Chapter 1

The Rise of Darknet Markets in the Digital Age:
Building Trust and Reputation

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ABSTRACT

The last decade saw the rapid development and growth of online markets of illegal goods, known as darknet markets or cryptomarkets. This chapter explores recent trends in the development and evolution of these markets. In particular, the chapter analyzes specific mechanisms used by participants of darknet commerce to establish trust, build reputation, provide quality assurance, minimize fraud risks, and overcome potential violations of contracts. These mechanisms include a wide variety of different tools, such as clients' ratings of purchases, comments on transactions, vendors' track records, anonymous user forums, and online chat rooms that facilitate sharing and distribution of information about marketplaces. As this chapter shows, a distinctive feature of trust building in cryptomarkets is the widespread use of third parties, such as administrators of marketplaces and operators of forums. By providing escrow services and conflict-resolution mechanisms, they serve as "centers of trust" and guarantors against fraudulent activities.

INTRODUCTION

The global development of electronic commerce gave rise to a new phenomenon of darknet markets, also known as cryptomarkets. They represent commercial websites on the dark web, which is not accessible through popular search engines, such as Google, Yahoo, or Microsoft's (MSFT) Bing. Darknet markets sell primarily illicit goods, such as drugs, counterfeit currency, stolen credit card information, and unlicensed pharmaceuticals. The most recent trend, however, includes an increasing share of legal goods sold by darknet vendors. Internet users might want to buy legitimate goods through darknet markets for various reasons, for example, personal preferences, concerns about privacy, or governments' bans on the use of open Internet websites in authoritarian countries with repressive regimes. Darknet markets offer new opportunities for individuals to protect their online activities from monitoring and surveillance by third parties, such as Internet service providers, e-commerce businesses, and governments. For example, in 2014, Facebook unveiled a new address specifically for those dark web users who would like to ensure anonymity of their communications and transactions (Paul, 2014). Within darknet markets, the use of internally developed technology platforms allows individuals to anonymize and customize their communications in ways that support their specific needs.

Similar to traditional online markets, one of the key advantages of digital communication within darknet markets is the ability of users to create connections all across the globe and to speed their transactions. Furthermore, the use of encryption in darknet markets allows users to protect the integrity, security, and confidentiality of their communications. Yet, anonymity poses new challenges to the process of building trust essential for any effective communication between actors. In addition to encryption software, almost all transactions in darknet markets use cryptocurrencies, such as Bitcoin, to ensure their anonymity. The related impersonality of transactions leads to the reduced ability of all parties to detect potential fraud and cheating. Due to their hidden nature, darknet markets are inherently characterized by imperfect and asymmetric information for their participants. In such circumstances, trust and reputation become essential assets for all market actors. However, the research into trust building mechanisms in darknet markets remains scattered and unfocused, largely because the dark web is a relatively new phenomenon.

To fill this gap, this chapter intends to look at the foundations for trust building in anonymous digital communications. Specifically, the chapter addresses the following questions: What analytical framework can be used to analyze trust relations among actors involved in darknet trade and what specific mechanisms

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