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THE ROLE AND SIGNIFICANCE OF THE SERVICE SECTOR IN THE ECONOMIC DEVELOPMENT OF UZBEKISTAN

Abstract: This study examines the role and significance of the service sector in driving sustainable economic growth, employment generation, and structural modernization in Uzbekistan. Following the implementation of wide-ranging structural reforms under the Development Strategy of New Uzbekistan, the service economy has emerged as a crucial driver of GDP expansion, urban development, and digital transformation. Utilizing macroeconomic indicator analysis and secondary research of domestic and international academic literature, this paper evaluates the progression of key sub-sectors, including financial services, information technology, tourism, and logistics. The empirical findings highlight that while the service sector's contribution to GDP has grown significantly—exceeding 40–45% in recent years—challenges remain regarding regional imbalances, informal employment, and modern technological integration. The article concludes with practical policy recommendations to boost high-value service exports, improve digital infrastructure, and foster human capital development.

Keywords: Service Sector, Economic Development, Uzbekistan, Structural Transformation, Digital Economy, Gross Domestic Product (GDP), Employment.

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РОЛЬ И ЗНАЧЕНИЕ СФЕРЫ УСЛУГ В РАЗВИТИИ ЭКОНОМИКИ УЗБЕКИСТАНА

Аннотация: В данном исследовании рассматриваются роль и значение сферы услуг как фактора устойчивого экономического роста, создания рабочих мест и структурной модернизации в Узбекистане. В результате реализации масштабных структурных реформ в рамках Стратегии развития Нового Узбекистана сектор услуг стал ключевым драйвером роста ВВП, развития городов и цифровой трансформации. На основе анализа макроэкономических показателей и обзора отечественной и зарубежной научной литературы в статье оценивается динамика развития основных подотраслей, включая финансовые услуги, информационные технологии, туризм и логистику. Эмпирические данные свидетельствуют о том, что, несмотря на значительный рост вклада сферы услуг в ВВП (превысивший в последние годы 40–45%), сохраняются проблемы, связанные с региональными диспропорциями, неформальной занятостью и внедрением современных технологий. В заключение статьи представлены практические рекомендации по стимулированию экспорта высокотехнологичных услуг, совершенствованию цифровой инфраструктуры и развитию человеческого капитала.

Ключевые слова: сфера услуг, экономическое развитие, Узбекистан, структурная трансформация, цифровая экономика, валовой внутренний продукт (ВВП), занятость.

1. Introduction. Over the past decade, the global economy has undergone a fundamental structural shift from industrial manufacturing and agriculture toward service-dominated frameworks. In developing and emerging market economies, the service sector acts as a pivotal catalyst for transition, enabling economic diversification, enhancing productivity across primary and secondary sectors, and providing extensive employment opportunities. [1]

In the context of Central Asia, Uzbekistan represents a compelling case study of economic transformation. Historically centered on agricultural production—primarily cotton—and heavy state-driven industrialization, Uzbekistan initiated

sweeping market-oriented reforms in late 2016. Under the Uzbekistan 2030 Strategy and preceding national development frameworks, the modernization and expansion of the service sector have been elevated to top macroeconomic priorities.

The service sector in Uzbekistan serves as a dual engine: it directly contributes to Gross Domestic Product (GDP) growth through modern financial, telecommunications, and transport networks, while simultaneously absorbing a growing youth labor force. Furthermore, as a landlocked country, developing non-resource and digital service exports provides Uzbekistan with unique pathways to integrate into regional and global value chains.

This paper critically analyzes the dynamic role of the service sector in Uzbekistan's modern economic architecture. It reviews the academic literature from international and national scholars, examines core statistical trends and structural compositions, highlights key developmental bottlenecks, and outlines strategic policy avenues to maximize the sector's long-term economic potential.

2. Literature Review. The academic discourse surrounding the role of services in economic development has evolved significantly over recent decades. Classic economic development theories, such as those proposed by Fisher [2] and Clark [3], established the three-sector model, suggesting that as economies mature, labor and capital naturally migrate from agriculture to industry, and eventually to services.

However, contemporary scholars challenge the view of services as merely dependent on manufacturing. Ghani and O'Connell demonstrate that modern, tech-enabled services can drive growth in a manner similar to manufacturing—a phenomenon often referred to as "service-led growth." They argue that low- and middle-income economies can skip traditional manufacturing-intensive pathways by leveraging ICT, finance, and professional services to achieve rapid income convergence.

In the case of transition economies, foreign and local research underscores the specific structural conditions influencing service sector performance. World Bank [4] regional assessments highlight that, Central Asian economies, including

Uzbekistan, face spatial and logistical challenges that make digital and financial service integration essential for lowering trade costs and boosting market connectivity.

Uzbekistan's academic literature heavily focuses on structural transformation and state reform policies. Khamraev [5] emphasizes that the modernization of services in Uzbekistan directly correlates with poverty reduction and rural development. He asserts that expanding targeted microfinance, consumer services, and healthcare in regional areas balances regional income distribution and absorbs excess rural labor.

Similarly, Tursunov [6] analyzes the structural components of Uzbekistan's service economy, noting that traditional services (retail trade, basic transport) still dominate the sector's overall volume, whereas high-value-added sectors (IT, engineering, modern finance) require deeper institutional support and investment in human capital to reach international competitiveness.

3. Macroeconomic Analysis and Structural Dynamics

The expansion of the service sector in Uzbekistan has been supported by targeted government policies, business climate liberalization, and demographic factors. With a population exceeding 37 million people—more than half of whom are under the age of 30—domestic demand for consumer, educational, financial, and digital services has expanded rapidly.

3.1 Contribution to GDP and Growth Trends

Between 2018 and 2025, Uzbekistan maintained sustained real GDP growth, with the service sector consistently matching or exceeding national economic expansion rates. The sector accounts for over 40% of the nation's total GDP, forming a core macroeconomic stabilizer during external trade shocks and global fluctuations in primary commodity prices.[7]

To illustrate the structural composition and growth trends of Uzbekistan's service economy, Table 1 outlines the distribution of total service volume across key economic sectors over a multi-year period.

Table 1:

Structure and Growth of Services in Uzbekistan (Selected Indicators) [8]

Service Category	Share of Total Services (%)	Key Growth Drivers / Factors
Trade & Catering	28.0% – 32.0%	Rising disposable incomes, retail modernization, foreign investment in commercial hubs.
Transport & Storage	22.0% – 25.0%	Strategic infrastructure buildouts, intermodal logistics, transit corridor agreements.
Financial & Insurance	10.0% – 14.0%	Banking privatization, fintech penetration, expanding consumer and business credit.
Information & Communication	6.0% – 9.0%	Government digitization, IT Park incentives, mobile broadband rollout.
Other Personal & Business Services	23.0% – 28.0%	Educational services, private healthcare, tourism recovery, professional consulting.

Note: Data trends synthesized based on national macroeconomic indicators and structural reporting.

3.2 Employment and Labor Absorption

The capacity of services to create jobs rapidly with relatively low capital entry requirements makes the sector crucial for Uzbekistan's demographic context. Every year, hundreds of thousands of young people enter the domestic labor force. Agriculture and heavy industry cannot absorb this supply alone without diminishing marginal returns.

Services currently employ over half of the officially registered workforce in Uzbekistan. Small and Medium Enterprises (SMEs) dominate this space, particularly in catering, retail, repair, and transportation. Furthermore, the growth of digital platforms and freelancing has opened foreign remote employment markets for Uzbek youth, notably in software development, graphic design, and customer support.

4. Sectoral Case Studies: Key Drivers of Modernization

4.1 Information and Communication Technology (ICT)

The creation of specialized economic zones, such as the IT Park in Tashkent, has transformed Uzbekistan’s domestic technological landscape. Tax incentives,

simplified regulatory frameworks, and state infrastructure support have led to exponential growth in software exports and domestic startups. The IT sector's expansion directly boosts economic efficiency across banking, tax administration, and public services through e-government initiatives.

4.2 Tourism and Hospitality

Uzbekistan possesses rich historical and cultural heritage assets, concentrated in UNESCO World Heritage sites like Samarkand, Bukhara, Khiva, and Shakhrisabz. Recent policy reforms—including visa-free entry for citizens of over 90 countries, transport infrastructure upgrades (high-speed rail networks), and hotel construction subsidies—have accelerated international visitor arrivals. Tourism acts as a high-multiplier service sector, stimulating regional craft production, gastronomy, and transport services.

4.3 Financial Services and Fintech

The financial services landscape in Uzbekistan has shifted from heavily state-dominated commercial banks toward market-oriented retail and digital banking. The widespread adoption of mobile payment systems, QR-code transactions, and digital-only banking entities has expanded financial inclusion across rural regions, enabling small micro-entrepreneurs to access formal payment systems and credit lines.

5. Challenges and Constraints to Sectoral Expansion

Despite positive growth trajectories, Uzbekistan's service sector faces systemic structural challenges that restrict its full potential:

1. **Regional Disparities:** Service sector growth remains concentrated in urban agglomerations, particularly Tashkent City and major regional centers. Rural regions experience shortages in high-quality medical, educational, and modern professional services.

2. **Informality:** A significant portion of personal, retail, and transportation services operates within the informal economy, limiting state tax revenue generation and leaving workers without adequate social protection.

3. **Skill Mismatches in Human Capital:** While basic literacy and education levels are high, there remains a shortage of high-level technical expertise,

specialized financial analysts, and fluent multi-lingual professionals required for advanced export services.

4. **Logistical and Infrastructure Bottlenecks:** Although transport services are expanding, Uzbekistan's double-landlocked geography imposes high transport costs, requiring continuous capital investment in road, rail, and air freight capacity.

6. Strategic Recommendations and Conclusion

To transform the service sector into a primary driver of sustainable, high-value economic growth, policymaking in Uzbekistan should focus on four key areas:

Promoting Service Exports: Transition from basic consumer services to knowledge-intensive business services (KIBS), including IT outsourcing, engineering consulting, and regional logistics management.

Investing in Human Capital and STEM Education: Align higher education curricula with private sector needs, expanding technical training centers and vocational skills programs tailored to digital industries.

Bridging the Urban-Rural Service Divide: Incentivize private investment in peripheral regions through localized tax credits, expanded broadband internet coverage, and subsidized micro-crediting for rural service startups.

Institutional Modernization and Formalization: Simplify regulatory compliance for micro-enterprises, promote digital invoicing, and provide social safety nets to encourage informal service operators to transition into the formal economy.

Conclusion

The service sector has become an indispensable column of Uzbekistan's national economy, providing employment, promoting structural diversification, and supporting societal welfare. By continuing to liberalize markets, modernizing physical and digital infrastructure, and developing human capital, Uzbekistan can successfully build a resilient, service-led market economy capable of competing effectively on the international stage.

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