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THE ROLE OF THE STATE IN STRENGTHENING ECONOMIC SECURITY: INSTITUTIONAL CAPACITY, REGULATION, AND STRATEGIC INTERVENTION

Orziqulov Alibek
Tashkent State University of Economics
Student of the Faculty of Economics
alibekorziqulov@gmail.com

Abstract. This article asks what the state can realistically do to make an economy more secure, and under which conditions its efforts backfire. Economic security is treated as the capacity of an economy to keep its essential functions running, and its policy choices open, under external shocks or economic coercion. The study is a qualitative comparative policy analysis. It reads the economic security frameworks of the European Union, Japan and the United States together with IMF and World Bank material on Uzbekistan, and it organises the evidence around three levers: institutional capacity, regulation and strategic intervention. The main finding concerns order rather than quantity. Instruments such as subsidies, notification regimes and import-concentration benchmarks look most convincing where a competent administration and predictable rules already exist, and least convincing where the state is at once owner, regulator and market participant. For Uzbekistan the evidence points to a narrower and better-governed state presence rather than a larger one. The article does not estimate causal effects. It offers a way of judging state action and a set of policy implications.

Keywords: economic security; state capacity; regulation; industrial policy; resilience; Uzbekistan

Introduction.

For a long time, economic security was a phrase that economists in open economies used rarely. Markets were expected to allocate resources, and the

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government's main task was to keep the macroeconomic framework stable. The idea that a country could be weakened because a supplier, a payment network or a technology sat in someone else's hands belonged mostly to security studies, where the economy was treated as one sector among several [1]. That division no longer holds. The 2008 financial crisis, the shortages of medical goods and microchips during the pandemic, the energy shock after the war in Ukraine, and the growing use of sanctions and export controls have shown that interdependence can be turned into a tool of pressure [2]. Governments reacted with a wave of new strategies. Japan passed a dedicated economic security law in 2022 [3], the G7 put economic resilience and economic security on its leaders' agenda in 2023 [4, 5], and the European Union published its first economic security strategy a month later [6].

The state has come back to the centre of the debate, but the debate is often framed too simply. One side says that markets already price risk well enough, so any attempt by the state to manage security costs more than it saves. The other says that firms have no reason to pay for protection against shocks that fall on everyone, so more intervention must mean more security. Neither position holds up well against the evidence. The IMF estimates that severe geoeconomic fragmentation could reduce global output by up to 7 percent through trade channels alone [7], which is reason enough to be careful with badly targeted measures. Yet the years 2020 to 2022 also showed what it costs to leave a critical dependency unmanaged.

This article starts from a narrower question than how much the state should do. It asks what the state must be good at before it intervenes, and what changes once it does. The argument has three parts. Institutional capacity, meaning the administrative, legal and fiscal ability to design and enforce policy, has to come first. Regulation then turns that capacity into rules that private actors can predict. Strategic intervention, which covers subsidies, public investment, stockpiles and ownership, comes last, because it is the most expensive lever and the easiest one to get wrong. A government that reaches for the third lever without the first two will usually buy the appearance of security rather than the thing itself.

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Uzbekistan serves as the applied case. The country is trying to open its economy while keeping a very large state sector under control, and recent IMF work gives unusually precise numbers on how large that sector is [8]. Section II sets out the method and the cases. Section III reports the findings for each lever and for Uzbekistan. Section IV discusses what the findings mean, where they are weak, and what follows for policy. Section V concludes.

Methods.

Economic security is a contested term, so the first methodological step is to say what it means here. Building on the broad-security tradition, in which the economy is one sector of security among several [1], and on the G7's recent attempt to define the concept around supply chains, critical infrastructure and critical technologies [5], this article defines economic security as the capacity of a national economy to keep its essential functions running, and its policy choices open, when it is hit by external shocks or by the deliberate use of economic dependence by others. The definition has two parts on purpose. The first concerns resilience to shocks and the second concerns autonomy under pressure. A country can be resilient and still dependent, and the policy implications are different.

The study uses a qualitative comparative policy analysis. It does not test hypotheses statistically, for a practical reason: most economic security strategies were adopted between 2022 and 2024, so there are not enough years or comparable outcome data to estimate their effects. What can be done at this stage is to compare what governments have committed to do, check it against the academic literature on state capacity and industrial policy, and note where the two diverge.

Three guiding questions were applied to every case. For institutional capacity: does the state have the administrative coordination and the fiscal and legal ability to carry out what it announces [9, 10]? For regulation: are the rules risk-based, transparent and open to evaluation, in the sense of the OECD's regulatory policy principles [11]? For strategic intervention: is public money or ownership directed at a specific, identifiable

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vulnerability, and does the design include limits such as conditions, guardrails or time limits [12].

Four cases were selected. The European Union, Japan and the United States each have a formal economic security framework with published instruments. Uzbekistan was added as a middle-income economy in which the role of the state is itself being reformed. The first three were chosen because their documents are public and detailed, not because they stand for all advanced economies. The evidence base consists of primary policy documents (the European Economic Security Strategy [6], the Critical Raw Materials Act [13], the CHIPS and Science Act [14] and Japan's Economic Security Promotion Act as described in [3]), reports of the IMF and the World Bank on Uzbekistan, and the academic literature cited above. Where possible, figures were checked against the original publication.

Two limitations should be stated at the start. Policy documents show intentions and not results. And because the sources are in English, Uzbek administrative practice is seen mostly through the eyes of international organisations. The conclusions are therefore claims about design and plausibility, not about measured effects.

Results.

A. Institutional capacity comes first

The literature agrees on one point more than on almost any other: policies fail more often because the state cannot carry them out than because they were badly designed. North treats institutions as the rules of the game, formal and informal, that shape incentives in an economy [15]. Besley and Persson split state capacity into two parts, the fiscal capacity to raise revenue and the legal capacity to enforce contracts and property rights, and show that both are built slowly and unevenly [9]. Fukuyama makes a related point, that governance is about the ability to make and enforce rules, whatever the size of the government [10]. The World Bank's 2017 World Development Report adds a practical test: the same policy gives different results depending on whether the state can solve problems of commitment, coordination and cooperation [16].

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Economic security policy is demanding on all three. It needs the state to commit credibly over years, to coordinate ministries that rarely work together (trade, finance, energy, defence), and to cooperate with firms that hold most of the relevant information about supply chains. The cases suggest that capacity shows up first as a coordination problem. The EU's strategy is built around three pillars, promoting the single market, protecting against risks and partnering with other countries, and was followed in January 2024 by five initiatives on trade and research [17]. That architecture is largely an answer to a coordination problem, since economic security cuts across areas where the Union and its member states each hold part of the responsibility [6]. Japan chose a different route. It wrote a dedicated law that designates sectors, gives agencies clear powers and obliges designated operators to notify the government in advance [3]. That brings clarity, but it also demands an administration able to apply the designation list consistently.

Uzbekistan shows the problem from the other side. The 2021–2025 reform strategy for state-owned enterprises (SOEs) targeted a 75 percent reduction of the state's presence in competitive sectors, yet the IMF concludes that implementation "has fallen short of the original target" and has not significantly reduced the state footprint [8]. The number of SOEs dropped from nearly 3,000 in 2020 to around 2,000 by late 2025, and cumulative privatization proceeds for 2021–2024 were about USD 2.5 billion, driven mainly by sales of smaller companies [8]. I do not read this as a verdict on the direction of reform, which the IMF supports. It does raise a fair question: if the administration found it hard to execute its own divestment plan, how well would it run a stockpile programme or a subsidy scheme for strategic industries?

B. Regulation turns capacity into predictable rules

Regulation is the cheapest of the three levers, and in the cases examined it is also the one used first. Japan's law requires operators of designated critical infrastructure, such as power, telecommunications, transport and finance, to file in advance before introducing important equipment or outsourcing its maintenance, and the government can recommend and then order security measures [3]. The EU's Critical Raw Materials

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Act sets benchmarks for 2030: 10 percent of annual consumption of strategic raw materials should come from EU extraction, 40 percent from EU processing and 25 percent from recycling, and no more than 65 percent should come from any single third country [13]. The benchmarks are non-binding, but they are measurable, which is rare in this field. In 2030 anyone will be able to check whether the policy worked. The Japanese model offers the opposite strength and the opposite risk. It gives the state wide discretion, so its fairness depends on how steadily that discretion is used.

Regulation also has an offensive side. Farrell and Newman show that states hosting the hubs of global networks, in finance or data for example, can use that position to monitor flows and to cut others off [2]. Most economies do not host such hubs, and Uzbekistan certainly does not. For a country in its position, regulation is mostly defensive: screening, standards, transparency about ownership. The OECD's principles of regulatory policy, with their emphasis on impact assessment and evaluation after the fact [11], apply here with extra force, because heavy-handed screening of foreign investment would damage the very inflows a middle-income economy needs. The question to ask of any security regulation is whether it names a specific risk and whether its burden fits the size of that risk.

C. Strategic intervention is powerful, costly and selective

Academic views of industrial policy have shifted a good deal. Rodrik argued in 2004 that the real question is not whether to have industrial policy but how to organise it, as a process of discovery in which government and business share information without the government being captured [18]. Juhász, Lane and Rodrik later reviewed newer studies that identify causal effects better than the older correlational work, and they conclude that the evidence is more favourable than it used to be, though dependent on context, measurement and governance [12]. Mazzucato adds that the state has repeatedly been the early, risk-taking investor in technologies that private capital would not finance [19], and Evans's idea of embedded autonomy, meaning close links with business without capture by it, remains the usual description of the institutional condition [20].

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Current economic security programmes follow that advice at least in form. The CHIPS and Science Act, signed in August 2022, appropriated USD 52.7 billion, of which USD 39 billion went to incentives for chip manufacturing on US soil, alongside a 25 percent investment tax credit [14]. Recipients accept limits on expanding advanced chip production in China and other countries of concern for ten years. Japan's law provides subsidies for certified suppliers of designated resources, funds for advanced research and the possibility of stockpiling critical materials [3]. What these programmes share is selectivity. Each is tied to a short list, such as semiconductors, rare earths, batteries and pharmaceuticals, and most carry some condition. The programmes that worry me most are the broad ones, with names like "support for strategic sectors", since that is where capture and waste are most likely to build up [18]. The cost side must also stay in view. The G7 itself framed its approach as de-risking rather than decoupling [5], and the IMF's estimate of fragmentation losses [7] shows why that distinction matters in practice.

D. Uzbekistan: a large state that is still reforming

Uzbekistan adopted its "Uzbekistan–2030" Strategy by Presidential Decree No. UP-158 on 11 September 2023 [21]. The macroeconomic picture is encouraging: real GDP grew 7.7 percent in 2025, and the national poverty rate fell from 17.0 to 5.8 percent between 2021 and 2025 [22]. Behind those figures the state remains very large. At the end of 2024, SOE assets amounted to 101 percent of GDP, and the state owned 63 percent of banking assets, against an average of about 23 percent in middle-income economies [8]. In its 2024 Article IV conclusion, the IMF Executive Board urged faster privatization of systemic financial institutions and an end to SOE preferences, and it named contingent liabilities from state banks, SOEs and public-private partnerships as a domestic vulnerability. It also noted that the current account deficit had widened to 8.6 percent of GDP in 2023 from 3.5 percent a year earlier [23].

External exposure is a second theme. The World Bank reports record remittances of USD 9.2 billion in the first half of 2026, up 13 percent, and lists weaker Russian growth as a risk that could dampen them, together with higher energy import costs if

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tensions in the Middle East escalate [22]. These are not the semiconductor and rare-earth worries that dominate European, Japanese and American strategies. For Uzbekistan the main security exposures are income dependence on one foreign labour market, the price of imported energy, and a financial system in which a problem at a state bank quickly becomes a fiscal problem. Table 1 summarises how the four cases compare on the three levers.

Table 1. The four cases compared along the three levers

Case	Institutional capacity	Regulation	Strategic intervention
EU	Shared competence; coordination across member states	Raw material benchmarks for 2030	Strategy plus five follow-up initiatives (Jan. 2024)
Japan	Dedicated law; central coordination	Advance filing by designated operators	Subsidies, stockpiles, research funding
USA	Commerce Department administers awards	Guardrails on expansion in China	USD 39 bn incentives; 25% tax credit
Uzbekistan	SOE reform target missed	Supervision to be strengthened (IMF)	SOE assets at 101% of GDP

Source: compiled by the author from [6, 17], [3], [13], [14], [8] and [23].

Discussion.

The main result is about order rather than quantity. In the cases reviewed, the instruments that look most convincing, such as the CHIPS incentives or Japan's notification regime, sit on administrations that already run grant programmes, enforce rules reasonably evenly and can coordinate across agencies. I cannot show that this is why they work, since the policies are too young. But the pattern is consistent with the state capacity literature [9, 16], and it carries an uncomfortable implication: the

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countries with the most to fear from economic insecurity are often those with the least capacity to follow the advanced economies' playbook.

Three objections deserve a direct answer. The first is that firms will diversify on their own once they have seen a shock. This is partly true. But firms count their own losses, not the losses that spread to everyone else when, say, a chip shortage stops both car production and the supply of hospital equipment, and that gap is the standard argument for public action in the new industrial policy literature [12]. The objection is right about one thing, though. The burden of proof should rest on the state, and mandatory measures should be as light as the risk allows.

The second objection is that economic security is protectionism with better branding. The risk is real, and the IMF's numbers show how large it could be [7]. The practical test I would propose has three questions. Does the measure name a specific vulnerability? Does it have a measurable target? Does it have an exit date or a review? The EU's raw material benchmarks pass the first two tests, and many other programmes do not.

The third objection is that small and middle-income countries cannot afford the instruments discussed here. That is correct. Uzbekistan will not match a USD 39 billion subsidy programme. Its advantage lies in cheaper levers, namely better governance, transparency and diversification, and these are also the levers that make later and costlier interventions work.

Several policy implications follow for Uzbekistan and similar economies. First, finishing the reform of SOEs and state banks is not separate from economic security but part of it, because a smaller and better-governed state footprint lowers the contingent liabilities that would otherwise land on the budget in a crisis [23, 8]. Second, the government could set up a small risk-assessment unit that publishes a short list of critical dependencies, for example energy imports, remittance sources, export markets and key inputs, with numerical targets, in the way the EU does for raw materials [13]. Third, any new subsidy should carry a sunset clause and a public evaluation. Fourth, the roles of owner and regulator should be separated, especially in finance and energy,

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because a state that both owns and supervises can drift into rent-seeking, a pattern Acemoglu and Robinson associate with extractive institutions [24]. Fifth, diversifying remittance sources and export markets should count as an economic security goal and not only as a trade goal.

The study has clear limits. It rests on policy documents, which show intentions and not results. It covers four cases, chosen because their documents are public and detailed, so they should not be read as representative. It relies on English-language sources, which means Uzbek administrative practice is seen mainly through the reports of international organisations. Once more years of data are available, future work could compare measured import concentration and financial-sector exposure before and after these programmes, and could survey firms on the compliance burden.

Conclusion.

This article asked what the state can do to strengthen economic security and when its efforts backfire. The answer developed here is that the state's contribution depends less on how much it does than on the order in which it builds its tools. Institutional capacity has to come first, regulation second and strategic intervention last, and each step should be narrow enough to be measured.

The cases support this reading without proving it. The European Union, Japan and the United States have picked specific dependencies, written rules or targets around them and attached conditions to public money. Uzbekistan's experience shows how a very large state presence can slow the process even when a reform strategy is in place: state-company assets equal to about the size of the whole economy, a state-dominated banking sector and a missed divestment target all limit what additional intervention could safely achieve.

For Uzbekistan the practical agenda is therefore modest and demanding at once. Finish the reform of the state sector, publish a short and measurable list of dependencies, and test every new measure against the questions of specificity, measurability and exit. Economic security built on such foundations is less dramatic

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than a large subsidy programme. It is also more likely to still be working when the next shock arrives.

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