. Kanbur (2009) argues that the definition of formality/informality should be seen in direct relation to economic activity in the presence of specified regulations. In this connection, he proposes four conceptualizations: 'regulation applicable and compliant', 'regulation applicable and non-compliant', 'regulation non-applicable after readjustment of the size of economic activity', and 'regulation non-applicable to the activity'. Instead of applying the generic label (informal), Kanbur (2009) suggests applying one of these four conceptualizations, or even more specific desegregated label is better. The marketplace under consideration fits neatly in the first category set out

³. This article has significant empirical contribution to the literature on the region. as Marsden and Hopkins (2013) lament, in the post 9-11 period, most of the literature have neglected the fundamental dynamics of the governance of this region, and thus there is a need for moving beyond simplistic understanding of the region Bordering Afghanistan and Pakistan (Marsden and Hopkins, 2013:3-4).

by Kanbar (2009), , yet I avoid calling it formal, because compliance with regulations in terms of taxation is only one aspect of informality (Joshi, Prichard & Heady , 2014:1327) . Other aspects of informality include: informal employment (Chen, 2012), undeclared Pay , difficulty to distinguish between the input of capital and labour (Lipten, 1984), and “private unincorporated enterprises” that “lack complete sets of accounts” (ILO, 1993: Paragraph5). Thus, Informal economy in the context of Malakand region is legal and informal at the same time. Therefore, it is defined as legalized informality (see section 5).

Guha-Kaznabis et al., (2007:2) identifies (broadly) formal as reachable by various levels and mechanisms of “official governance” while informal is out of the reach of these mechanisms. This characterization, they note, characterizes the informal economy that is ungoverned, non-reachable by formal mechanisms of governance and thus something that has lack of stability, and lack of organization as major characteristics (Kanbar, 2009). This article adopts a more specific conceptualization based on the premise that economic activities may be informal, yet closely linked to various governance mechanisms and their various aspects are within the reach of these mechanisms. Not only that, any characterization of informal economy as ungoverned space is rejected here (Schoofs, 2015). The dichotomy of formal-informal, As Guha-Caznabis et al., (2007:1) notes, are often used as a metaphor that represents what the analyst has in mind while speaking about informality in a specific context. Hence, it is important to move beyond this dichotomy in order to make progress in understanding the realities of economic activities in less-developed countries to design policies for their effective governance. For this reason, a clear conceptualization of informal economy embedded in the local context, its linkages to various governance mechanisms, and the role of informal institutions governing these activities must carefully be considered.

In terms of Informal economy’s relations with formal institutions, the theories of informal economy can be grouped into three categories (Williams, 2014a; Williams, 2014b). These include, the modernization perspective, Neoliberal perspectives, and political economy perspectives (Williams et al, 2016). Despite extensive research on the informal economy in these theoretical domains, their inadequacy to account for certain salient issues have led to the development of ‘institutional incongruence perspective’ (Williams et al., 2014; Williams et al., 2015; Williams et al., 2016). It is, however, focussed largely on the quality of formal institutions and alignment between formal and informal institutions as a determinant of informal economic activities (Williams & Shahid, 2014; Williams et al., 2014).

Political processes, or changes in the formal governance structures have significant implications for informal economic activities (Lund & Skinner, 2004; Vermaak, 2017). More specifically, increase or decrease in the informal economy, and their governance is contingent to the institutional design of local government and orientations of state authorities at local level (Lund & Skinner, 2004:434). However, exploring interrelation between informal economy, governance, marketplaces as an element of this interrelation requires a more context-specific approach. Not only that institutional contexts vary across various state systems, but within a state system that alters the whole conception of informal economy in relation to formal governance institutions. Thus, the informal economy is defined as unrecorded economic activities that is legal for all other purposes (Williams & Nadin, 2014).

Informal marketplaces and local governance: an ideal-type distinction

Since the origin of the concept of the informal economy, firms in the developing countries have been moving along the formal-informal continuum which defines their relation to state regulations, local government authorities, and formal economy (Joshi et al., 2014:1327). The unit of analysis is not individual firms, but marketplace, that is an aggregate of various forms of small and micro enterprises that are broadly situated along this continuum. This section presents an ideal-type distinction of these marketplaces that will: (1) offer a better understanding of their relation to formal governance structure. And (2) facilitate an understanding of the dynamics of informal marketplaces in their specific governance environment. In addition, It will also offer a useful way of categorizing these marketplaces to have an informed analysis of their relation to formal

governance institutions. The literature presented here is not exhaustive, only the most relevant literature is reviewed.⁴

The bulk of literature reviewed in this section is related specifically to the forms of marketplaces/marketplace organization, and their interaction with local governments which form the basis of our typology. It is argued, from an entirely formal to the informal marketplaces, governance of these marketplaces is underpinned by their relation to formal governance institutions (Dines, 2007; Marsinchak & Van, 2008; Lindell, 2008; Polese et al., 2017). In any case, their economic activities, or these marketplaces in general are embedded in their institutional environment (Polanyi, 2001: 48; Bester, 2001). Following Keshavarzian (2006:64), Marketplaces or bazaars are not viewed as juxtaposed images of the modern, instead they are as relevant to the modern economy and governance as any other sector.

In terms of their relation to formal governance structure, marketplaces can be categorized in as many ways as there are marketplaces in the world. One way of classifying marketplaces is the magnitude of the trade and the size of the markets (Kaminski & Mitra, 2012:63-64). They are also classified on the basis of the modes of market making in terms of their economic activities (Aspers, 2009). Location of the marketplaces such as Urban centres, semi-urban areas, and neighbourhoods in the peripheries may also offer a basis of their categorization. Similarly, the likelihood of their categorization on the basis of their relation to public policy, such as Planned or unplanned, legal or illegal is also illuminating in terms of their relation to formal governance (Lindell, 2008: 1887). Arhne et al., (2015) categorize markets on the basis of their organization and offer a three-fold classification of markets. This classification includes, state-organized, organized by profiteers, and self-organized. However, this classification is also an ideal-type. As they note, in terms of their organizations, marketplaces can be categorized in at least 120 ways. In addition, a broader distinction can be made with regard to the legality-illegality of these marketplaces (for illegal markets and their dynamics see Beckerd and Vehinger (2013). The concern of this article is the form of marketplaces where economic activities are unrecorded but legal for all other purposes (Williams & Nadin, 2014).

Some scholars categorize marketplace on the basis of their economic, physical, and social features. For instance, Geerts (1979) identifies two types of bazaars, those representing the trading quarters of the towns, which he designate as “permanent ones”, and those held periodically with variations in venues. Wilson (1995:19) refers to three types of bazaars, I.E., the traditional markets of the Middle East, the Souks of the Arab world, and the bazaars of Turkey and Iran.

Similarly, in terms of formality-informality, marketplaces can be classified in grate many ways as there are marketplaces from absolutely formal to entirely informal. In addition, most of the markets are the hybrid of both formal and informal activities. To make matters worst, a single firm may have both formal and informal sides simultaneously (Godfrey, 2011). Our Ideal type categories include: types include: state-organized, privately owned/ or managed, and self-organized. These types are based on the degree to which the state exercises direct control on their governance.

The state-owned marketplaces presents an image of a more top-down organized where the land on the market, and its economy is controlled by the state. This type of marketplaces is largely associated with socialist or some transition economies (Polese et al., 2014; Kaminski & Mitra, 2012). During the Soviet era, these bazaars “officially served to distribute the surplus from agricultural production to the labour population” (Alf, 2015:254).⁵ Alternatively, a variant of this form of markets is specific to developed world (Watson, 2009).

Privately owned or managed bazaars also represents top-down organization (Alf, 2015; Hewelmeyer, 2013). This category resembles Arnhes et al., (2015) category of markets that are organized by profiteers. These profiteers in the case of bazaars, are either foreign investors who run bazaars through private management,

⁴. for interesting reviews on marketplaces, see Platner, 1989; Pati-Sharman, 2012

⁵. During 1980s these bazaars transformed into black markets, where all kinds of otherwise unavailable goods were traded and bartered.

where both owners and management guard their profit. They maintain a certain degree of control over the market through its organization and ownership. As Hüwelmeier (2013) notes, bazaar's management solves internal problems of the bazaar, interact with local, state authorities on the matters related to the bazaar. In addition, it collects rent from the business owners, and expels those from the bazaar who are not registered. In some instances, This privatization may be a designed act of local government (David, 2001; Monteith, 2016).

Conversely, the third type of bazaars are neither controlled by the state, nor owned or managed by profiteers. Their organization and stability rests largely on the mutual cooperation and understanding of the market actors. These bazaars are the product of constant evolution. Their existence on the periphery of formal economy, and weak institutional context accords them an incentive to self-organize. This process of self-organization is evident at different stages of maturation across these marketplaces (Varman & Costa, 2009; Lyon, 2007; Erami & Keshavarzian, 2015; Jan, 2014; Ulla, 2014). Informal institutions that underpin social organization in these marketplaces offer stability to their socioeconomic order (Amoko & Lyon, 2013). Besides, it also explains the character of the formal and informal institutions that operate within such marketplaces (Lyon, 2007; Amoako & Lyon, 2013).

Though not organized by the state, nor owned by profiteers, these marketplaces have regular interaction with local government institutions (goodfellow and Titeca, 2012). Local authorities influence these marketplaces in many ways other than organizing these markets, levying taxes, or providing services (Lindell, 2008). Empirical studies on marketplaces around the world suggest that the governance structures emerging in these markets are the consequence of the governance practices of local government (Lindell, 2008), which is not the subject of government policy, but an outcome of day-to-day interaction with local state authorities (Polesse et al., 2017). The present study is concerned with the governance of this type of marketplaces.

This broad distinction between the marketplaces offers some important insights. First, It clarifies the degree of formality related to their governance structure. Whether the state interferes directly in their governance, privatize them, or there are minimal formal governance interventions. Second, a distinct, but interrelated implication is the place of these markets in the state policies. Third, it allows for the identification of the various stakeholders that benefit from interfering in the governance of these marketplaces. However, a limitation of this typology is that it does not offer clarity as to the direction of causality of the emergence of governance mechanisms as an outcome of state repressive policies or simply its absence/weakness. It is argued, it can serve both the purposes considering the subject of one's analysis.

Informal marketplaces and local governments: an interactional framework

In relation to the last category of markets, This section develops a framework that is helpful in analysing marketplace-local government interface. The question of design is largely answered in the previous section, the focus of this section is particularly on the 'deep' governance structures in which these marketplaces are not simply the object of governing, but an important element of local governance. Doubtless, that the existence of a robust legal framework to govern these trading activities is inevitable for myriad governance aspects related to informal marketplaces. However, empirical literature suggests, despite impressive legal frameworks, their implementation on the ground is far from what is desired (Amis, 2016). A plausible explanation for this discrepancy may come from a non-robust mechanisms of formal governance at local level. Or what institutionalist would call the incentive structure for actors involved in local government (North, 1990; 2005). Instead of conceptualizing governance of marketplaces and the greater role of informal institutions as a consequence of the absence of formal institutions (Greif, 1993), they are viewed as a player in the local political dynamics that is embedded in the social and political structure which define their institutional environment (Erami & Keshavarzian, 2015; Monteith, 2015).⁶

⁶ With reference to north, institutions are defined as rules of the game, while organizations as players of the game. However, this distinction is not relevant to local level as North himself would agree. On this point, see Hodgson, J. What are institutions? *Journal of Economic Issues*, XL (1).

The impact of these marketplaces on the implementation of regulations at the local level is well documented in the literature (Groceman, 2016; Tidika & Goodfellow, 2012; Amos, 2016). This influence may either be reactive (Monteith, 2015), or a response to ineffective formal governance that incentivizes the emergence of informal governance practices. In any case, political processes have an influence on the emergence of informal institutions that govern not only the economic activities, but shape their interaction with formal governance institutions (Kingston & Caballero, 2009).

For instance, Polese et al., (2017) presents an interesting case of the repressive state policies in relation to informal trade practices in Jorja, and shows how local governments were compelled to lift the restrictions on informal street-vendors because of the political pressure exerted by these Vendors on local municipal authorities. Lindell, (2008) notes the emergence of Trader's association as a response to the 'negative attitude' of local governments towards informal street-vending in Maputo, Mozambique in 1999). She identifies local governments and informal trade associations as main protagonists in the urban governance landscape (Lindell, 2008:1886-88). Similarly, the implementation of 2014 act passed by the Indian government, related to informal street-vending activities were stalled in those areas where marketplace actors or their representatives have political connections (Amis, 2016). In addition, the local governments councils, in order to improve their revenue generation had privatize local markets simply because of their inability to govern the taxation of these markets (David, 2001:35). In their study on Kampala's City Market, Goodfellow and Titeca (2012) demonstrate how traders were able to subvert the structure of city governance as a consequence of increasing convergence between the interests of ruling party and groups of informal traders in the city.

A vibrant stream of literature emerging in the informal trade-local government relations focusses on the efforts to limit the powers of local governments through recourse to legal mechanisms (Rover, 2005; 2016). This literature argues that local governments have developed informal governance practices that allow them to take illegal actions against the informal street-vendors in urban spaces (Rover, 2016). Two main mechanisms are identified for influencing local governments (or municipal authorities): (1) tolerance of informal trading practices (public space cleansing, or tolerance of trade to have right on public space) with its emphasis on electoral politics (Holand, 2015). While another stream of literature looks into the dynamics of regulatory spaces where informal street-vendors and their organizations engage in legal battles to curb the powers of local state authorities (Rover, 2016). This paper looks into the first form of mechanisms as the informal traders in Batkhela bazaar do not face repression on legal ground as emphasized by a large literature on street-markets (Bromley, 1998; Amis, 2016).

The dynamics of governance of informal trade, and the influence of these trading activities of local government are far from being straightforward. The incentive structure may be simplified, but their power dynamics are complex and fluid (Lindell, 2008). For simplicity, three sets of actors are identified in these interactional dynamics, although there can be many more. These include, representatives of traders (traders associations), local state authorities, and local political actors. Each set of actor have their stakes in local politics. for instance, the traders association seeks to protect the interests of traders.⁷ Political actors seek support for whom these traders associations can serve as a rich vote bank. State and local authorities aim at the improvement of governance within their jurisdiction. Interaction among these actors occurs in the informal realm of governance without any standardized procedures, but according to the logic of power which each actor possesses in its own right, and that can be utilized in favour of an ally or against protagonist in the realm of local governance.

Political actors as intermediaries: Power-play between marketplace actors and local administration

This section argues that simply the design dynamics of formal governance institutions and their influence on the marketplace governance are not sufficient to account for the interaction between formal and

⁷. The strength or weakness of traders association and trust and support of traders vary widely, but their representative character is the main source of their power and significance as a player in local politics for interesting reviews and empirical variations see, Brown et al, 2010; Groceman, 2016, and for country-specific examples see, Lyon, 2007; Polese et al, 2017 among others).

informal institutions. This relation is dialectical, and requires an investigation into 'deep' governance structure that underpins this relation (Bourdieu, 2005:13).⁸ Recent attempts in the literature conceptualize the interactions between local government officials and informal economy actors as a sight of power relations (Polese et al., 2017). I advance this literature, but in a different direction. In order to place local political actors as intermediaries between local government officials and marketplace actors, this section relies greatly on Bourdieu's theory of practice, specifically on the nexus of field, habitus and power (Bourdieu, 1972:78-80; Bourdieu & Wacquant, 1992). The key argument, from this theoretical standpoint is that the agent's actions are shaped by their habitus, which is shaped by the existing structure of power. However, their actions have structuring effects on the logic of practice that is prevalent in a given governance structure (Christoforou & Davis, 2014). thus, if patterns of interaction between marketplace actors are shaped in response to formal governance structure and its ineffectiveness, as institutionalists would have us to believe (Web et al., 2014), the actions of marketplace actors in congruence with their interests with local political actors would compliment to its weakness.

Power and political agency of the informal traders has been conceptualized variously in the literature on the informal economy and urban governance. For instance, Bayat (1997) offers the notion of quiet encroachment as a strategy of informal workers to reproduce themselves in oppressive authoritarian regimes. This framework has been recently applied in weak state contexts (less-developed democracies) in the context of Ghana by Gillespie (2016). Similarly, Polese et al., (2017), has presented another useful way to conceptualize these power relations to explain embeddedness of informal traders in the local governance structures. However, a theoretical framework, drawing on Bourdieusian theories of the interrelation between state, market and society has greater utility for understanding the governance dynamics of informal economy in loosely regulated spaces, or where governments adopt benign policy towards informal economy (Bourdieu, 2005). The argument is that formal governance structure, or in other words, the state is an exogenous stimulator of the economic system, and the actions of agents are embedded within the space defined by state power (Bourdieu, 2005:13). Informality in those spaces is both legal and socially legitimate, Which allow informal marketplaces to become an important governance arena for local governments.

For this reason, I draw on Bourdieu (2005; 1994), who conceptualizes state as the ultimate holder of the power or (meta field). But this ultimate authority, in the global south is limited, and a dialectical struggle for powers across various fields persists that shapes local governance practices (Scott, 2013).⁹ Also, this struggle for power has important implications for the implementation of state policy (Dubois, 2012). Conceptualizing interrelation between the informal economy and formal governance structure should take into consideration various contextual factors (Polese et al., 2016) as outlined in the previous sections. The literature on informal marketplaces suggests that these marketplaces, lead to the development of collectivities in the form of traders associations, which become important players in local politics (Groceman, 2016). Often these collectivities and their actions are stimulated by state's policies that are detrimental to the interest of the business owners (Polese et al, 2017; Groceman, 2016).

The response of informal traders to government initiatives range widely from the pasification to open hostility, depending on the magnitude and scale of government actions (Brown et al., 2015). Marketplaces are socially and politically embedded, and this embeddedness allow them to react to policy implementation of local authorities and to exert influence over the initiative of local governments. However, this influence is exerted largely in the realm of informal governance, because of often dubious legal status of the informal markets. Even in the most developed economies such as the UK, with little room for informal economy, this social embeddedness come to rescue of market traders If decisions of local state authorities threaten their interest (Dines, 2007). Marsinchak and Van (2008:817) shows how market traders lobbied against polish government

⁸. I Borrow this argument from Faguett (2015) who call for an investigation into the deap governance structures that explains the cause and consequenses of decentralization and local governance.

⁹. Scott (2013) criticizes Bourdieusian notion of state for its unsuitability outside the context of continental Europ. Scholars are invited to explore the potential of this approach. this framework, if applied to conceptualize state fragility and power relations can offer important insights in the local governance dynamics especially in terms of informal economy-local government interactions.

policy on border restrictions, which resulted in the loss of the 'valuable customers'. These lobbying efforts resulted in some relaxation of visa restrictions for the traders of the Bazaar in Razgow municipality in the region bordering Russia. Conceptualizing political agency of street-hokkers and street-venders in Ghana, Gillespi (2016) contends that the political agency of 'informal proletariat' has adopted a salient position in the electoral battle ground of Accra. They occupy urban space to reproduce themselves despite their exclusion from formal wage and property rights. Their political agency has accorded them a significant position between political actors, local and state authorities. Within this context, the organizations of venders have been empowered to seek engagement and dialogue with state authorities. This dynamic interaction between marketplaces, local political traders and government officials have in some places acquired significance for national politics where the decisions of city authorities are reshaped by an alliance between marketplace associations and national political actors (Goodfellow and Titeca, 2012).

Thus far, political embeddedness of Bazaars or the marketplaces is well-established, and they exert considerable influence (negative or positive) over local state authorities (Erami & Keshavarzian, 2015). However, the dynamics of the marketplace-local government interactions vary widely depending on the governance structure where these markets operate, and their status in that structure (David, 2002; Monteith, 2016; Huelmeyer, 2013). One of the determinants of their cooperative or conflictual interaction is their legal status within the governance structure (see section 2 of this paper). Their role in the local institutional framework determines not only their legality-illegality-semi-illegality, but also the incentive structure of the various actors in the economic, political and bureaucratic fields (Bourdieu & Wacquant, 1992: chapter 4; Bourdieu & Wacquant, 1994). The specifications of this incentive structure offer an understanding of the structuring effects of the institutional environment on the actions of the agents operating across various spheres of governance. thus, contextualizing marketplace actors and their actions within their respective institutional environments offers an adequate explanation of why these actors resort to informal instead of formal governance institutions (Polese et al., 2016; Amoko & Lyon, 2013; Lyon, 2007).

A recent stream of literature on electoral politics looks into electoral dynamics that shape the incentives of political actors to forgo enforcement against the poor street-venders (Holand, 2015). Holand (2015) challenges the conventional wisdom of institutional capacity and limited state resources. However, Holand's (2015) argument is admittedly restricted to politically decentralized systems and poor electoral districts. This article argues that electoral incentives are an important determinant, but not the only one, especially in countries like Pakistan, where political decentralization has been frequently role-backed (Cheema et al., 2014; Myerson, 2014; Shami & Faguett, 2015). Yet, marketplaces and their economy have implications for a political structure (Ahmed, 1980). It is mainly because the agents in the marketplaces have political agency that operate within these 'deep' governance structures. From Holand's account, an important conclusion can be derived that instead of state weakness, the political agency of marketplace actors, especially that of the poor is a significant explanation of the power of the poor to influence the formal governance structure. State weakness is still, and will continue to be an important variable in explaining how informal marketplaces influence the state at the local level? And why local political actors, despite not having electoral incentives facilitate marketplace actors against local administration?

To summarize:

- Governance structures play an important role in shaping the interaction between informal marketplaces and local, state authorities (Monteith, 2015:58).
- In those places where elected local governments are installed, electoral politics considerably increase their capacity to influence local government officials with whom these marketplaces most frequently interact.
- The empirical examination of this interaction is limited to the local governance, because this is the most relevant level of analysis and local government offices are the most direct level where informal markets, and their institutions interact with state (Grocceman, 2016).

Method

The empirical findings of this article draw on a larger project on the role of social capital generated by Batkhela bazaar and its implications for local governance of the region. to narrow down the focus of the

research, an exploratory survey was conducted in August-September, 2015. The marketplace was purposively selected given its legal status in relation to informality,, availability of research on its social and related political history (Jan, 2010; 2014), and its distinct history and political dynamics compared to other traders associations of bazaars in surrounding regions.

Before our exploratory survey in the batkhela bazaar, six marketplaces in various parts of the Khybar Pukhtunkhwa province (Pakistan) were explored through a short survey with their traders associations. These markets include: Qissakhani Bazaar (Peshawar; Khudadad Bazaar (Peshawar); Bazaar in main Mardan (district Mardan); Chakdara bazaar (district lower dir); Barikot bazaar (District Swat); and Thana bazaar (district Malakand) (Data available on request). The first three bazaars are situated in the settled districts of Khybar Pukhtunkhwa province of Pakistan while the latter three bazaars are located in Provincially Administered tribal areas (PATA). this geographic-administrative distinction implies that the former interact with the local municipal authorities in relation to tax-regulation enforcement, while the latter set of bazaars do not because they are situated in the tax-free zoan of the province. Thus, the foundation of our argument is grounded in the empirical context that formal governance structure defines the interactional dynamics of informal traders and their associations with local state authorities. In addition, within the latter 4 bazaars (Batkhela included) located in the 'tax-free' region, Batkhela bazaar was selected because of (1) over five decade history of its traders association; (2) evolution of the traders association with changes in the governance structure; (3) increased political significance of the bazaar and its traders association for local state authorities and local political actors unlike the other three bazaars.

The major ethnographic intervention was conducted in April-September, 2016. 80 semi-structured qualitative interviews were conducted with Business owners, government officials, and local political leaders. The sample size of the business owners (60) was further divided into members of the traders association, business owners involved in its last 2 elections, and business owners in the bazaar who are its members.¹⁰ 10 government officials in local administration were also interviewed that were equally divided in bureaucrats, and lower level officials. 10 local political actors were also interviewed who were either members of local government or had remained members of local government in Batkhela. For evolutionary historical account, this paper relies on the accounts of Jan, 2010; Jan, 2014. However, the interactional dynamics with local government are entirely missing in his accounts. For this reason, historical narratives of the traders in the market, and local political actors are the main source for these findings. The data were analysed using computer spreadsheets for thematic analysis (Brawn & Clarke, 2006; Hahn, 2008).

Empirical findings

The empirical findings of this research are presented in three sub-sections. First, the notion of the legalized informal economy is operationalized in the empirical context. Second, it demonstrates how informal governance of Batkhela bazaar has evolved with the changes in the formal governance structure. And finally, how local power dynamics shape interactions between marketplace actors, local political actors and local state authorities

Empirical settings: how informal becomes legal?

Batkhela Bazaar is situated in the Malakand District in Khybar Pakhtunkhwa province of Pakistan. It is the largest Bazaar in the district, and one of the largest in the region. It is located, strategically on the Peshawar-Mardan -chitral road (Jan, 2014). There are no exact figures on the number of businesses in the Bazaar. However, anecdotal and visual evidence suggests that the bazaar has evolved from a cluster of 15-20 shops in 1958 to 5500 fixed shops at present. Another peculiarity of this bazaar is that during 1950s, it was located outside the compound of village Batkhela, which has now evolved into an urban town (at least in official usage) that is situated at the centre of Batkhela. According to the old records of Traders association (2010), 200 street venders

¹⁰ This sampling frame is based on the principle of respondent expertise (Pawson and Tilley, 1997) which is tailored to the purpose of the present study. for the sample of the larger study of which the present paper is an outcome, see Khan, MS. 2018. Local governance, Marketplace and Social capital: the role of Batkhela Bazaar in the Evolving governance of District Malakand, Pakistan. Unpublish Doctoral thesis, Centre for Enterprise and Economic Development Research, Middlesex University.

(vegetable and fruit sellers) are also operating in the bazaar. In addition, the records of the Rikshau union suggest that there are 1500 rickshaws that mainly operate in the 3.5KM long bazaar. Besides that, there are also 180 carts-pushers in the bazaar delivering goods between the shops. In our sample of exploratory phase (n=200) 56 percent of the business owners employ others in their businesses with the minimum of 1, and maximum of 28 (which is rare). The daily average sale of business owners ranges from the minimum of 500 PKRs to the maximum of 1 million PKRs with the mean income of 100000pkrs.¹¹ In sum, Batkhela bazaar is a significant employment generation Machine in the district, and generator of livelihood for around 10000 families. In this article, the unit of analysis is the traders association of fixed shops in the bazaar N=5500.

Pakistan is a federation, comprising 5 provinces, capital territory, and federally administered areas of Pakistan (FATA). In terms of formal governance structure, the districts can broadly be divided into three categories: settled areas, provincially administered tribal areas (PATA), and Federally administered tribal areas (FATA) (Pakistan country report, 2015:2-3). the distinction between formal and informal economic activities in terms of applying legality/illegality criteria for its compliance or non-compliance with tax enforcement regulations is relatively simple in the settled districts of Pakistan. However, entering the jurisdiction of PATA or FATA, what is illegal or informal in the settled districts turns in to legal. For instance, tax on business activities, withholding tax on banking transactions, or even driving non-tax paid vehicles are governed by a distinct set of regulations. For these reasons the informal economy of Malakand district was conceptualized as legalized informality. Two simple empirical realities are suffice to make this point. Hundreds of thousands non-custom paid vehicles that are smuggled from Afghanistan are legal and legitimate in the region comprising FATA and PATA.¹² However, as soon as they enter into the settled areas, they become illegal and government has the right to confiscate them. Similarly, PATA, where Batkhela bazaar is situated, is exempted from tax under article 247 (3) of the constitution. Any business activity, including manufacturing is exempted from income tax provided that income is earned through sales to the parties within tax-exempted region. As soon the trading extends to the 'taxable areas', the income is liable to tax.¹³ Bazaars or small businesses operating within the region are exempted from taxes regardless of their size or income. All the transactions are conducted off-the-books, and there is no record of the size and volume of these economic activities. According to our survey, 58 percent of the traders have their bank accounts that are used for distant transactions (Khan, 2015). Local governments are irrelevant to the informal economy in terms of enforcement related to taxation. These Marketplaces, and Batkhela Bazaar in particular, regularly interacts with local administration on the matters related to Marketplace governance. Most frequent causes of interaction of traders with local administration are the governance of price, health and quality standards, encroachment of land, and loading-unloading of goods during restricted hours.

The Traders Association of Batkhela bazaarhelps the business owners, mainly small business owners, in these interactions with administration for acquiring concessions related to penalties for health and price imposed by relevant administrative offices (Khan, forthcoming). In addition, it offers an important channel of communication to the administration with around 5500 large and small traders in the market. It also testifies the existence of a business in the Batkhela bazaar for the administration. More importantly, the size of bazaar accords it a status as a significant stakeholder in the local governance where it exerts influence over local administration. This influence, because of marketplace embeddedness in the local political structure has increased considerably. In the following section, I present empirical findings from the case-study of the batkhela bazaar showing how the emergence of its traders association was shaped by the formal governance structure, and how it evolved to acquire an important position in the local governance structure?

¹¹The income related responses imply net income, after calculating the costs, e.g., rent of the shop, employee's pay (if any), and daily expenses of the shop.

¹² The data collected from the police stations reveals that until July 2015, 44,794 NCP vehicles in Swat, 9,832 in Buner, 5,406 in Shangla, 39,363 in Lower Dir, 14,425 in Upper Dir and 4,215 in Chitral are registered with the police stations. "The vehicles which are parked in the showrooms for sale and those which are not registered with police stations are not in count. We can easily estimate the total number as 150,000 to 200,000 in the entire Malakand division," Deputy Inspector General of Police, Malakand division, Azad Khan told Dawn. See: Ali, Z, & Khaliq, F. 2016. 'Vested Interest' prevent enforcement of custom act in FATA, PATA. Dawn, April 8. Available at: www.dawn.com/news/1250724

¹³ For an interesting example see this case between a cooking oil manufacturer in Malakand and Provincial revenue department. www.fto.gov.pk/decisiondoc/1159-11-C.doc

Political embeddedness of Batkhela bazaar: formal governance structure as an exogenous variable in its development

This section explores how the organization of Batkhela bazaar, despite its legalized informality is influenced by changes in formal governance structure? Since its inception, the political embeddedness of the marketplace has been shaped by the social inequalities exploited by local formal governance structure. Anthropological literature suggests that the economy of the Malakand region was predominantly agrarian (Barth, 1959; Lindholm, 1982), and wealth (landowning was a major determinant of access to state institutions and political participation. Landless class was denied citizenship rights, and especially in the context of batkhela bazaar their hopes rested in the economic opportunities offered by the development of the marketplace (Jan, 2010:93). The marketplace observed a significant development during 1960-80s and during this time, Its bazaar Union was developed to challenge the existing political exclusion of landless class including the traders community.

The major mode of interaction with the local state authority was Jirga (an informal institution recognized by state authorities), the traders association was formed on the similar pattern. With the transformation of formal governance structure, the introduction of universal suffrage, and equal citizenship and property rights, the structure of the traders association also evolved. In 1982, the first election to the traders association were conducted, because of the increased interest of political parties in the Bazaar Union.

Since its inception, the underlying aims of the bazaar union were resolution of disputes of the business owners with their landlords, representing business owners in their interaction with local state authorities, and articulating collective interests of business owners in the bazaar. Two contiguous processes, namely institutional changes in the local governance structure, and economic change have significantly influenced the structure and role of the traders association. With the introduction of political party system and the court system, traders reliance on the Union as their only means of interest articulation was considerably reduced. Second, changes in the socioeconomic standing of a large number of traders in the bazaar resulted in their less reliance on the Bazaar United, while more on their individual ties that could better protect their interests. Consequently, after its last effort in organizing protest against government to install digital phone lines in the district, it remained almost dormant between 1993-2009. Elections of Bazaar Union were suspended for 18 years. During this period, the union was symbolically represented by the president only, without any considerable influence over local state authority. As the president of the bazaar Union (2009-2013) states, "In those 18 years the interactions with the administration were limited, we [bazaar union] were not considered anything in any issue by government. Government was not taking it seriously because the government would argue that he is a self-proclaimed president for the last 18 years. Hence, government was not communicating with the Bazaar Union" (Faqr Khan, May1, 2016).¹⁴

In 2009, once again, events in the broader governance structure offered an opportunity to traders in the bazaar and local political actors to collaborate in the re-organization of the Bazaar Union. The militant crises of 2008-9) and the subsequent military operation has necessitated the question of an effective communication channel for interaction between local administration, military, and traders as a collective entity. Local political actors also sensed it as an opportunity to have their share in the bazaar union, and thus began to throw their weight behind two opposing groups in the bazaar. One side was in favour of the re-organization, while another group, limited in number was in favour of the status co. However, re-organization was in the interest of those political actors who wanted their representation in the Bazaar Union. Thus, political parties lined up behind one group or another for backing their candidates in the elections of 2009. This political involvement was continued with the election of 2013, at the time of writing, political actors were designing their strategies for the upcoming elections in 2016.

Contrary to the dominant argument in the literature (Holand, 2015; Rover, 2016), the incentive structure that shapes cooperation between political actors and traders association is not shaped by electoral

¹⁴ For the purpose of anonymity, pseudonyms are used.

politics. Instead, it was shaped by the local governance structure where the traders association wanted the support of the local political actors to influence local administration, in return for the support of the bazaar union's involvement in their political rallies to pressurize local administration. In the context of Malakand region, the local administration or state bureaucracy enjoys ultimate powers and coercive authority, however state capacity is limited, and local administration rely on cooperation of community leaders, e.g., members of the traders association and local political actors. As a bureaucrat level official in the local administration states, "I have been given executive and judicial authority by the provincial government. However, an administrator cannot govern the district alone relying only on the powers conferred by the state. There are 20 types of problems, and in their resolution I have to take these community leaders on board. For instance, if an issue emerges, and people come out on the roads, it can create law an order problem, in the event of such crisis, these leaders are very helpful because they are closer to the people, and they can easily control them. For this reason, we try to develop our resources among them, then it can be in the form of providing them some concessions in the form of penalty on the business owners or anything else... this is the beauty of democracy, and this is how an administrator can effectively govern the district" (Shabeer Khan, September13, 2016).

Thus, in the interactional dynamics of the Marketplace-local government interactions, politicians play the role of an intermediary. Yet, cooperation among agents from any two fields (marketplace or local political actors) is based on their shared interests. Both marketplace association and local political actors present different types of powers, which generate interdependencies for achieving shared interests. Members of the traders association require political support in their interactions with the administration and also for their support in the Bazaar Union's elections. On the other hand, political actors require support of the bazaar union in order to demonstrate their street power for bringing down local bureaucrats to accept their demands. An ex minister of provincial assembly states, "Bazaar is a large community, and the traders association as its representative has problems with bureaucracy. For that reason, the union is in close contact with me. I also try to have a good working relation with them". At another occasion he states: "it is reciprocal, because it is also a faction of our society. Then, if I have rallies, or processions, or if I call for the roadblock, or shut-down, for that I need their support! I need them, if I want to force my point on government" (Saleem Khan, July2, 2016).

This snapshot of the historical account of the development of Bazaar Union in Batkhela suggests that governance structure have considerable impact on the ways market institutions are developed and how changes in the formal governance structure coincide with socioeconomic development to shape the traders association and its role in local government in the region. Despite the absence of tax regulation and enforcement of those regulations, marketplace governance is a significant concern for local government officials. The marketplace is not only embedded in the formal governance structure despite its legalized informal economy, it is also a significant player in the power-play in the realm of informal governance. In addition, regardless of the incentives that electoral politics generates for political actors to cooperate with traders association in their interactions with local, state authorities, Bazaar Union because of its representative character of a large number of traders in the bazaar has emerged as a field of power in the local governance arena.

Relevance of governing informal economic activities and their implications for formal governance structure

Besides these broader governance dynamics, governing the business activities in the bazaar is also a fundamental concern of the local administration. Key among those concerns are the governance of price, health, and quality standards of the food commodities, medicines, and confectionery goods. Two laws, pure food act (1960), and health and quality standard act to regulate these activities in the bazaar (Khan, 1999:65-66). These regulations are rigorously enforced by the local authorities. However, as one of the key administrators in the district states, "we impose penalties under these two acts according to the nature of the offence, but there is no standard operating procedure for conducting these enforcement operations". "I may go out daily, then give it a gap of two days, then for the next two days I conduct visits to the bazaar on two consecutive days and so on. Similarly, I may go early in the morning, after the sunset, or in the middle of the day while I am coming back from any official visit". "And I think that a standard operating procedure is not required for such operations, because if the business owners are certain about our visits, they will behave properly during those hours, and thus the purpose of those operations will not be served" (Ali Khan, 2016).

Arguments between business owners and local authorities are a routine matter, where business owners complain about the ineffectiveness of these regulations. Small business owners hold that they are discriminated against the large business owners, where the narrative of the bazaar, regardless of small and large business, is that the state should control the quality standards in the manufacturing units before they are transported to the bazaar. However, the traders association plays an important role in this connection, with the help of local political actors that are conceptually as intermediaries in the marketplace-local government interaction. During the month of Ramadan in 2016, a large number of business owners, including grocery sellers, butchers, and vegetable sellers were identified violating these regulations.¹⁵ The magistrate imposed a penalty of RS 6000 for violations of various kind on each business owner, that was later on reduced to RS 1000. Among those who were penalized, one of the vegetable seller states, “there were 18 other people with me, and the choice was either to pay Rs 6000 or go to jail for five days, but the president of the bazaar union, along with a local mayor negotiated that penalty and finally we paid rs1000” (Sajjad, Interview, July5, 2016). Such cases of collective punishment are significant for these local political actors, as one of the newly elected mayor states, “everyone tries his best to help the bazaar union in these matters to demonstrate his capability over his competitors” (Faheem Khan Interview, July11, 2016). The mayor who negotiated the penalty for those business owners in Ramadan justifies his act by saying, “We know that these violations are facilitated by us, but unfortunately we are also aware that if we don’t help them, our opponents will do that happily and thus we will lose the support of the bazaar” (Shahid, September15, 2016).

43 cases of violations were recorded, out of which 29 were penalties enforced and negotiated by individual business owners employing their social capital, whereas 14 cases of collective nature were negotiated by bazaar Union with the help of local political actors. Analysis of these cases revealed that the reach of formal governance mechanisms to regulate business activities in the bazaar has been improved over the past few decades. But political interference for facilitating business owners has also substantially increased that contribute to the ineffective governance of those issues that are fundamental to the governance of informal economic activities in the bazaar. Two comparative examples from the past and present will demonstrate this point. A prominent grocery wholesaler who has been many times identified by food officials for selling expired item states “in the past, they could not visit our shop, I remember when a food inspector imposed a penalty against my father, he insulted him, and said “next time, if you collect a sample for my shop without permission, I will lock you in this god down until you are dead and your body starts stinking”” (Shairzada, September15, 2016). Such resistance from business owners is not possible at present, however, political involvement in the bazaar prevents improvement in regulating economic activities in the bazaar. As one of the food inspectors describes his recent visit to the bazaar, “I imposed a penalty against one of the prominent bakery owners in the district, at my return to the office, that bakery owner along with the district mayor was waiting for me. I was given a choice, either to withdraw the penalty, or pay it from my own pocket, when I refused, most of the staff in the office stopped talking to me” (Mustafa Interview, September9, 2016).

Despite the absence of tax-regulation as a linkage between traders and local, state authorities, economic activities in the bazaar are a fundamental subject of local governance. Not only for the problems arising from the ineffective governing of these activities, or their broader impacts on the population who are consuming goods sold in the bazaar, but also in the way they are embedded in the power dynamics of economic, political, and bureaucratic field.

Conclusion

Marketplaces, even in their most informal sense are closely related to formal governance structure. Practices of governance in the informal marketplaces are shaped by local governance structure, which in turns have structuring effects on formal governance mechanisms. This paper has demonstrated this argument by examining the marketplace-local governments interface in the context of a legalized informal economy of Batkhela bazaar, Pakistan. Informal economic activities in the region are the outcome of special provisions that

¹⁵ Ramadan is a holy month of fasting for muslims. It is significant in the context of governance in that the administration actively enforce regulation during this month compared to any other month of the year.

designate the area a tax-free region. Despite the absence of taxation as an explanatory variable for marketplace-local government interface, marketplace governance is embedded in the local power dynamics that shape local governance practices in the region. This brings us to our first conclusion that the informality of the marketplaces, and their governance practices are shaped by the formal governance structure.

These governance practices are best explained by understanding the 'deep' governance structures' that constitute the overall institutional environment. Incentives of local political actors, to support marketplace actors, or their traders associations are not necessarily shaped by electoral politics, but power relations where traders association and local political actors compliment each other's strength vis-à-vis this local state authorities. Their role as intermediaries between bazaar union and local administration accords them an opportunity to help traders escape penalties for the violation of regulations. This instructional scenario in the context of Batkhela bazaar prevents improvement in the governance of economic activities. Application of Bourdieusian notion of fields as a nexus of power and habitus is illuminating to explain the incentive structure if taxation and electoral incentives are irrelevant to the empirical realities of governing informal marketplaces. In addition, it also explains power relations and interdependencies among actors across economic, political, and bureaucratic spheres of governance.

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Table: interviews quoted in this article

Interviewee's Name	Date of the interview	Occupation of the interviewee
Ali Khan	August27	District food controller
Faqir Khan	May1, 2016	President of the traders association
Faheem Khan	July11, 2016	UC mayor in the current local governments
Shahid	September15, 2016	UC mayor in the current local governments
Shairzada	September15, 2016	Prominent grocery wholeseller
Shajjad	May5, 2016	Vegitable retailer
Saleem Khan	July2, 2016	Ex provincial minister
Shabeer Khan	September13, 2016	Bureaucrat (exact designation concealed for anonymity)