

REVIEW OF SOCIOLOGY, 2012/4: 53–72.

# Trust, Network Capital, and Informality – Cross-Border Entrepreneurship in the First Two Decades of Post-Communism<sup>1</sup>

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**ABSTRACT:** The paper addresses two of the manifold forms of transformation-specific cross-border entrepreneurial activities and shows the role of particularistic trust and network capital as embedded in these processes. The two case studies illustrate that these activities are “borderline” cases in three senses: (a) using national borders as an opportunity structure, (b) using ethnicity as a resource to gain trust, and as a defensive mechanism, and (c) creating a semi-permeable zone between the formal and informal economy. The first one is about old/new form of urban informal trade: the combination of cross-border trade, street vending, and COMECON-marketplace in Mongolian cities in 2000. The second case study is about inter-regional form of informal trade, i.e. the so-called cross-border junk trade, which is a particularly “high-trust” and network capital-intensive form of cross-border entrepreneurship.

## Introduction

Social scientists usually agree that generalized trust is a key element of economic development (Fukuyama 1995; Knack – Keefer 1997). This approach considers trust<sup>2</sup> as the “oil” of smooth cooperation reducing the costs of market transactions. We would add that above these general processes, informality<sup>3</sup> forces (and/or create advantageous conditions for) economic actors to invest in particularistic trust and network capital<sup>4</sup>. The role of particularistic trust and network capital is especially strong in a network capital/particularistic trust-sensitive environment, and such an institutional setting will not easily change (Sik 2010).

The starting point of our analysis is that in the first phase of post-socialist transformation, uncertainty has significantly increased, the pace of changes has speeded

1 The articles have arisen from cooperative research between 2007 and 2010, within the network entitled ‘Social Capital in European Societies in Transition – Communities, Families, Generations’, operated under the German Federal Ministry of Education and Research’s Project TP3 on ‘Informality, Trust and Distrust in Societies in Transition’. The head of the research was Ina Dietzsh (The Institute of European Ethnology)

2 Trust in our understanding is “a relational response, not a result of blind loyalty that permits people to take risks in dealing with each other” (Rose–Akerman 2001: 543).

3 The transformation-specific form of informal economy, the so-called “second-to-informal economy” (Sik 1994a) consists of activities, which used to fall outside the direct control of the socialist state, and in the course of the shift towards capitalism have been (partially) transformed into the informal economy.

4 We talk about network as capital if it meets the following conditions: It is necessary for the production; in the course of production it remains unchanged; it is invested (or its already existing form is converted into capital) for the sake of profit (Sik 2010).

up, and as one of the many other responses (such as icebergs, barter, the Mafia, the suzerainties, etc. Humphreys, 2002a, 2002b) informality has grown considerably (Sik 1994a). In the course of transformation all other forms of capital (monetary, physical, human capital) were scarce and/or lost their value, hence trust and network capital became core assets, often the most crucial forms of capital to enable success in this mushrooming informal environment (Sik 1994b). Even more so, since informality (being both beyond the scope of the legal system and without a written code of conduct or official law enforcement organizations) is the fertile soil of particularistic trust and network capital. Thus the role of particularistic trust and network capital has increased in the course of post-communist transformation. In the early 1990s the inbuilt inertia of particularistic trust and network capital, amassed during the socialist era, survived, and created path-dependent processes (Arthur 1989; David 1986) which – at least temporarily – successfully tailored some of the old/new institutions to their own needs in the course of post- (Portes–Sensenbrenner 1993; Portes – Landolt 2000; Portes et al. 2001).

Informality, particularistic trust and network capital are mutually reinforcing each other due to the following reasons: The actors have a common interest to be invisible to the authorities. They share secrets, hidden investments and codes (etiquette, vocabulary, body language, communication patterns) and something that could be called a culture of anti-etatism (corruption gives prestige, circumventing the system is not only acceptable but the basis of pride and self-esteem). These factors mutually reinforce the conditions for the path-dependent nature of particularistic trust and of network capital, which in turn maintain the favorable conditions for informality. And this is even more the case, where these three institutions are embedded in ethnically and/or spatially defined and segregated subcultures (Portes – Landolt 2000; Portes et al. 2001; Portes–Sensenbrenner 1993).

The key questions, as far as particularistic trust, network capital, informality and their intertwined impact on the process of post-communist transformation is concerned, are whether and through what mechanisms does the legacy of these institutions influence the process of socioeconomic development (Sik 1994a; Rose-Ackerman 2001). Focusing on two forms of cross-border entrepreneurial activities we illustrate the role of particularistic trust and of network capital in these informal and transnational activities.

## Trust and network capital in the second-to-informal economy in the course of post-communist transformation

In some socialist countries, such as Hungary and Poland, the second-to-informal economy started to flourish already during the last years of socialism, and the Soviet Union was also heavily influenced by informality (Galasi-Sziráczy 1985; Mars-Altmann 1988; 1992; Wedel 1992; Ledeneva 1998).

In the course of the transition from socialism to capitalism partly due to the opening of the borders (as an opportunity), partly as a consequence of the transformation crisis (as a force) informality multiplied, whereas particularistic trust and network capital strengthened. In such a milieu the heavily instilled skills of relying on networks and on particularistic trust during socialism, and the amount of investment made in those networks, created an inertia which determined the behavior of petty entrepreneurs in the first phase of post-communism, and resulted in various deviations from textbook market development (Gábor 1994). During the first phase of post-communist transformation in the early 1990s the second-to-informal economy played an important role in the creation of markets under the shadow of the culture of corruption (Sik 2002).

Three lock-in mechanisms of these path-dependent processes can be identified: Firstly, in the course of post-socialist transformation the actors of the informal economy had already been socialized in a second economy. Most of them had invested both human and social capital (as survival skills, system-specific know-how and etiquette, etc.) as well as bribery. Secondly, these socialism-specific investments had a major impact on the behavior of petty entrepreneurs during the implementation of market institutions. On the one hand, they made the former second-economy-actors capable of, equipped for as well as interested in market activities. On the other hand, they allowed these same actors to tailor the nascent market institutions to their human and social capital investments (i.e. retaining small-scale corruption networks). And thirdly, certain transformation-specific processes (such as the growing uncertainty in the rules of operation, privatization, re-privatization, the elimination of travel restrictions, the quasi-convertibility of the currencies, mounting unemployment, recession and inflation) increased the value of these network- and trust-sensitive investments even more. These mechanisms were added to various techniques for grabbing the entrepreneurial opportunities as well as for coping with poverty and increasing uncertainty.

Moreover, in those countries where the second-to-informal economy was operated within ethnically defined economies, the aforementioned path-dependent processes have further been reinforced (Mars-Altmann 1988, 1992)<sup>5</sup> and some

<sup>5</sup> In Vietnam particularistic trust-based business networks take the place of the non-existent contract law in what remains of

ethnic groups became especially active in cross-border trading activities. In the former Soviet Union, traders from Georgia and the Caucasus traveled to Russian open-air-markets with citrus fruits and established extensive informal trading networks which are still in operation. After the fall of socialism, people from China and Vietnam converted their former socialist international networks (mostly built with former university students but sometimes with former workers hired under bilateral treaties within the COMECON) into trading activities (Wallace et al. 1996, 1997; Williams-Balaz 2002, 2005; Nyíri 1995). Open-air markets even provided opportunities for competing ethnic groups (i.e. Bulgarians, Turks and Roma in Bulgaria) to join forces (Konstantinov 1996). The opening of borders has brought traders and prostitutes from Russia to Turkey, from Ukraine and Russia to Poland and from China to all over the former Warsaw Pact countries (Hann-Hann 1992; Eder et al. 2003, Yüsekser 2004) often as a modern form of middleman minorities<sup>6</sup>.

## On the methodology

The analysis of urban informal trade in Mongolia is based on a research commissioned by the UNDP and the ILO (Morris 2001). The analysis was based on focus groups and seventy interviews carried out in July 2000 by Mongolian interviewers in Ulanbaatar (the capital of Mongolia), and in two provincial cities (in Zavhkan and Khenti)<sup>7</sup>. The interviews were translated to English. The translation was evaluated by the interviewer and the translator jointly. The head of the research wrote the interview-based case studies and the local fieldwork instructor checked the validity of the case studies and added explanatory notes.

The analysis of cross-border junk trade is based on several secondary sources such as a major fieldwork (2005–2009) combining survey, interview and non-participatory observation in Western Hungary, Serbia and Austria (Kovács et al. 2010), non-participant observation and interview by researchers at the Janus Pannonius University (Pauker 1999) and MA students of the Minority Studies Program from ELTE University, and desk research.

the planned economy (McMillan and Woodruff 1999). Since the courts have not been trusted to resolve legal disputes the entrepreneurs had to create their own reputational system promoted by gossip and meetings in teahouses where information is exchanged about the credibility of various trading partners. Reputation systems were essential in the formation of credit information that can be used to extend beyond the reach of personal (and often closed) networks of exchange.

6 Middleman minorities are those migrant groups who are likely to be involved in commercial and/or financial activities and are positioned in the receiving society as lower middle class, often serving as intermediaries between the upper and lower classes as well as between the majority and segregated minority groups. They are often characterized as sojourners (Bonacich 1973; about Chinese as middleman minority in post-socialism, Nyíri 2007).

7 The interviewers were trained before the fieldwork, and there was a premium for quality. The outline of the interview and of the case study can be found in Appendix B and C and ten selected case studies can be found in Appendix F (Morris 2001). The excerpts of the case studies in the article are from the unedited and unpublished case studies and are available from the author upon request.

## Urban informal trade - the mongolian case

The Mongolian form of socialism existed for more than five decades (since 1936), i.e. a decade longer than in the other East-European Soviet satellite states. Its consequence was a substantially more intense indoctrination of the socialist ideology as well as stronger socialist institutions. However, the Mongolian version of socialism contained several traits of traditional institutions (similarly to other socialist countries in the vicinity such as the [former] Soviet republic of Uzbekistan (McAuley et al. 1996) or Georgia (Mars-Altmann 1983)), which shaped the everyday operation of socialism, such as nomadism in the countryside and the role of kinship<sup>8</sup> from its very beginning. Two forms of traditional institutions have been especially decisive, both of which survived socialism: Self-sustaining domestic production embedded in the inter-household system of reciprocal exchanges (Sik 1988; Cooper 1993; Potkanski 1993; Ledeneva 1998).

These peculiarities of Mongolian socialism as well as its pre-socialist nomadic-feudalistic past explain the fact that in Mongolia unlike in some East-European socialist countries, beyond the already mentioned rural a-legal (i.e. neither legal nor illegal, basically beyond the legal system) nomadic segment, Mongolia arrived at the era of post-socialism without a modern market-based economy.

Due to the fast deterioration of the Soviet-type industrial system, urban Mongolia started shrinking rapidly, i.e. jobs disappeared, the number of city dwellers has decreased, etc<sup>9</sup>. Under such circumstances, the urban informal economy significantly increased in the early 1990s. Moreover, in response to the depth of the transition crisis<sup>10</sup> and to the lack of roads, the shanty town-type urbanizing of the capital (Ulaanbaatar) – the only “real” city in Mongolia – speeded up. This was visible in the increasing size of shanty towns in and around Ulaanbaatar (usually whole extended rural families living in *gers* (felt tents) on the one hand, in the mushrooming of urban informal economy in the 1990s on the other. A significant part of this urban informal economy was based on various forms of informal cross-border trade (towards Russia and on an increasing scale towards China) such as tourist trade, itinerant trade, open-air markets, etc.

Furthermore, some of these new forms of informal entrepreneurship took the form of post-socialist rural-urban interregional *renomadism*, which heavily relied on particularistic trust and network capital: First, since this informal economy involved the revival of herding, the importance of traditional family values (including the salience of independent family business), self-exploitation (i.e. working in

8 Another example when a traditional formal institution survives both modernization and state-domination and re-emerges in the course of post-communism is the mahallas (committee of elders to control distributive justice in the allocation of welfare and “organizing” community-level barter transactions) in the Uzbek and Tadjik societies (Couduel–Marnie 2000).

9 Especially former socialist cities (usually close to the former Soviet border and based on a single industrial complex such as Darkhan) have shrunk rapidly by the closure and downsizing of state-owned enterprises.

10 Just an illustration: In each of the first two years of transition (1991 and 1992) the Mongolian GDP decreased by 9%, the annual inflation was above 50% in all years between 1991 and 1996 (with a peak of 325% in 1992), the total fertility rate in 1998 was half that of 1985, state employment decreased from 70% to 21% of the workforce, half of the workers work in the agriculture, etc. (Morris, 2001)

a sweatshop all day and night for peanuts), and mobility (e.g. crossing the borders several times a month as well as regular traveling and transporting between city and the countryside) revived. Nomadic livelihood has always been based on close cooperation between the members of the extended kin (Cooper 1993; Potkanski 1993), so households based on extended kin and mutual assistance revived as well.

It is therefore not surprising that the household became the key agent of the Mongolian urban informal economy in the 1990s, and that particularistic trust and network capital were basic assets of informal transaction. That was the case of the female entrepreneur who combined her job (hairdressing) with regular vending while her husband and two sons did the transport (to and from the rural kin).<sup>11</sup> Or when a trading family (including the entrepreneur, her parents and sister – as well as a single mother with one child – and her daughter invested their inheritance to trade with household items such as plastic ware for the kitchen and bathroom. They did all the work together and cooperated with the younger brother, who lived separately from the family, and owned a container at the market.<sup>12</sup>

The urban informal economy is a modern economy which cannot efficiently operate without modern (non-kin-based; utilitarian) institutions, in other words by using weak forms of particularistic trust- and network capital based on social relations such as schoolmates, work-mates, friends from the military service, etc. Most frequently these social relations serve as a source of information and help. Take for example a would-be entrepreneur, who sells the family inheritance and with this initial capital her husband (with a friend's relative who was a collector of raw materials) starts a stall on the Naraantuul market.<sup>13</sup> Or a cross-border trader in Ulaanbaatar (backed by a large family including her mother, sister, younger brother, husband and her sister's 5-year-old kid) who started as a suitcase trader (working for a company for several years) but

“once when I was at my friend's house I met some people who were talking and explaining about their products. My friend and her husband have already started to use these products. Then I consulted with my friend and then decided to buy the product. Initially, it was hard to talk to strangers so I started distributing within the circle of my friends. With the products I also sell the goods that my husband brings from Russia. My sister, who is a medical doctor, and my mother help me to find customers. My mother is a teacher, thus she knows a lot of people. We don't have exact plans for the future, but we believe that we would be better off sooner or later since we are educated and have friends and relatives (28 years old female cross-border trader in Ulaanbaatar)”.

11 Interview with a 34 years old female hairdresser and trader in Zavhkan.

12 Interview with a 28 years old female trader in Ulaanbaatar.

13 Interview with a 37 years old female trader in Ulaanbaatar.

Internationalization of the informal economy is also unavoidable in an economy with open borders and in a situation, where trade dominates the informal economy. The case studies primarily show that the two major sources of capital – serving as start-up of the informal business – were related to international transactions, i.e. suitcase trade and remittances, in both cases very trust and network-sensitive forms of informal activity (mixed of course with rudimentary forms of human capital such as the ability to speak “suitcase trade Chinese”, basic entrepreneurial skills, etc.).

High risk is an “inherent” characteristic of the informal economy all over the world. The two most important reasons for it seem to be the small size of the business on the one hand and the blurred borders between informal and illegal economies. There are, however, certain specific conditions, which increase even more the level of risk for the informal enterprise, such as a corruption-prone state, municipality authorities (Lomnitz 1977) and ethnic enclave economies (Waldinger 1993), etc. Moreover, there are occupations within the urban informal economy (money lending, smuggling and cross-border trade in general, etc.) that are especially conducive to a high-levels of risk such as usury, racketeering, delayed or non-payment, etc. But inspectors of all kind (tax and health inspectors, police, tax collectors and marketplace administration) are all contributing with a great extent to the high-level risk of the urban informal economy.

All our Mongolian case studies referred to the importance of particularistic trust and network capital both as a defensive and/or offensive device. Its simplest form was when relatives, living close to each other, formed a kin-based safety net around a family. As the next example shows, those who are separated from the family and are new in the neighborhood are forced to develop other forms of networks as a substitute.

“With a friend we decided to go to Erdenet (second biggest town in Mongolia – E.S.) to start our own business of making wooden structure for gher. My friend was already in the business, so it was convenient for me to join him. I bought some necessary tools, invested some money in the business and became a co-owner. When my friend decided to leave the business we divided the profit. I don’t have any relatives or friends in Ulaanbaatar, and I did not have any place to live or work, so I rented a place from a man I knew from my hometown. He is now a friend of mine and I pay a low rent only but help him with his business. On the market I try to develop contacts with many different people since in the future I’ll need good and reliable partners and friends. Their ideas and suggestions could be very useful ... but it is not easy to find reliable partners. (a 34 year-old male trader in Ulaanbaatar)”

Often the nature of the job itself requires one to be extremely dependent on network capital. One such example is of the money changer where the dangers and uncertainties assume strong but flexible networks.

"The nature of this business (money changing – E.S.) requires me to be very careful, since I deal with a big amount of money. To succeed in this business we need to avoid being careless; and good connections and reliable partners are needed to be successful. I have been changing money for long enough to have many regular customers. Also I've got several friends in the car business. They come to me to change money because they need US dollars to do business abroad. The important thing is trust and reliability since money changing is very risky. One can't do this job alone. I've made friends with some policemen, so I can have their help in a desperate situation. Every money changer does business individually but there are rules we agree to follow, we support each other in trouble, we discuss the rates in order to prevent the price to drop, and introduce and monitor newcomers, etc. Moreover, I have three partners. They keep some of my money besides their own. Of course they get some of the profits earned from circulating my money. Keeping written records is not a good idea. I could lose it or have it stolen and there are things that I might keep a secret (36 year-old male moneychanger in Ulaanbaatar)."

A more recent anthropological analysis (Pedersen 2007) of the biggest open-air market with cross-border trade in Ulaanbaatar (Narantuul) indicates that since the early 1990s the urban informal economy in Mongolia has been somewhat "tamed", i.e. took a more organized form of informal trading with better infrastructure and less danger. However, the case studies of this article still show the importance of particularistic trust and of network capital in the power struggles within and around the marketplace<sup>14</sup>.

## Cross-Border Junk Trade

To put into context the socio-economic characteristics of cross-border junk trade in contemporary Hungary we should start our analysis with the late 1970s and the 1980s, i.e. focusing on the last years of communism.

Illegal and semi-legal cross-border trading activities had already existed in the former socialist countries before the iron curtain fell and the borders opened up (e.g. in the Soviet Union [Fish-Edwards 1989], in Hungary [Hann 1992]). These activities constituted an international informal inter-urban trading network given

<sup>14</sup> And the most recent blogs (as of June 2011) illustrates Narantuul market as a busy (and slightly dangerous i.e. pick-pockets), marketplace with low prices, bad and hot air (e.g. <http://timcorrigan.com/index.php/2011/05/16/narantuul-ulaanbaatars-black-market/> or <http://www.360cities.net/image/narantuul-open-air-market-ulaanbaatar#133.005.70.70.0http://ourtravelingcircus.com/2010/10/03/narantuul-ubs-not-so-black-market/>).



that both the supply originated from cities and the open-air markets appeared at the outskirts of urban formal marketplaces or on the streets and squares near to busy urban (and transportation) centers. In the aftermath of post-communist transformation open-air markets mushroomed all over the post-communist cities (and around them for example in Turkey [Eder 2002; Eder et al. 2003; Yüksek 2004, 2007]).

The open-air markets under the former socialist regime had a distinctive character being the byproducts of the absence of a 'normal' commercial system (Czakó-Sik 1999). In planned economies, due to perpetual shortages, the set price of low quality goods, varying from country to country, meant that even very small-scale cross-border trading could be profitable because it offered cheaper, finer, and better goods than what the average consumer could have bought at home. These characteristics as well as their embeddedness into the COMECON system created a system-specific form of open-air marketplace, the so-called COMECON marketplace where COMECON produced sellers sold COMECON to buyers from other COMECON countries (Sik-Wallace, 1999). From the 1970s onwards, however, there was a gradual easing of travel restrictions in several socialist countries so that collective group tours were organized, i.e. tourist trade became effervescent for example in Poland, Russia, Bulgaria and Hungary.

Just as in the Mongolian case, particularistic trust and network capital were crucial in this form of informal activity. The more so since shuttle trade due to its international nature contains more uncertain elements than internal forms of informality. Due to the absence of legal financial institutional environment, traders often resorted to kin and friends to enter into the business and later for loans and money transfers to each other. The extremely risky, rapidly changing and uncertain environment, which small traders faced, along with border-specific and international hazards (such as border guards, customs officers and international criminal organizations) less influential for internal informal actors, encouraged/forced them to minimize risk through investment in network capital (Sik-Wallace 1999). Even after goods and traders successfully crossed the borders, informality dominated the process of small-scale trading since to make profit these goods should be transported, stored, internally reallocated, often repacked, and sold (Konstantinov 1996).

The opening of the borders allowed/encouraged for a special form of "high-trust" cross-border trading appear immediately: Petty itinerant traders started to collect second-hand goods abroad. This activity included several further phases, such as selecting, polishing, or if necessary, reassembling or mending the goods after transporting them to their home country, and finally selling them either on the open-air markets or to those, who visited them on their own premises. This cross-border junk trade<sup>15</sup> could only be successful if those involved cooperated inten-

<sup>15</sup> The Hungarian term of such activities is called "lomi" which is the shortened term for junk. Its verbal form is even more telling since it refers to the organized process (usually by the local authorities) of getting rid of junk ("lomtalanítás").

sively because of the semi-legal and mobile characteristics of the business, the information- and labor intensive nature of the operation, and the usually limited amount of capital the entrepreneurs possessed.

An early case study (Pauker 1999) describes the first period of “lomi” as an auxiliary income of seasonal or commuting workers abroad (mostly working as agricultural laborers, truck drivers, waiters, industrial semi-skilled workers in South German cities and in Austria). They used their familiarity with locality (both in spatial terms and learning the time schedule of clearances, i.e. when locals are supposed to put their junk to the pavement in front of their houses) and with the habits of the local inhabitants (what they are likely throw away), their knowledge of price difference between their country of origin and work as well as ways to sell the goods back home. Of course such semi-legal or illegal (depending on the size of the business, the value of the smuggled junk, etc.) activity assumed a high level of trust to defend the territory (i.e. the streets they consider as theirs) against “outsiders”, to organize cross-border transport and long-distance business efficiently, etc. Moreover, often the business started at family level, i.e. the goods imported in the course of the first trips usually served the needs of the family and kin, neighbors, friends, and only later was converted to a business (first only to sell the “left-overs”, later looking for stuff to be sold).

By the early 2010s the “lomi” business has become more professional. Not only full time cross border petty traders are dominating the business but the information where and when such scavenging will be possible to become more organized<sup>16</sup>. The demand for certain types of goods formed specialized scavenging groups, i.e. specialized on furniture, cloths, domestic appliances, spare parts, antiques, kitsch, etc., and the repair, re-assembling, storage and retail parts of the business have been specialized to a certain extent as well.

Cross-border junk trade is relevant between Western Hungary and the countries relatively close to this region, i.e. mostly in the Eastern cities in Austria but also in Southern Germany and in the major cities in Switzerland.

All Austrian counties have their clearance held according to a pre-arranged schedule village by village and in the cities neighborhood by neighborhood (Kovács et al. 2010). The households bring their useless and superfluous stuff to the pavement in front of their house and they go, scavenge and select the saleable pieces. Most of the time, the owners are grateful since otherwise they have to pay for the authorities for the clearance. Usually a journey lasts for two days. The junk traders know very well what can be repaired and mended, and they have repairs people in Hungary who can make miracles with such material. Nowadays they get all the necessary and detailed information through home pages but sometimes they buy goods on flea markets and even from wholesale traders or in chain stores if they have a clearance sale.

<sup>16</sup> While specialized leaflets, newspaper ads had existed from the very beginning, nowadays home pages offer fast and cheap information of these clearances.

These flea markets are direct continuations of the COMECON markets, i.e. those traders who could not (or did not want to) move upscale in the retail business and their descendents sell cheap, low quality and/or second hand goods to customers who cannot afford to buy these goods anywhere else.

While, however, after the transformation of the system cross-border junk trade was a survival technique for various groups in the lower echelons of the Hungarian society (such as cross-border commuters, unemployed with entrepreneurial spirit, young couples seeking seasonal auxiliary income, etc.) since the early 2000s cross-border junk trade became more organized and ethnicized. More and more some Western Hungarian Roma groups started to dominate the cross border junk trade (Kovács et al. 2010). They had all the path-dependent advantages of running such informal cross-border entrepreneurship such as various forms of human capital such as information of the clearances, experience (a special form of being “street smart”) of border crossing and open-air trade, and various skills one cannot learn in school but which are unavoidable in this trade (such as getting loans and credits without collateral, “petty wholesale” marketing, bargaining, etc.) as well as network capital such as a sophisticated form of division of labor among family members and within a very extended kin and a large network with fellow traders, customs officers, municipality and open-air officials, etc.

A lucid example of contemporary professional cross-border junk trade is Pityu Plaza (Király, 2012). The owner has a website (<http://pityuplaza.hu/>) and his yard back home (in Marcali (a small town relatively close to Lake Balaton as well as to the Western and Southern borders) is open for visitors all days from 9 a.m. to the „evening hours”. Pityu started his business twelve years ago and as the attached photos show (and the regularly updated website as well as his ads in the local newspaper confirm) all standard cross-border junk trade goods are available at Pityu Plaza at a very reasonable price.

Picture 1. Three departments at Pityu Pláza

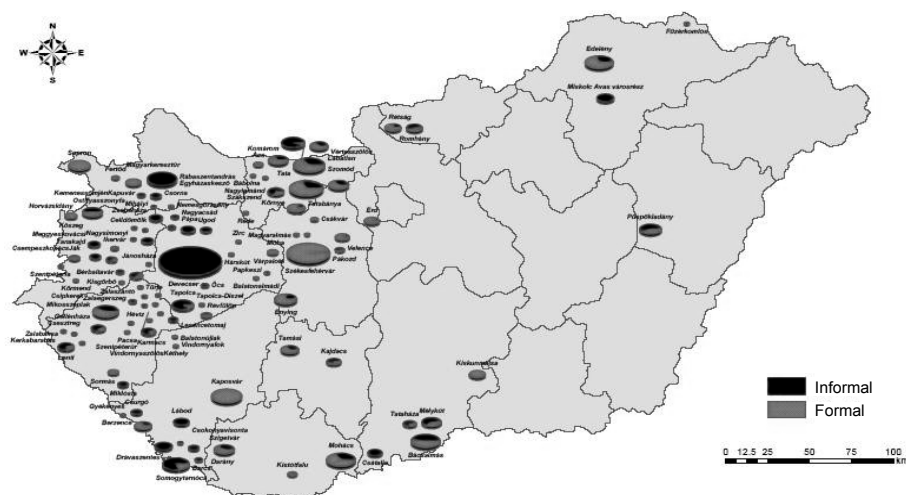




Source: Király, 2012

The spatial pattern of this ethnicized cross-border junk trade was rather concentrated to Western Hungary with a so-called capital of junk trade in a small town close to the border and along highway 8 at Devecser. There are, however, informal (cross border junk trade) – as well their formal equivalents, i.e. registered second hand) firms all along Western Hungary and in several border towns in Southern Hungary (Map 1).

Map 1. The sites of formal (registered) and informal (cross-border junk trade) second hand firms (Kovács et al, 2010: 301)



Moreover, cross-border junk trade-oriented open-air markets can be found in almost all small towns of Eastern Austria and in the Middle-Western towns in Hungary (Map 2).

Map 2. The sites of the Austro-Hungarian cross-border junk trade related open-air markets



It is important to note that cross-border junk trade is irrelevant on the Hungarian side of the Austrian–Hungarian border very likely because this region has a relatively higher GDP per capita. As to the Eastern regions of Hungary, the Austro–Hungarian cross-border junk trade would be too expensive to be transported to these parts of Hungary (except a few large open-air markets) to compete with the Ukrainian–Romanian cross-border junk trade goods.

In the aftermath of the 2008 financial crisis the deteriorating standard of living, the increasing level of unemployment as well as the inertia of the decades-long accumulation of the specialized human and network capital of cross-border trade caused the survival/revival of “lomi” more recently. As a new ethnographical snapshot of the open-air market in a small Austrian town close to the Hungarian border (Boda 2011) illustrates, “lomi” is (and very likely will remain) with us:

“It is still dark at 4 a.m. but the huge square in front of the market hall of Oberwart (Burgenland, Austria) is already swarming with activity. Small and big trucks, vans and station wagons are arriving to the unlit – the size of a soccer pitch – field... The flea market – held on the first Saturday of every month – is a major event of the whole area since thousands of Hungarians (mostly from Western Hungary) come to this market. They bring home the second-hand clothing, shoes, toys, electronic stuff, small machinery, and junk of Austrian households – bought for peanuts. The favorable conditions for making profit

are well-illustrated by the fact that while earlier only locals, nowadays traders even from Wien (the capital of Austria) come to the market to do business, since it is in the air that it is easy to find Hungarian customers for everything. On the first Saturday this April the Hungarian blitz was strong again. Already at half past 4 a.m. the customer parking lot was half-full. People, still half-asleep are stumbling out of their cars, their motions and equipment prove that they are experienced in flea market "lomi". ... "Let's go, otherwise we'll be late" – cries Sanyi, a short and skinny man from Szombathely (a Hungarian city about 40 km from Oberwart) and starts to run with his huge shopping trolley, a flashlight with a rubber band attached to his hand... "The wee hours are ours, second-hand dealers, we better fish out what we want before the crowd arrives... we move fast between the rows of stalls and Sanyi as a radar scans the stuff continuously: "How much, mate?" – stops at an old Austrian Opel station wagon, and points at a used Hoover. Ten euro, says the trader first but after a short but unavoidable bargain they agree on six. ... We continue, Sanyi is very open-minded, ready to deal with cutlery, feeding-bottle sterilizer, kitsch, children bike, spanner, everything provided it is cheap enough. By half past 5 a.m. his wagon is almost full just as the customers' parking lot...

There are Hungarian sellers as well. Zsuzsa is working during the week as a baby sitter in Austria but sells the eggs produced by her parents' farm from the trunk of her car in the weekends... Zsolt a salvage yard owner and his wife Adrienne a dog beautician are coming from Szombathely: "I have nothing to complain, we make our ends meet but to come here is good to have some extra income... It is easy to learn the trade, it is somewhat strange though that here I am a Hungarian selling Hungarian stuff to Hungarians in Austria and for euro ... Around noon the business slows down, the traders start packing. The *lomis* are already long gone, those who came to the flea market as treasure hunters went downtown to have lunch, the bargain hunter started to go home – after a detour to the supermarket to buy foodstuff cheaper here than in Hungary – ... at the crossing point at Bucsú there is already a long queue of cars coming home from lomi-ing and shopping. The cars are packed with used lawnmowers, bikes, on the top packed with bags of clothing ... and satisfaction on the faces of the people." (Boda 2011 p.11)

A special feature of "lomi" is that in certain regions this itinerant cross-border business is monopolized by Roma families. These small groups were formed decades ago, and became well known in the entire region. The increasing role of the Roma in this mobile, informal as well as profitable cross-border entrepreneurial activity can be explained by the ability of certain Roma groups to rely on particularistic trust and network capital. Konstantinov's (1996) seminal case study illustrates the way the itinerant, peripatetic, familial, independence-loving Roma

culture overlaps with a general entrepreneurial spirit born (or (re)discovered) during the post-communist transformation. As a reaction to the peculiar combination of pressure and opportunity certain Bulgarian social groups (just as Poles did somewhat earlier and Russians a bit later) using their fiscal, human, and first of all very elaborated network capital to set up tourist-trade ventures. Being a Roma had a certain advantage in the course of this process.

The ethnicization of cross-border trade is not limited to the "lomi" only. The following examples illustrate Roma cross-border trader techniques between Romania and Hungary (Vajda-Prónai 2002). In both cases family, kin, business-based particularistic trust are crucial for success, and both are embedded in ethnic networks.

The Gábor Gypsies belong to the 'kelderash' tribe of Vlach gypsies, a closed community, with strong attachment to their language and tradition. Their ancestors were engaged in the traditional trades of making braziers and other copper objects. This trade is still carried on by many of them in Transylvania but the demand for their products has been decreasing, therefore they extended their activity towards Hungary. Before the transformation of the system they attended regularly the annual fairs held in major East Hungarian towns (Szeged, Békéscsaba, Debrecen). The shoe traders buy the merchandise in Romania or Hungary (e.g. at Chinese markets). Selling the shoes is the men's task. Women and children sell flatware, pots and pans. They partly peddle or address prospective customers in the streets or city centres. The family is very mobile. If business is poor in Hungary, the men switch to neighbouring countries and try to sell there the merchandise they have bought. Better-off Gábor gypsies come to Hungary by car. They get market information (prices, the volume and composition of demand) through phone from their network in the destination country. Contacts in the target countries (those giving them accommodation and arrange the required documents) are usually the same "good contacts".

The Hungarian Gypsies speak both Romanian and Hungarian, and they distinguish themselves both from the Gábors and from the 'Romanian Gypsies', i.e. they do not keep contact with them, are only on greeting terms on the marketplace. They usually sell clothes and regularly commute between Romania and Hungary. They have wide kin-based international networks from France through Hungary to Bulgaria but they keep close contacts with Hungarian Gypsies in Hungary as well.

## Summary

Despite the differences,<sup>17</sup> the Mongolian and Hungarian cases illustrate lucidly that beyond the general explanations (for markets in general see Ben Porath 1989; Macauley 1993; Granovetter 1985, for trade in particular see Fafchamp-Minten

<sup>17</sup> Though both central within their regions (Central Europe and Central Asia), the two case studies originate from the farthest points within the Soviet satellite system.

2002; Gould 1994; Greif 1989) there are transformation-specific reasons why particularistic trust and network capital became so important in the aftermath of the collapse of the socialist system.

Informality has increased the value of particularistic trust and traditional forms of network capital in the course of post-socialist transformation (sometimes for years in certain post-socialist countries, and for decades in others), whereas the inbuilt inertia of informality, particularistic trust and network capital have created path-dependent processes.

While agreeing with Egbert (2006) that social capital as a panacea is the wrong answer when we try to understand the logic of economic actions in general, and of informal economy in particular, we consider particularistic trust and network capital (often in their ethnicized forms) as inevitable assets in conditions characterized by high uncertainty and/or when the entrepreneur lacks other forms of capital. These assets make the use of human capital more efficiently act as (often not without severe social costs such as dependence on each other [Evers-Schradler 1994] and /or exclusion and segregation [Portes-Sensenbrenner 1993]) substitutes for financial capital and embed the individual in a niche of similar (though competing) actors.

Moreover, the Mongolian and Hungarian examples showed the importance of ethnicity as a resource as well. This, however, is again more the rule than the exception. Literature (See Nee-Sanders [2001] on the mode of incorporation among Koreans, Filipinos, and Chinese, Portes et al. [2001] on economic adaptation among Caribbean ethnic groups, Gould [1994] on international but especially China-related bilateral trade, Fafchamps and Minten [2002] on petty trade in Madagascar; Bonachich [1973]) on middleman minorities in general illustrates very succinctly the role that ethnicity plays in diverse situations (always hand in hand with monetary and network capital of course). Under the pressures and opportunities provided by a high level of informality, this has been even more the case (e.g. Wiegand 1994; Nyíri 2007).

In case of Hungary – as Konstantinov (1996) illustrates lucidly in Bulgaria – the Roma's entrepreneurial spirit, their desire for independence, as well as their readiness for itinerant peddling were (re)discovered during the post-communist transformation. As a reaction to the peculiar combination of pressure and opportunity certain Roma groups used their monetary, human, and social capital to start cross-border junk trade. Or as Stewart (1997 and 2002) argued, having been forced for centuries to accumulate human capital to cope with the uncertainties of informal work, as well as their dense network capital and expertise in transnational and internal mobile small-scale entrepreneurial activity have given the Roma a competitive edge in this business<sup>18</sup>.

<sup>18</sup> The structural constraints creating such development without any ethnic cultural basis can be illustrated by Fontaine (1996) who describes the emergence of a peddling business community in medieval France among poverty stricken but resourceful social groups in the Alps.



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