THE IMPACT OF SERVICE SECTOR DEVELOPMENT ON REGIONAL ECONOMIC GROWTH

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Abstract. This thesis examines how the development of services contributes to regional economic growth in Uzbekistan through employment creation, productivity, market connectivity and diversification. Using official national statistics and international institutional research, it distinguishes the monetary volume of services from the sector's real value added and its causal contribution to growth. Evidence indicates substantial spatial concentration of market services in Tashkent city, alongside opportunities for other regions to strengthen logistics, tourism, information technology, healthcare, education and business services. The paper proposes a differentiated regional policy combining infrastructure investment, human-capital upgrading, competitive markets and improved statistical evaluation. The thesis is based on secondary-source analysis and does not claim new econometric estimation.

Keywords: service sector, regional economic growth, regional disparities, employment, productivity, Uzbekistan, digital services, infrastructure, economic diversification.

INTRODUCTION

The service sector has become an important component of economic modernization, structural change and household welfare. Beyond activities directed toward final consumers, services provide essential inputs for agricultural production, manufacturing and trade. Transport, warehousing, payment systems, communication, professional consulting, education and healthcare jointly influence the attractiveness and productive capacity of a region. Hence, growth in services can support regional gross value added by expanding access to markets, reducing transaction costs and improving workforce capabilities [5, 7].

For Uzbekistan, this issue is especially relevant because regions differ markedly in population density, urbanization, border connectivity, tourism resources, industrial specialization and digital infrastructure. An identical policy package for every region may reinforce existing disparities if more developed urban centers have better access to skilled labor and investment. The Uzbekistan–2030 Strategy accordingly identifies accelerated regional services development as a policy objective and recognizes modern IT, medical, educational, transport, tourism and related services among its priority areas [8].

The purpose of this thesis is to identify the main mechanisms linking service-sector development to regional economic performance; interpret selected official statistical indicators for Uzbekistan; and formulate differentiated policy recommendations for regions with distinct economic conditions. The argument is that durable regional benefits depend on service quality, productivity, spatial accessibility and local production linkages, not solely on rising nominal turnover.

MAIN SECTION

1. Theoretical mechanisms connecting services and regional growth

Four mutually reinforcing channels explain the contribution of services to territorial development. First, direct production effects arise as service enterprises create gross value added, earn revenues, pay taxes and employ workers. Second, intermediate-input effects appear when reliable transport, finance, business consulting, digital platforms and maintenance raise productivity in manufacturing and agriculture. Third, household welfare effects are transmitted through employment, access to education

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and healthcare, and reduced travel costs. Fourth, agglomeration and knowledge-spillover effects arise when universities, specialists, innovative firms and customers cluster in an urban area [5, 6].

These mechanisms should not be conflated with a simple correlation between service sales and regional GDP. Nominal service turnover can grow because of price changes, expansion of reporting coverage or population growth. Likewise, a service activity may displace existing informal provision without causing an equivalent net increase in value added. Proper impact evaluation would require real-value indicators, comparable regional data, sectoral controls and identification of causality. The following discussion therefore interprets available statistics descriptively rather than claiming to estimate a new causal coefficient [1, 4].

Productivity matters as much as scale. The World Bank describes Uzbekistan's services as central to structural transformation: the share of employment in services increased from 37% in 1991 to 50% in 2022. Yet the distribution of jobs remains weighted toward comparatively lower-productivity consumer activities, while knowledge-intensive global-innovator services retain a smaller employment share [5, 7]. Such findings suggest that expanding retail premises alone is unlikely to close the regional productivity gap; innovation, digital skills and competitive professional services also merit attention.

2. Evidence on Uzbekistan's regional service-sector structure

The National Statistics Committee reports that in January–June 2026 the total volume of market services across Uzbekistan was UZS 664.9 trillion, including UZS 274.4 trillion in Tashkent city. The figures represent approximately 41.3% of national market-service volume in the capital during that six-month period [2]. The same publication reports UZS 47.3 trillion for Samarkand region, UZS 45.5 trillion for Tashkent region, UZS 44.2 trillion for Fergana region, UZS 34.0 trillion for Andijan region and UZS 9.5 trillion for Syrdarya region. These are absolute volumes, not normalized measures of efficiency or residents' welfare [2].

Per-capita data make the importance of normalization clear. In January–October 2025 national market services per resident were UZS 21.6 million; the respective figure was UZS 99.5 million in Tashkent city and UZS 9.3 million in Surkhandarya region [3]. Differences may reflect the concentration of company headquarters, interregional customers and higher-value business services, alongside local purchasing power and infrastructure. They should not automatically be interpreted as an equivalent difference in individual incomes. Yearly service-volume series published by the Statistics Committee are useful for longer-run structural analysis, but nominal series must be deflated and methodology changes considered before calculating real growth rates [1].

The distinction between output and contribution to GDP is material. The Committee reports that services generated UZS 437.8 trillion of gross value added in 2023 and contributed 2.6 percentage points to that year's GDP growth; the sector represented 43.4% of GDP in the corresponding publication [4]. Thus, the monetary volume of market services and sectoral gross value added are different statistical measures. Their levels should never be added or substituted for one another.

3. Regional specialization and policy design

A differentiated approach should build on existing economic assets. In major metropolitan areas, finance, IT, software, professional consulting and higher education can generate high-value-added jobs and innovation spillovers. In manufacturing-intensive districts, logistics, testing, industrial design, equipment maintenance and supply-chain management can reduce costs for firms. Agricultural areas may gain particularly from cold-chain logistics, storage, veterinary and agronomic advisory services, repair services, online marketplaces and rural banking. Regions with natural or historical tourism assets can

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develop hospitality, transport, cultural activities and digital booking infrastructure, provided environmental and seasonal risks are managed [5, 6].

Cross-cutting conditions are indispensable. Transport accessibility increases the catchment area of service firms, while stable broadband and trusted digital payments expand their capacity to serve remote consumers. Entrepreneurial competition, predictable regulation, vocational training and financing mechanisms can improve service quality and productivity. International evidence also links digital public services and investment facilitation with lower administrative friction and better conditions for business formation [9]. The Uzbekistan–2030 Strategy explicitly emphasizes regional service development and thus offers a domestic institutional basis for such measures [8].

Importantly, public incentives should be judged by additionality: whether support creates productive activity that would otherwise not occur. Uniform subsidies for opening small outlets may raise the number of registered firms without noticeably improving employment quality. By contrast, competitive grants for digital adaptation, transparent procurement, shared logistics facilities and employer-linked training may address measurable market failures. Priority selection should be transparent and accompanied by monitoring of employment, survival rates, productivity, access and inclusion [5, 6].

4. Monitoring, limitations and practical recommendations

A workable regional monitoring system can combine five sets of indicators: (1) real service gross value added per worker; (2) employment and wage outcomes, disaggregated where possible by sex and age; (3) service accessibility measured through broadband, transport travel time and geographical coverage; (4) firm entry, survival and competition; and (5) local production linkages and service export potential. Market-service turnover per capita is a useful descriptive indicator, but it should not be the sole measure of success [1, 3, 5].

For evidence-based assessment, policymakers could establish comparable annual regional panels, adjust monetary indicators for price effects, examine initial income levels and urbanization, and conduct project-level evaluations. When feasible, difference-in-differences or matched comparison approaches may help evaluate programs, but only if assumptions and data quality are documented. The current thesis does not undertake these estimations and its evidence is limited to published official and institutional sources.

Practical sequencing is proposed as follows. In the short term, identify underserved districts, inventory transport and connectivity gaps, and streamline business procedures. In the medium term, establish skill partnerships with employers, support interoperable digital payments and logistics networks, and launch region-specific enterprise development programs. In the long term, strengthen research and professional services, expand service exports and regularly review whether public spending improves real productivity rather than only nominal service turnover [5, 8, 9].

CONCLUSION

The service sector can influence regional economic growth through direct value-added creation, labor-market expansion, lower transaction costs, improved human capital and connections between local producers and larger markets. Uzbekistan's official data show both the economic importance of the sector and a substantial spatial concentration of service activity, particularly in Tashkent city [2–4]. This concentration provides an argument for differentiated regional development policy rather than identical measures across all territories.

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Sustainable regional gains require shifting attention from the quantity of service establishments toward productivity, accessibility, job quality and integration with local agriculture and industry. Priority interventions include transport and broadband infrastructure, skills development, transparent competition, modern business services and consistent monitoring of real economic outcomes. These proposals follow from a synthesis of published statistics and policy research; establishing their numerical causal effects remains a task for subsequent region-level empirical investigation [5, 6, 8].

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