

THE DEVELOPMENT OF THE SERVICE SECTOR IN UZBEKISTAN: STRUCTURAL DYNAMICS, STRATEGIC CHALLENGES, AND FUTURE DIRECTIONS

Zarina Murodovna Mukhammedova

Associate Professor at the Samarkand

Institute of Economics and Service,

e-mail: mukhammedovazarina19@gmail.com

Abstract: The service sector has emerged as a fundamental driver of socio-economic transformation in Uzbekistan. Its rapid expansion contributes significantly to GDP growth, job creation, and structural economic modernization, facilitating the country's transition towards a post-industrial economy. This paper provides a comprehensive analysis of the service sector, examining its structural components, interdependence with other sectors, global competitiveness, and policy frameworks supporting its development. Utilizing recent statistical evidence and global indices, the study identifies existing challenges, outlines strategic priorities for future growth, and evaluates policy reforms aimed at enhancing service quality, innovation, and integration into global markets.

Keywords: service sector, economic development, post-industrial society, GDP contribution, innovation, policy reform, employment, structural transformation.

In contemporary economic theory and policy, the service sector occupies a pivotal role in fostering growth, enhancing productivity, and improving quality of life. In Uzbekistan, the modernization and expansion of the service sector are recognized as central priorities for sustainable socio-economic development. The government's strategic vision emphasizes not only increasing the sector's contribution to gross domestic product (GDP) but also advancing its composition through high-technology and knowledge-intensive services.

Service sector development cannot be considered in isolation. It is deeply interwoven with industrial production, agricultural efficiency, technological innovation, and social progress. In this context, the service sector functions both as a facilitator of economic interactions and as an independent driver of economic dynamics. The present study explores these interconnections, drawing on recent empirical evidence and global benchmarks.

The service sector's significance arises from its multi-dimensional impacts on economic systems:

1 Economic Contribution

Recent statistical data indicate that the service sector accounts for a substantial portion of Uzbekistan's GDP. In the first quarter of 2025, it comprised approximately 56.1 % of GDP and contributed nearly 3.8 percentage points to overall economic growth. Historically, the share of services in GDP has grown progressively over the past decade. Estimates show that the sector's contribution rose from around 41.5 % in 2022 to roughly 47 % in 2024, highlighting its expanding role in the national economy.

2 Employment and Structural Shifts

The service sector is not only a source of economic output but also employment. Between 1991 and 2022, the share of workers employed in services increased from 37 % to approximately 50 %, compensating for the declining agricultural workforce and signifying structural transformation. As the economy evolves, employment in services reflects growing urbanization, increasing consumer demand, and diversification of economic activities.

3 Quality of Life and Consumer Demand



Services such as healthcare, education, tourism, and financial intermediation directly influence citizens' well-being and productivity. Rising household incomes and expanding middle-class consumption patterns further stimulate demand for diverse and sophisticated service offerings.

The service sector in Uzbekistan comprises a wide range of activities. Traditional classifications divide services into material and non-material categories:

1. Material Services

These services are directly associated with physical goods and infrastructure. Examples include:

- Transport and logistics – support movement of goods and people.
- Trade services – facilitate exchange and distribution of products.
- Household services – provide daily consumable solutions to individuals and families.

2. Non-Material Services

Non-material services are predominantly intangible and emphasize human capital and social functions:

- Education and training
- Healthcare services
- Professional and managerial services (consulting, legal support, marketing)
- Information and communication technologies (ICT)

In reality, many services straddle both categories. For instance, tourism integrates transport infrastructure (material) and cultural/education experiences (non-material), making strict categorization challenging.

To better capture the evolving economic structure, some economists propose extending beyond the traditional three-sector model:

- Tertiary sector: Infrastructure and basic services (transport, utilities).
- Quaternary sector: Distribution and exchange services (trade, finance, insurance).
- Quinary sector: High-level social and managerial services (science, education, healthcare, arts).

This extended model reflects the growing complexity and knowledge intensity of service activities, acknowledging their increasing contribution to innovation and economic resilience.

Global Competitiveness and Innovation Performance

1. Innovation Index

According to the 2025 Global Innovation Index, Uzbekistan ranked 79th among 139 economies, indicating gradual improvement in its innovation ecosystem but also underscoring substantial room for advancement compared to leading countries such as Switzerland, Sweden, and the United States.

2. Comparative Insights

Global indices, including the Global Innovation Index and Logistics Performance Index, suggest that Uzbekistan is improving but still trails major innovators. Its ranking in logistics performance and digital infrastructure reveals structural bottlenecks that, if addressed, could accelerate the expansion of advanced service activities.

Statistical Evidence: Growth Dynamics and Sectoral Trends

1. Sectoral Shares in GDP

Data sources indicate that the service sector's share of GDP has steadily increased over time. For example, long-term records show an increase from 38.7 % in 2005 to around 43.4 % in 2023, reflecting a sustained structural shift toward services.

2. Service Sector Output and Business Activity



Recent statistics from the Statistics Agency indicate that by the end of 2024, 73.2 % of enterprises and organizations were operating within the service sector, with the total volume of services exceeding 818 428.3 billion soums.

Despite notable progress, several challenges remain:

Low Labor Productivity in Traditional Sub-Sectors

Approximately 60 % of service sector employment is concentrated in low-skill areas such as retail, hospitality, and transportation. These categories have shown limited productivity gains, constraining overall sector performance.

Although digital services display rapid growth, infrastructure gaps in connectivity and digital payment adoption slow broader uptake of advanced ICT services. Improving digital infrastructure is essential to boost productivity and competitiveness.

To harness the full potential of the service sector, a series of strategic reforms have been implemented:

The 2021 Presidential Decree on Accelerating Service Sector Development introduced targeted support measures such as tax incentives, reduced administrative barriers, and frameworks to foster digital transformation and small business growth.

According to World Bank analyses, further liberalization and modernization – particularly in global innovator services like ICT, professional services, and finance – could deliver significant economic benefits, boosting labor productivity and integrating Uzbekistan more deeply into international trade.

The future prospects of Uzbekistan's service sector are promising:

- Digital transformation promises to enhance sector productivity by up to 15-20 % by 2030 if digital gaps are bridged.
- Tourism and service exports are emerging as vibrant growth areas, supported by infrastructure improvement and visa reforms.
- Small business expansion drives resilience and innovation in domestic service provision.

The service sector in Uzbekistan has transitioned from a secondary supporting role to a central pillar of economic activity. Its growth contributes substantially to GDP, employment, and economic diversification. However, enhancing productivity, expanding digital and high-value services, and bridging infrastructural and skill gaps remain critical for unlocking the sector's full potential.

Strategic reform, investment in human capital, and alignment with global best practices will not only elevate the service sector's role in the national economy but also support Uzbekistan's long-term goal of becoming a competitive post-industrial economy with high standards of living and dynamic economic growth.

References:

1. Acemoglu, D., & Guerrieri, V. (2008). Capital deepening and nonbalanced economic growth. *Journal of Political Economy*, 116(3), 467–498. <https://doi.org/10.1086/589523>
2. Baumol, W. J. (1967). Macroeconomics of unbalanced growth: The anatomy of urban crisis. *American Economic Review*, 57(3), 415–426. <https://doi.org/10.2307/1812111>
3. Baumol, W. J. (2001). Paradox of the services: Exploding costs, persistent demand. In T. ten Raa & R. Schettkat (Eds.), *The growth of service industries: The paradox of exploding costs and persistent demand* (pp. 3–28). Edward Elgar.
4. Brynjolfsson, E., & Hitt, L. M. (2000). Beyond computation: Information technology, organizational transformation and business performance. *Journal of Economic Perspectives*, 14(4), 23–48. <https://doi.org/10.1257/jep.14.4.23>



5. Miles, I. (2005). Innovation in services. In J. Fagerberg, D. Mowery, & R. Nelson (Eds.), *The Oxford handbook of innovation* (pp. 433–458). Oxford University Press.
6. OECD. (2023). *OECD national accounts statistics*. OECD Publishing. <https://doi.org/10.1787/na-data-en>
7. United Nations Development Programme. (2024). *Human development report 2023/2024: Breaking the gridlock*. <https://doi.org/10.18356/9789210025612>
8. World Bank. (2024). *Uzbekistan country economic memorandum: Toward a more inclusive and sustainable market economy*. World Bank Publications.
9. World Intellectual Property Organization (WIPO). (2025). *Global innovation index 2025*. <https://doi.org/10.34667/tind.46596>

