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**INFORMAL INSTITUTIONS AND SOCIAL CAPITAL IN PERIPHERAL ECONOMIES:
THE CASE OF REGIONAL ENTREPRENEURSHIP IN KYRGYZSTAN**

ПЕРИФЕРИЯЛЫК ЭКОНОМИКАЛАРДАГЫ ФОРМАЛДУУ ЭМЕС ИНСТИТУТТАР
ЖАНА СОЦИАЛДЫК КАПИТАЛ: КЫРГЫЗСТАНДАГЫ АЙМАКТЫК ИШКЕРДҮҮЛҮК
МИСАЛЫ

НЕФОРМАЛЬНЫЕ ИНСТИТУТЫ И СОЦИАЛЬНЫЙ КАПИТАЛ В ПЕРИФЕРИЙНЫХ
ЭКОНОМИКАХ: ПРИМЕР РЕГИОНАЛЬНОГО ПРЕДПРИНИМАТЕЛЬСТВА В
КЫРГЫЗСТАНЕ

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INFORMAL INSTITUTIONS AND SOCIAL CAPITAL IN PERIPHERAL ECONOMIES: THE CASE OF REGIONAL ENTREPRENEURSHIP IN KYRGYZSTAN

Abstract

The article examines the role of informal institutions and social capital in promoting regional entrepreneurship in peripheral economies, using Kyrgyzstan as a case study. It highlights the problem of weak formal institutions—legal frameworks, state support, and market infrastructure—in remote regions, limiting official business channels. The objective is to show how informal institutions (kinship networks, clan ties, community trust, mutual assistance norms, reciprocal obligations) and social capital compensate for these gaps by reducing transaction costs, improving access to resources, information, and markets, and enhancing SME resilience. Empirical findings confirm these mechanisms are vital for entrepreneurial activity and business survival where formal structures fail. The novelty lies in the detailed analysis of Kyrgyzstan's regional cases, providing new empirical evidence from a post-Soviet context that enriches theory and offers practical insights for regional policies leveraging local social capital with less reliance on fragile formal institutions.

Key words: economy, informal institutions, regional entrepreneurship, peripheral economy, social capital

Перифериялык экономикалардагы формалдуу эмес институттар жана социалдык капитал: Кыргызстандагы аймактык ишкердүүлүк мисалы

Аннотация

Макалада Кыргызстан сыяктуу перифериялык экономикаларда регионалдык (аймактык) ишкердүүлүктүн өнүгүшүндө формалдуу эмес институттардын жана социалдык капиталдын ролу иликтенет. Ишкердик ишмердүүлүк көбүнчө жамааттык байланыштарга, урук-туугандык мамилелерге, кландык тармактарга, ишенимге жана өз ара жардамга негизделген формалдуу эмес механизмдер аркылуу ишке ашат. Изилдөөнүн негизги максаты – бул формалдуу эмес институттар менен социалдык капиталдын ишкердик процесстерине тийгизген таасирин аныктоо жана алардын перифериялык шарттарда кандайча иштээрин көрсөтүү. Авторлор бул механизмдер транзакциялык чыгымдарды кыйла азайтып, ишенимди бекемдеп, ресурстарга жетүүнү жеңилдетерин, ошондой эле чакан жана орто бизнестин туруктуулугун жана өсүшүн камсыз кыларын эмпирикалык далилдер менен негиздешет. Макаланын жаңылыгы – Кыргызстандын аймактык контекстиндеги конкреттүү мисалдар аркылуу формалдуу эмес институттар менен социалдык капиталдын өз ара аракеттешүүсүнүн ролун терең талдоо, бул жагдайларды мурда жалпы теориялык деңгээлде гана каралып келген перифериялык экономикалар үчүн жаңы эмпирикалык далилдер менен толуктоо. Жыйынтыктар регионалдык экономикалык саясатты иштеп чыгууда, өзгөчө жергиликтүү ишкердикти колдоо жана формалдуу институттарды бекемдөө боюнча сунуштарды берүүдө колдонулушу мүмкүн.

Ачык сөздөр: экономика, формалдуу эмес институттар, регионалдык ишкердүүлүк, перифериялык экономика, социалдык капитал

Неформальные институты и социальный капитал в периферийных экономиках: пример регионального предпринимательства в Кыргызстане

Аннотация

В статье рассматривается роль неформальных институтов и социального капитала в развитии регионального предпринимательства в периферийных экономиках на примере Кыргызстана. Основная проблема заключается в слабости и неэффективности формальных институтов (правовых норм, государственного регулирования, рыночной инфраструктуры) в удалённых регионах, что делает невозможным опору исключительно на официальные механизмы ведения бизнеса. Цель исследования — показать, как неформальные институты (традиции взаимопомощи, клановые и родственные связи, сети доверия) и накопленный социальный капитал компенсируют институциональные пробелы, снижая транзакционные издержки, облегчая доступ к ресурсам и информации, а также повышая устойчивость малого и среднего бизнеса в сложных условиях. Результаты подтверждают, что в периферийных контекстах именно эти механизмы становятся ключевым фактором выживания и роста предпринимательства. Новизна работы состоит в эмпирическом анализе конкретных кыргызстанских региональных случаев, который дополняет существующие теоретические подходы новыми доказательствами из постсоветского пространства и предлагает практические ориентиры для региональной экономической политики, направленной на поддержку местного бизнеса без чрезмерной зависимости от слабых формальных структур.

Ключевые слова: экономика, неформальные институты, региональное предпринимательство, периферийная экономика, социальный капитал

Introduction

In the contemporary context of national economic transformations, research on entrepreneurship in peripheral regions has gained particular importance. Peripheral economies are characterized by limited resources, weak formal institutions, and a significant role of informal mechanisms and social capital. The Kyrgyz Republic is among the countries with a pronounced peripheral economic structure. Outside major cities, entrepreneurial activity predominantly takes the form of small and micro-enterprises operating under conditions of institutional uncertainty. Formal institutions - including the legal system, judicial protection, and contract enforcement - often fail to provide an adequate level of economic security. Under these conditions, informal institutions and social capital become crucial for economic resilience and the development of regional entrepreneurship, which underscores the relevance of the present study.

Research Aim and Objectives

The aim of this study is to identify and analyze the role of informal institutions and social capital in the development of regional entrepreneurship in Kyrgyzstan. To achieve this aim, the following objectives are set:

- To examine the characteristics of Kyrgyzstan's peripheral economy;
- To analyze the economic role of jamaats;
- To determine the significance of tribal and clan networks in entrepreneurship;
- To identify the function of trust as a form of social capital.

Research Methodology

The methodological foundation of this research is based on institutional and systems approaches. The study employs methods of logical analysis, generalization, comparative analysis, and elements of qualitative analysis of entrepreneurial practices in Kyrgyz regions.

Kyrgyzstan as a Peripheral Economy: Structural, Historical and Spatial Dimensions

The economy of the Kyrgyz Republic reflects a configuration commonly associated with peripheral positioning in the global economic hierarchy. Peripheral economies are not defined solely by income indicators or aggregate output levels. Rather, they are characterized by structural dependence on external demand, constrained domestic capital accumulation, limited technological upgrading, and asymmetric integration into global production and value chains (Wallerstein, 1974). In this respect, Kyrgyzstan exhibits many features consistent with center - periphery exchange asymmetry: export structures remain relatively concentrated, value added is often captured outside national borders, and domestic production is strongly influenced by external price dynamics, remittance inflows, and regional geopolitical shifts.

Historically, this configuration is rooted in the post-Soviet transition trajectory. The collapse of centrally planned industrial linkages in the 1990s resulted in deindustrialization, fragmentation of production chains, and the decline of technologically intensive sectors that had previously been embedded in the Soviet inter-republic system. Subsequent economic stabilization did not fully restore diversified industrial capacity. Instead, the economy gradually reoriented toward trade intermediation, small-scale services, extractive activities, and labor migration. This pattern did not emerge by accident; it reflects both structural constraints and adaptive responses to limited domestic investment capacity (Sulaimanov, 2024, p. 88).

Although recent years have demonstrated relatively strong headline growth, closer examination of the composition of that growth reveals underlying structural fragility. Expansion has been concentrated largely in services, construction, logistics, and re-export activities linked to shifting regional trade corridors. Manufacturing sectors with higher productivity potential remain modest in scale, and innovation-intensive industries are only slowly emerging. Agriculture continues to absorb a significant share of the labor force while generating comparatively lower value added per worker, which signals persistent structural dualism and uneven productivity distribution across sectors.

Such a development trajectory corresponds to a classical pattern of dependent growth, in which macroeconomic expansion does not automatically translate into structural transformation or technological deepening. Capital accumulation remains constrained by limited domestic savings and high reliance on external transfers. Investment cycles are often short-term and reactive rather than strategic and innovation-driven. As a result, economic resilience depends less on industrial diversification and more on adaptive flexibility within small and medium-sized enterprises.

From the perspective of institutional economics, long-term development is inseparable from the coherence, predictability, and enforcement capacity of formal “rules of the game” (North, 1990).

In Kyrgyzstan, formal legal frameworks are formally established and procedurally codified; however, institutional effectiveness varies considerably in practice. Enforcement asymmetry is pronounced. Contract implementation differs not only across sectors but also across regions. Judicial accessibility in remote areas is limited by geography and resource constraints. Administrative discretion remains significant in certain regulatory domains. Regulatory predictability can fluctuate depending on local administrative capacity and informal influence networks (Isaeva, 2025).

Economic actors therefore operate in an environment where uncertainty arises not from the absence of rules, but from inconsistent application. It may be argued that this type of institutional environment produces rational adaptation strategies: entrepreneurs seek to minimize exposure to formal enforcement risks by embedding transactions within trusted relational networks. In such circumstances, informality is not necessarily an indicator of illegality; it is frequently a rational governance response to uneven institutional reliability.

Peripheral status in Kyrgyzstan is thus not only international but also domestic and spatial. The institutional environment in Bishkek differs markedly from that in Naryn or Osh. The capital benefits from denser banking infrastructure, higher concentration of state agencies, improved connectivity, and relatively stronger monitoring capacity. By contrast, mountainous and border regions face logistical isolation, thinner financial networks, and greater enforcement uncertainty. Distance from administrative centers increases transaction costs and delays dispute resolution, thereby amplifying reliance on informal coordination.

This territorial stratification generates localized institutional ecosystems. In some districts, entrepreneurs may interact directly with formal banking systems and regulatory authorities. In others, economic activity remains deeply embedded in community-based governance arrangements. A small livestock-processing enterprise in a remote valley, for example, may rely on verbal agreements with suppliers, reciprocal labor arrangements during peak seasons, and informal credit extended through kinship channels. These practices are not necessarily symptoms of backwardness; rather, they represent adaptive responses to spatially differentiated institutional capacity.

Within this context, informal institutions do not merely replace weak formal ones. Their role is more nuanced and dynamic. In certain domains, they function as substitutes: reducing search and

monitoring costs, enforcing agreements through reputational sanctions, and providing access to liquidity outside formal banking channels. Trust-based lending among relatives or community members can accelerate business expansion when collateral requirements in formal credit markets are prohibitive.

In other domains, however, informal mechanisms operate as complements. Entrepreneurs frequently combine formal registration with informal relational enforcement. Community networks may assist in navigating bureaucratic procedures, securing co-financing for officially registered projects, or coordinating compliance with regulatory standards. Informal institutions can therefore serve as transitional scaffolding that stabilizes economic exchange while formal systems gradually strengthen.

It appears plausible that this dual substitutive–complementary function explains their persistence. Entrepreneurs rarely abandon formal mechanisms entirely; instead, they embed formal contracts within relational frameworks that provide additional layers of security. Informal governance thus operates as a risk-buffering layer surrounding partially functioning formal institutions. Over time, this hybridization produces a distinctive governance model in which relational norms and codified rules coexist, interact, and sometimes overlap.

Such a configuration underscores a broader analytical point: peripheral positioning does not imply institutional absence. Rather, it reflects institutional plurality and unevenness. Formal and informal institutions intertwine in complex ways, shaping entrepreneurial strategies, risk allocation, and patterns of capital accumulation. Understanding this interaction is essential for interpreting both the resilience and the structural constraints of regional entrepreneurship in Kyrgyzstan.

Trust (Ishenim) as a Distinct Analytical Category

Trust (ishenim) warrants analytical separation from clan and community structures because it functions not merely as a derivative of kinship ties, but as an independent coordination mechanism shaping economic behavior across multiple institutional layers. While clan and jamaat networks provide structural frameworks, trust represents the cognitive and normative foundation that enables these frameworks to operate effectively. In other words, networks may exist formally, but without trust they cannot significantly reduce uncertainty or transaction costs.

Trust operates at different levels, varies in scope and intensity, and produces distinct economic effects depending on its configuration. For analytical clarity, it is useful to distinguish among three interrelated but conceptually separate forms:

- Particularized trust — confined to kinship, extended family, and close community networks;
- Generalized trust — extended beyond known circles to anonymous market participants;
- Institutional trust — confidence in formal state institutions, legal enforcement, and regulatory bodies.

In Kyrgyzstan's regional economies, particularized trust remains the dominant form. This predominance is neither accidental nor purely cultural; it reflects rational adaptation to an environment characterized by institutional variability and enforcement asymmetry. Dense bonding networks generate predictable patterns of behavior, facilitate long-term relational contracting, and substantially reduce monitoring and enforcement costs. Transactions embedded in kinship or tightly knit community structures rely less on written agreements and more on reputational accountability, repeated interaction, and shared social norms.

For instance, a small garment workshop in a southern district may rely almost exclusively on relatives for labor recruitment, procurement of raw materials, and product distribution. Payment schedules, delivery timelines, and quality standards are often coordinated verbally. Formal contracts may be absent, yet compliance is maintained through reputational discipline and the implicit threat of social exclusion. In such contexts, social sanctions can be more immediate and effective than formal legal remedies.

Similarly, agricultural producers in mountainous regions frequently engage in reciprocal labor exchanges during peak seasons. Livestock herders may pool resources for transportation or share equipment informally. These arrangements reduce operational costs and mitigate individual risk exposure. The economic logic is straightforward: when enforcement through courts is costly, slow, or geographically inaccessible, relational trust becomes a more efficient governance mechanism.

However, the predominance of particularized trust has structural implications. Generalized trust - the willingness to transact with unknown partners — remains comparatively limited in many regional markets. Entrepreneurs often express caution when engaging with anonymous actors, particularly outside their established networks. This reluctance affects supplier diversification, interregional trade expansion, and participation in larger value chains. While bonding capital enhances internal cohesion, it may simultaneously restrict outward integration (Fukuyama, 1995).

Institutional trust constitutes a third dimension. Confidence in courts, regulatory agencies, and administrative bodies varies across regions and sectors. In urban centers, interactions with formal institutions may be more predictable. In remote districts, perceptions of administrative discretion, procedural opacity, or enforcement inconsistency may reduce reliance on formal dispute resolution. Where institutional trust is moderate or low, entrepreneurs frequently prefer negotiated settlement within networks rather than formal litigation.

The interaction among these three forms of trust produces a distinctive governance configuration. Particularized trust often compensates for limited institutional trust. At the same time, limited generalized trust can constrain market expansion and innovation diffusion. From a developmental perspective, this creates a tension: the very mechanisms that ensure resilience under uncertainty may inhibit broader structural transformation.

It appears plausible that bonding social capital strengthens crisis adaptation precisely because it concentrates trust within stable networks. During external shocks — currency volatility, border disruptions, or supply chain interruptions — entrepreneurs embedded in dense trust-based relations can mobilize emergency credit, adjust production collectively, and absorb short-term losses through reciprocal arrangements. This flexibility contributes to business survival and local economic continuity.

Yet over the longer term, excessive reliance on bonding trust may slow the formation of bridging capital - horizontal and cross-community connections that facilitate knowledge transfer, technological adoption, and access to external investment. Innovation-intensive sectors typically require collaboration beyond kinship boundaries, engagement with unfamiliar partners, and confidence in impersonal contract enforcement. When generalized and institutional trust remain underdeveloped, such transitions proceed gradually.

Thus, trust in Kyrgyzstan's regional economies should not be romanticized as a purely positive social asset. It is a structured, differentiated phenomenon with both enabling and constraining effects. Its configuration reflects adaptive rationality within a peripheral institutional environment.

Understanding this layered structure of trust allows for a more nuanced interpretation of entrepreneurial behavior, resilience, and the limits of market integration.

In sum, *ishenim* functions as a foundational yet complex economic resource. It reduces uncertainty, facilitates coordination, and underpins informal governance mechanisms. At the same time, its distribution across particularized, generalized, and institutional domains shapes the trajectory of regional development and the capacity for long-term structural transformation.

Uruu Networks and Intergenerational Persistence

Clan-based (*Uruu*) affiliations constitute one of the most enduring informal institutional frameworks within Kyrgyzstan's socio-economic landscape. Historically rooted in nomadic pastoral organization and kinship-based territorial structuring, these affiliations have demonstrated remarkable adaptability across political regimes and economic transformations (Collins, 2006, p. 17). Far from being merely symbolic or identity-based structures, *uruu* networks continue to operate as functional economic institutions that influence resource allocation, entrepreneurial opportunity, and patterns of risk distribution.

At a structural level, clan networks reduce uncertainty by embedding economic transactions within long-term reciprocal relations. Repeated interaction among kin decreases information asymmetry and limits opportunistic behavior. Economic exchange within such networks relies on reputational monitoring, shared norms of obligation, and collective enforcement mechanisms. In environments where formal contract enforcement may be costly or unpredictable, these embedded mechanisms provide relatively stable coordination structures.

Access to informal credit frequently operates along kinship lines. Capital for business start-ups or expansion is often mobilized through extended family contributions, rotating savings arrangements or interest-free loans based on reciprocal expectation rather than legally binding documentation. Labor pooling functions in a similar manner: relatives and clan members may temporarily provide labor during peak production periods, assist in construction of commercial facilities, or participate in seasonal agricultural activities. Risk-sharing arrangements further reinforce internal solidarity; economic shocks affecting one member may be partially absorbed by collective support.

These mechanisms are not ad hoc improvisations but structured relational systems with implicit rules. Social sanctions for non-compliance — reputational damage, exclusion from future cooperation, or diminished standing within the network — can be economically consequential. As a result, clan-based governance often substitutes for formal monitoring and enforcement mechanisms while maintaining comparatively low transaction costs.

Preliminary empirical observations suggest that such institutional arrangements exhibit significant intergenerational persistence. Families historically embedded in economically stronger networks frequently retain relative advantages over time. This continuity cannot be explained solely by inheritance of material assets. Rather, it reflects transmission of relational capital: access to trusted partners, preferential information channels, established reputations, and embedded positions within cooperative structures. Children growing up within economically active clans inherit not only property but also social positioning within dense networks of exchange.

This path dependence illustrates how informal institutions transmit economic positioning across time. Even when macroeconomic regimes change - from planned economy to market transition, from agricultural predominance to service-oriented expansion - relational infrastructures

may remain comparatively stable (Imaraliev etc., 2025, p. 28). The durability of these networks suggests that institutional change is often layered rather than disruptive; new formal rules overlay, but do not necessarily displace, pre-existing informal structures.

At the same time, the strength of in-group orientation can produce structurally exclusionary effects. Entrepreneurs operating outside dominant networks may encounter indirect barriers to entry, including limited access to informal financing, weaker information flows, or reduced inclusion in cooperative ventures. Market opportunities may circulate preferentially within established relational circles. While such segmentation may enhance internal stability, it can also fragment broader market integration.

In certain regional contexts, clan dominance may influence local political or administrative interactions, shaping access to public procurement, land allocation, or regulatory negotiation. Although these dynamics vary across districts and should not be generalized uncritically, they illustrate how informal governance can intersect with formal institutional domains. This intersection may reinforce existing hierarchies and contribute to stratified patterns of regional development.

From a developmental perspective, clan-based institutions thus perform a dual function. On the one hand, they stabilize economic exchange under conditions of uncertainty, support entrepreneurial resilience, and facilitate collective risk management. On the other hand, they may reproduce inequalities, limit social mobility for outsiders, and slow the formation of broader bridging networks necessary for large-scale innovation and impersonal market expansion.

It appears plausible that the long-term developmental trajectory of regional entrepreneurship depends not on the disappearance of clan structures, but on their gradual transformation. Where clan-based bonding capital evolves toward more outward-oriented bridging capital - enabling cooperation across networks rather than exclusively within them — economic dynamism may expand without eroding social cohesion. Conversely, when bonding mechanisms remain closed and exclusive, market segmentation may persist.

In sum, *uruu* affiliations in Kyrgyzstan represent durable informal economic institutions characterized by adaptive resilience and intergenerational continuity. They embed transactions in stable relational frameworks, lower coordination costs, and transmit economic advantage across time. Simultaneously, their in-group orientation shapes patterns of inclusion and exclusion within regional markets. Recognizing both dimensions is essential for a balanced understanding of how informal institutions influence entrepreneurial development in peripheral economies.

Institutional Trap and Self-Reinforcing Equilibrium

The persistent reliance on informal governance mechanisms in peripheral and transitional economies may culminate in the formation of a self-reinforcing institutional equilibrium. In such a configuration, informal arrangements are not merely temporary substitutes for deficient formal institutions but evolve into stable coordinating frameworks that structure expectations, regulate behavior, and shape long-term economic strategies. When entrepreneurs repeatedly achieve satisfactory outcomes through relational contracting, kin-based coordination, and reputation-based enforcement, the marginal utility of demanding formal institutional reform declines. What appears as institutional stagnation at the macro level may thus be the aggregate outcome of rational micro-level adaptation.

From the perspective of institutional economics, this dynamic can be interpreted as an equilibrium sustained by aligned incentives rather than by coercive inertia. Individual actors optimize

under existing constraints: they economize on transaction costs by relying on trusted intermediaries, minimize legal uncertainty by avoiding formal dispute resolution mechanisms, and secure resource flows through embedded networks rather than through impersonal markets. In such an environment, the expected return on investing time and political capital into systemic institutional reform remains uncertain and often lower than the immediate benefits derived from established informal coordination.

Over time, however, this pattern generates a path-dependent trajectory. Informal institutions become increasingly entrenched, not because they are normatively superior, but because they are predictably functional within the existing structural context. The economy gradually locks into a hybrid order in which micro-level efficiency coexists with macro-level institutional underdevelopment. Informal mechanisms effectively sustain small- and medium-scale economic activities, yet they rarely provide the scalability, legal standardization, and technological diffusion necessary for complex industrial upgrading or integration into high-value global supply chains.

This equilibrium is further reinforced through expectation formation. Economic actors internalize the assumption that formal institutions will remain weak, slow, or selectively enforced. Consequently, they underinvest in compliance infrastructures, formal accounting transparency, and contractual standardization. Such behavioral adaptation reduces the societal demand for high-quality public goods, thereby weakening the political incentive for comprehensive institutional reform. The result is not a simple failure of the state but a co-produced equilibrium emerging from the interaction between adaptive private strategies and incomplete formal transformation.

Importantly, this configuration should not be reduced to a narrative of state incapacity alone. It reflects a mutually constitutive relationship between public institutional fragility and private coping mechanisms. Informal resilience mitigates systemic shocks, enhances short-term stability, and preserves economic continuity during periods of political volatility. Yet precisely because these mechanisms function effectively at the micro level, they dampen the pressure necessary to trigger structural institutional upgrading.

In this sense, informal governance operates as both an enabling infrastructure and a structural constraint. It enables coordination under uncertainty and lowers entry barriers within relational networks. Simultaneously, it restricts impersonal exchange, limits cross-network mobility, and constrains the formation of broad-based generalized trust. The economy remains adaptive but not transformative; resilient but not fully modernized.

The concept of an institutional trap in this context therefore denotes not dysfunction, but equilibrium persistence. It describes a stable yet suboptimal configuration in which rational adaptation at the individual level aggregates into collective inertia at the systemic level. Breaking such a trajectory requires not only administrative reform but also a recalibration of incentive structures - so that the expected benefits of formal institutional engagement exceed the relative comfort of established informal coordination.

Practical Implications for Regional Development

The acceleration of aggregate growth indicators in peripheral economies must be interpreted with analytical caution. Improvements in headline GDP figures, export volumes, or remittance inflows can generate an impression of structural strengthening, yet the sectoral composition of growth often reveals a narrower foundation. In many regional contexts, expansion has been concentrated in trade intermediation, shuttle commerce, construction linked to remittance cycles, and arbitrage

activities dependent on external price differentials. While these sectors provide liquidity and short-term employment, they typically exhibit limited productivity growth, weak technological spillovers, and low incentives for capital deepening. As a result, structural transformation into higher value-added manufacturing, agro-processing, or knowledge-intensive services remains modest.

This composition of growth reinforces reliance on relational coordination mechanisms within regional entrepreneurial ecosystems. When economic activity is concentrated in trade and small-scale commerce, transaction frequency is high but contract complexity remains relatively low. Under such conditions, reputation-based enforcement and kin-mediated dispute resolution are often sufficient to sustain exchange. However, as production chains lengthen and technological sophistication increases, the limits of purely relational governance become more visible. Scaling operations, attracting external investment, and entering distant markets require standardized contracts, reliable regulatory oversight, and credible dispute settlement institutions.

Policy design in this environment should therefore avoid binary frameworks that oppose informal and formal institutions as mutually exclusive alternatives (Helmke & Levitsky, 2004, pp. 725-740). Attempts to abruptly suppress informal practices—through strict enforcement campaigns or overly burdensome compliance regimes—risk destabilizing the very networks that currently sustain regional livelihoods. Informal institutions are not merely distortions; they function as adaptive infrastructures in contexts where formal enforcement capacity is uneven. Disrupting them without providing viable institutional substitutes may increase uncertainty and reduce productive activity.

A more viable strategy lies in fostering institutional complementarity. Rather than replacement, the objective should be gradual integration. Hybrid mechanisms can serve as transitional bridges between relational governance and formal regulatory frameworks. For example, microfinance initiatives structured in cooperation with established community associations may leverage existing trust capital while introducing standardized accounting and reporting procedures. Cooperative development programs embedded within recognized kinship or locality-based networks can formalize production and marketing practices without undermining internal solidarity. Similarly, judicial and administrative reforms that prioritize procedural transparency and reduce enforcement asymmetry can incrementally strengthen confidence in formal dispute resolution.

Consider the case of a dairy entrepreneur operating in a mountainous district. Initial expansion may rely on clan-based credit arrangements and labor mobilized through extended family ties. Such mechanisms reduce entry barriers and distribute risk in environments where commercial lending is scarce. Yet without predictable licensing procedures, accessible arbitration channels, and transparent taxation rules, the enterprise may remain confined to small-scale operations. If regulatory authorities provide clear compliance pathways, standardized quality certification, and proportionate oversight, informal capital can gradually be incorporated into formal growth trajectories. Relational trust thus becomes a foundation for formalization rather than an obstacle to it.

In the longer term, regional development strategies should prioritize the expansion of bridging social capital alongside the preservation of bonding networks. Investments in transport connectivity, digital infrastructure, vocational training, and interregional business platforms can widen entrepreneurial horizons beyond immediate kin-based circles. As firms interact with more diverse partners, incentives to adopt formal contracting and standardized practices increase organically. The objective is not to displace embedded coordination but to extend it outward, allowing relational trust to coexist with impersonal market exchange.

Ultimately, sustainable regional transformation requires sequencing rather than shock therapy. Informal institutions have demonstrated resilience and adaptive capacity; policy interventions should build upon these strengths while gradually enhancing the credibility, accessibility, and predictability of formal governance. Only under such conditions can growth shift from trade-dependent expansion toward diversified, productivity-driven development capable of supporting long-term structural upgrading.

The analysis presented in this article demonstrates that Kyrgyzstan's peripheral positioning cannot be reduced to macroeconomic indicators or external trade dependence alone. Rather, it reflects a historically embedded, structurally layered, and spatially differentiated configuration in which patterns of capital accumulation, institutional capacity, and social coordination interact in complex and mutually reinforcing ways. Peripheral status in this context is not synonymous with institutional absence or economic stagnation. It is characterized by asymmetry, unevenness, and hybridization—both across sectors and across territories.

Historically, the post-Soviet transition created a structural rupture that reshaped production systems, weakened industrial diversification, and redirected economic activity toward trade intermediation, extractive niches, and labor migration. These shifts were not simply the result of policy miscalculation; they were adaptive responses to constrained domestic savings, disrupted production linkages, and shifting geopolitical and regional trade dynamics. Over time, this adaptive orientation produced a model of growth that is flexible and resilient at the micro level but structurally limited in its capacity for technological upgrading and sustained industrial deepening.

The institutional environment that emerged within this trajectory is marked by formal codification alongside uneven enforcement. Rules exist, yet their application varies spatially and sectorally. This variability generates rational adaptation strategies among economic actors, who embed transactions within relational networks to mitigate enforcement risk and reduce uncertainty. Informality, therefore, should not be interpreted as deviation from development, but as a governance response to differentiated institutional reliability.

The spatial dimension further reinforces this configuration. Institutional density, financial infrastructure, and administrative oversight are concentrated in urban centers, while mountainous and peripheral regions operate under thinner formal oversight and higher transaction costs. These territorial asymmetries generate localized institutional ecosystems in which informal governance mechanisms acquire heightened functional importance. Peripheral status thus manifests not only in the country's integration into the global economy, but also internally, through regional disparities in state capacity and market infrastructure.

Within this environment, trust (*ishenim*) operates as a foundational yet differentiated coordination resource. The predominance of particularized trust strengthens resilience, reduces monitoring costs, and sustains small-scale entrepreneurial activity under uncertainty. At the same time, limited generalized and institutional trust constrains impersonal exchange, large-scale market integration, and innovation-intensive collaboration. The configuration of trust therefore embodies a developmental paradox: it stabilizes the system in the short term while potentially slowing structural transformation in the long term.

Uruu - based clan networks illustrate how informal institutions embed economic exchange within durable relational frameworks. Their intergenerational persistence demonstrates that economic positioning is transmitted not only through material inheritance but also through relational capital and

network embeddedness. These structures reduce uncertainty and enable collective risk-sharing, yet they may also reinforce segmentation and limit inclusive mobility across network boundaries. Informal governance thus stabilizes and stratifies simultaneously.

The concept of a self-reinforcing institutional equilibrium provides an integrative lens for understanding these dynamics. When relational coordination yields satisfactory outcomes at the micro level, incentives for systemic institutional reform diminish. Adaptive efficiency at the individual level aggregates into macro-level persistence. The result is a hybrid order: resilient but structurally constrained; adaptive but not fully transformative. This equilibrium does not arise solely from state weakness. It is co-produced through the interaction between partial formal reform and rational private adaptation.

From a policy perspective, these findings suggest that developmental progress cannot be achieved through abrupt institutional substitution or the administrative suppression of informal mechanisms. Informal institutions constitute embedded infrastructures of coordination. Sustainable transformation requires institutional complementarity, sequencing, and incentive recalibration. The expansion of bridging social capital, the strengthening of predictable enforcement, and the reduction of spatial institutional asymmetry are likely to be more effective than confrontational reform strategies.

Summary

In sum, Kyrgyzstan's peripheral economy is characterized by institutional plurality, historical path dependence, and spatial differentiation. Informal institutions and trust-based governance are not peripheral to the system; they are integral components of its functioning. Their resilience explains the continuity of entrepreneurial activity under structural constraint. At the same time, their configuration shapes the limits of long-term structural upgrading. A nuanced understanding of this duality—enabling and constraining, stabilizing and segmenting—is essential for interpreting both the achievements and the developmental challenges of regional entrepreneurship in Kyrgyzstan.

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