



KEY ASPECTS OF SERVICE SECTOR MODERNIZATION AND DIVERSIFICATION IN THE REPUBLIC OF UZBEKISTAN

Aziza Tokhirovna Akhmedova

*Associate Professor at the Samarkand Institute of
Economics and Service,
e-mail:azizaaxmedova1982@gmail.com*

Abstract. *The paper explores the distinctive characteristics and key challenges associated with the modernization and diversification of the service sector in the Republic of Uzbekistan amid ongoing structural economic reforms and digital transformation processes. It substantiates the increasing significance of the service sector as a major driver of sustainable economic development, job creation, and the strengthening of national competitiveness.*

The study examines prevailing development trends in priority service segments, including tourism, financial and fintech services, information and communication technologies, transport, and logistics. It identifies major constraints to modernization, such as regional imbalances, infrastructure limitations, shortages in skilled human resources, and institutional obstacles.

Furthermore, the article outlines strategic directions for the comprehensive modernization and diversification of the service sector, emphasizing digitalization, the expansion of platform-based business models, institutional mechanisms to support innovation, and sustained investment in human capital.

Keywords: *service sector, modernization, diversification, digital transformation, service-oriented economy, innovative services, human capital, Republic of Uzbekistan.*

INTRODUCTION

In today's global economy, there is a pronounced transition toward service-based development models, with the service sector increasingly functioning as a central engine of economic growth, innovation, and enhanced quality of life. Rapid digital transformation, expanding globalization of markets, and evolving consumer preferences generate new conditions for restructuring the traditional service landscape, fostering the adoption of innovative solutions, and promoting the expansion of export-oriented service activities.

For the Republic of Uzbekistan, the development of the service sector has become a strategic priority, driven both by internal structural reforms and by the country's aspiration to integrate into regional and global economic processes. According to national statistics, the share of services in GDP reached 47.4% in 2024, while the sector provided employment for about 50% of the labor force, which



indicates a significant transformation of the economy and a reallocation of labor resources from industry and agriculture to services.

However, modernization and diversification of the service sector face a number of challenges, including territorial concentration of services in large cities, insufficiently developed regional infrastructure, a shortage of qualified personnel, limited adoption of innovations, and imperfections in the institutional environment. These factors restrain the sector's potential as a source of sustainable economic growth and enhanced competitiveness.

The relevance of this study is determined by the need for a comprehensive analysis of the directions of modernization and diversification of the service sector, taking into account digital transformation, the formation of new business models, the development of human capital, and the improvement of the institutional framework.

Literature Review. A review of international research indicates that, in the current environment, the service sector is increasingly evolving into a central component of service-driven development models, supporting economic expansion, structural transformation, and improved competitiveness. Scholars highlight the growing importance of digital technologies, platform-based business frameworks, and customer-centric approaches in service modernization, along with the strategic role of knowledge-intensive and high-tech services as drivers of sustainable long-term growth.

However, the majority of existing studies concentrate primarily on broad theoretical issues of digitalization and innovation, whereas the comprehensive integration of modernization and diversification-particularly within developing economies-remains insufficiently addressed.

In the studies of domestic scholars, increasing attention is paid to the problems of digital transformation of the service sector, the development of e-commerce, fintech solutions, and online services, as well as their impact on employment and accessibility of services. However, modernization and diversification are more often considered fragmentarily-either in terms of individual industries (tourism, finance, communications, trade) or mainly through the prism of digitalization, without forming a holistic concept of their interrelationship.

In addition, the literature highlights regional disparities in the development of service industries, infrastructural constraints, and a shortage of qualified personnel, which reduce the potential of the service sector as a source of sustainable growth.

Thus, existing scientific approaches form a theoretical basis for the present research but at the same time confirm the need for a comprehensive analysis of modernization and diversification of the service sector, taking into account digital transformation and the national specificities of the Republic of Uzbekistan, which determines the relevance of this study.



Analysis and Results. The analysis of data shows that the Republic of Uzbekistan demonstrates устойчивый (sustained) growth of the service sector and its transformation into one of the key drivers of economic development. According to 2023 data, the share of services in the country's GDP reached 43.9%, providing employment for about 50% of the labor force. During the period 2017–2024, the total volume of services almost doubled, while GDP growth rates (on average 5.5–6.3% per year) were largely supported by the expansion of the service sector.

The most dynamically developing segments in Uzbekistan include transport and logistics services, trade, the financial sector, information and communication technologies, and tourism. The expansion of foreign economic relations, growth of domestic consumption, and active digitalization have contributed to increasing demand for modern service solutions in these subsectors.

Transport and logistics play a crucial role given the country's geographical position and its orientation toward developing transit potential. Modernization of logistics infrastructure, implementation of information systems for transport management, and development of warehousing services contribute to cost reduction and enhancement of the competitiveness of the national economy.

Financial services and information and communication technologies (ICT) are among the fastest-growing segments of the service sector. The development of remote banking services, electronic payment systems, and fintech solutions expands access of the population and businesses to financial resources and contributes to the formation of a digital economy.

Of particular importance for Republic of Uzbekistan is tourism as a complex sector that integrates transport, hotel, cultural, and recreational services. In 2023, the country was visited by more than 6.6 million foreign tourists, which was accompanied by an expansion of the range of tourism products, including cultural, ecological, and event tourism.

Despite positive dynamics, the potential for modernization and diversification of the service sector in Uzbekistan has not been fully realized. One of the key problems remains the territorial concentration of modern services in large cities, primarily in Tashkent, which intensifies regional disparities and limits access to high-quality services for the population of certain regions.

A significant constraint is the uneven development of digital and transport infrastructure. Although the level of Internet penetration in the country exceeds the global average, rural and remote areas still face problems related to the quality of connectivity and the cost of access. This hinders the development of e-commerce, online education, and digital services in the regions.

The institutional environment also requires further improvement. Scientific and analytical studies emphasize the need for accelerated updating of the regulatory and legal framework to support platform-based business models, electronic trade in services, data protection, and regulation of digital platforms.



One of the most serious problems of modernizing the service sector in Uzbekistan is the shortage of qualified personnel possessing competencies in service management, digital technologies, and foreign languages. The lack of such specialists is especially acute in high-income and export-oriented segments, including ICT services, business consulting, the financial sector, and medical tourism.

Strategic documents on the development of the digital economy directly indicate an insufficient supply of digital talents and specialists with comprehensive skills capable of designing and implementing innovative service solutions. This limits the pace of digital transformation and reduces the potential for diversification of services.

In this context, the importance of reforms in the education system is increasing, including the development of dual education, expansion of cooperation between universities and business, as well as programs for retraining and advanced training of employees in the service sector.

Despite existing constraints, international assessments and strategic documents indicate a high potential for further growth of the service sector in Uzbekistan. According to estimates by the World Bank, liberalization of trade in services and deepening of institutional reforms could provide an additional increase in real GDP of up to 17%, while in certain subsectors (finance, communications, insurance) growth rates may reach 23–45%.

The development of the service sector has a multiplicative effect on industry and agriculture, increasing overall productivity of the economy and income stability. Potential benefits include growth of real household incomes, expansion of employment, and strengthening of the country's position in the regional and global economy.

Thus, modernization and diversification of the service sector in Uzbekistan act not only as a sectoral task but also as a strategic priority of socio-economic development, requiring a comprehensive and systemic approach.

Taking into account global trends in the development of the service economy and the specific features of socio-economic development of the Republic of Uzbekistan, modernization and diversification of the service sector should be comprehensive and systemic in nature. They imply simultaneous renewal of technological, institutional, organizational-managerial, and human resource components of service activities, as well as expansion of the range and forms of service provision.

Digital transformation is a key direction of modernization of the service sector and includes the introduction of online platforms, mobile applications, and information systems for managing service processes. The use of digital technologies makes it possible to ensure continuity of service delivery, reduce



transaction costs, and increase transparency of interactions between market participants.

In Uzbekistan, projects aimed at developing digital services in tourism, public catering, logistics, financial, and educational services are already being implemented. The development of electronic platforms contributes to the formation of new business models focused on direct interaction with consumers and expands opportunities for small and medium-sized enterprises.

Technological modernization of infrastructure is a necessary condition for improving the quality and accessibility of services, especially in such capital-intensive sectors as transport, communications, energy, and utilities. The introduction of “smart” management systems, digital sensors, and automated monitoring platforms increases service reliability and reduces operating costs.

The institutional environment has a decisive influence on the nature and pace of modernization of the service sector. Improvement of the regulatory framework, simplification of administrative procedures, development of competition, and protection of consumer rights create favorable conditions for attracting investment and stimulating innovative activity of service companies.

For Uzbekistan, relevant measures include easing the registration of service enterprises, standardizing service quality, and supporting export-oriented services. Of special importance is the formation of a legal framework for regulating digital platforms, online payments, and electronic trade in services.

Modern service companies increasingly shift toward customer-oriented and process-oriented management models based on the use of digital tools and data analytics. The introduction of CRM systems, lean technologies, and flexible project management methods helps reduce service time and increase customer satisfaction.

Global practice of developing a service-oriented economy shows that companies forming service ecosystems and integrated offerings achieve higher profitability and sustainability. For Uzbek enterprises, such approaches are particularly relevant in tourism, logistics, and industrial services.

Improving service quality is impossible without investment in human capital development. Human resource modernization includes building digital, managerial, and communication competencies, developing soft skills, and introducing lifelong learning programs.

For the Republic of Uzbekistan, priority areas include training personnel for ICT services, the financial sector, tourism, and creative industries. The development of dual education and cooperation between universities and business helps reduce the gap between labor market requirements and the professional training system.

At the enterprise level, diversification is implemented through the addition of complementary services: hotels develop spa and conference services, banks



expand remote banking and non-financial services, while logistics companies offer warehousing and information services. Such strategies contribute to higher margins and more stable revenues.

Territorial diversification предполагает (implies) the development of service clusters based on regional competitive advantages. For Uzbekistan, tourism and logistics clusters in regions with strong cultural and natural potential have significant prospects.

Conclusion and Recommendations. Modernization and diversification of the service sector are strategic factors of sustainable socio-economic development of the Republic of Uzbekistan. A comparison of international experience and national specificities allows concluding that a comprehensive approach is advisable, combining digital, institutional, and human resource modernization.

Systemic modernization generates a multiplicative effect manifested in employment growth, rising household incomes, and strengthened economic competitiveness. Of particular importance is the development of knowledge-intensive and export-oriented services capable of forming long-term sources of economic growth.

For successful implementation of modernization and diversification, coordinated actions of the state, business, and educational institutions are required, aimed at:

- Digital transformation of service processes, including the introduction of online platforms, mobile applications, and service management information systems;
- Development of platform-based business models and integration of services with industry, the agricultural sector, and tourism clusters;
- Institutional support for innovative services, including regulatory frameworks for digital platforms, e-commerce in services, and data protection.

The implementation of these strategic priorities will promote stable expansion of the service sector, enhance its share in GDP and job creation, and reinforce Uzbekistan’s standing within the regional and global economic landscape. A holistic and systematic approach to service sector modernization establishes a foundation for the development of a competitive, innovation-driven, and resilient economy.

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