



## COMBATTING THE SHADOW ECONOMY AS AN IMPORTANT DIRECTION OF ECONOMIC POLICY FOR AN INCLUSIVE DEMOCRATIC SOCIETY (EXPERIENCE OF CENTRAL ASIAN COUNTRIES AS AN EXPAMPLE)

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ARTICLE INFORMATION	ABSTRACT
<b>Volume: 1</b> <b>Issue: 12</b> <b>DOI:</b> <a href="https://doi.org/10.55439/INS/vol1_iss12/232">https://doi.org/10.55439/INS/vol1_iss12/232</a>	<p>The article examines the economic implications of the “shadow economy” concept, examining its impact on a country’s overall economic growth. It analyzes key economic and social indicators related to the shadow economy and explores the various factors contributing to its emergence. It provides information about strategies of Central Asian countries for combatting the shadow economy to build a democratic civil society with equal opportunities for each citizen.</p>
<b>KEYWORDS</b>	<i>shadow economy, economic security, social equality, tax revenue, economic threat, social stability, corruption, civil society.</i>

### Introduction

The shadow economy, also referred to as the informal economy, consists of unregulated and untaxed economic activities that operate outside of the legal framework. It presents significant challenges to governments, hindering revenue collection, fostering corruption, and undermining social equality. The issue is pervasive, affecting both developing and developed nations, albeit to varying degrees. Combatting the shadow economy is crucial for fostering economic growth, reducing inequality, and promoting social stability.

A particularly striking indicator is the average global share of the shadow economy in world GDP over nearly a quarter of a century, which stands at 31.9%. This means that approximately one-third of all economic activity worldwide remains unaccounted for, with all the negative consequences this entails, primarily for national economies and the standard of living of the population. In some countries, such as Zimbabwe, the shadow economy represents 60.6%, and in Bolivia, it accounts for 62.3% of GDP (the highest rate in the global economy), effectively replacing and displacing the formal economy [1].

In Central Asia, this economic sector has expanded significantly in recent decades, posing a severe challenge to policymakers in Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan. Addressing the shadow economy has therefore become one of the most important economic policy priorities in the region. The situation in Uzbekistan is similar to that of other Central Asian and CIS countries. According to IMF statistics, the highest proportion of the shadow economy relative to the official economy in the CIS was recorded in Ukraine at nearly 45%. Belarus was second with 44.5%, followed by Tajikistan with 43%. In Kazakhstan, Russia, and Kyrgyzstan, the shadow sector accounted for around 38%. The lowest figures were observed in developed countries such as Europe, the US, Japan, and China, where it is less than 15% [2].

On July 27, 2020, President of the Republic of Uzbekistan Shavkat Mirziyoyev held an extraordinary meeting on combating the shadow economy [3]. It was noted that our country has a high level of shadow economy among the nations of the world. The shadow economy has resulted in losses of 30 trillion UZS to the state budget and 135 trillion UZS to the gross domestic product (GDP), as evidenced by the fact that almost 11 000 businesses report having only one employee in their records [4]. The country’s leader set tasks to reduce this level and instructed the development of a strategy to combat the shadow economy, involving international experts. At the same time, it was emphasized that fighting the shadow economy does not mean punishing entrepreneurs [5].

The size and influence of the shadow economy pose economic and social challenges, such as lower tax revenues, reduced social benefits, and weakened regulatory systems. The informal sector also hinders economic growth by creating unfair competition and reducing government resources for public investment.

In Central Asia, Kyrgyzstan, Turkmenistan, and Tajikistan each face unique challenges in their quests to reduce the shadow economy and foster transparent, democratic systems. With varying political systems, economic structures, and levels of governmental reform, these countries provide distinct examples of how the interplay between economic policies and democratic principles can influence the shadow economy. This article examines the diverse approaches these countries take to reduce informality, encourage transparency, and promote more inclusive, democratic societies.

### Literature Review

The study of issues related to the shadow economy began in the 1930s in global practice, and by the end of the century, it became clear in many countries that the shadow economy is one of the causes of corruption. Research from around the world shows that at least 40 percent of the

profits generated by the shadow economy are directly used to maintain illegal economic relations.

The scientific-methodological and theoretical aspects of relations related to the shadow economy have been reflected in the works of foreign scholars such as F. Schneider, A. Dreher [6], F. Smith, J. Thomas, W. Mazar, P. Meon, M. Fleming, J. Roman, G. Farrell [7], Y. Eilat, and others.

Researchers from the CIS countries, such as A. Cherepashkin, A. Komleva [8], B. Raizberg, L. Lozovskiy, E. Starodubtseva, Y. Naumov, V. Latov [9], B. Rakhmatov, and many others, have conducted studies on the shadow economy.

Among our country's scholars, the works of G. Alimov, B. Isroilov [10], M. Pardayev, N. Muminov, B. Ibragimov, U. Abduganiyev [11], and others have explored the shadow economy's theoretical and practical aspects, its impact on the economy, the tax base, and the factors influencing it.

G. Alimov and B. Isroilov emphasize that when determining the economic security of states, it is necessary to consider factors related to corruption and the judicial-legal system. The effectiveness of combating corruption-related crimes largely depends on the protective agencies, which are formed through a complex mechanism of legal, procedural, organizational, technical, psychological, and other connections and relationships aimed at implementing the prohibitions and directives of criminal law [10].

Therefore, a high level of the "shadow economy" in a country creates a foundation for a higher level of bribery. On the other hand, in low-income countries, an increase in the scale of the shadow economy has been found to correspond with an increase in corruption levels, as identified by A. Dreher and F. Schneider [6].

Analyses show that corruption and the shadow economy are closely interrelated and mutually reinforcing. To ensure economic security, it is necessary to reduce the level of the shadow economy.

The expansion of informal economic activities, drawing in even those economic entities operating honestly, is considered a threat to individual economic security. Researchers such as M. Fleming, J. Roman, and G. Farrell acknowledge that certain aspects of the shadow economy, for example, facilitating the transition to a market economy and the fact that at least two-thirds of the income earned in the shadow economy is spent in the official economy, can indirectly have a positive impact on other sectors [7].

Economic activity hidden from state financial oversight manifests itself in the form of the shadow economy. Tax evasion, double bookkeeping, the legalization of illegal income, money laundering, and other unlawful financial operations are the foundation of corrupt activities.

As D.D.Kobozeva and E.N.Eliseeva emphasize, "Основными предпосылками развития «неформальной экономики» являются снижение уровня финансового роста, инвестиционной и производственной деятельности, доходов населения, что приводит к коррупции" ("The main prerequisites for the development of the informal economy are the decline in financial growth, investment and production activities, and household incomes, all of which lead to corruption") [12].

Regarding the shadow processes in the system of risks associated with the legalization of criminally obtained income, M.V. Oblaukhova and S.P. Anofrikov write as follows: "Отмывание незаконно полученных доходов позволяет преступникам скрыть первоначальную противоправную деятельность, продуктом которой являются доходы, что усложняет задачу уголовного преследования за преступления" ("Money laundering allows criminals to conceal the initial illegal activity that generated the income, thereby complicating the prosecution of such crimes") [13].

Discussing the many possible scenarios for the development of the shadow economy in the current decade, E.V.Drobot and I.N.Makarov state: "В краткосрочной перспективе изменившиеся условия могут привести к росту активности теневого сектора экономики, поскольку ограниченные возможности трудоустройства и повышение налоговой нагрузки на домашние хозяйства и бизнес могут повысить привлекательность теневой экономики" ("In the short term, changing conditions may lead to increased activity in the shadow sector of the economy, as limited employment opportunities and increased tax burdens on households and businesses may make the shadow economy more attractive") [14].

According to D.Jamilov and M.Akhmedova, in 2022 alone, a massive sum of nearly 85 trillion sums (national currency of Uzbekistan) belonging to the shadow economy did not enter the state budget of the Republic of Uzbekistan [15].

As we can see, while scholars' views on the shadow economy differ in their interpretive focus, they all agree that this unlawful economy is a negative force not only for the economy but also for societal foundations.

#### Analysis and Results

By its nature, the shadow economy encompasses various types of economic activities that are not reflected in official statistics and remain outside the control of the state. The income generated by the shadow economy does not contribute to the state budget, leading not only to a shrinking tax base but also to increased social inequality and economic uncertainty.

Indeed, the shadow economy is a significant source of illicit income. Reducing its scale serves as a catalyst for the growth of the official economy and social development. That is why, in our region, significant attention is paid to reducing the size of the shadow economy, creating a favorable environment for entrepreneurship, promoting fair competition, and digitalizing procedures to ensure tax compliance.

The growth of the shadow economy is driven by the fact that economic entities, when conducting their activities, follow the existing legislative norms but often turn to alternative methods of solving financial issues. The following are some of the key factors contributing to the spread of the shadow economy in the region:

#### a) Bureaucratic red tape and complex regulations

Excessive bureaucratic requirements and complex regulations discourage small businesses from formalizing. Central Asian countries have inherited complex administrative systems that impose time-consuming and costly procedures on business registration and compliance, leading many to operate informally.

#### b) High taxation and compliance costs

High taxes are another key factor pushing businesses and individuals toward the shadow economy. For small and medium enterprises (SMEs), tax compliance can be financially burdensome, motivating them to avoid registration and taxation altogether. Insufficient funds to pay taxes due to high tax rates and low level of economic development [16]. High tax rates force taxpayers to find ways to evade taxes, which is a key factor in the formation of the shadow economy.

#### c) Limited financial inclusion

Access to credit and banking services is limited in rural Central Asia, making it difficult for small businesses and individual entrepreneurs to expand within the formal economy. Without access to formal financial resources, these entities often rely on cash-based transactions outside the formal financial sector.

#### d) Corruption and weak law enforcement

Corruption and inadequate law enforcement make informal business operations more attractive. Businesses and workers know that they are less likely to face penalties for informal operations in environments where tax evasion and regulatory non-compliance are tolerated. Moreover, state programs have a limited impact on motivating entrepreneurs to transition from the shadow economy to legal activities, inadequate support for the population pushes people toward the shadow economy. A certain portion of the population in the region needs to earn a living, and this drives them toward the informal economy, where many citizens do not care about the means of achieving their goals. Shadow employment becomes a widespread phenomenon. People willingly accept jobs based on verbal agreements. Employers exploit this impunity, failing to pay necessary amounts for vacations and sick leave, and can dismiss workers at any time without proper compensation.

#### Understanding the impact of the shadow economy

The shadow economy typically involves activities such as unregistered businesses, underreporting of income, tax evasion, illegal trade, and informal employment. While some argue that it provides a necessary outlet for survival, especially in countries with high unemployment and burdensome regulations, its negative impacts outweigh potential benefits.

The key problems caused by the shadow economy include:

1. Loss of tax revenue: Governments lose significant tax income, which hampers their ability to provide essential public services, such as healthcare, education, and infrastructure.

2. Distortion of competition: Businesses operating in the formal economy face unfair competition from those in the shadow sector, as the latter avoid regulatory costs such as taxes and labor standards.

3. Corruption and crime: The shadow economy fosters corruption and creates opportunities for illegal activities, including money laundering, smuggling, and drug trafficking.[17]

4. Undermining of workers' rights: Informal employment often leaves workers without legal protections, such as minimum wage, health insurance, and social security.

Key Strategies for combatting the Shadow Economy by each country's experience of the region

Efforts of countries to mitigate these issues are multi-faceted, involving tax reforms, digitalization, improved regulatory oversight, and targeted sectoral interventions. For years, states' informal economy hindered economic transparency and diminished government revenue. To address the shadow economy, governments around the world have employed a variety of strategies. Successful approaches typically involve a mix of policy reforms, enhanced enforcement, and technological innovations. Below are some of the most effective measures implemented by countries of the region.

1. Tax reforms to encourage compliance.

a) Simplified tax system for small and medium enterprises (SMEs)

For example, Kazakhstan has implemented simplified tax systems and introduced favorable tax policies, particularly targeting SMEs [18]. Measures such as the introduction of the simplified tax regime have encouraged SMEs to formalize, allowing them to benefit from incentives and support programs that are accessible only to registered businesses.

b) Tax incentives and reduced compliance costs

In Kyrgyzstan, it has been implemented tax reforms aimed at reducing the tax burden on small and medium-sized enterprises (SMEs). By simplifying tax codes and offering incentives for SMEs to register formally, Kyrgyzstan has encouraged informal businesses to integrate into the official economy. Tax relief measures, such as reduced VAT rates for new registrants, have further incentivized formalization and bolstered government revenue collection.

Recent reforms in Tajikistan have reduced tax rates for SMEs and eased regulatory requirements, making it easier for informal businesses to formalize. Additionally, tax amnesty programs have encouraged businesses to register and comply with tax obligations without fear of penalties.

In recent years, Uzbekistan has introduced a series of tax reductions and simplifications aimed at making compliance easier for businesses and individuals.

- Lowering taxes: The government reduced the Value Added Tax (VAT) from 20% to 15% in 2019 and then further to 12% in 2023 [19]. These tax cuts were aimed at reducing the burden on businesses and encouraging them to operate within the formal economy rather than evade taxes by staying in the shadows.

- Tax amnesty: The government has implemented a tax amnesty program, allowing businesses that had previously operated in the shadow economy to register and formalize their activities without facing severe penalties.

2. Digitalization initiatives to increase transparency

a) Implementation of e-government services

Kazakhstan's e-government initiatives have played a crucial role in reducing the shadow economy. The introduction of digital services, such as online tax filing, e-licensing, and digital identification systems, has made business registration and compliance more efficient and accessible.

Kyrgyzstan's government has also adopted e-governance and digitalization initiatives to streamline government services, reduce bureaucratic delays, and curb corruption. Online portals for business registration, tax filing, and public procurement have made it easier for citizens to engage with government services transparently. Digital initiatives not only reduce opportunities for corruption but also provide citizens with greater visibility into state functions [20].

b) Cashless payment systems and financial inclusion

Kazakhstan has encouraged the adoption of cashless payment systems, such as mobile payments and digital banking, to reduce cash-based transactions that often fuel the informal economy. By promoting financial inclusion and expanding digital banking services to rural areas, Kazakhstan is reducing reliance on cash, improving transaction

transparency, and helping businesses and consumers operate within the formal financial sector.

The digital transformation of government services is a crucial part of Uzbekistan's strategy to combat the shadow economy. The introduction of e-governance tools aims to improve transparency, reduce corruption, and facilitate formal business activities.

- Introduction of digital payment systems: The government has promoted the widespread adoption of digital payments and cashless transactions. This reduces the prevalence of informal cash-based transactions, which are harder to monitor and tax.

- Mandatory QR codes for retailers: Uzbekistan has mandated that businesses in retail and service sectors adopt point-of-sale (POS) systems equipped with QR codes for customer transactions. This measure helps ensure that businesses properly record and report their sales to the tax authorities.

- E-invoicing: The use of electronic invoicing has been encouraged to reduce underreporting and increase transparency in transactions, especially in the business-to-business (B2B) and business-to-government (B2G) sectors.

3. Sector-specific initiatives to combat informal activities

Different economic sectors in Kazakhstan have unique challenges related to the shadow economy. The government has implemented targeted interventions to formalize key sectors prone to informal operations: For example, in the agricultural sector, informal labor and cash transactions are common, especially in rural areas. To address this, the government has promoted rural banking services, provided tax benefits for formalized agribusinesses, and introduced agricultural subsidies accessible only to registered entities. These measures encourage small agricultural businesses and farmers to formalize their operations, which, in turn, improves productivity, transparency, and access to financing. Kazakhstan's trade and services sectors have adopted digital invoicing systems, requiring businesses to record transactions electronically. The mandatory adoption of point-of-sale (POS) systems has helped track and report sales transactions more effectively. Furthermore, the government has provided training and incentives to retailers to encourage the use of POS systems, reducing unreported sales and improving tax collection.

In Turkmenistan, the agricultural and construction sectors are major contributors to the shadow economy. The government has begun to implement sector-specific formalization efforts, particularly in agriculture. State incentives, subsidies, and rural banking initiatives have been introduced to encourage small agricultural producers to register their businesses formally. Improved access to banking services in rural areas is expected to reduce cash transactions and promote financial inclusion.

The government of Uzbekistan has launched several initiatives to encourage informal businesses to register and operate legally. This includes offering incentives for businesses that transition from the shadow economy into the formal economy.

- State support and incentives: The government offers financial and administrative support to businesses that formalize. For instance, small and medium-sized businesses that register are provided access to credit lines, government contracts, and business development services.

- Public-private partnerships (PPP): The development of public-private partnerships has accelerated, especially in sectors such as healthcare and infrastructure. This formal cooperation between the state and private sector helps reduce informal operations and enhances transparency.

4. Anti-corruption reforms and transparency measures

Corruption remains a major barrier to economic transparency in Tajikistan. To address this, the government has introduced anti-corruption measures and established agencies tasked with monitoring and enforcing anti-corruption laws. While progress is ongoing, independent monitoring of anti-corruption efforts is necessary to ensure their effectiveness. Strengthening public trust in government institutions, particularly in remote and underserved regions, remains a priority for Tajikistan.

Kazakhstan has established the Anti-Corruption Agency, tasked with reducing corrupt practices in both the public and private sectors [21]. Initiatives to improve transparency in procurement, licensing, and taxation have reduced opportunities for informal transactions. Additionally, public sector employees are now required to declare their assets, helping to build public trust in government institutions.

Turkmenistan has implemented anti-corruption laws and mechanisms for public sector oversight. However, progress is slow due to centralized



political control and limited transparency measures. While these reforms signal an official stance against corruption, their impact has been limited without independent monitoring. Enhanced anti-corruption initiatives, coupled with greater access to information, could support transparency efforts and economic formalization.

Uzbekistan has introduced several measures to reduce corruption and increase public trust in government institutions.

- **Creation of the anti-corruption agency:** In 2020, Uzbekistan established the Anti-Corruption Agency, tasked with investigating and reducing corruption across various sectors, including the tax and customs authorities [22]. The agency works closely with international organizations to adopt best practices.

- **Transparent procurement processes:** Reforms have been introduced to make government procurement processes more transparent. This includes the introduction of online procurement platforms that allow businesses to bid for government contracts in a transparent and competitive manner.

Effective measures must be taken to combat the various economic vices in our society, including corruption and financial crimes, ensuring the inevitability of punishment for such offenses. Injustice is considered a situation that places a person in a difficult and psychologically oppressive position. One of its causes is corruption, which involves the illegal use of one’s position for personal gain or for the material benefit of others in exchange for illegal services. Based on this, on January 3, 2017, the Republic of Uzbekistan adopted the Law “On Combating Corruption” and the Presidential Decree of February 2, 2017, “On Measures to Implement the Law on Combating Corruption”. These laws aim to radically change the situation in Uzbekistan regarding the fight against the shadow economy and, accordingly, corruption. According to the decree of June 29, 2020, “On Additional Measures to Improve the System of Combating Corruption in the Republic of Uzbekistan”, the creation of a special anti-corruption agency for the formation and implementation of state policy on reducing the shadow economy requires the development of an effective system for ensuring the joint efforts of other non-governmental sector representatives. This will significantly enhance the fight against corruption [23].

To coordinate the activities of the bodies and organizations involved in combating corruption, this Regulation has established the Republican Interdepartmental Commission for Combating Corruption, as well as territorial interdepartmental commissions in the Republic of Karakalpakstan, regions, and the city of Tashkent. There is a need to further strengthen public trust in state authorities, particularly in the prosecution service, which is responsible for overseeing law enforcement, and in the judiciary, which implements social justice.

5. Marking and tracking of goods

To reduce the illicit trade of goods and ensure transparency in market transactions, Uzbekistan introduced a system of product marking and tracking, starting with key industries such as tobacco, alcohol, and pharmaceuticals.

- **Product marking:** A mandatory product marking system was introduced to track the movement of goods, ensuring that products sold in the market are taxed appropriately. This also helps combat smuggling and the illegal trade of untaxed goods.

- **Pharmaceutical industry:** The government has implemented strict regulations to track and monitor the distribution of pharmaceutical products, where illicit and informal activities were once widespread. This initiative has helped bring more transparency to the healthcare sector.

6. Labor market reforms

The shadow economy in Uzbekistan has traditionally been associated with informal labor, where workers are paid under the table without legal contracts or benefits. To address this issue, the government has made labor market reforms a priority.

**Formalization of employment:** Steps have been taken to encourage businesses to formalize labor relations by providing legal work contracts and ensuring that workers have access to social benefits like pensions, health insurance, and unemployment benefits.

**Labor inspections:** The Ministry of Employment and Labor Relations has increased labor inspections to ensure that employers comply with labor laws and avoid exploiting informal workers.

7. Public awareness campaigns and education

Kazakhstan has prioritized educating its citizens and business owners about the benefits of formalizing their economic activities. Public

awareness campaigns highlight the importance of formal employment, access to social benefits, and the long-term benefits of paying taxes. Education programs are also being conducted in collaboration with business associations and local governments, focusing on building trust between businesses and government institutions.

The Uzbek government has launched awareness campaigns to educate citizens and businesses about the importance of paying taxes and the negative impact of the shadow economy on society. Public education efforts are aimed at fostering a culture of compliance and discouraging informal activities.

- **Promotion of social contracts:** Public campaigns emphasize the role of taxes in funding critical public services, such as healthcare, education, and infrastructure. By highlighting the societal benefits of tax compliance, the government aims to foster a stronger social contract between citizens and the state.

It is noteworthy to underline the following statements: first, it is unacceptable for the economy to develop in an environment where the system of government is largely potentially corrupt. Second, the shadow economy distorts the essence of the state's economic policy and its social orientation. Third, the shadow economy allows traders to corrupt government officials who oversee trade, commercial activities, and, especially, tax and law enforcement bodies.

8. Promoting civil society and transparency

Kyrgyzstan’s relatively open political climate has allowed for civil society organizations to advocate for transparency, accountability, and political reforms. Civil society groups have played an instrumental role in fostering government accountability and encouraging anti-corruption efforts. These groups push for public sector transparency and monitor the implementation of reforms aimed at reducing the shadow economy.

Overall, in Central Asia, the shadow economy remains a significant challenge for economic development, impacting governmental transparency, revenue collection, and sustainable growth. Despite their shared regional context, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan have distinct approaches to addressing the informal economy, shaped by different political systems, levels of economic openness, and reform priorities.

Country	Primary Focus Areas	Strengths	Challenges
Kazakhstan	Digitalization, tax incentives, public-private partnerships	Strong digital infrastructure, large economy	Persistent corruption in local governance
Kyrgyzstan	Civil society engagement, tax reform, e-governance	Democratic oversight, strong civil society	Limited financial resources, political instability
Tajikistan	Financial inclusion, microfinance, rural outreach	Rural financial programs, simplified tax codes	Weak institutional enforcement, widespread poverty
Turkmenistan	Sector-specific formalization (agriculture, construction)	Governmental control over key sectors	Limited civil society, centralized system
Uzbekistan	Comprehensive reforms, anti-corruption, digitalization	Broad reform agenda, growing transparency	Enforcement of anti-corruption, regional disparities

Future directions and recommendations

While substantial progress has been made, further measures are necessary for long-term success in combatting the shadow economy:

- **Strengthening institutional capacity:** Continued investment in institutional capacity, including better-equipped tax and customs authorities, can further reduce the shadow economy. Efficient tax administration will make compliance easier and reduce opportunities for tax evasion.

- **Encouraging regional data sharing:** Regional data-sharing initiatives on tax compliance and cross-border transactions can help Central Asian governments better track informal business activities and enforce tax laws.

- **Emphasizing financial literacy and education:** Educating entrepreneurs and workers on the benefits of operating within the formal economy and understanding tax responsibilities can foster a more compliant business environment.

- **Increasing support for small businesses:** Governments should continue to support small businesses in the formal sector through tax incentives, access to credit, and reduced bureaucratic hurdles to ensure compliance is financially feasible.

## Conclusion

The shadow economy and criminal business pose serious threats to development, social stability, and the security of society. Solving the problems associated with these negative phenomena requires joint efforts by the state, business, civil society, and the international community.

It is well known that the shadow economy continues to be one of the major challenges faced by many countries. It is essential to create conditions for sustainable and fair development, free from the destabilizing factors of the shadow economy and crime. The shadow economy impacts economic growth and social stability, and its excessive expansion can hinder the development of the country as a whole.

Efforts to combat the shadow economy across Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan reflect a complex interplay between economic policies, governance structures, and political environments. Kazakhstan and Uzbekistan have leveraged digitalization and transparency reforms, while Kyrgyzstan's civil society and tax incentives have proven effective in creating accountability. Turkmenistan's centralized sector-specific reforms contrast with Tajikistan's focus on financial inclusion and rural support.

Regional cooperation plays a crucial role in addressing the shadow economy. Central Asian countries share similar economic structures and challenges, making collaboration on tax reform, anti-corruption measures, and trade regulation beneficial. Integrated customs and cross-border data-sharing systems can reduce smuggling and help governments better

monitor cross-border trade activities, reducing informal cross-border transactions. For instance, Kazakhstan and Uzbekistan have taken steps to harmonize customs regulations, which helps reduce informal trade and ensures that more businesses comply with tax requirements.

To make sustained progress, these countries will need to continue improving transparency, fostering public trust, and addressing underlying socioeconomic challenges such as poverty, limited infrastructure, and governance weaknesses.

It is notable that Uzbekistan has made significant progress in its fight against the shadow economy through a combination of tax reforms, digitalization, labor market reforms, and anti-corruption measures. While the shadow economy still represents a substantial challenge, particularly in sectors like agriculture, retail, and construction, these reforms are helping to formalize more businesses and reduce informal labor. Drawing from international experience, Uzbekistan's efforts to promote transparency, reduce bureaucracy, and increase the ease of doing business will likely continue to have a positive impact on reducing the size of the shadow economy.

As Uzbekistan continues on its reform path, the government's focus on further improving tax compliance, strengthening labor protections, and enhancing digital tools will be crucial in ensuring sustainable growth and reducing the informal sector's influence on the overall economy.

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