Registered in Germany **Europa Revue Journal**
ISSN: 1862-6564 **Vol. 6 No. 6 (2026) Published June 25, 2026**

INSTITUTIONAL ADAPTATION MODEL OF THE ECONOMY OF UZBEKISTAN UNDER INSTITUTIONAL PRESSURE IN THE ERA OF FINANCIAL SANCTIONS

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Abstract

This article reconceptualizes financial sanctions not as a direct set of economic restrictions, but as a source of institutional pressure transmitted through the global financial system. The main objective of the study is to identify the nature of institutional pressure emerging within the economy of Uzbekistan under conditions of financial sanctions and to explain the mechanisms of economic adaptation through a theoretical model. The research is grounded in the methodology of institutional economics and systems theory. As a result, an "Institutional Adaptation Model under Institutional Pressure" is developed. The proposed model consists of a three-level architecture incorporating external institutional pressure, institutional filtering mechanisms, and adaptive response strategies. The findings demonstrate that even in economies not directly targeted by sanctions, changes in the global financial environment generate institutional pressure that influences economic behavior and decision-making processes. Under such conditions, economic systems tend to prioritize institutional resilience and stability rather than the maximization of economic efficiency.

Keywords

financial sanctions, institutional pressure, institutional economics, economic adaptation, institutional resilience, economy of Uzbekistan.

Introduction

In recent years, financial sanctions have become one of the most influential instruments of international economic relations. Due to the deep integration of the global financial system, the effects of sanctions are no longer confined solely to the countries directly targeted by them. Instead, their influence increasingly extends to third-party economies connected to the global financial environment. Consequently,

financial sanctions are evolving from a traditional instrument of economic coercion into a broader mechanism capable of generating institutional transformations across national economies.

Existing literature predominantly examines financial sanctions through macroeconomic indicators such as gross domestic product (GDP), foreign trade performance, investment flows, and financial restrictions. While these approaches provide valuable insights into the direct economic consequences of sanctions, they often fail to capture their deeper impact on economic institutions, risk management frameworks, and the behavior of economic actors.

From the perspective of institutional economics, an economy is not merely a collection of production factors and financial resources; rather, it is a complex system of institutions, rules, norms, and trust mechanisms. Therefore, any significant change in the global financial environment, including the introduction or expansion of financial sanctions, can disrupt institutional equilibrium and alter patterns of economic interaction. Such effects frequently manifest not through direct economic losses but through the emergence of institutional pressure.

The economy of Uzbekistan provides a particularly interesting case for examining these processes. Although the country has not been a direct target of international financial sanctions, it remains highly integrated into the global financial system and is therefore exposed to the indirect consequences of a sanctions-driven environment. In this regard, Uzbekistan may be characterized as a "non-sanctioned economy operating within a sanctions-affected global environment."

The primary objective of this study is to identify the mechanisms through which institutional pressure emerges in the economy of Uzbekistan under conditions shaped by financial sanctions and to explain the adaptation strategies adopted by economic actors through a theoretical framework.

The scientific novelty of this research lies in its interpretation of financial sanctions as a generative source of institutional pressure rather than merely a set of economic restrictions. Furthermore, the study develops an original **"Institutional Adaptation Model under Institutional Pressure"** based on the case of Uzbekistan.

The model explains how the effects of financial sanctions penetrate economic systems, how they are filtered through institutional structures, and how adaptive strategies emerge in response to external pressure. As such, the model provides a unified theoretical framework for understanding the institutional consequences of financial sanctions in developing economies operating within a sanctions-affected global environment.

Literature Review

Financial sanctions have long been regarded as one of the principal instruments of economic and political influence in international relations. Early academic studies primarily viewed sanctions as tools designed to alter the political behavior of targeted states. Within this framework, the effectiveness of sanctions was assessed through indicators such as economic growth rates, trade volumes, investment flows, and financial stability. Studies by Stiglitz (2002) and Krugman (2012) highlighted the decline in economic activity, contraction of international trade, and restrictions on capital flows as the primary consequences of sanctions.

However, this approach has several limitations. Most notably, it focuses on direct economic effects while paying insufficient attention to the deeper institutional consequences of sanctions. Changes in the behavior of economic actors, risk-management practices, and institutional trust are often overlooked despite their significance for long-term economic development.

Subsequently, the political economy perspective emerged as an alternative approach. Within this framework, financial sanctions are interpreted as instruments of economic diplomacy and manifestations of power relations among states. Baldwin (1985) argued that sanctions should be understood as a strategic mechanism for advancing geopolitical interests rather than merely as economic restrictions. Although this perspective broadened the analytical scope of sanctions research, it continued to treat the internal institutional structure of national economies as a secondary issue.

Institutional Economics and Financial Sanctions

Institutional economics provides an alternative lens through which the effects of financial sanctions can be examined. According to North (1990), institutions represent the "rules of the game" that shape economic interactions and determine the incentives faced by economic actors. Williamson (2000) further emphasized the role of institutional arrangements and governance structures in explaining economic performance and adaptation. Similarly, Acemoglu and Robinson (2012) identified effective institutions as the fundamental determinant of long-term economic development.

Although these theories offer valuable insights into the relationship between institutions and economic change, financial sanctions have rarely been conceptualized as an independent source of institutional pressure. In most studies, sanctions are treated as an external environmental factor whose indirect influence on institutional structures remains insufficiently explored.

Consequently, there exists a significant gap in the literature regarding the mechanisms through which financial sanctions affect institutional behavior in economies that are not directly sanctioned but nevertheless operate within a sanctions-affected global environment.

Indirect Effects and the Existing Research Gap

In recent years, increasing attention has been devoted to the indirect effects of financial sanctions on third-party economies. Concepts such as "spillover effects" and "secondary effects" have become common in the sanctions literature. These approaches acknowledge that sanctions may influence trade flows, financial risks, investment decisions, and economic expectations beyond the countries directly targeted.

Nevertheless, the existing literature largely focuses on economic indicators and market outcomes, while paying limited attention to the institutional mechanisms underlying these indirect effects. In particular, there remains insufficient understanding of how institutional pressure emerges in economies operating within a sanctions environment, how domestic institutions process such pressure, and how adaptation strategies are formed.

This study addresses this gap by conceptualizing financial sanctions as a generative source of institutional pressure and by proposing an institutional adaptation model based on the case of Uzbekistan.

Methodology

The methodological framework of this study is grounded in institutional economics and systems theory. Rather than relying on conventional empirical-statistical analysis, the research adopts a theoretical and conceptual modeling approach. This choice is motivated by the complexity and multidimensional nature of institutional pressure, which cannot be adequately captured through quantitative indicators alone.

The study employs four principal methodological approaches:

- ***Institutional Analysis*** *– to examine how economic institutions respond to external pressures and environmental changes;*
- ***Approach*** *– to analyze the economy as an interconnected network of institutions and governance mechanisms;*
- ***Conceptual Modeling*** *– to develop the "Institutional Adaptation Model under Institutional Pressure";*
- ***Logical-Deductive Analysis*** *– to establish causal relationships between external institutional pressure*, institutional responses, and adaptation outcomes.

Based on these methodological principles, a three-stage conceptual model of institutional adaptation is developed. The model consists of:

- ***External Institutional Pressure****;*
- ***Institutional Filtering Mechanisms****;*
- ***Adaptive Response Strategies***.

This framework enables a systematic explanation of how external pressures associated with financial sanctions are transmitted through institutional structures and transformed into specific adaptation strategies within the national economy.

The methodological novelty of the study lies in its interpretation of financial sanctions not as direct economic restrictions, but as systemic factors capable of generating institutional transformations. By shifting the analytical focus from

macroeconomic outcomes to institutional dynamics, the study offers a new conceptual framework for understanding the indirect effects of financial sanctions on developing economies.

Results

The findings of the study indicate that institutional pressure emerging within the economy of Uzbekistan under conditions shaped by financial sanctions does not arise through direct legal restrictions. Instead, it develops through transformations in the global financial environment, changes in risk-management standards, and shifts in the behavior of economic actors. Such pressure affects decision-making processes, counterparty selection criteria, and the implementation of financial transactions.

The analysis identifies three primary channels through which institutional pressure is generated.

The first channel is associated with increasing uncertainty within the global financial infrastructure. Heightened caution in international payment systems, correspondent banking relationships, and cross-border financial transactions creates additional constraints for economic actors. As a result, firms and financial institutions are compelled to devote greater resources to risk assessment and compliance procedures.

The second channel involves changes in risk-evaluation standards. Strengthened compliance requirements and enhanced due diligence procedures implemented by international financial institutions increase operational costs and complicate decision-making processes. Consequently, economic actors face a more restrictive environment despite the absence of direct sanctions against the national economy.

The third channel relates to changes in the level of institutional trust. Under a sanctions-affected global environment, uncertainty regarding counterparties and financial relationships contributes to a decline in trust among economic participants. This process encourages the restructuring of economic relationships and stimulates the search for alternative mechanisms of cooperation.

Taken together, these channels generate cumulative institutional pressure that gradually influences the behavior of institutions and economic actors within the national economy.

Institutional Filtering Mechanisms

The results demonstrate that external institutional pressure does not affect the economy directly. Instead, it is filtered and transformed through existing institutional structures. Government institutions, financial organizations, and the business environment serve as the principal intermediaries in this process.

In sectors characterized by relatively strong institutional capacity, external pressure is partially absorbed and transformed into internal economic signals. These institutions are better equipped to mitigate risks and maintain stability under changing external conditions.

By contrast, weaker institutional segments often amplify external pressure, creating conditions for the expansion of informal mechanisms and alternative forms of economic coordination. Consequently, institutional adaptation does not occur uniformly across the economy. Different institutions display varying levels of responsiveness depending on their organizational capacity and resilience.

This finding suggests that institutional filtering represents a critical determinant of how external pressures are translated into domestic economic outcomes.

Types of Adaptive Strategies

The study identifies three major forms of adaptation that emerge in response to institutional pressure.

Conservative Adaptation

Conservative adaptation refers to efforts aimed at preserving the existing functional roles of institutions. Under this strategy, institutions prioritize stability and continuity while minimizing structural change. Although this approach contributes to short-term stability, it may limit flexibility and innovation in the long run.

Compensatory Adaptation

Compensatory adaptation occurs when formal institutional mechanisms become constrained and are supplemented by alternative arrangements. In such cases, informal

institutions and alternative channels compensate for the limitations of formal structures. While this strategy allows economic activity to continue, it may also reduce transparency and governance effectiveness.

Transformational Adaptation

Transformational adaptation involves a fundamental restructuring of institutional functions and governance mechanisms. Unlike conservative and compensatory responses, this strategy seeks to create new institutional arrangements capable of addressing emerging challenges. Although transformational adaptation is the most complex form of response, it offers the greatest potential for long-term institutional resilience.

The analysis suggests that these three strategies coexist within the economy of Uzbekistan. Their relative importance depends on the institutional capacity and adaptive potential of individual sectors.

From Efficiency to Institutional Resilience

One of the most significant findings of the study is the shift in economic priorities from efficiency maximization toward institutional resilience.

Under conditions of institutional pressure, economic actors increasingly prioritize risk minimization, stability of partnerships, and continuity of operations. As a consequence, decision-making criteria evolve from maximizing short-term economic gains toward ensuring long-term sustainability and institutional stability.

This transition does not necessarily imply a decline in economic performance. Rather, it reflects a strategic adjustment in which resilience becomes the primary objective of economic behavior under conditions of uncertainty.

The Institutional Adaptation Model under Institutional Pressure

Based on the findings, this study proposes the **Institutional Adaptation Model under Institutional Pressure**. The model consists of three interconnected stages:

1. **External Institutional Pressure**
   - Global financial uncertainty;
   - Changes in compliance standards;
   - Increased counterparty risks;

- Declining institutional trust.

2. **Institutional Filtering Mechanisms**

- Government institutions;
- Financial institutions;
- Business environment;
- Informal institutions.

3. **Adaptive Response Strategies**

- Conservative adaptation;
- Compensatory adaptation;
- Transformational adaptation.

The model suggests that financial sanctions influence national economies not only through direct economic restrictions but also through institutional channels. As external pressure passes through institutional filters, economic systems generate adaptive responses aimed at preserving stability and resilience.

Accordingly, the principal outcome of adaptation is not the maximization of efficiency but the enhancement of institutional resilience and the maintenance of systemic stability.

Discussion

The findings of this study highlight several limitations of the conventional approaches that dominate the literature on financial sanctions. Traditional analyses primarily focus on macroeconomic indicators such as economic growth, trade performance, investment flows, and financial stability. While these indicators are useful for assessing the direct consequences of sanctions, they provide only a partial understanding of the broader transformations occurring within economic systems.

The results suggest that the most significant effects of financial sanctions may emerge not in macroeconomic statistics but in the functioning of institutions and the behavior of economic actors. Consequently, sanctions should be viewed not merely as external economic shocks but as sources of institutional pressure capable of reshaping governance mechanisms, risk perceptions, and patterns of economic interaction.

The proposed **Institutional Adaptation Model under Institutional Pressure** differs conceptually from the existing notions of "spillover effects" and "secondary effects." Previous studies generally explain indirect consequences of sanctions through changes in trade flows, investment patterns, or financial risks. By contrast, the present model interprets indirect effects as institutional processes that influence how economic actors perceive uncertainty, evaluate risks, and adjust their behavior.

One of the key advantages of the proposed framework is its ability to explain why economic actors become increasingly cautious under conditions of sanctions-related uncertainty. The model also clarifies why informal institutions may become more active and why resilience often becomes a more important objective than efficiency. These outcomes emerge not simply from market dynamics but from the interaction between external pressure and domestic institutional structures.

Another important contribution of the study is its interpretation of the economy of Uzbekistan as an active system rather than a passive recipient of external shocks. Existing approaches often assume that developing economies merely react to external disturbances. In contrast, the findings indicate that domestic institutions actively filter, reinterpret, and transform external pressures into specific adaptation strategies. This perspective contributes to the broader literature on institutional economics by emphasizing the agency of domestic institutions in shaping economic outcomes.

Several alternative explanations may also be considered. One possible interpretation is that the observed adaptation processes are primarily driven by general global economic uncertainty rather than by sanctions-related institutional pressure. However, this explanation fails to account for the selective and differentiated nature of institutional adaptation identified in the study. If global uncertainty were the sole factor, adaptation patterns would be expected to be relatively uniform across institutions. The findings instead reveal substantial variation in institutional responses, suggesting the presence of more specific mechanisms.

A second alternative explanation attributes adaptation entirely to government policy. From this perspective, institutional changes are primarily the result of deliberate state intervention. While public policy undoubtedly plays an important role,

the results indicate that informal institutions, private actors, and decentralized adaptation mechanisms also contribute significantly to the overall adjustment process. Adaptation therefore occurs through both top-down and bottom-up dynamics.

Despite its contributions, the study has several limitations. First, the research is conceptual in nature and the proposed model has not yet been subjected to comprehensive empirical testing. Consequently, caution should be exercised when generalizing the findings beyond the specific context examined in this study. Second, institutional pressure is a multidimensional phenomenon that is difficult to quantify using conventional economic indicators. As a result, the model is primarily intended as an analytical framework rather than a predictive tool.

Nevertheless, the conceptual nature of the model also constitutes one of its strengths. By focusing on institutional dynamics rather than solely on measurable economic outcomes, the framework captures processes that often remain invisible in traditional empirical analyses. This provides new opportunities for understanding how economies adapt to complex external pressures in an increasingly interconnected global environment.

The theoretical and practical implications of the study are significant. Theoretically, the findings reinforce the importance of institutional approaches in the analysis of financial sanctions. Practically, they suggest that policymakers should pay greater attention to institutional resilience, governance capacity, and risk-management mechanisms when designing responses to external economic pressures.

Overall, the discussion demonstrates that the **Institutional Adaptation Model under Institutional Pressure** provides a theoretically grounded and methodologically consistent framework for understanding the processes taking place in the economy of Uzbekistan under conditions shaped by financial sanctions. The model fills an important gap in the existing literature and offers a foundation for future research on institutional adaptation in developing economies.

Conclusion

This study has reconsidered the analysis of financial sanctions by moving beyond traditional macroeconomic and empirical approaches and introducing the concept of

institutional pressure as an alternative analytical framework. Financial sanctions have been interpreted not merely as a set of legal or economic restrictions but as a systemic source of pressure transmitted through the global financial system and affecting economic actors, institutional arrangements, and decision-making processes.

Based on the case of Uzbekistan, the study developed an **Institutional Adaptation Model under Institutional Pressure**. The model consists of three interconnected components: external institutional pressure, institutional filtering mechanisms, and adaptive response strategies. The proposed framework demonstrates that even in economies that are not directly targeted by sanctions, institutional pressure can emerge through changes in the global financial environment and influence domestic economic structures through indirect channels. The findings reveal that institutional pressure is generated through increasing financial uncertainty, evolving risk-assessment standards, and declining levels of institutional trust. Furthermore, the study shows that economic systems do not respond uniformly to such pressures. Instead, adaptation occurs selectively across institutions depending on their capacity, flexibility, and resilience. The analysis also indicates that under conditions of institutional pressure, economic systems tend to shift their priorities from maximizing efficiency toward ensuring resilience and stability. Conservative, compensatory, and transformational adaptation strategies emerge simultaneously, enabling institutions to maintain functionality while responding to changing external conditions.

The principal contribution of the study lies in its reconceptualization of the indirect effects of financial sanctions. Unlike existing approaches based on spillover and secondary effects, the proposed framework explains sanctions-related impacts through institutional transformation mechanisms. As a result, the study demonstrates that assessments of financial sanctions should extend beyond macroeconomic indicators to include institutional dynamics, behavioral changes, and adaptive strategies. The theoretical model developed in this research may serve as a conceptual framework for analyzing other developing economies operating within a sanctions-affected global environment. Its applicability is not limited to Uzbekistan and may be extended to countries experiencing indirect exposure to external economic pressures.

Future research should focus on empirically testing the proposed model, developing quantitative indicators of institutional pressure, and examining the relationship between institutional resilience, economic performance, and financial stability. Such efforts would contribute to a deeper understanding of how national economies adapt to complex and evolving global challenges.

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