



## THE SHADOW ECONOMY: THE IMPACT ON THE ECONOMIC SECURITY OF THE STATE

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### ANNOTATION

Economic security is an important aspect of the modern world order. In the context of globalization and the interdependence of the economies of various countries, ensuring stability and protecting national economic interests is becoming an integral task for States. This abstract draw attention to the main aspects of economic security and its impact on various spheres of public life. First, the concept of economic security and its relationship with political and social stability is considered. Then the factors affecting economic security are analyzed, such as global economic crises, cyber threats, instability of financial markets and others. Next, the role of the state in ensuring economic security through the development and implementation of appropriate political, economic and legal measures is considered. In addition, the annotation examines the consequences of economic insecurity, such as economic losses, social conflicts, inequality, migration crises and even threats to peace. The article will also consider concepts related to the shadow economy and its consequences.

### Key words

economic security, social stability, global economic crises, cyber threats, economic losses, social conflicts, migration crises, shadow economy.

## ТЕНЕВАЯ ЭКОНОМИКА: ВЛИЯНИЕ НА ЭКОНОМИЧЕСКУЮ БЕЗОПАСНОСТЬ ГОСУДАРСТВА

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**Аннотация.** Экономическая безопасность является важным аспектом современного мирового порядка. В условиях глобализации и взаимозависимости экономик различных стран, обеспечение стабильности и защиты национальных экономических интересов становится неотъемлемой задачей для государств. Данная аннотация обращает внимание на основные аспекты экономической безопасности и ее влияние на различные сферы общественной жизни. Вначале рассматривается понятие экономической безопасности и ее взаимосвязь с политической и социальной стабильностью. Затем анализируются факторы, влияющие на экономическую безопасность, такие как глобальные экономические кризисы, киберугрозы, нестабильность финансовых рынков и другие. Далее рассматривается роль государства в обеспечении экономической безопасности через разработку и реализацию соответствующих политических, экономических и правовых мер. Кроме того, в аннотации рассматриваются последствия отсутствия экономической безопасности, такие как экономические потери, социальные конфликты, неравенство, миграционные кризисы и даже угроза миру. Также в статье будут рассмотрены понятия, относящиеся к теневой экономике и ее последствия.

**Ключевые слова:** экономическая безопасность, социальная стабильность, глобальные экономические кризисы, киберугрозы, экономические потери, социальные конфликты, миграционные кризисы, теневая экономика.

## **SOYA IQTISODIYOTI: DAVLATNING IQTISODIY XAVFSIZLIGIGA TA'SIRI**

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## **ANNOTATSIYA**



Iqtisodiy xavfsizlik zamonaviy dunyo tartibining muhim jihati hisoblanadi. Globallashuv va turli mamlakatlar iqtisodiyotlarining o'zaro bog'liqligi sharoitida milliy iqtisodiy manfaatlarning barqarorligi va himoyasini ta'minlash davlatlar uchun ajralmas vazifaga aylanadi. Ushbu Referat iqtisodiy xavfsizlikning asosiy jihatlariga va uning ijtimoiy hayotning turli sohalariga ta'siriga e'tibor qaratadi.

Birinchi, iqtisodiy xavfsizlik tushunchasi va uning siyosiy va ijtimoiy barqarorlik bilan o'zaro bog'liqligi ko'rib chiqiladi. Global iqtisodiy inqirozlar, kiber tahdidlar, moliyaviy bozorlarning beqarorligi va boshqalar kabi iqtisodiy xavfsizlikka ta'sir qiluvchi omillar tahlil qilinadi. Tegishli siyosiy, iqtisodiy va huquqiy chora-tadbirlarni ishlab chiqish va amalga oshirish orqali davlatning iqtisodiy xavfsizlikni ta'minlashdagi roli ko'rib chiqiladi. Bundan tashqari, annotatsiya iqtisodiy xavfsizlikning yo'qligi oqibatlarini, masalan, iqtisodiy yo'qotishlar, ijtimoiy mojarolar, tengsizliklar, migratsiya inqirozlari va hatto tinchlikka tahdidlarni ko'rib chiqiladi. Shuningdek, maqolada soyali iqtisodiyot va uning oqibatlari bilan bog'liq tushunchalar ko'rib chiqiladi.

#### **Kalit so'zlar**

iqtisodiy xavfsizlik, ijtimoiy barqarorlik, global iqtisodiy inqirozlar, kiber tahdidlar, iqtisodiy yo'qotishlar, ijtimoiy mojarolar, migratsiya inqirozlari, soyali iqtisodiyot.

**Introduction.** Economic security is an important aspect of the development and prosperity of any country. In the modern world, globalization and the interconnectedness of economies lead to the fact that threats and risks associated with the economic sphere can have serious consequences for the national interests and security of the country. The country's economic security covers a wide range of aspects, including ensuring the stability and sustainability of the macroeconomic environment, protection from external and internal threats, industrial security, energy security, financial security, information security and trade security. Global challenges such as financial crises, terrorism, cyber-attacks, trade conflicts and climate change can seriously undermine a country's economic stability and development. Therefore, strategic planning and taking measures to ensure economic security are an integral part of State policy. One of the main goals of economic security is to create conditions for sustainable economic growth, ensure the competitiveness of national industry, protect against unfair competition and preserve economic sovereignty. The realization of these goals requires the development and implementation of appropriate strategies and policies, as well as the participation of various sectors of society, including government, the business community and the academic sphere. Depending on the specific conditions and challenges faced by a country, measures to ensure economic security may include



the development and implementation of appropriate legislation, strengthening the financial system, developing the technological base, supporting research and innovation, cooperation with other countries and international organizations, as well as raising awareness and education of the population in economic matters. In general, economic security is an important factor for the sustainable development and prosperity of the state. It is aimed at minimizing risks and threats, as well as creating a favorable economic environment conducive to the growth and well-being of the nation.

**Research methodology.** The article summarizes expert opinions in the field of economic protection on the example of a certain object and methods based on observations. The ways to ensure an effective and unique system of economic security of the enterprise and at the state level are also indicated.

**A literary review.** John Miller "We explore the relationship between the economy and the security of the country, emphasizing the importance of stability and development of the economic sphere to ensure national security." The author of the book "Economic Security" describes in detail the trend of development of economic and social security in chronological order.

Barry Buzan is the author of the book "New Approaches to Security: Interpretation, Problems and Perspectives" ("New Approaches to Security: Interpretative, Problem-Solving and Constructivist Perspectives"). In his work, he proposes the concept of "economic security" as one of the aspects of a broader understanding of security, including not only military aspects, but also economic, environmental and social factors.

Louise Simons is the author of the book "Economic Security and International Relations". In her work, she explores the relationship between economic security and international relations, as well as the role of economic policy in shaping the security of States.

The results of the study. Economic security [1] is a branch of science that studies the state of the economy, ensuring high and steady growth of the main socio-economic indicators, meeting the needs of all participants in the social reproduction process, state control over the movement and use of national resources and protecting the economic interests of the country at the national and international levels. Depending on the sphere and subject of economic security, economic security is usually divided into the economic security of the state, the economic security of the region and the economic security of the enterprise. The economic security of the state is characterized by economic, political, military, scientific, technical and social aspects and factors that determine the state and level of security of the state. Regional economic security is a set of measures aimed at sustainable development and improvement of the region's economy and the

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formation of mechanisms to counter external and internal threats. The economic security of enterprises is the state of the most efficient use of economic resources to prevent threats and ensure the stable functioning of enterprises. Economic security is a concept that encompasses measures and policies aimed at ensuring stability and protecting the State's economy from internal and external threats. Economic security includes [2] protection against economic instability, harmful effects on the economy, threats to national security and loss of economic sovereignty. Economic security is an extremely relevant and important issue for any country, organization or enterprise. It is related to the protection of economic interests from various threats, including economic crises, financial attacks, trade wars, cyber-attacks, corruption, unfair competition and others.

Economic security has a significant impact on various spheres of public life. The following are the main aspects to consider:

1. Political stability: Economic security is closely linked to political stability. Instability in the economy can lead to social tensions, protests and even political crises. Ensuring economic security contributes to strengthening political stability and prevents possible conflicts.

2. Social well-being: Economic security is essential for social well-being. Sustained economic growth and job creation contribute to poverty reduction, improved living standards and social security. Economic instability, on the contrary, can lead to social problems, including unemployment, inequality and social imbalance.

3. Security of national resources: Economic security includes ensuring access to necessary resources for the country. This may include energy resources, food, water, raw materials, and other resources. The lack or threat of access to these resources can have a negative impact on the economy and national security.

4. Infrastructure and economic facilities: Economic security is also related to the protection of critical infrastructure and economic facilities. Terrorist attacks, cyber-attacks or natural disasters can cause significant economic damage and disrupt the normal functioning of the economy. Ensuring the security of infrastructure and economic facilities is an important aspect of economic security.

5. International relations and trade: Economic security has an impact on international relations and trade. Countries strive to protect their economic interests and ensure a safe environment for international trade. Conflicts, protectionism or violation of agreements can lead to economic problems and negatively affect international relations.

6. Innovation and development: Economic security stimulates innovation and economic development. Ensuring the stability and protection of the economy creates a favorable environment for entrepreneurship, investment and the



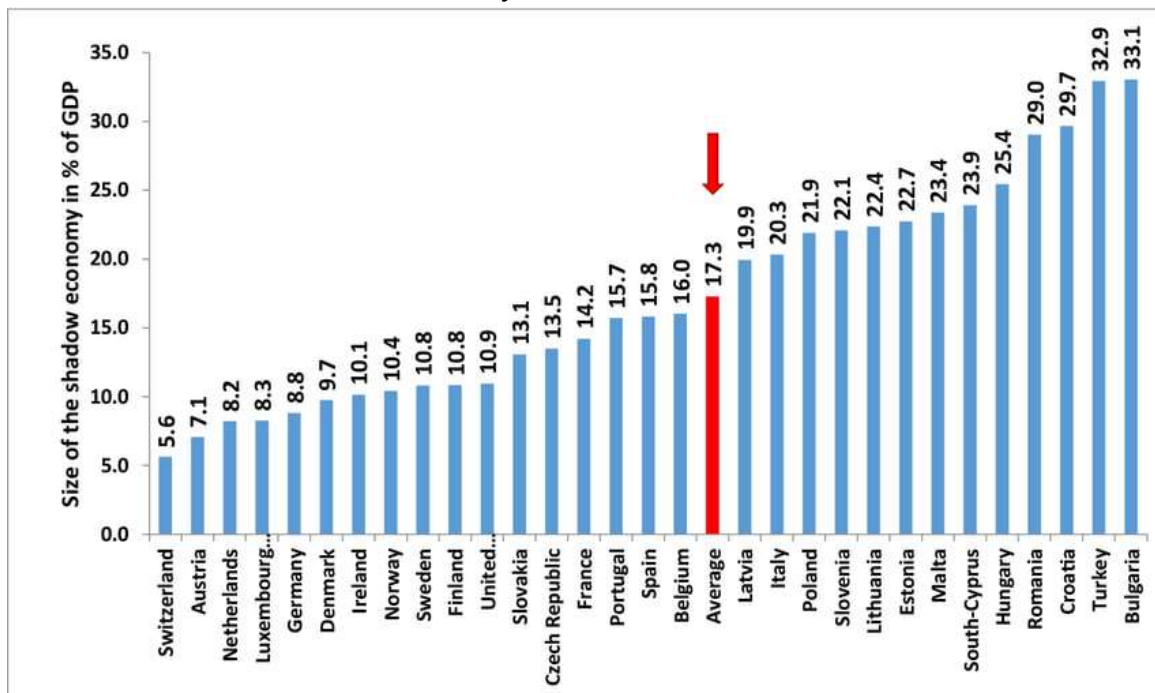


development of new technologies. Innovations, in turn, contribute to the growth of the economy and increase the competitiveness of the country.

The shadow economy, also known as the underground economy or informal economy, refers to economic activities that occur outside the boundaries of official regulations and oversight. It encompasses a wide range of unreported, untaxed, and informal transactions that are not recorded in official statistics or included in the calculation of a country's gross domestic product (GDP). The shadow economy includes various types of activities, such as undeclared work, informal employment, cash-in-hand transactions, smuggling, illicit trade, tax evasion, and unregistered businesses. Participants in the shadow economy often operate in cash to avoid detection and regulatory scrutiny. They may also engage in illegal activities or employ illegal labor. There are several reasons why the shadow economy exists. High tax rates and complex tax systems can create strong incentives for individuals and businesses to evade taxes and operate in the informal sector. Excessive government regulations, bureaucratic red tape, and burdensome licensing requirements can also push economic activities into the shadow economy. Additionally, economic downturns, high unemployment rates, and limited job opportunities may drive individuals to seek informal work as a means of survival. The shadow economy poses challenges and implications for governments, policymakers, and society as a whole. It can result in revenue losses for governments, as tax revenues are not collected from informal economic activities. This, in turn, can strain public finances and hinder the provision of public goods and services. Moreover, the lack of regulation and oversight in the shadow economy can lead to unfair competition, exploitation of workers, and reduced consumer protection. Efforts to combat the shadow economy typically involve a combination of measures, including simplifying tax systems, reducing tax burdens, improving regulatory frameworks, enhancing enforcement and compliance mechanisms, promoting financial inclusion, and creating legal pathways for informal businesses to transition into the formal sector. These measures aim to incentivize individuals and businesses to operate within the formal economy, where they can contribute to economic growth, generate tax revenues, and benefit from legal protections and social welfare programs. It is worth noting that the size and dynamics of the shadow economy can vary across countries and over time. Estimating its precise magnitude is challenging due to its clandestine nature. Nonetheless, understanding and addressing the underlying causes and consequences of the shadow economy remain important considerations for policymakers seeking to promote inclusive and sustainable economic development. Many empirical studies find the rising burden of taxes and social security contributions to be one of the most important drivers of the development of the

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shadow economy. Up to half the variance of the differences in the size of the shadow economy across countries can be explained by this factor, depending on the model and number of factors included. Since taxes affect the labor-leisure choice and stimulate labor supply in the shadow economy, the distorting effect of this influence is a major concern of economists. According to economic theory, the bigger the difference between the total cost of labor in the official economy and the after-tax earnings from work, the greater the desire to reduce this difference and to work in the shadow economy. This difference depends largely on the overall burden of taxes and social security contributions in the official economy, a burden that is evaded in the shadow economy.



**Fig.1 The size of shadow economy among the countries [3]**

Institutions such as the IMF [4] and the Institute of Economic Affairs (IEA) have identified many harmful effects of the shadow economy. There are seven broad categories of concern:

a) Tax Revenue Loss. Unreported income and transactions lead to lower tax revenues, impeding the government's ability to fund public services and essential infrastructure.

b) Reduced Productivity. Many activities within the shadow economy operate without proper legal recognition or registration. These activities thus miss out on the benefits formal sectors offer, such as access to financing and government grants, which play a crucial role in enhancing productivity by enabling the development of skills and technology.

c) Lack of Employee Protection. Workers engaged in the shadow economy typically lack legal protections such as minimum wages, safety standards,



and social security benefits, exposing them to the risks of exploitation and unfair treatment.

d) **Unfair Competition.** Without conventional taxes and regulation, informal businesses have an unfair advantage over formally registered companies, resulting in skewed competition.

e) **Distortion of Economic Indicators.** A significant shadow economy can distort official economic indicators and statistics, which are crucial for policymaking, economic planning, and assessing the country's overall economic health.

f) **Undermined Institutional Confidence.** A widespread shadow economy signifies a general lack of fairness, transparency, and effective governance. This can erode public trust, as the government is seen as less able to manage the economy and the nation.

g) **National Security and Crime.** The underground economy is used for criminal activity, including money laundering, tax evasion, and the funding of terrorism. This poses significant risks to national security.

There is a lot of debate [5] about the causes, consequences and problems of the growing shadow economy in developed countries. In the face of continued high unemployment in some European countries, strained budgets and growing frustration with economic and social policies, the Commission and the EU Parliament, like many national governments, have undertaken a number of initiatives, including an EU-wide study, to better understand and counter the growth of the shadow economy. However, these efforts involve making difficult decisions. While tax evasion, social fraud and illegal employment of rich people cause widespread public outrage, illegal workers cause much less resentment, although, according to some politicians, their behavior is antisocial and leads to increased unemployment and social injustice. But what about illegal night work ("side jobs")? Surveys show that about half of the population in Germany, Norway, Sweden and the United Kingdom tolerate such practices and would even be willing to engage in them if the opportunity presented itself. Illegal work is especially widespread in the domestic sector. For example, in Germany, nine out of ten households illegally hire domestic workers. The guidance on combating illegal employment, set out by the EU Commission in its pan-European employment strategy, calls on countries to share "models of best practices" and coordinate efforts at the EU level, including strengthening regulation and sanctions. Comparative analysis can help identify new ways to solve the problem of illegal and undeclared employment, but measures rarely go beyond the elimination of symptoms. Tougher sanctions alone will not lead to the eradication of illegal work. This article suggests a two-way strategy that is more effective and less costly. For example, new

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research findings in the fields of economic psychology and behavioral economics show that intrinsic motivation and values have a much stronger impact than the level of recognition and actual discovery.

The starting point of almost all debates about the shadow economy is the question of how to define it or how to estimate its size. It is difficult to give a formal definition of the term "shadow economy" because it includes a large number of economic activities. For example, it is necessary to distinguish between goods and services produced and consumed at home, "soft" forms of illegal work (part-time work), illegal employment, social fraud and even criminal economic activity. In general, the shadow economy can be understood as the economic activity of people who are outside official norms and formal institutions. Since trade is illegal, and possession of goods or services themselves or trade through other legal channels is not necessarily illegal, markets, both public and private, are forced to operate outside the formal economy and its institutions. From the point of view of economic policy, the activities of the shadow economy are associated with added value. In order to estimate the cost of such activities, it is necessary to distinguish between the volume of production of illegal and legal activities, as well as the volume of production and distribution of illegal and legal activities. Common motives for working in the shadow economy are trading in prohibited goods, avoiding taxes and registration fees, and evading price controls. The shadow economy as a set of such activities is usually called an addition to the state economy.



**Fig.2 Ongoing analysis of shadow economy [6]**

Economic security and the shadow economy are interconnected, since the shadow economy can pose a threat to the economic security of the state. Economic security refers to the state when a country's economy is protected from various



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internal and external threats that can damage its stability, development and well-being of the population. These threats may include economic crime, financial crises, terrorist financial activities, illegal migration, corruption, violation of trade rules and other factors that can negatively affect the country's economy. The shadow economy, on the other hand, is a sector of the economy that operates outside official channels and government control. Illegal and unregistered economic transactions such as illegal trade, smuggling, illegal migration and tax evasion take place in this sector. The shadow economy can create a number of problems for the economic security of the state. Firstly, it can lead to significant losses in tax revenues, since informal transactions are not subject to taxes or fees. This can have a negative impact on the financial stability of the State and its ability to provide the necessary services and infrastructure. In addition, the shadow economy can contribute to the spread of economic crime and corruption, which can undermine confidence in government and institutions, as well as create an unfavorable investment environment. Illegal migration associated with the shadow economy can also have negative social and economic consequences for the country, such as demographic imbalance and pressure on social systems. To ensure economic security and reduce the shadow economy, States can take a number of measures. This may include improving tax systems and procedures, strengthening control and supervision, reducing administrative barriers to entrepreneurship, fighting corruption, improving the law enforcement system and cooperating with other countries in combating the shadow economy and financial crimes. Ensuring economic security and reducing the shadow economy requires an integrated approach and cooperation between government agencies, the private sector and international partners. Economic security and the shadow economy are interrelated, since the shadow economy can pose a threat to the economic security of the country. Economic security is a state in which a country's economy is protected from various internal and external threats that can damage its stability, development and well-being of the population. These threats may include economic crimes, financial crises, terrorist financing, illegal migration, corruption, trade violations and other factors that may have a negative impact on the country's economy.

Countries varied [7] considerably in the percentage of respondents who purchased goods or services they believed to have been produced through undeclared work. Countries with high percentages in 2013 include Greece (30%) and the Netherlands (29%). Countries with low percentages include Poland (5%) and Germany (7%). The median amount Europeans spent in 2013 on goods or services produced through undeclared work was €200. The median hourly cost for purchases of undeclared goods and services was €11, with a range from €20 in the

Nordic countries to €5 in Eastern and Central Europe. The percentage of Europeans who reported purchasing undeclared services also varied by services. The highest percentages were 29% for home repairs or renovations, 22% for car repairs, 15% for home cleaning, and 11% for food. The corresponding figures for the supply of undeclared work were 19% for repairs or renovations, 14% for gardening, 13% for cleaning, 12% for babysitting, and 11% for working as wait staff in restaurants. The results are even smaller looking at the supply side. Around 4–5% of respondents in 27 EU countries reported having engaged in undeclared work during the last 12 months (in 2017 and 2013), which converts to 20 million undeclared workers.

*Influence on the size of the shadow economy (%)*

<i>Factors</i>	<i>Range based on 15 studies</i>	<i>Range based on 28 studies</i>
1. Taxes and social security contributions	35–38	45–52
2. Intensity of state regulations	8–10	10–15
3. Social transfers	5–7	5–8
4. Specific labor market regulations	5–7	5–8
5. Public sector services	5–7	5–8
6. Tax morale	22–25	a
<i>Overall influence</i>	<i>76–94</i>	<i>70–90</i>

**Fig.3 Main factors influencing the shadow economy in industrial countries**

[8]

On the other hand, the shadow economy is a sector of the economy that operates outside official channels and state control. It covers illegal and unregistered economic activities such as illegal trade, smuggling, illegal migration and tax evasion. The shadow economy can create a number of problems for the economic security of the country. Firstly, this can lead to significant losses in tax revenues, since informal transactions are not taxable. This may negatively affect the financial stability of the State and its ability to provide the necessary services and infrastructure. Moreover, the shadow economy can contribute to the spread of economic crime and corruption, undermining trust in government and institutions and creating an unfavorable investment environment. Illegal migration associated with the shadow economy can also have adverse social and economic consequences for the country, such as demographic imbalance and pressure on social systems. Governments can take various measures to ensure economic security and reduce the scale of the shadow economy. This may include improving tax systems and procedures, strengthening monitoring and supervision, reducing administrative barriers to entrepreneurship, fighting corruption, improving the judicial system and cooperating with other countries in combating the shadow economy and financial crimes. Ensuring economic security and reducing the scale of the shadow



economy require an integrated approach and cooperation between government agencies, the private sector and international partners.

**Conclusion.** In conclusion, the shadow economy is a sector of the economy that operates outside of official channels and state control. It includes unregistered, illegal and informal economic transactions such as illegal trade, smuggling, unregistered entrepreneurship and tax evasion. The shadow economy can pose a threat to the economic security of the state, affecting financial stability, tax revenues, social well-being and law and order. To reduce the shadow economy and ensure the economic security of the state, it is necessary to take measures such as improving tax systems and procedures, tightening control and supervision, reducing administrative barriers, fighting corruption and strengthening the law enforcement system. Cooperation between government agencies, the private sector and international partners in the fight against the shadow economy and financial crimes is also important. The development of a transparent and responsible economy in which participants operate in accordance with legislation and regulations is an important factor for sustainable economic development, job creation, social protection and confidence building in the State and its institutions.

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