



THE STRATEGIC IMPORTANCE OF THE SERVICE SECTOR IN ENSURING  
EMPLOYMENT (THE CASE OF UZBEKISTAN)

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**Abstract.** This article examines the strategic role of the service sector within the economy of Uzbekistan, emphasizing its contribution to GDP and its influence on the labor market. The research identifies key opportunities for employment creation in the service industry, highlighting areas such as digital transformation, gender equality, and youth engagement. It discusses structural employment transitions among different economic sectors, growth dynamics, labor productivity issues, the prevalence of informal employment, infrastructure development, and workforce skills enhancement. Utilizing insights from international best practices, the paper recommends practical strategies to boost employment by fostering the development of Uzbekistan's service sector.

**Keywords:** service sector, employment creation, labor market, GDP contribution, digital transformation, infrastructure development, informal employment, gender inclusivity, human capital.

АХОЛИ БАНДЛИГИНИ ТАЪМИНЛАШДА ХИЗМАТ КЎРСАТИШ СОҲАСИНИНГ  
СТРАТЕГИК АҲАМИЯТИ (ЎЗБЕКИСТОН МИСОЛИДА)

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**Аннотация.** Ушбу мақолада Ўзбекистон иқтисодиётидаги хизмат кўрсатиш соҳасининг стратегик ўрни таҳлил қилиниб, унинг ЯИМдаги ҳиссаси ва меҳнат бозорига таъсири очиб берилади. Тадқиқот натижаларига қўра, ушбу соҳада иш ўринлари яратиш имкониятлари аниқланиб, рақамли трансформация, гендер тенглиги ва ёшларни жалб этиши каби ўйналишлар алоҳида таъкидланади. Мақолада иқтисодиёт тармоқлари ўртасидаги меҳнат трансформацияси, ўсиши динамикаси, меҳнат унумдорлиги, норасмий бандлик, инфратузилма ривожи ва кадрлар салоҳиятини ошириш масалалари мухокама қилинади. Халқаро илғор тажрибалар таҳлили асосида хизматлар соҳасини ривожлантириш орқали бандликни оширишга қаратилган амалий тақлифлар илгари сурилади.

**Калим сўзлар:** хизмат кўрсатиш соҳаси, бандлик яратиш, меҳнат бозори, ЯИМ ҳиссаси, рақамли трансформация, инфратузилмани ривожлантириш, норасмий бандлик, гендер тенглиги, инсон капитали.

## СТРАТЕГИЧЕСКОЕ ЗНАЧЕНИЕ СФЕРЫ УСЛУГ В ОБЕСПЕЧЕНИИ ЗАНЯТОСТИ НАСЕЛЕНИЯ (НА ПРИМЕРЕ УЗБЕКИСТАНА)

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**Аннотация.** В данной статье рассматривается стратегическая роль сферы услуг в экономике Узбекистана с акцентом на её вклад в ВВП и влияние на рынок труда. Исследование выявляет ключевые возможности для создания рабочих мест в сфере услуг, подчёркивая такие аспекты, как цифровая трансформация, гендерное равенство и вовлечение молодёжи. Обсуждаются структурные изменения в занятости между секторами экономики, динамика роста, проблемы производительности труда, распространённость неформальной занятости, развитие инфраструктуры и повышение квалификации рабочей силы. На основе анализа международного опыта предлагаются практические стратегии по увеличению занятости путём стимулирования развития сферы услуг в Узбекистане.

**Ключевые слова:** сфера услуг, создание занятости, рынок труда, вклад в ВВП, цифровая трансформация, развитие инфраструктуры, неформальная занятость, гендерная инклюзивность, человеческий капитал.

### **Introduction.**

In recent years, the service sector has emerged as a strategically significant driver for economic growth and social stability. Its role in shaping gross domestic product (GDP), expanding export potential, satisfying domestic market demands, and enhancing social infrastructure continues to grow substantially.

International organizations such as the World Bank, the International Labour Organization (ILO), and the European Bank for Reconstruction and Development (EBRD) highlight the service sector in their reports as a crucial driver for employment in the 21st-century economy. Globally, the service sector is recognized not only as a pivotal factor for economic growth but also as an essential mechanism for creating employment opportunities and reducing unemployment.

In Uzbekistan, the share of the service sector in the national economy has notably increased in recent years. By the end of 2023, the service sector accounted for 37.8% of GDP and 47% of employment, underscoring its position as a leading sector within the national economy. Nevertheless, persistent structural issues, regional disparities, gaps in workforce training, and low quality of employment opportunities continue to hinder the comprehensive development of the service sector.

### **Literature Review.**

The strategic role of the service sector in employment and its impact on socio-economic development has been widely examined in the works of classical and contemporary economists. For instance, the foundational principles of labor division and productivity in services were laid out by Adam Smith (1776), while Jean-Baptiste Say (1803) conceptualized services as a full component of the production process. Alfred Marshall (1890) analyzed the relationship between labor efficiency and service expansion, and Joseph Alois Schumpeter (1934) regarded the service sector as a driver of innovation and entrepreneurship. John Maynard Keynes (1936) emphasized the potential of the service sector for increasing employment through active state intervention in the economy.

Modern scholars have continued this line of inquiry. Mikhail Mikhailovich Khaikin and Elena Anatolyevna Razomasova (2020) investigated structural transformations in Russia's

service sector. Irina Anatolyevna Kiseleva and Sergey Oganesovich Iskadjian (2021) discussed workforce competitiveness and professional training within the service industry. Research by Igor Vladimirovich Mikhalev, Andrey Viktorovich Polyanin, and Vladimir Alexandrovich Plotnikov (2019) explored the role of infrastructure and state policy in service-led employment growth. Mikhail Gennadyevich Ivanenko and Zinaida Ivanovna Belikina (2020) analyzed informal employment and labor efficiency in service-based economies, while Darya Sergeyevna Kvasova (2022) studied high-value service activities and their integration into the labor market.

In Uzbekistan, national scholars such as Pulatov (2019) have provided comprehensive assessments of the expansion of services and employment potential. Muhammedov and Alimova (2020) examined employment policies targeting women and youth through the service economy. Pardaev and Safarov (2021) addressed the infrastructure-social welfare nexus, while Kuvandikov and Sattarov (2022) focused on digital services and their transformational effects on employment structures.

### **Research Methodology.**

This study employed a comprehensive research approach to identify opportunities for enhancing employment through the development of the service sector. Economic and social indicators were analyzed based on official statistical data for the period from 2020 to 2024. The analysis encompassed employment levels within the service sector, the distribution of employment by types of services, and regional development trends. Comparative analysis, segmentation and grouping, logical reasoning, scientific abstraction, induction and deduction, and scenario analysis methods were utilized throughout this research process.

### **Analysis and Results.**

In the contemporary global economic environment, ensuring employment remains a priority for all nations. Particularly, the service sector has emerged as a strategic industry in developing economies, playing a crucial socio-economic role in addressing labor market challenges. The service sector is not only instrumental in creating job opportunities but also provides favorable conditions for effective human capital development, contributes to building a competitive economy, and enhances the overall well-being of citizens.

Therefore, it is essential to structurally analyze the service sector, examining the diversity of employment opportunities within it, and evaluating its impact across regional disparities and various social groups to identify priority directions for employment policy. Additionally, the service sector typically requires lower levels of investment compared to industry or agriculture, while creating relatively more employment opportunities. This characteristic is particularly beneficial for transitioning economies such as Uzbekistan.

From a critical perspective, despite the significant role of the service sector in employment, many jobs created within this sector tend to require low skills, provide relatively lower wages, and are often seasonal, resulting in lower productivity compared to industrial or high-tech sectors. Consequently, enhancing the quality—not just the quantity—of employment opportunities must be a strategic focus of employment policy. This underscores the importance of improving workforce potential in the service sector by expanding vocational training and retraining programs.

According to the analysis results, Uzbekistan has experienced a consistent increase in the share of the service sector within its national economy in recent years. Specifically, the sector's contribution to GDP rose from 41.6% in 2020 to 47.4% in 2024, marking an increase of 5.8% over four years and indicating its growing role as a strategic development driver. This trend is reflected in employment structures as well. The share of employment in the service sector among the total employed population increased from 43.5% in 2020 to 47.2% in 2024 (Table 1).

Table 1

**Dynamics of the Service Sector's Share in GDP, Employment, and Per Capita Service Volume in Uzbekistan (2020-2024)**

Year	Share of Services in GDP (%)	Share of Services in Total Employment (%)	Per Capita Volume of Services, thousand UZS
2020	41,6	43,5	6 423,1
2021	41,8	44,7	8 145,1
2022	44,2	46,3	10 292,0
2023	46,2	47,0	17 845,7
2024	47,4	47,2	22 017,6

These indicators confirm the significance of the service sector not only in creating new employment opportunities but also in promoting gender and youth inclusivity in the labor market. The notable increase in per capita service volume deserves special attention. Specifically, this indicator increased from 6,423.1 thousand UZS in 2020 to 22,017.6 thousand UZS in 2024, representing a 3.4-fold growth. This substantial increase is closely related to capital inflows into the service sector, the introduction of digital economy elements, and socio-economic programs implemented by the government to support small and medium-sized businesses. Initiatives such as "Youth Notebook," "Women's Notebook," and microfinance and startup support programs have contributed significantly to enhancing both the quantity and quality of employment opportunities in the service sector. These trends indicate that the service sector is becoming a key driver of sustainable economic growth and employment diversification in Uzbekistan.

In our view, the structural changes in employment by economic activities observed in Uzbekistan during 2020–2023 indicate an ongoing strategic transformation in the national labor market. Particularly, the consistent growth within the service sector has opened opportunities for employment diversification and the creation of jobs based on advanced technologies and digital services. Growth within the construction and manufacturing sectors further demonstrates the effectiveness of infrastructure projects and industrialization policies.

Conversely, the relative decline in agricultural and mining sectors reflects a shift of labor resources toward higher-value industries. Policies aimed at education, retraining, and preparing competitive human resources for the labor market play a crucial role in this transition. Thus, the dynamic intersectoral employment shifts correspond to the transformation of the country's economic development model. However, structural issues, regional imbalances, and deficiencies in workforce training systems continue to persist. Therefore, comprehensive economic and institutional measures should support state policies in this sector.

Throughout the research analyzing employment indicators in the service sector, the following significant trends were observed:

- **High Informal Employment:** According to data from the Ministry of Employment and Labor Relations of Uzbekistan, informal sector employment accounted for 52.3% of the total labor market in 2023. Over 60% of this share pertains to the service sector, including trade, transportation, domestic services, catering, and small service centers, where individuals frequently work without formal contracts. This high level of informal employment undermines pension systems, social insurance, and labor protections, reducing the effectiveness of sustainable employment policies.
- **Regional Infrastructure Disparities:** According to the State Statistics Committee of Uzbekistan, in 2023, Tashkent accounted for 43% of the total service sector output, whereas regions such as Kashkadarya, Surkhandarya, and Navoi contributed only around 4–5%. These

figures indicate underdeveloped service infrastructures and limited service offerings in these regions, exacerbating internal migration and socio-economic inequalities.

- Low Labor Productivity: Labor productivity in the service sector is notably lower compared to industrial and financial sectors. In 2022, the value added per worker in the service sector amounted to 27.5 million UZS, while this figure reached 41.7 million UZS in industry. This discrepancy highlights ongoing challenges in quality and efficiency despite increased employment numbers in the service sector.

- Education-Labor Market Disconnect: The service sector is rapidly digitalizing, yet higher education institutions in Uzbekistan are insufficiently preparing specialists required for the sector (IT, business analytics, e-logistics, digital marketing). In 2023, approximately 65% of newly employed IT professionals were either self-taught or had completed short-term retraining courses, lacking formal academic training. This situation underscores a significant gap between educational outputs and labor market demands.

- Structural Issues in Gender and Youth Employment: Despite the significant presence of women and youth in the service sector, they are predominantly employed in lower-paid positions (such as salespeople, operators, and technical staff). While the number of highly educated women is increasing, their representation in leadership positions in the service sector remains below 15%. Similarly, youth employment is characterized by a tendency toward temporary rather than stable, long-term jobs.

Education, digitalization, and workforce training aligned with market demands are key drivers for enhancing employment through the development of the service sector. As shown in the table, economically advanced and rapidly growing countries have effectively:

1. Aligned human capital closely with industry needs (Germany),
2. Integrated digital services with social inclusivity (South Korea),
3. Ensured rapid market adaptation through vocational skills (India).

These mechanisms can be extensively applied in Uzbekistan to improve not only the quantity but also the quality of employment opportunities, enhance labor productivity, and promote social equality. Analysis of international best practices indicates that education, digital infrastructure, and flexible labor market policies are critical for sustainable service sector growth and employment expansion. Uzbekistan can effectively create quality and sustainable jobs in the service sector by adopting these strategies.

### **Conclusions and Recommendations.**

The conducted analysis highlights the extensive economic and social potential of the service sector in boosting employment. Particularly, employment opportunities in sectors such as digital services, education, healthcare, trade, and logistics play significant roles not only in reducing unemployment but also in increasing household incomes, ensuring social equality, and diversifying employment across gender and age groups.

Reducing regional disparities, expanding innovative infrastructures, adapting workforce training systems to sector demands, and introducing digital platforms are essential for developing the service sector.

Based on these findings, the following recommendations are proposed:

1. Prioritize the service sector as a strategic segment of the national economy, especially in IT, digital trade, online education, and telemedicine.
2. Expand regional service infrastructure to stimulate job creation at provincial and district levels, thereby reducing internal labor migration.
3. Develop and implement workforce training programs tailored specifically to the requirements of the service sector, integrating vocational education effectively.
4. Promote remote work opportunities for women and youth through supportive legal frameworks and technological advancements.

5. Support digitalization initiatives at the state level, facilitating small businesses and micro-enterprises' entry into the market through digital service platforms.

Implementing these recommendations will enable Uzbekistan to fully harness the multifaceted potential of its service sector, contributing to sustained employment growth.

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