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Book Review

SHADOW ECONOMIES IN TURKIC REPUBLICS: GOVERNANCE, INSTITUTIONS, TRUST, AND POLICY RESPONSES

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For scholars engaged in literature on shadow economies, the ever-growing number of studies produced during the last decades might raise questions such as "What more can be said about this research field?" Fortunately, Bagirzadeh and Gokcekus provide a compelling answer, as the edited book under review fills a conspicuous gap, offering an innovative analysis of the first cross-country study on the shadow economies of Turkic republics including Azerbaijan, Kazakhstan, Kyrgyzstan, Türkiye, Uzbekistan, and the Turkish Republic of Northern Cyprus. In particular, while most authors agree there is no predominant measurement approach, they call for a diversified set of tools to capture various dimensions of informality. Moreover, their analysis of the role played by institutional trust, digital transformation, labor market dynamics, and environmental issues is accompanied by a set of policy recommendations that combine compelling and enabling tools to reduce the costs of becoming legal. However, the book contributes much more than simply addressing a geographical gap; it provides a comprehensive and truly interdisciplinary view on the problem of shadow economies.

As the Organization of Turkic States (OTS) takes greater steps towards integration under its Turkic World Vision 2040, it becomes necessary for policymakers to have an understanding of how shadow economies function across the various member states. In this context, the publication of this volume could not have been more timely. It must be noted that, in addition to the quality of the research contained in it, this volume represents the coming together of a select group of regional scholars who provide, in the words of Ceyhun Elgin in the preface, a natural laboratory in which to examine how different historical trajectories of development from central planning systems to market-based capitalism influence contemporary patterns of informality.

Eurasian Research Journal Spring 2026 Vol. 8, No. 2

In their comparative analysis presented at the beginning of this volume, the editors argue that between 1993 and 2020, the average shadow economy of four OTS member states Azerbaijan, Kazakhstan, Kyrgyzstan, and Türkiye declined from 44.4% to 39.9% of their respective GDPs, while globally the average decline was from 34.6% to 32.7%. While seemingly impressive, these figures mask differences that require country-level explanation. Specifically, the shadow economy in Türkiye was persistently lower (31.0% in 2020) compared to other member states. On the opposite end was Azerbaijan, with the highest level (54.8%). The 23.8%-point difference between these two nations alone calls for an explanation and, indeed, it is provided in each chapter. Furthermore, while, in terms of percentage points of decline in informality, the former Soviet republics Azerbaijan, Kazakhstan, and Kyrgyzstan all saw larger declines compared to Russia, their average still lagged behind global trends in the years analyzed. Overall, this single result alone provides the rationale for the need for a comparative volume, since despite sharing cultural ties, the OTS republics followed very distinct institutional trajectories.

The book represents methodological pluralism through its two outstanding chapters, which transcend the MIMIC approach. First, Magrupov et al. use an advanced version of the Electricity Consumption Model to measure informality in Uzbekistan based on high-frequency electricity data collected from 2000 to 2023. Upon accounting for efficiency dynamics, an adjustment crucial due to the observed decrease in energy intensity, the authors detect a consistent reduction in the size of the informal sector from around 50–60% of GDP in the early 2000s to roughly 35–40% in 2023. Importantly, it is estimated that the long-run elasticity between electricity and GDP in Uzbekistan stands at approximately 0.29; thus, a 10% increase in GDP would result in just a 2.9% increase in electricity consumption. Therefore, the present chapter provides evidence that the Electricity Consumption Model, adjusted to national circumstances, serves as a reliable tool for measuring informal activities, with results coinciding with those obtained via MIMIC models and official statistics.

Alternatively, Bagirzadeh and Niftiyev assess the effectiveness of Azerbaijan's anti-shadow economy policy since 2018 by means of a survey administered among 87 experts. According to the findings, the adopted policy did manage to yield certain success in terms of reducing the informal part of the economy, as almost 90% of experts claim to observe a positive trend. Nonetheless, a pervasive lack of trust in institutions, alongside inadequate incentive mechanisms, prevents complete formalization of the economy. At the same time, thematic analysis revealed that transparency, tax reforms, strengthening of the legal system, and anti-corruption initiatives were considered priority areas. Most importantly, disciplinary and control instruments proved significantly more effective compared to improving the attractiveness of the formal sector and increasing public awareness.

As one can see, institutional trust plays a key role in explaining the phenomenon in question in various chapters. Specifically, in the Turkish Republic of Northern Cyprus (TRNC), according to Ekici and Besim, based on World Values Survey data, citizens of TRNC justify the underreporting of income (up to 64% among private sector workers) when the accountability of individuals is low and policymakers are trusted less. Furthermore, their regression analysis suggests that a higher level of trust in government, civil services, and political parties leads

Eurasian Research Journal
Spring 2026
Vol. 8, No. 2

to higher acceptance of corruption and other informal acts due to prevalent clientelism. For example, as the authors mention, the proportion of people who always justify tax cheating grew from 12.0% in 2006 to 22.1% in 2019, and similarly, those who always justify bribery climbed from 12.0% to 22.3% during the same period. In general, this behavioral aspect, which reflects the normalization of informality amid the lack of accountability, extends the study of the shadow economy beyond institutional and fiscal factors by highlighting that any policy aimed at combating this problem must also be able to tackle certain social norms and attitudes toward informal behavior.

Moreover, incorporating new technologies into the existing framework leads to another important complication namely, the digitalization paradox, found by Kondybayeva and Temerbulatova in the case of Kazakhstan. Specifically, the researchers note that the level of internet use positively impacts the reduction of informality due to increased control and transparency, with regression results suggesting a negative and statistically significant coefficient at the 1% level regardless of the model used. On the other hand, mobile cellular subscriptions are associated with increased informality due to a positive and statistically significant impact in all models. As the authors conclude, the availability of mobile technologies helps people gain access to information and economic opportunities, but at the same time, they can easily conduct informal transactions due to not being connected to formal financial institutions. This double effect calls for the need to develop additional policies related to technological literacy, financial inclusion, and regulatory mechanisms that would leverage the benefits of digitalization while mitigating its risks. Otherwise, technology can facilitate informal transactions as effectively as restrict them.

Human capital is also central to labor market studies. To illustrate, Musayir et al. have found that there has been an expansion of the income gap between formally self-employed and informal entrepreneurs in Kazakhstan after the COVID-19 outbreak from 0.082 log points in 2019 to 0.424 log points in 2022. While this means that the unexplained part of the income difference increased from 11% to 78%, suggesting that education and experience explain progressively smaller shares of the difference, a university education turns out to be the most significant predictor of informality, with its influence growing during the post-COVID-19 period, university-educated workers were 3.8% points less likely to be informal in 2019 and 13.1% points less likely in 2022. However, using a decomposition approach, the authors reveal that the marginal growth in the probability of informal self-employment (up from 7.25% in 2019 to 8.25% in 2022) can hardly be attributed to changes in observable characteristics; instead, it results from shifts in the value placed upon the existing characteristics. Thus, improving workers' qualifications without affecting the way the labor market remunerates them may turn out to be inefficient.

Concerning another country, according to the data gathered by Tilekeyev, Kyrgyzstan is characterized by an extremely high level of informality, covering two-thirds of the country's labor force, and is especially widespread in construction, trade, transport, and processing industries. Gender differences are evident too: the female labor force participation rate has dropped from 42% in the last ten years to 39%, while the proportion of male workers engaged in informal occupations has risen from 63% to 65% between 2014 and 2023.

Eurasian Research Journal
Spring 2026
Vol. 8, No. 2

Kızıltan and Yereli present an innovative approach to the literature by exploring the connection between changes in shadow economy trends and ecological quality in Türkiye. Based on data covering 1990 to 2020 and cointegration methods, they reveal that the expansion of the shadow economy by 1% is accompanied by an increase in the load capacity factor (biocapacity/footprint ratio) by 0.047%. This means that the activities within the shadow economy can produce positive ecological results when informal businesses operate in labor-intensive industries, not pollution-intensive industries. Similarly, an increase in public debt by 1% is correlated with a 0.205% improvement in the load capacity factor, while energy efficiency measures have positive impacts too. On the other hand, financialization, measured as private credit by deposit banks relative to GDP, is shown to have a negative influence on ecological quality. The authors apply the Environmental Phillips Curve hypothesis, suggesting that there might be a relationship between relatively low pollution rates and moderate levels of informality when shadow activities prevail in environmentally harmless sectors. These findings have significant practical implications for formulating policies related to the formalization of economic sectors and the sustainable development of the environment.

In sum, this book provides three key contributions to the existing body of literature dedicated to shadow economies. Firstly, the authors successfully highlight the importance of regionally oriented comparative research, revealing commonalities and differences in terms of historical heritage and institutional developments. Secondly, they show the possibilities and benefits of utilizing consistent comparative frameworks across different countries while introducing new methods specific to particular countries. Thirdly, and most importantly, the authors significantly expand the conceptual basis of studies on shadow economies by incorporating factors such as behavioral aspects, paradoxes related to digitalization, environmental issues, and labor market dynamics.

The editors of the book provide twelve lessons learned from the country case studies. Among these lessons, the lack of institutional effectiveness and efficiency stands out as a common element in all cases under investigation in terms of the low predictability of the legal system and its inconsistent implementation, which contributes to an environment where informal business thrives. Fiscal dependence on non-tax revenues, namely oil and gas in resource-rich states and aid in the TRNC, reduced authorities' focus on tax collection. Labor-intensive small businesses are ubiquitous among all six republics; therefore, the cost of monitoring often exceeds the cost of potential taxes that can be collected. Clientelism creates a negative impact on enforcement practices, while the digitalization paradox highlights the necessity of adopting additional policies. Interestingly, the chapters dedicated to Türkiye and TRNC note that frequent tax amnesty programs serve as a systemic instrument of fiscal policy that encourages individuals and businesses to stay informal in anticipation of future amnesties, which is not typical of the other Turkic republics.

While offering a number of insights into the issue of tax informality, the book faces certain limitations. To start with, the editors emphasize that the absence of data on Turkmenistan made it impossible to include that country in the analysis. The fact that there was no reliable data available itself represents another challenge. In addition, even though the use of MIMIC estimates to compare across countries is justified, it puts too much emphasis on macroeconomic measures in

Eurasian Research Journal
Spring 2026
Vol. 8, No. 2

comparison to individual-level dynamics highlighted in some chapters. Therefore, one could argue that a different methodological approach incorporating surveys would produce a more detailed picture. In addition, even though the policy recommendations provided at the end of the book are sensible and appropriate, they assume that there is sufficient state capacity and political will that the authors often question in their chapters. Due to this, an implicit question that comes up is: How can formalization work when the formal state is unreliable?

However, *Shadow Economies in Turkic Republics* fulfills its intended purpose in providing a framework that can be used by policymakers. Bagirzadeh and Gokcekus' reflections in the final section of the book reveal that the policies designed to tackle the problem of shadow economies should not focus only on punishment but also on fostering trust, promoting equality, and opening avenues for inclusion within formal economies. The book serves as an invaluable source of information for researchers interested in exploring the topic of shadow economies in emerging nations. It is also a useful tool for professionals who need to implement policies that can help address the problems associated with the shadow economy in a particular country.