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Who Defines the Illegal? The Governance of Illegal Markets in Contested Territories: A Systematic Review

Nargiz Hajiyeva, Mahmud Nuriyev

Abstract

Illegal markets encompass a wide range of business activities carried out outside or against legal and regulatory institutions, including smuggling, resource extraction, counterfeiting, and trafficking in drugs, arms, and human beings. This paper attempts to provide a literature review of governance, normalization, and persistence of illegal markets in contested territories based on the recently produced scholarly literature. To achieve the stated purpose, a structured review of 75 scholarly articles retrieved from the Web of Science is undertaken, focusing on contested territories such as Transnistria, South Ossetia, Abkhazia, Donbas, and selected territories in the Horn and Great Lakes of Africa. Based on the structured literature review, it has been revealed how hybrid governance systems – which consist of de facto authorities, local elites, organized crime groups, and state accomplices – contribute towards legitimizing illegal markets in these territories. Not only have illegal market activities been tolerated by the local communities, but they become an integral part of local economies and survival techniques in the form of social adaptation, with their links to transnational illegal networks further reinforcing contested territories within global illegal market dynamics.

Keywords: Illegal markets, contested territories, hybrid governance, normalization of illegality, transnational crime

Introduction

Illegal market activities have always occupied a central stage across political science, law, economic sociology, and political economy, transcending disciplinary boundaries (Kubbe et al., 2026; Baker, 2026; Arias, 2026). The core aim of this study is to analyze how illegal markets are operated or regulated under contested territories, where the boundaries of legal authority and sovereignty are ambiguous (Pantaleão, 2025; Blume et al., 2022; Chevrillon-Guibert & Abdelrahman, 2026). While most scholarship focuses on the nature and definition of illegal markets in stable, recognized states (Ho et al., 2026), this issue also raises questions about the legitimized nature and normalization of such activities in contested zones, where they may serve the interests of local elites or powerful groups (Kubbe et al., 2026; Arias, 2026). This paper addresses the question: How does contested sovereignty shape the definition, governance, and persistence of illegal markets? By systematizing the latest scholarly research, the study shows why this topic matters for understanding hybrid governance, state capacity, and the political economy of conflict-affected, occupied, or unrecognized regions (Larratt-Smith, 2020; Schouten, 2026; Polemis & Likas, 2026). Illegal markets are heterogeneous: their operations cross borders and include counterfeit goods, smuggling, trademark falsification, and the confiscation of products and services. Empirical data collection is especially challenging in these regions because clandestine operations and fluid power relations obscure the boundaries between legality and illegality (Anwar, 2016; Blume et al., 2026). The legal concept of "contested" has been chosen to capture the vulnerability and complexity of these regions, providing a necessary lens for research on the governance, normalization, and adaptation of illegal markets.

Jens Beckert, the German sociologist, has made foundational contributions to the understanding of illegal markets by advancing the concept that illegality itself is socially constructed, context-dependent, and closely intertwined with broader market dynamics (Beckert & Dewey, 2017). Beckert's work emphasizes that illegal markets are not simply zones of absence or deviance, but rather are embedded in institutional structures and shaped by formal and informal rules, state responses, and the expectations of market actors. Through comparative and conceptual analysis, he demonstrates how the boundaries between legal and illegal markets are blurred, and how market participants employ strategies of normalization, adaptation, and organizational innovation to navigate legal uncertainty (Beckert & Wehinger, 2013). While his focus is primarily on the general nature and architecture of illegal markets including counterfeit goods, smuggling, and intellectual property

violations, Beckert's approach provides critical theoretical tools to analyze how these activities persist and adapt, even in highly regulated or contested contexts.

Illegal markets refer to economic exchanges and networks involving goods, services, or resources that are prohibited, unregulated, or conducted outside the scope of formal legal frameworks. These markets encompass activities such as drug trafficking, smuggling, counterfeit goods, illegal mining, and unauthorized resource extraction (Arias, 2026; Le Billon et al., 2026). In contested territories like South Ossetia, Abkhazia, Donbas, and Luhansk, illegal markets thrive due to fragmented sovereignty, weak or absent state authority, and porous borders that facilitate transnational flows (Blume et al., 2022; Schouten, 2026). These regions often become havens for illicit activities, with criminal organizations, local elites, and sometimes state actors collaborating or competing to control trade routes, taxation, and access to resources (Pantaleão, 2025; Kubbe et al., 2026). The operation of illegal markets is characterized by hybrid governance arrangements, where informal norms, violence, and corruption substitute or supplement formal regulation. Exploitation of natural resources, tolling operations, and the export or confiscation of goods by third countries are common, enabling networks to launder profits and sustain conflict economies (Santos et al., 2026; Polemis & Likas, 2026). This complexity makes empirical analysis difficult, but scholarship shows that illegal markets are deeply embedded in local power structures and often normalized within contested regions, shaping both the economy and the political order (Kubbe et al., 2026; Arias, 2026).

Systematic analysis on illegal markets

As per the Web of Science, the number of academic articles dedicated to the phenomenon of governance, regulation, and overall illegal markets in the past decade comes to 5,518. The articles cover a range of topics in the domain of illicit markets, such as trade, economy, shadow economies, smuggling, counterfeits, economic crime, etc. The papers cover several different scientific disciplines, such as political science, law, economics, sociology, geography, development studies, and others, which are either theoretical or empirical.

The aforementioned field includes 75 articles, focusing specifically on governance of illegal markets in contested territories. Among those are articles about de facto states, seceded territories, areas of conflict, regions of limited statehood, and unrecognized countries, with a special emphasis put on such regions as South

Ossetia, Abkhazia, Donbas, Luhansk, Transnistria, North Caucasus, Moskitia region (Honduras/Nicaragua), borderland regions in Colombia and Central Asia, and many others. The research analyzes the role played by the fragmentation of sovereignty, lack of institutional capacity, hybridity of governance, and presence of both state and non-state actors in the development of illegal markets in politically contested environments (Kubbe et al., 2026; Pantaleão, 2025; Blume et al., 2022).

The statistical overview provided above proves the existence of a substantial body of scholarly work dedicated to illegal markets, at the same time indicating the relatively low amount of research done on contested territories in specific locations like South Ossetia, Abkhazia, Donbas, Luhansk, and others. A similar pattern is evident by running a parallel search in the Scopus database. Over twenty peer-reviewed publications in the last decade have been published that specifically address the governance of illegal markets in contested areas. It needs to be emphasized that there is a considerable amount of duplication between Web of Science and Scopus databases. Therefore, even though the aggregate figures are indicative of an increased interest in the issues under discussion among scholars, the real number of research studies can be smaller because of duplication.

Table 1. Major topic list on illegal markets

Drug Trafficking and Narcotics Markets	**Production, trafficking, governance of illicit drugs; non-state armed actors; funding of conflict and patronage networks**	**(Arias, 2026; Blume et al., 2022)**
Smuggling and Contraband	Cross-border smuggling of fuel, arms, tobacco, electronics, luxury goods; manipulation of borders and checkpoints	(Schouten, 2026; Blume et al., 2026)
Resource Extraction and Environmental Crime	Illegal mining, logging, wildlife poaching, conflict minerals; environmental degradation and transnational resource flows	(Le Billon et al., 2026; Santos et al., 2026)
Counterfeit Goods and Intellectual Property Violations	Trade in counterfeit pharmaceuticals, consumer goods, pirated media, illicit branding, and parallel market exports	(Ho et al., 2026)
Human Trafficking and Irregular Migration	Smuggling and trafficking of people, exploitation of migrants, forced labor and sex trade in conflict-affected zones	(Blume et al., 2022)

Drug Trafficking and Narcotics Markets	**Production, trafficking, governance of illicit drugs; non-state armed actors; funding of conflict and patronage networks**	**(Arias, 2026; Blume et al., 2022)**
Tolling Operations and Transnational Laundering	Tolling schemes, third-country processing, re-export for laundering goods and profits; evasion of sanctions and tariffs	(Polemis & Likas, 2026)
Criminal Governance and Hybrid Authority	Rule by militias, warlords, gangs; taxation, dispute resolution, and provision of order by non-state actors	(Pantaleão, 2025; Kubbe et al., 2026)
Urban Informal Economies and Street Vending	Informal markets in cities, unregulated vending, formalization conflicts, role of patronage and corruption	(Zhou et al., 2025)
Borderland Economies and Trade Corridors	Blending of legal, illegal, and informal trade; contested checkpoints; transboundary networks and cross-border kinship ties	(Anwar, 2016; Ho et al., 2026)
Land Trafficking and Property Crime	Illegal occupation, speculative sales, land mafia, and property confiscations in unregulated territories	(Shanee & Shanee, 2016)
Maritime Smuggling and Shadow Fleets	Sanctions evasion, unregulated shipping, shadow fleets, flags of convenience, illicit maritime trade	(Polemis & Likas, 2026)
Political Elites and State Complicity	Involvement of local elites, de facto authorities, corruption, and collusion in illegal markets; rent-seeking by officials	(Kubbe et al., 2026; Pantaleão, 2025)
Normalization/ Legitimization of Illegality	Social/political acceptance of illegal markets; use as welfare or survival mechanisms in conflict zones	(Larratt-Smith, 2020; Pantaleão, 2025)
Arms Trafficking and Violent Economies	Small arms trade, proliferation, and links to organized violence and militia activity; fueling persistent insecurity	(Croci & Pérez, 2026)
Exploitation of Natural Resource Exports	Export and confiscation of oil, timber, minerals, and agricultural products by third countries or local actors	(Le Billon et al., 2026; Santos et al., 2026)
Organized Crime Networks	Transnational syndicates, mafia, and their integration into local power structures in contested zones	(Pantaleão, 2025; Kubbe et al., 2026)

Drug Trafficking and Narcotics Markets	Production, trafficking, governance of illicit drugs; non-state armed actors; funding of conflict and patronage networks	(Arias, 2026; Blume et al., 2022)
Toll Roads, Checkpoints, and Rent-Seeking Infrastructure	Extraction of rents at roadblocks, checkpoints, and transport nodes by armed groups and authorities	(Schouten, 2026; Blume et al., 2026)
Money Laundering and Financial Crime	Use of banks, informal networks, and digital currencies to clean proceeds of illegal activities in weakly regulated zones	(Polemis & Likas, 2026)
Informal Taxation and Protection Rackets	Protection payments, "taxes" imposed on traders and citizens by non-state actors; parallel fiscal systems	[Pantaleão, 2025]; [Blume et al., 2022]
State Capture and Institutional Fragmentation	Co-optation of state institutions by criminal networks or elites to enable and protect illegal markets	(Kubbe et al., 2026; Arias, 2026)
Cybercrime and Digital Illicit Economies	Use of digital platforms for illicit trade, fraud, and cryptocurrency laundering in contested/insecure regions	(Le Billon et al., 2026)
Social Networks and Kinship Ties	Role of extended families and local networks in facilitating, protecting, or legitimizing illegal commerce	(Anwar, 2016; Ho et al., 2026)
Exploitation of Humanitarian and Peacekeeping Channels	Diversion of aid supplies, use of humanitarian corridors for smuggling or illegal trade in conflict zones	(Blume et al., 2022)

Source: Scopus and Web of Science Core Collection. Search conducted between 15-30 August, 2026

In addition to the widely researched areas of drug trafficking, environmental crime, and transnational smuggling, recent literature emphasizes that the exploitation of natural resources such as illegal logging, mining, and wildlife extraction often extends beyond domestic boundaries to involve the export and confiscation of these resources in third countries (Le Billon et al., 2026; Santos et al., 2026). Tolling operations, in which raw or semi-processed materials are illicitly moved across borders for further processing or laundering, are also recognized as critical mechanisms within illegal markets. These practices facilitate the circumvention of regulatory oversight and enable criminal networks to profit from the transnational movement of high-value commodities, further entrenching the challenges

of enforcement and governance across multiple jurisdictions (Blume et al., 2022; Hajiyeva & Muradov, 2022; Muradov & Hajiyeva, 2020).

As seen in Tables 1 and 2, a systematic review was conducted in accordance with PRISMA 2020 guidelines and encompassed peer-reviewed papers published in Web of Science (WoS) and Scopus from 2016 to 2026. The broad WoS search regarding illegal markets and governance produced 5,518 papers. After inclusion of terms associated with contested sovereignty and territorial conflict, 75 papers were identified in WoS. Search in Scopus resulted in the identification of 20 papers. Overall, 95 papers were selected for screening before elimination of duplicates and application of inclusion and exclusion criteria. The Boolean search was conducted in two steps. The broad search involved terms associated with illegal markets and governance.

Table 2. PRISMA 2020 – Study Selection Flow.

PRISMA 2020 – Study Selection Flow					
Illegal Markets and Contested Territories | WoS + Scopus | 2016–2026					
Stage	**Source / Step**	**Records (n)**	**Status**	**PRISMA treatment**	**Notes**
Search context	Broad Web of Science search	5518	Context only	Not in final identification pool	Illegal markets + governance.
Identification	Web of Science refined search	75	Included	Records identified	Contested-territory refined search.
Identification	Scopus refined search	20	Included	Records identified	Corresponding refined search.
Identification	Total records identified	95	Calculated	Initial candidate pool	Before duplicate removal.
Deduplication	Duplicate records removed		TO COMPLETE	Removed before screening	Enter WoS–Scopus overlap.
Screening	Records screened (title/abstract)	95	Calculated	Records screened	After duplicate removal.
Screening	Records excluded		TO COMPLETE	Records excluded	After title/abstract screening.

PRISMA 2020 – Study Selection Flow					
Eligibility	Reports sought for retrieval	95	Calculated	Reports sought	After title/ abstract exclusions.
Eligibility	Reports not retrieved		TO COMPLETE	Reports not retrieved	Enter 0 if all obtained.
Eligibility	Reports assessed for eligibility	95	Calculated	Full-text assessment	After non-retrieval.
Eligibility	Full-text reports excluded		TO COMPLETE	Exclude with reasons	Record reasons separately.
Included	Studies included in systematic review	95	Calculated	Studies included	Final PRISMA 2020 sample.

Source: Scopus and Web of Science Core Collection. Search conducted between 15-30 August, 2026

Table 3. Search Strategy and Boolean Queries.

Search Strategy and Boolean Queries			
Database / search	**Boolean search**	**Period**	**Results**
Web of Science – broad	TS=("illegal market*" OR "illicit market*" OR "black market*" OR "informal economy" OR "shadow economy" OR "unregulated market*" OR smuggling OR contraband OR "illicit trade" OR "economic crime") AND TS=(governance OR regulation OR "political authority" OR "informal governance" OR "criminal governance" OR "state capacity")	2016–2026	5518
Web of Science – refined	TS=("illegal market*" OR "illicit market*" OR "black market*" OR "informal economy" OR "shadow economy" OR "unregulated market*" OR smuggling OR contraband OR "illicit trade" OR "economic crime") AND TS=("contested territor*" OR "unrecognized state*" OR "breakaway region*" OR "de facto state*" OR "frozen conflict*" OR "conflict zone*" OR "separatist region*" OR "ungoverned space*" OR "limited statehood" OR "conflict-affected") AND TS=(governance OR regulation OR "political authority" OR "informal governance" OR "criminal governance" OR "state capacity")	2016–2026	75

Search Strategy and Boolean Queries			
Database / search	**Boolean search**	**Period**	**Results**
Scopus – refined	TITLE-ABS-KEY((“illegal market*” OR “illicit market*” OR “black market*” OR “informal economy” OR “shadow economy” OR “unregulated market*” OR smuggling OR contraband OR “illicit trade” OR “economic crime”) AND (“contested territor*” OR “unrecognized state*” OR “breakaway region*” OR “de facto state*” OR “frozen conflict*” OR “conflict zone*” OR “separatist region*” OR “ungoverned space*” OR “limited statehood” OR “conflict-affected”) AND (governance OR regulation OR “political authority” OR “informal governance” OR “criminal governance” OR “state capacity”))	2016–2026	20

Source: Scopus and Web of Science Core Collection. Search conducted between 15-30 August, 2026

Note: PRISMA screening pool: 95 records (75 Web of Science + 20 Scopus), before duplicate removal. The broad WoS result (5,518) is reported as search context and is not added to the screening pool.

Discussion(s)

State and Non-State Actors in Contested Territories

Illegal markets in contested territories, like South Ossetia, Abkhazia, Donbas, Luhansk, and others, rely on a network of various state and non-state actors that benefit from limited regulatory frameworks, fragmented sovereignty, and weakly guarded borders (Pantaleão, 2025; Kubbe et al., 2026). State actors in such territories can be represented by de facto regimes, local administrative elites, as well as state officials from neighbouring or parent states that allow for or legitimize illegal trade by granting permits, ignoring smuggling channels, or imposing taxes on the movement of different commodities, such as fuel, tobacco, minerals, or counterfeits (Blume et al., 2022; Polemis & Likas, 2026).

Non-state actors play an equally important role in maintaining illegal markets. Organized crime gangs, warlords, and separatist militias tend to control key trafficking routes, protect illegal markets, and tax the trading of prohibited goods or directly participate in it. Such actors can create associations with local business

elites and smugglers to ensure the transit and laundering of the proceeds from contraband activities (Arias, 2026). In certain instances, transnational smuggling networks, possibly associated with third parties, implement tolling schemes and engage in the exporting, confiscating, and transformation of coal, timber, and metal resources.

Citizens and small entrepreneurs who find themselves suffering economically and having no legal means of earning money might participate as well. Such individuals are the victims and perpetrators of criminal activities, since the practice of criminality could cause poverty to become entrenched in addition to reducing the authority of the state and leading to violence (Blume et al., 2022; Kubbe et al., 2026). State and non-state actors alike contribute to the development of an illegal market in a contested area. Most recent scholarly literature on illegalities and practices in the illegal markets revolves around the following key issues.

Legitimization of illegality?

Another very important aspect that emerges from this analysis is the aspect of legitimization of illegality. It refers to the process by which illegal markets are normalized and even socially legitimized in contested spaces. In contested territories such as South Ossetia, Abkhazia, Donbas, Luhansk, and Transnistria, illegal operations including smuggling, extraction of resources, tolling business, and counterfeiting of goods are not only condoned but are often institutionalized within local governance and societies (Pantaleão, 2025; Kubbe et al., 2026). Such normalization can occur through the involvement of de facto governments, local elites, as well as other outside actors who condone, tax, and regulate illegal operations (Blume et al., 2022; Polemis & Likas, 2026).

A clear case in point is the situation involving the Armenian occupation of Karabakh and other regions of Azerbaijan for three decades (1992-2020). Over the course of three decades of occupation, both state and non-state actors of Armenia extensively extracted and sold natural resources, including gold, copper, timber, and many other valuable minerals, often using illegal means (Hajiyeva & Muradov, 2022). Moreover, products produced on Azerbaijani territories were rebranded with Armenian trademarks and exported under the guise of being Armenian products despite having been originally produced in the occupied territories of Azerbaijan. Such actions allowed the political elite of Armenia and the informal authorities of Nagorno-Karabakh during the 30 years of occupation, along with their business associates, to earn illicit profits and create an alternative economy operating outside of any laws and regulations (Hajiyeva & Muradov, 2022).

The legitimation of illegality is also reinforced by the fact that local communities are dependent on the markets for their very survival, the lack of economic opportunities, and the strategic exploitation of legal ambiguity on the part of both state and non-state actors (Arias, 2026). Illegal market practices become routinized, with social norms and institutions adjusting to legitimize or even glorify them (Larratt-Smith, 2020; Kubbe et al., 2026).

Table 4. General process of Illegal-Market Formation and Persistence in Contested Territories

General Process of Illegal-Market Formation and Persistence in Contested Territories		
1. CONTESTED SOVEREIGNTY Fragmented authority • weak/competing regulation • porous borders	→ 2. HYBRID GOVERNANCE De facto authorities • local elites • state officials • militias • criminal/business networks	→ 3. SELECTIVE AUTHORIZATION Permits • taxation • protection • tolerated smuggling • informal regulation
		↓
6. TRANSNATIONAL INTEGRATION Cross-border routes • third-country actors • relabeling • laundering • re-export	← 5. ILLEGAL-MARKET EXPANSION Smuggling • resource extraction • contraband • counterfeit trade • illicit value chains	← 4. LEGITIMIZATION & NORMALIZATION Illicit activity becomes routinized, socially tolerated, or institutionally embedded
↓		
7. ECONOMIC DEPENDENCE Citizens and entrepreneurs rely on illicit markets for income, goods, and survival	→ 8. CORRUPTION & VIOLENCE Rent extraction • protection networks • coercion • institutional fragility	→ 9. MARKET PERSISTENCE / RESILIENCE Illegal markets reproduce themselves despite formal prohibition

Source: Systematic review of the literature, drawing particularly on Beckert & Dewey (2017), Blume et al. (2022), Pantaleão (2025), Arias (2026), Kubbe et al. (2026), Polemis & Likas (2026), and Muradov & Hajiyeva (2022).

An important element contributing to the normalization of such activities is the proactive position of the authorities de facto in terms of instituting illegal practices. In Transnistria, for instance, the regulation of smuggling and counterfeiting

is systematically practiced through permitting, taxation, and other instruments used by the local administration to collect rents and create an illusion of control. In a similar vein, the regimes of South Ossetia and Abkhazia have institutionalized cross-border smuggling of fuel, tobacco, and agricultural produce as a means of earning revenues and providing services to the population (Blume et al., 2022). The shadow fiscal systems instituted by the separatists in Donbas and Luhansk have allowed them to tax the circulation of coal, metals, and other manufactured goods. Similar trends can be seen in the Horn of Africa region, where charcoal trafficking, cattle trade, and informal taxation by militias are legitimized through tales of clan legitimacy and survival in the absence of better alternatives (Le Billon et al., 2026). Transnational crime organizations and foreign states contribute even further to such a trend. The porous nature of border areas, kinship relations that cut across borders, and involvement in tolling and money laundering schemes result in the incorporation of such regions into global black-market chains, thus diluting the line between legal and illegal economies (Polemis & Likas, 2026).

To conclude, it is essential to understand that the normalization of illegal practices is not a mere economic feature but a process supported by adaptive social norms and institutional learning. Illegal activities become embedded in the ways communities survive, moral economies, and local institutions. While initially an answer to vulnerability or the failure of the state, they become routinized, socially accepted, and even praised in some situations as a way of survival and resistance (Larratt-Smith, 2020; Chevrillon-Guibert & Abdelrahman, 2026). Although this process seems stable on a short-term basis, it contributes to the reproduction of cycles of corruption, violence, and institutional weakness, which makes the challenge of rebuilding after conflict extremely complicated.

Limitation(s)

Limitations of this study correspond to the problems identified during the systematic review both on an empirical and conceptual level. First, as the analysis shows, there is a clear lack of empirical research that explores the issue of illegal markets in contested territories, which is caused not only by the problem of collecting reliable information in politically unstable and risky regions such as Transnistria, South Ossetia, Abkhazia, Donbas, Luhansk, and similar territories in Africa, but also by the tendency to research accessible and stable areas rather than zones of conflict and de facto statehood. Second, this study is hampered by the lack of

primary sources and the use of case studies, secondary information, and indirect observations. In turn, this may lead to a fragmented and sometimes anecdotal perception of mechanisms, networks, and actors who are involved in the activity of illegal markets. Third, comparative dimension may be limited by geographical gaps, because there are certain regions which are poorly researched, especially in Africa and the Caucasus. Finally, the process of normalizing and legitimating the process of illegality revealed in this paper needs further longitudinal, ethnographic, and multi-level research.

Conclusion

The present systematic review proves that illegal markets in contested territories are not isolated phenomena but a part and parcel of the fragmented governance in Transnistria, South Ossetia, Abkhazia, Donbas, and regions of the Horn and Great Lakes of Africa. Illicit markets flourish in the interaction of de facto regimes, local elites, criminal groups, and in some instances, corrupted representatives of states or third-party organizations. The existence of illegal activities, including resource extraction and smuggling, counterfeiting, and tolling, is often tolerated and encouraged by those whose incomes depend on revenues from these activities. The legitimacy of illegal markets is additionally provided by the adaptation of people to the current situation, their economic needs, and the engagement of local populations in these practices. In addition to social processes, international connections and weak border control further contribute to the resilience of illegal markets, involving them into regional and even global supply chains. Despite obvious implications for policy-making and security issues, there is a notable lack of systematic empirical studies in the literature. This is especially remarkable against the background of the growing literature on the issues of the political economy of illegal markets in contested territories. The scarcity of empirical research devoted specifically to these regions leaves room for improvement and development in the future. It seems appropriate to state that only an insignificant part of the available literature touches upon this topic.

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