

Article

Formal and Informal Rules Interaction in the Trade Facilitation Context of the Kyrgyz Republic

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Abstract

Emerging economies are committed to trade facilitation reforms and realize their positive effect on trade. These trade facilitation reform programs are prepared by international donor organizations based on the best practices and offered to developing economies. However, despite introducing the same reforms, trade facilitation progress in developing countries diverges. The possible explanation for this difference may exist in institutional aspects. Interaction between institutional elements (formal and informal rules and their enforcing mechanisms) may bring desirable or unexpected outcomes. In the trade facilitation context, such institutional interaction outcomes result in trade facilitation performance. Hence, a deep analysis of trade facilitation progress using OECD trade facilitation indicators (TFI) from an institutional perspective can be helpful. This study examines the trade facilitation progress of the Kyrgyz Republic by considering the components of TFI in comparison to other post-socialist countries. The study then discusses the probable impact of informal rules of institutions on the proposed new formal rules (introduced by trade facilitation). This study suggests that informal rules, which structure the interaction of traders with border agencies, hinder the trade facilitation progress of the Kyrgyz Republic.

Keywords: trade facilitation, institutional interaction, informal rules

1. Introduction

Recognizing the importance of trade to an economy, developing countries nowadays conduct trade facilitation reforms. By implementing trade facilitation reforms, national governments seek to reduce trade transaction costs for business activities. These trade facilitation reform programs are prepared by international donor organizations based on best practices

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and offered to developing economies. Thus, emerging economies try to implement the same trade facilitation changes with the assistance of international organizations.¹⁾

However, despite adopting similar reform programs, trade facilitation performance diverges among developing economies. Indeed, by comparing trade facilitation achievements among former communist countries, Kanybekov (2023 a) finds that European economies show high scores than Central Asian republics. He tries to establish a link between customs modernization changes, trade facilitation performance, and transaction costs in the Kyrgyz Republic. The author compares the performance of the Kyrgyz Republic's trade facilitation with that of other post-communist countries. In addition, he discusses the link between customs reforms and transaction costs in the context of trade facilitation. According to the OECD trade facilitation indicators (TFIs) for 2022, the Kyrgyz Republic is ranked 18th out of the twenty-one post-socialist republics. The author reveals that the Kyrgyz government needs to intensify efforts in simplifying documents and organizing internal border interaction. Further, he argues that complicated document requirements and ineffective internal border cooperation and coordination result in high trade transaction costs.

What might be the possible explanations for post-socialist countries' diverging trade facilitation performance? As Hillberry and Zhang (2018) stress, the trade facilitation policy of a nation exhibits a strong interconnection with various aspects of its civic and economic life. To find theoretical explanations for the obstacles to trade facilitation, Kanybekov (2023 b) reviews relevant literature, including institutional economics. The author conforms that economists have recently recognized the essential role of institutions and culture in economic growth. He discusses how economic scholars, who tackle institutional and cultural factors, explain the diverging economic performance of countries despite conducting identical economic reforms. They find that diverging outcomes of the same economic reforms in developing countries are the result of their institutions (formal and informal rules, enforcing mechanisms) and culture (beliefs, values, and preferences) (Kanybekov, 2023 b). In addition, there is an evidence of the important role of institutions and culture in trade. They argue that informal rules of institutions reflect people's beliefs, and these rules change very slowly compared to formal rules. Based on the arguments of institutional economists, Kanybekov (2023 b) concludes that trade facilitation involves institutional change, and this change may be incremental. Thus, the investigation of institutional factors of trade facilitation is essential to identify economic performances of developing countries.

As an institutional transformation, trade facilitation changes people's interaction in border clearance operations. Particularly, trade facilitation affects formal rules, i.e., border clearance regulations. On the other hand, informal rules (unwritten norms of interaction of stakeholders in border clearance processes) may change much slower. Accordingly, the question arises about how newly introduced formal rules will interact with current informal rules. In one case, this interaction brings desirable results as successful trade facilitation reforms.

In other cases, institutional interaction can result in moderate trade facilitation progress. Consequently, informal rules may either enhance or reduce the effectiveness of proposed new formal rules.

Thus, analyzing institutional aspects can provide additional information on the factors which impact the trade facilitation progress. Previous studies have not discussed obstacles to trade facilitation reforms from an institutional perspective. Specifically, how informal rules affect the outcomes of changing formal rules in the trade facilitation context has yet to be analyzed. This study aims to explore institutional aspects of trade facilitation reforms in the Kyrgyz Republic using OECD trade facilitation indicators. With this indicator, no previous research work examines the issue deeply.

The remaining part of the paper is organized as follows. Section 2 describes the concepts of trade facilitation, formal and informal rules, and the institutional framework for people's interaction in border processes. Section 3 surveys the previous literature. Section 4 examines the trade facilitation performance of the Kyrgyz Republic in comparison to those of former socialist countries and analyzes its change over five years. Section 5 discusses the current informal rules in border clearance activity. Section 6 describes the nation-level informal rules. Section 7 provides concluding remarks.

2. Formal and informal rules in the trade facilitation context

Before discussing institutional aspects of trade facilitation, it is necessary to define the concepts applied in this study. Trade facilitation can be defined as a process of simplification, modernization, and harmonization of border procedures to reduce trade transaction costs. Formal rules are "rules and procedures that are created, communicated, and enforced through channels widely accepted as official" (Helmke & Levitsky, 2004, p. 727). Informal rules are "socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels" (Helmke & Levitsky, 2004, p. 727). It is worth mentioning that informal rules reflect people's beliefs and values (North, 2005). In the context of cross-border trade transactions, formal rules are border clearance regulations, and informal rules are unwritten norms of the interaction of people engaged in border clearance processes.

Who are engaged in border clearance processes? Grainger (2011) divides the trade environment into three categories of stakeholders: traders, intermediaries, and the government. The traders encompass small and large exporters and importers and their agents. The intermediaries category comprises transport and related services (including insurance and banking), and, second, facilities and infrastructure (including ports, warehouses, and IT services). The government category includes all border authorities that enforce such regulato-

ry objectives as revenue collection, safety and security, environment and health, consumer protection, and trade policy.

Based on North's description of institutions (1990, p.4), the following institutional framework can be applied to cross-border trade transactions. *Rules of the game*: formal — trade and border clearance regulations, informal — unwritten norms of interaction of stakeholders in border clearance processes. *Players*: traders and border authorities, and, to some extent, intermediaries. *Enforcing mechanisms*: formal-judiciary system, law-enforcing bodies like the police and national security service, informal — expectations of reciprocity, threats, boycotting, gossip. While the institutional environment is significantly more complex, this study, for simplicity, utilizes the above framework, which presents the main institutional elements.

In this way, formal rules are all official regulations and procedures related to the clearance of goods crossing a border. Stakeholders in the clearance processes are traders, border authorities, and intermediaries. Informal rules are shared norms of behavior of people engaged in border clearance procedures. This behavior is expected by all participants in cross-border trade operations. In other words, people share expectations regarding others' behavior. Trade facilitation is expected to change inefficient border procedures, i.e., current formal rules.

3. Literature review

The findings of previous studies lead to a discussion of institutional aspects of trade facilitation. Duval (2006) surveys twenty trade facilitation experts and international organizations by email in 2005 regarding the costs of trade facilitation reforms. He finds that political costs (resistance to trade facilitation changes) are among the top costs of reforms. Duval (2006) stresses that the implementation of trade facilitation reforms entails varying degrees of change, and this change is typically viewed negatively. Therefore, due to high political costs, developing countries may require time to implement trade facilitation changes (Duval, 2006). From the study of Duval (2006), one can conclude that the institutional aspect of the trade facilitation issue is essential since trade facilitation transforms how people interact, and these changes can be perceived negatively. In other words, actors engaged in border clearance activity may resist changing the current "rules of the game".

Similarly, Streatfeild (2017) observes that customs reforms in Sub-Saharan Africa are slower than infrastructure improvements. The author concludes that his findings are conformed with the institutional change theory that predicts slow changes. OECD (2018), by reviewing the experience of twenty-four developing economies, argues that changes in organizational incentives and behaviors pose a significant obstacle to trade facilitation reforms. Political momentum and time for adaptation may be required to overcome resistance

to change. Cantens et al. (2013), based on the experience of Korean Customs, discuss the issue of cooperation and coordination among border agencies. The authors argue that introducing a single window system is a political issue since consolidating several regulatory agencies into a unified framework requires time, effort, and patience. Particularly, agencies with their own well-developed systems are hesitant to participate because they fear losing their identity and reason for existence.

Other studies exploit institutional isomorphism theory in studying trade facilitation measures. Alsharari (2022) studies the introduction of a risk management system in Jordan Customs and states that institutional isomorphism (organizational homogeneity) stresses social and political pressures as primary sources of change. The author uses three dimensions of institutional isomorphism: coercive, mimetic, and normative. Alsharari (2022) finds that normative and mimetic pressures played a significant role, with coercive force exerting the greatest influence.

Thus, the previous studies recognize that trade facilitation reforms require time because they are concerned with institutional issues (e.g., political aspects). However, the previous literature lacks a discussion of trade facilitation issue from the angle of institutional interaction, i.e., the impact of current informal rules on newly introduced formal rules.

4. Trade facilitation performance of the Kyrgyz Republic

As previously mentioned, the outcomes of institutional interaction between current informal rules and introduced formal rules may reflect in trade facilitation progress. Accordingly, as the first stage of analysis, the trade facilitation progress of the Kyrgyz Republic can be compared with the achievements of other post-socialist countries. Trade facilitation indicators by OECD (TFI) is used to assess this progress. For instance, Kanybekov (2023a) finds that the Kyrgyz Republic lags behind many former socialist countries. To conduct a deeper analysis, it is necessary to understand how the Kyrgyz trade facilitation performed compared to relevant group countries and how trade facilitation progressed over time. One can compare the progress over the recent five years i.e. 2017-2022. It is worth mentioning that the Trade Facilitation Agreement under the World Trade Organization entered into force in 2017. So, one can assume that many trade facilitation reforms in developing economies started in 2017 (obviously after ratification by national parliaments). In addition, most of the reforms are conducted with the donors' assistance.

Before comparing the trade facilitation performance of the Kyrgyz Republic with other post-communist countries, it is useful to compare country groups. Twenty-one ex-communist republics are divided into three groups: Central Asian countries, Other former Soviet republics, and East European countries. Each group's average trade facilitation indicator is

Table 1: Ratio of the Kyrgyz Republic to the average of groups, 2022

| | Kyrgyz Republic | Central Asia | Other former Soviet republics | European post-socialist countries | Kyrgyz Republic/ Central Asia | Kyrgyz Republic/ Other former Soviet republics | Kyrgyz Republic/ European post-socialist countries |
|--|-----------------|--------------|-------------------------------|-----------------------------------|-------------------------------|--|--|
| Average trade facilitation performance | 1.05 | 1.056 | 1.423 | 1.651 | 99.4% | 73.8% | 63.6% |
| Information availability | 1.19 | 0.933 | 1.504 | 1.687 | 127.6% | 79.1% | 70.5% |
| Involvement of the trade community | 1.33 | 1.423 | 1.532 | 1.650 | 93.5% | 86.8% | 80.6% |
| Advance rulings | 1.6 | 1.483 | 1.574 | 1.859 | 107.9% | 101.7% | 86.0% |
| Appeal procedures | 1.22 | 1.183 | 1.408 | 1.501 | 103.2% | 86.6% | 81.3% |
| Fees and charges | 1.33 | 1.443 | 1.511 | 1.924 | 92.2% | 88.0% | 69.1% |
| Documents | 0.63 | 0.91 | 1.426 | 1.683 | 69.2% | 44.2% | 37.4% |
| Automation | 0.67 | 0.818 | 1.437 | 1.561 | 82.0% | 46.6% | 42.9% |
| Procedures | 0.91 | 1.09 | 1.445 | 1.670 | 83.5% | 63.0% | 54.5% |
| Internal border agency co-operation | 0.36 | 0.57 | 1.168 | 1.271 | 63.2% | 30.8% | 28.3% |
| External border agency co-operation | 0.64 | 0.595 | 1.025 | 1.574 | 107.6% | 62.4% | 40.7% |
| Governance and impartiality | 1.67 | 1.185 | 1.633 | 1.789 | 140.9% | 102.3% | 93.4% |

Source: Author's compilation based on OECD (2023)

calculated and presented in Table 1. As can be seen from this table, European countries demonstrate higher scores (1.651) than those of the other two groups. Central Asian republics show less impressive results (1.056) than other former Soviet countries (1.423). Thus, Central Asian countries may have to make efforts in trade facilitation reforms to catch up with other post-socialist countries.

Turning to the Kyrgyz Republic, the country achieved relatively high scores in some trade facilitation measures. According to Table 1, the Kyrgyz government demonstrates good results in the "Governance and Impartiality" indicator by overperforming the average of the "Central Asia" group by 140.9% and the "Other former Soviet republics" group by 102.3%. Also, in the "Advance rulings" indicator, the Kyrgyz Republic overperformed the "Central Asia" group by 107.9% and the "Other former Soviet republics" group by 101.7%. It is also worth mentioning that the Kyrgyz government surpassed the "Central Asia" group in the "Information availability" indicator by 127.6%. Good progress of the Kyrgyz Republic in some trade facilitation areas can also be seen in Table 2. This table demon-

Table 2: TFI changes from 2017 to 2022, %.

| Group | Country | Average trade facilitation performance | Information availability | Involvement of the trade community | Advance rulings | Appeal procedures | Fees and charges | Documents | Automation | Procedures | Internal border agency co-operation | External border agency co-operation | Governance and impartiality |
|--|-----------------------------|--|--------------------------|------------------------------------|-----------------|-------------------|------------------|--------------|--------------|--------------|-------------------------------------|-------------------------------------|-----------------------------|
| Central Asia | Kazakhstan | 31.6% | 40.0% | 28.4% | 36.4% | 0.0% | 5.6% | 25.5% | 47.7% | 48.7% | 45.6% | 8.4% | 63.0% |
| | Kyrgyz Republic | 14.9% | 9.5% | 16.3% | 20.0% | 22.0% | 17.6% | 40.8% | 11.4% | 16.8% | 0.0% | 9.5% | 0.3% |
| | Tajikistan | 37.3% | 36.4% | 66.7% | 0.0% | 8.0% | 100.0% | 77.8% | 11.2% | 69.9% | 27.6% | 14.0% | 0.0% |
| | Uzbekistan | 25.5% | 19.0% | 43.3% | 0.0% | 0.4% | 12.5% | 75.5% | 0.2% | 43.6% | 9.6% | 18.7% | 60.7% |
| | Average of the group | 27.3% | 26.2% | 38.7% | 14.1% | 7.6% | 33.9% | 54.9% | 17.6% | 44.8% | 20.7% | 12.7% | 31.0% |
| Other former Soviet republics | Armenia | 44.2% | 25.4% | 0.0% | 52.4% | 63.9% | 23.5% | 82.4% | 26.9% | 66.3% | 45.5% | 12.0% | 89.0% |
| | Azerbaijan | 18.0% | 4.4% | 29.0% | 19.0% | 2.8% | 15.9% | 12.5% | 11.7% | 52.7% | 29.0% | 11.0% | 11.4% |
| | Belarus | 13.1% | 0.5% | 13.9% | 14.3% | n/a | 0.0% | 79.7% | 20.0% | 35.1% | 0.0% | 0.0% | 0.0% |
| | Estonia | 8.1% | 14.0% | 12.5% | 18.2% | 0.1% | 7.4% | 13.0% | 0.4% | 6.3% | 15.0% | 4.0% | 0.0% |
| | Georgia | 13.9% | 19.1% | 0.5% | 18.2% | 10.5% | 3.8% | 11.2% | 45.9% | 6.1% | 9.4% | 18.1% | 11.1% |
| | Latvia | 13.4% | 6.0% | 7.1% | 27.3% | 8.2% | 0.0% | 0.2% | 22.8% | 22.0% | 36.0% | 18.7% | 0.0% |
| | Lithuania | 8.4% | 4.3% | 0.0% | 2.0% | 0.0% | 9.1% | 25.0% | 10.3% | 15.6% | 16.0% | 0.5% | 11.1% |
| | Moldova | 17.4% | 14.0% | 21.4% | 20.7% | 33.8% | 0.0% | 4.5% | 11.1% | 25.8% | 45.5% | 2.7% | 10.9% |
| | Russia | 44.3% | 48.1% | 50.5% | 0.0% | 0.2% | 55.2% | 108.3% | 46.2% | 43.8% | 64.0% | 8.9% | 62.5% |
| | Ukraine | 7.8% | 5.0% | 9.9% | 0.0% | 18.6% | 4.2% | -10.9% | 38.2% | 18.2% | 4.5% | 0.4% | 0.0% |
| Average of the group | 18.9% | 14.1% | 14.5% | 17.2% | 3.9% | 11.9% | 32.6% | 23.4% | 29.2% | 26.5% | 7.6% | 19.6% | |
| East Europe former socialist countries | Albania | 27.3% | 9.7% | 32.0% | 0.0% | 44.8% | 54.2% | 56.0% | 33.4% | 17.0% | 45.5% | 9.3% | 0.5% |
| | Bulgaria | 20.2% | 19.1% | 28.9% | 2.0% | 11.4% | 30.8% | 44.6% | 38.3% | 11.8% | 36.2% | 0.4% | 0.2% |
| | Czech Republic | 18.9% | 33.4% | 12.5% | 0.0% | 0.0% | 14.4% | 33.4% | 15.2% | 19.6% | 45.1% | 12.0% | 22.3% |
| | Hungary | 18.9% | 28.2% | -18.0% | 0.0% | 0.0% | 38.5% | 22.7% | 38.8% | 13.0% | 36.1% | 27.8% | 22.3% |
| | Poland | 15.6% | 33.6% | 0.5% | 0.9% | 0.5% | 7.1% | 13.0% | 15.2% | 10.6% | 15.0% | 54.5% | 22.2% |
| | Romania | 21.7% | 24.1% | 42.4% | 9.1% | 39.7% | 15.1% | 17.0% | 3.0% | 20.0% | 45.3% | 0.5% | 21.8% |
| | Slovak Republic | 10.9% | 13.9% | 8.5% | 0.9% | 0.2% | 30.8% | 0.0% | 0.0% | 16.4% | 36.0% | 13.0% | 0.1% |
| | Average of the group | 19.1% | 23.1% | 15.3% | 1.8% | 13.8% | 27.3% | 26.7% | 20.6% | 15.5% | 37.0% | 16.8% | 12.8% |

Source: Author's compilation based on OECD (2023)

strates how TFI changed from 2017 to 2022, showing each component of TFI. In these five years, the Kyrgyz government improved the “Appeal procedures” indicator by 22%, while the “Central Asia”, “Other former Soviet republics”, and “European post-socialist countries” groups’ values increased by 7.6%, 3.9%, and 13.8% accordingly.

In general, according to Table 2, the Kyrgyz Republic improved the average trade facilitation performance by 14.9%, whereas the “Central Asia” group’s value improved by 27.3%, the “Other former Soviet republics” group by 18.9%, and the “European post-socialist coun-

tries” group by 19.1%.

Although the Kyrgyz Republic demonstrates higher scores in some trade facilitation measures, other components need to be improved. Table 1 suggests that the Kyrgyz Republic shows the lowest value of 0.36 in the “Internal border agency co-operation” and 0.63 in the “Documents” indicators of TFI 2022 among 21 post-communist republics. The Kyrgyz Republic’s 0.36 value in the “Internal border agency co-operation” indicator is significantly lower than the average value of 1.271 for Europe’s former socialist countries. Moreover, its value is lower than the “Central Asia” group’s value of 0.57. Regarding the implementation of this indicator, Table 1 shows that the Kyrgyz Republic implemented only 28.3% of the “European post-socialist countries” group’s achievements and 63.2% of the “Central Asia” group’s achievements. Similarly, in the “Documents” indicator, the Kyrgyz government’s implementation is only 37.4% of the average of European countries and 69.2% of the average of Central Asian republics. Also, in achieving the average of European countries, a low ratio is observed in “External border agency co-operation” with 40.7% and “Automation” with 42.9%. As for achieving the average of other former Soviet republics, a low value is also noticed in “Automation”, with 46.6%.

As for changes in each trade facilitation measure of the Kyrgyz Republic, some indicators are improved significantly, while others remain stagnant. According to Table 2, the “Internal border agency co-operation” indicator has not changed in the past five years against the average of the Central Asian countries, 20.7%. In addition, this indicator increased in other former Soviet republics (average) by 26.5% and in European post-communist countries by 37%. The Kyrgyz government significantly improved the “Documents” indicator by almost 41%. The same indicator for Central Asia raised by 54.9%. Also, the Kyrgyz Republic improved the indicator “Automation” by 11.4%, whereas the average of Central Asia increased by 17.6%. Thus, the pace of improvements in certain trade facilitation measures of the Kyrgyz Republic is slower than the average of Central Asia.

While the “Internal border agency co-operation” indicator has not changed in recent five years, the “Documents” indicator improved by almost 41%. Despite such improvement, the Kyrgyz Republic still scores the lowest in the “Documents” indicator among all twenty-one post-socialist countries. As for the “Internal border agency co-operation” indicator, the stagnant state points to severe problems in organizing coordination and cooperation between Kyrgyz border agencies.

The indicators of Table 1 and Table 2 suggest that while conducting the same trade facilitation reforms, the Kyrgyz Republic gained lower scores than other post-communist countries. The low values, i.e., weak progress in some trade facilitation indicators, imply that trade facilitating reforms in the Kyrgyz Republic encounter certain obstacles. Consequently, these barriers to trade facilitation reforms need to be discussed.

What are the primary obstacles to trade facilitation reforms in the Kyrgyz Republic? In-

ternational organizations and Kyrgyz authorities mention several barriers to trade facilitation progress. UNECE (2021) highlights such problems as a lack of understanding of trade facilitation benefits and poor cross-border cooperation among the region's economies. The Kyrgyz Cabinet of Ministers (2022) mentions several problems in customs modernization, which impede trade facilitating efforts. They include weak preparedness of other trade regulating authorities compared to customs; lack of electronic public services at border crossing points; inefficient organizational structure of customs; lack of regulations and methodologies on risk management; inadequate information system (computer software) in customs; inefficient allocation of human resources to process goods; lack of motivation system for customs employees. All these issues are reflected in the efficiency of the customs service. For instance, the US Department of Commerce (2022) stresses that customs inspectors lack of the capacity or willingness to make well-informed decisions on requirements or clearances. In this way, the Kyrgyz government recognizes the problem of cooperation and coordination between Kyrgyz border agencies. The relevant trade facilitation indicator confirms this issue.

The poor achievement in the "Internal border agency co-operation" measure results from the weak preparedness of other trade regulating authorities besides customs administration. Indeed, the evidence demonstrates the disparity in the readiness of government organizations for trade facilitation reforms in the Kyrgyz Republic. For instance, the Time Release Study²⁾ (2018) reveals multiple registrations of the same information by different border agencies. Although the data is mainly the same, each state controller conducts its own procedures for registering the information. Hence, duplication of functions at the border confirms a lack of information exchange between state regulators. Likewise, the Kyrgyz Customs points out that the implementation of some trade-facilitating initiatives of the Eurasian Economic Union depends on the readiness of other Kyrgyz border agencies (Eurasian Economic Commission, 2019). Customs declaration and release of goods are carried out based on paper accompanying documents issued by other state regulatory authorities, which creates bureaucratic barriers for the business community. The other control organizations still need to complete the formation of an electronic form database of permits.

5. Institutional interaction in the Kyrgyz trade facilitation context.

What is the possible explanation for the obstacles to trade facilitation reforms in the Kyrgyz Republic? To answer this question, one can consider an institutional interaction, i.e., the interaction of current informal rules and new formal rules (proposed by trade facilitation). As Helmke & Levitsky (2004) state, many discussions in the institutional literature divide the interaction of informal and formal rules into functional and dysfunctional. In the

first case, informal rules underpin the formal rules, thereby enhancing their efficiency. In the latter case, informal rules downgrade the effect of formal rules.

To understand the roots of obstacles to trade facilitation reforms in the Kyrgyz Republic, it is necessary to consider what function of informal rules may carry out. Ledeneva & Efendic (2021) state that informal rules can replace ineffective formal ones. In the border clearance context, informal rules (norms of behavior like gift-giving or informal payments for speed border clearance) result from imperfect formal rules (like cumbersome border regulations). Indeed, UNECE (2015), in face-to-face interviews with Kyrgyz traders, finds that bureaucratic border regulations induced informal payments for border officials. Informal payments are initiated by both traders (to cut the time spent waiting for trade papers and customs clearance) and officials (in exchange for waiving certain documents, expediting trade document issuance, or clearing cargo without inspection). Another example of informal rules that compensate inefficiencies of formal rules is the case of cargo companies in the Kyrgyz Republic. In the study of the Kyrgyz apparel sector, Spector (2018) states that every cargo enterprise is associated with a political figure who assists the company in passage through customs and other administrative bureaucratic obstacles. Thus, people, who engaged in border clearance processes, build their interaction through informal rules (informal payments for speedy clearance) due to inefficient formal rules (complicated border clearance regulations).

The above-mentioned poor preparedness of border agencies for certain trade facilitation changes may imply their weak interest in such changes. Indeed, in surveying trade facilitation reforms in Central Asian countries, including the Kyrgyz Republic, Kislyakova (2019) highlights the lack of real political will, leading to the predominance of border agencies' interests rather than cooperation and coordination among them. Also, the author mentions that the national trade facilitation committees often lack of consensus among border agencies with diametrically opposed views on trade facilitation.

Trade facilitation reforms aim to change imperfect formal rules expressed in bureaucratic border procedures. However, even after the formal rules change, informal rules may downgrade the effect of new formal rules. Border control officers may be interested in preserving the current complicated formal rules. Border officials will most likely resist changing the cross-border trade regulations because they benefit from current norms of interaction with traders (taking gifts or informal payments for the speed service). As Cantens et al. (2013) stress, reform efforts are often impeded by corruption and the influence of vested interests.

6. Informal rules in the Kyrgyz society

To understand informal rules in the border clearance processes, one must consider the national-level informal rules that prevail in a country. As Baimyrzaeva (2012, p.216) states, “Institutions are nested — that is, each level is embedded in the next-higher level”. The national (macro) level encompasses lower-level institutions like organization, which, in turn, includes lower level like group institutions (family, teams, groups). Accordingly, one can assume that nation-level rules are shared by the nation’s citizens, and these rules dominate every sphere of society.

Several authors from different disciplines examine the informal rules of Kyrgyz society. Collins (2002) stresses the significance of clans in the public life of Central Asian countries, including the Kyrgyz Republic. Ruiz Ramas (2012) mentions the development of patrimonialism in Kyrgyz politics from the beginning of independence and highlights the important role of informal networks. Castañeda Dower et al. (2022) find that because of the difficult business environment, the reliance of Kyrgyz small businesses on kin-networks is essential to make economic transactions outside the market. Finally, Baimyrzaeva (2012) lists several informal rules in the Kyrgyz bureaucracy. These informal norms include favoring the interests of relatives and friends over public interests, promotions based more on influential connections than on merit, and viewing the civil service as a means of personal enrichment.

These nation-level informal rules penetrate the interaction of people in border clearance processes. Moreover, the informal rules of the Kyrgyz society are the basis for the informal ones which operate on the cross-border trade level. Accordingly, they may impede trade facilitation reforms in the country.

7. Conclusion

Despite implementing the same reforms, trade facilitation advancements in developing nations vary. This study reveals that although the Kyrgyz Republic improved some trade facilitation measures such as “Governance and Impartiality”, “Advance rulings”, and “Information availability”, others remain unchanged. Specifically, the country’s “Internal border agency co-operation” indicator has not changed in the last five years.

Institutional factors can be a potential explanation for this backwardness. The interaction between institutional elements (formal, informal norms, and enforcing mechanisms) may produce desirable or inappropriate results. The case of the Kyrgyz Republic demonstrates

that trade facilitation reforms involving changes in formal rules may be hindered by the existing informal rules. In other words, stakeholders may be interested in preserving the current complicated, bureaucratic border procedures, i.e., formal rules of institutions. The nation-level informal rules of the Kyrgyz society are most likely to serve as the foundation for informal rules that exist in the cross-border trade activity of people.

In this way, a country's informal rules, with shaping the interactions of individuals engaged in border clearance processes, may weaken the impact of new formal rules introduced by trade facilitation initiatives. Hence, the trade facilitation progress in the Kyrgyz Republic could be hindered by these informal institutional rules. As highlighted previously, informal rules change very slowly compared to formal rules. Consequently, this difference in the pace of change leads to a low effect of changed formal rules (provided for by trade facilitation). Thus, policymakers and international donors are recommended to consider a country's current informal rules when assessing the pace of trade facilitation reforms.

Notes

- 1) For detailed information regarding the assistance of international donors, see the report by OECD & WTO (2019).
- 2) The Time Release Study is a widely used method for determining the effectiveness and efficiency of border agencies in processing exports, imports, and transit of goods at border crossing points (BCP) and domestic terminals. The study aims to accurately determine the procedures that cargo goes through when entering/exiting/transiting through national borders and domestic terminals and measure the time required to perform these procedures. The guidance of the Time Release Study is developed by the World Customs Organization.

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