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Executive Summary

This paper examines why state regulation of the economy is necessary and the methods used to achieve it. It begins by explaining market failures, equity, and stability objectives that justify intervention. It then reviews key regulatory methods: competition policy, natural monopoly regulation, environmental instruments, price controls and subsidies, regulatory impact assessment, and public procurement rules. Uzbekistan-specific reforms are highlighted, including privatization and competition law updates. The paper concludes with best-practice principles for effective, transparent, and proportionate regulation.

Introduction

State regulation of the economy refers to government actions aimed at correcting market failures, ensuring equity, and promoting macroeconomic stability. In modern economies, regulation also addresses strategic objectives such as resilience, innovation, and climate goals.

Necessity of State Regulation

Markets alone often fail to deliver socially optimal outcomes due to externalities, public goods, market power, and information asymmetries. Governments intervene to correct these failures, redistribute income, and stabilize economic cycles. Recent global trends show renewed interest in industrial policy for strategic sectors and climate mitigation.

Methods of State Regulation

Key methods include: (1) Competition policy to prevent monopolistic practices; (2) Regulation of natural monopolies using price-cap or rate-of-return models; (3) Environmental regulation through carbon pricing or command-and-control; (4) Price controls and targeted subsidies for vulnerable groups; (5) Regulatory Impact Assessment (RIA) to ensure evidence-based decisions; (6) Public procurement rules to promote transparency and efficiency.

Uzbekistan-Specific Examples

Uzbekistan has advanced reforms since 2017, including price liberalization, privatization, and competition law updates. Current priorities include reducing state participation in SOEs, introducing competitive neutrality, and strengthening independent regulators. Plans for IPOs and privatization of major enterprises reflect a shift toward private-sector-led growth.

Best-Practice Principles

Effective regulation should: (1) Target specific market failures; (2) Prefer market-based instruments; (3) Ensure proportionality and accountability; (4) Use transparent processes and RIA; (5) Coordinate fiscal and monetary policies; (6) Consider international spillovers of industrial policies.

Conclusion

State regulation is essential for correcting market failures and achieving social objectives, but it must be well-designed, transparent, and proportionate. Uzbekistan's ongoing reforms illustrate the importance of governance and competitive neutrality in fostering sustainable growth.

References

OECD Best Practice Principles; IMF Fiscal Monitor; World Bank subsidy reform guidelines; UNCITRAL Model Law on Procurement; WTO GPA; IMF and ADB reports on Uzbekistan reforms.