



The Black Market as a Gray Zone

The **Max Planck Institute for the Study of Societies** (MPIfG) has been looking at the issue of “illegal markets” since 2012, and it has proven far from easy to draw any clear lines of demarcation. After all, the cycle of manufacture, distribution and consumption isn’t always as uniformly criminal as in the case of drugs or child pornography. Academic staff and doctoral students headed by Director **Jens Beckert** are researching counterfeiting in Argentina, the mining and trade in diamonds in Sierra Leone, the trade in rhinoceros horn and financial market crime – a look at an innovative project in economic sociology.

“The interfaces are fluid”

No trading in the marketplace is exclusively illegal; never is it entirely separated from the legal economy. Jens Beckert, Director at the Max Planck Institute for the Study of Societies, finds the interfaces between economies particularly interesting.

Why are you at the MPIfG concerned with illegal markets?

Jens Beckert: In my area of research, we are concerned primarily with the sociology of markets. Up to now we have worked on the tacit assumption that trading in the market takes place largely within the framework of the law. But in this new research field, we want to test the extent to which previous methods and approaches can be extended to study illegal markets.

What new findings are you hoping for?

To begin with, illegal markets are interesting because they are of substantial economic and social importance. Studying them also indirectly gives us insight into the conditions that allow legal markets to flourish. For example, the consequences are clear to see when certain supporting structures, such as the protection usually afforded to property rights, cease to apply. The participants in illegal markets must cooperate with one another without recourse to the legal protection granted by the state. This has an enormous impact on the way these markets are organized.

What are the consequences?

The relationships between those who do business in illegal markets are almost entirely restricted to personal networks within which it is possible to develop close bonds of trust, but where misdemeanors can also be rapidly punished. This, in turn, has consequences for the organizational form: businesses are unable to expand as widely as in the legal economy. You might say that illegal markets never mature.

What issues are you researching?

We are interested in how cooperation between market participants functions in the absence of the protection afforded by law. How is competition organized? How can buyers of illegal goods recognize the

value of a product? Whether we're talking about counterfeit branded products or drugs, there's no advertising to promote illegal goods, no seal of quality or unbiased consumer tests. For example, even among imitation brand-name clothing items, the quality varies – and the know-how needed to tell the difference is widespread. This is something we discovered when researching online forums. Interestingly, however, we've noticed that many consumers who specifically buy counterfeit goods still never quite escape the feeling of having bought a fake. Even if they successfully deceive the world around them. Because in their hearts, these consumers are brand fans. This phenomenon might also explain why industry is often halfhearted in tackling brand piracy: because, to some extent, the trade in imitations helps bolster the brand value.

Will your research results also be of relevance to the advice you give to politicians?

Our interest is primarily systematic. So when we began the project, we also carried out an extensive study in which we attempted to differentiate between the various forms of illegal markets. Nevertheless, the results of individual research projects also have direct practical relevance. For example, when our scientists were investigating the trade in rhinoceros horn in southern Africa, they discovered that the poachers who supply the horns regard conservation as a continuation of colonial disenfranchisement. This is something that will have to be taken into account when action is taken to protect the rhinos.

Isn't it very difficult for scientists to gain access to information about illegal markets?

To be honest, I was surprised at how easy it ultimately proved to be to come by such information. For instance, our scientists were able to interview prisoners, and court files and police records are also a great help in researching illegal markets.



Jens Beckert

In other cases, investigative journalism proved to be an informative source. All of our researchers have been in the field where they had direct contact with market participants, most of whom were willing to talk to us. Fortunately, none of our scientists ever found themselves in a really dangerous situation.

What other surprises have you experienced so far?

It was a genuine surprise to discover how close the links often are between legal and illegal market segments – especially in areas in which the unlawful practices of the market participants aren't instantly categorized as morally reprehensible. The fluid nature of the interface between legality and illegality is also evident in a field in which we have just begun a new project: financial market crime. In this field, illegal acts take place within the context of entirely legal organizational and market structures. It has become clear to us that the interconnection between legal structures and illegal acts is one of the most interesting research topics in our investigation of illegal markets.

Interview: Ralf Grötter



Astonishing Collaboration

Nina Engwicht/Transcript: Ralf Grötter

During the years in which the civil war raged, rebels terrorized the civilian population of Sierra Leone in their search for “blood diamonds,” which in turn were traded for weapons from Liberia. After the war ended, the diamond sector underwent a thorough reform, both within the country and at the international level. The goal: to bring the entire value chain and trading process under state control. This has been only partially successful, as doctoral student Nina Engwicht discovered.

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During the years of civil war in Sierra Leone between 1991 and 2002, diamonds mined without a permit and traded in defiance of licensing and customs regulations played an important role both as an illegal currency and as a means of money laundering. Both uses are commonly considered to support criminality and terrorist structures, and

are thus thought to pose a risk to the stability of post-war society. In my study, I take a look at the illegal diamond market in the Sierra-Leonean post-war society. I am interested in how this market functions under the different contextual conditions in present-day Sierra Leone, how widespread illegal diamond production and trading still are today, and how the illegal diamond market stands in relation to the legal market and the state.

Between the end of 2012 and June 2013, I spent six months in the country conducting interviews and participant observation. What impressed me most was the absence of violence and the high degree of social integration, and how closely the legal and illegal diamond markets are linked. Among other things, I visited the major marketplaces in which diamonds are illegally traded. They are well organized, with each market having a “chairman.” In fact, in addition to the chairman, one of the markets I studied also had a council of elders, a secretary and deputy secretary, a treasurer, auditor, PR officer and other posts. Anyone wishing to become a trader in one of these markets first has to register.

Everything that happens in the marketplace is dominated by participants who collaborate astonishingly well, working together without friction.

Under the scorching sun, searching for the one big stone that could change their lives: Diamond miners in the Kono region of eastern Sierra Leone.



Photo: Astrid Dünkelmann for the MPI for the Study of Societies (top), Nina Engwicht (bottom)

The merchants not only sell to dealers higher up in the value chain, but they also trade among themselves. In this way, many dealers profit from the sale of the same diamond. When conflicts do arise, they are resolved through the mediation of the chairman. There is also a kind of social fund to which all of the traders contribute, and from which benefits are paid to members faced with a wedding, a death in the family or a child's naming ceremony. After the civil war, the government initially launched numerous raids on illegal markets, and some of the illegal merchants were arrested. The traders then turned to the chairman of the legal diamond merchants, who put pressure on the authorities to end the raids.

The high degree of collaboration among the market participants has to do with the nature of the good and social structure of the market. Most of the diamonds mined in non-industrial mining operations in the country are what are termed *melee goods*: stones of the smallest category. When a stone of this kind changes hands, no individual receipt is issued, making it easy to circumvent the rules that apply. In addition, many traders have licenses of their own to mine diamonds. They are then able to buy stones from illegal diggers and then sell them as their own legal goods, and even legally export them. From the point of view of the state, however, this is still better than if the diamonds were to be smuggled.

Apart from these considerations, there is no state welfare system in Sierra Leone. The illegal market sectors provide work for many young men who would otherwise constitute a potential source of unrest. For this reason, from the authorities' perspective, these effectively interwoven trading relationships are a good reason to tolerate a certain degree of illegality. Of course, the illegal diamond trade is also attractive to criminal organizations. But the consequences of its existence aren't as serious as they were during wartime. What's more, criminal organizations have plenty of different sources from which to finance themselves, and aren't dependent on the illegal diamond trade. ◀



A Status Symbol to Die For

Annette Hübschle/Transcript: Ralf Grötter

Three rhinoceroses are killed in South Africa each day, their horns chopped off and sold illegally on international markets. Kruger National Park and other public and private game reserves have become battlefields where state security forces and game wardens fight for the rhinos' survival. Despite their efforts, conservative estimates give rhinos another seven years before they go extinct in the wild. The number of animals killed by poachers has risen in the space of two years from 668 (2012) to 1,215 (2014). Doctoral researcher Annette Hübschle is investigating why efforts to protect the rhinoceros aren't succeeding.

My local roots – I grew up in Namibia – and professional networks that I groomed over a decade while working as a researcher on organized crime issues for a South African research institute proved extremely valuable for the purposes of data collection. During twelve months of fieldwork in southern Africa and Southeast Asia, I conducted more than 420 ethnographic interviews and focus groups. Among those interviewed

were poachers and their bosses – so-called kingpins, most of whom come from Mozambique – convicted rhino poachers in South African jails, rogue wildlife professionals, rhino farmers, prosecutors and game wardens, community members living in Mozambican villages bordering Kruger National Park, representatives of conservation NGOs, and activists, traders, smugglers and Asian consumers. The large sample size and the use of other qualitative data such as police charge sheets and

court files enabled data triangulation and verification. This is particularly important when studying illegal markets.

My goal was to understand and record the market in its entirety, from the “production” of horn – poaching, hunting or theft – to the international trade and consumption of rhinoceros horn. In light of the obstacles presented by the illegal and transnational nature of the market, the question arises as to how the various market participants achieve social order and how they re-



The biggest catch in EU history: Police officers take control of rhinoceros horns destined for the Asian market that were seized by Czech customs in the summer of 2013. The goods were worth around USD 5 million on the black market. The police also arrested 16 members of an international gang suspected of trading in these illegal trophies.

solve the coordination problems of cooperation, competition and valuation.

One principal finding is that important actors along the value chain simply don't accept the ban on the trade of rhino horn. I call this mechanism "contested illegality", and it serves as a strategy to legitimize illegal economic activities. It starts with the poachers who are individuals that have lost their ancestral lands and the associated hunting rights as a result either of colonial expropriation or of the establishment of protected areas and transfrontier conservation parks. Unsurprisingly, they don't accept the land tenure system or the trade ban imposed by the Washington Convention on the International Trade in Endangered Species (CITES) of 1973, which came into force under the old apartheid regime.

However, some poachers are merely the foot soldiers for professional big game hunters and farmers, most of them white Afrikaners, who have their own personal networks and sell rhino horn as far away as Asia. Many of them own game reserves or farms, while oth-

ers are vets or helicopter pilots. These actors claim the moral high ground and believe that the trade ban lacks legitimacy and relevance to the African case. They share the belief that the rhinoceros can be effectively protected only if private rhino owners are provided with economic incentives to breed rhinos, such as trophy hunting and the sale of rhino horn. According to this narrative, both the private sector and the state would obtain the necessary funding for environmental protection and conservation through legalization of the trade. However, this approach hasn't shown the desired effects – the domestic trade in rhino horn was permitted in South Africa until 2009 – and this led to an interface between legal and illegal economic activities – a gray channel of sorts. The prominent involvement of state officials in corrupt activities shouldn't be discounted, either, with such corrupt activities ranging from CITES permit fraud to active participation of police officers and game wardens in poaching groups.

Among end consumers, the illegal nature of the trade would appear to be of little or no concern. Rhinoceros horn is one of the most expensive commodities in the world, with a kilogram costing more than EUR 50,000. The horn was frequently used in powder form as a medicine in traditional Asian pharmacopoeia, but it is also popular as a status symbol, a gift to consolidate business relationships, or an investment commodity. In fact, anyone who buys horn as an investment tool is counting on the extinction of the wild animal.

Many of the political measures taken to date have, in my view, served only to make the problem worse. The securitization of the fight against rhino poaching and the permission for game wardens to resort to the use of firearms (should there be an immediate threat to their lives) has led to the deaths of around fifty rhino poachers in the past year in Kruger National Park alone. These deaths have further alienated communities living next to parks, as they perceive the lives of wild animals

to be valued more highly than those of their fallen community members.

Social injustice and the colonial legacy further encourage the locals to turn to poaching, which at least offers the opportunity for social mobility, a chance at socio-economic upliftment. Some poachers have started to form

their own poaching groups and sell the horns themselves to intermediaries or Asian buyers. For villagers living next to Kruger National Park, there are few other avenues for income generation. As the park continues to expand to include conservation areas in neighboring Mozambique and Zimbabwe, more

villagers have been resettled from their ancestral grounds in recent months. I think the time has come to consider the use of social impact bonds – structural aid and direct investment in land rights, schools and hospitals as a reward for village communities that support the fight against poaching. ◀



A Big Chance

Matías Dewey/Transcript: Ralf Grötter

In recent years, La Salada, on the outskirts of Buenos Aires, has developed into an important marketplace for inexpensive clothing in Argentina. There are more than 7,800 stalls manned by traders selling T-shirts, jeans, jackets, shoes, underwear and children's clothes. A large portion of the "brand-name" goods are counterfeit. Many of the stallholders also own sweatshops where the garments are designed and the materials purchased and tailored. Matías Dewey, a senior researcher at the Max Planck Institute for the Study of Societies, has discovered why the people here are facing the future with confidence.

My brother works as a sociologist with an NGO that provides conflict resolution seminars for young women in Argentina. As an additional incentive to take part in the seminars, the NGO also offers hockey courses. Because I myself once used to be a professional hockey player, I was involved as a hockey teacher. It struck me at the time that the parents of many of these young women worked in La Salada. That's how I made my first contacts for my field research.

There are various aspects of illegality that come together in La Salada. A large proportion of the garments sold

Every well-known brand of sports shoes to choose from – all fakes. Photographer Sarah Pabst accompanied the fieldwork with her camera and soon discovered: La Salada is a world apart.





The sun low in the sky gives a false impression of idyllic charm. In fact, the area surrounding La Salada is littered with garbage, and the adjacent Riachuelo River is heavily polluted. On market days, the local buses avoid the teeming district.

here are counterfeit copies of brand-name goods. Also, the settlement itself is comprised of buildings erected without permits. And lastly, a large part of the work done in La Salada is illegal, as the workshops pay no taxes, the occupational health and safety rules are ignored, and none of the workers are employed on official terms and conditions. Most of the workers in the sweatshops have an immigrant background.

What fascinates me most is the optimism of the people who work in La Salada. The majority of them are aware that what they are doing isn't entirely legal. But no one here aspires to become a mafia boss or make big money through serious crime. They themselves define their activities above all as work – physical work that often involves the use of learned skills. Work also means an income and a daily routine. Many of the vendors have previously worked as

street traders, always in informal and extremely short-term employment. For them, La Salada is their first real job. Suddenly, they see a future before them: they can afford a television and maybe a car, even pay for Internet access. One man who I got to know there had previously sold drinks. Now he pushes a cart in La Salada. In the last eight years he has changed cars five times.

Even though the peacekeeping powers of the state are completely absent in La Salada, outbreaks of violence are surprisingly rare. Maybe that's simply attributable to the fact that what we're dealing with here isn't serious organized crime. The people are, for the most part, "law-abiding" – if one may use that term. That is, the traders in La Salada pay taxes. Not in the usual sense – they pay to ensure that the law isn't enforced, enabling them to do business undisturbed. Some of this

money actually ends up in the state coffers illegally. And it's rare for anyone to not comply with their informal payment obligations. Paradoxically, this is also due to the fact that there are no rules: people simply don't know what consequences they might face if they refused to pay.

Even though La Salada is illegal, the market presents a win-win situation for all concerned. The traders have their livelihood, and their customers in the lower and middle income groups can buy the clothing they need in La Salada – they don't have the money to pay the high prices that legal products are sold for in Argentina. From the politicians' point of view, cheap clothing and job creation are a welcome alternative to welfare benefits. This dynamic strengthens not only relations in the marketplace, but also client networks and existing power structures. ◀