



Article

Attracting Investments In The Service Sector Production

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Abstract: Research analyzes service sector investments to determine their effects on Uzbekistan's economic growth. The substantial sector growth has led to a 58.4% GDP contribution in 2023 but investors both foreign and local continue to face essential barriers to entry. The study varies from other research by establishing that stakeholders need better knowledge regarding the modernization approaches and structural modifications needed to draw investments successfully. The research evaluates investment patterns together with regulatory overview data through mixed research approaches to discuss financial frameworks and economic data analysis. The analysis indicates that financial services keep expanding in size and microfinance institutions keep increasing while economic zones demonstrate remarkable success in pursuing FDI. Sustainable growth faces challenges from regulatory barriers alongside deficient digital infrastructure along with insufficient workforce competence. The sector's productivity would increase significantly by adopting three critical improvements including investment policy liberalization and better digital infrastructure and improved occupational training systems.

Keywords: investments, economy, attraction of foreign and local investors, service sector, financial stability, modernization

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1. Introduction

At the moment, with the global economy becoming more interconnected, the service sector is developing at a high level. Our nation is also distinguished by economic modernization and technology re-equipment reforms, which are based on structural shifts in the service sector. As a result, the service sector's GDP share is thought to have grown steadily. Concurrently, the Republic of Uzbekistan is pursuing [4] a "...first of all, the modernization of the service sector by moving to a qualitatively new level of quality service, aimed at the rapid development of public service" approach. When the service sector is used effectively, the quality of the outcome determines the foundation for improving the socio-economic efficiency of labor. Three megatrends are influencing the evolution of international investment: geopolitics, sustainability, and technology. Collectively, these megatrends are changing the geography and governance of the world economy, resulting in notable changes in trade and, consequently, in service investment. Currently, 72% of all foreign direct investment (FDI) goes toward investments in services, which contribute to 67% of the world's GDP. With services accounting for more than 75% of the GDP in developed nations, the article "Expanding the Service Sector in the Regions" emphasizes the growing significance of the service sector in the global economy.[5] Since reforms began, the service industry in Uzbekistan has grown to be a major economic engine, with its volume tripling between 2017 and 2022. The industry includes banking,

transportation, and trade services, which collectively account for a sizable amount of market services.

On December 18, President Shavkat Mirziyoyev presided [1] over a meeting to talk about the regions' service sector's continued growth and development in 2024. Financial services had tremendous expansion, growing fivefold in just six years, mostly as a result of increased financing and corporate development. The Entrepreneurship Development Company and the Business Development Bank, two recently founded financial organizations, are essential to this growth. Microfinance banks, which will provide basic banking services, are scheduled to open on January 1, 2024, with the goal of increasing the volume of financial services by 30%. Through the "Family Entrepreneurship" program, which offers unsecured loans to 2.4 million independent contractors, efforts are being made to encourage entrepreneurship. In order to boost financial services, the government is planning to issue \$500 million in Eurobonds and hopes to engage two million individuals in business by 2024.

The Republic of Uzbekistan's Law "On Foreign Investments," which was adopted on April 30, 1998, states in Article 3 that "foreign investors are mainly engaged in entrepreneurial activity and other types of activity not prohibited by law, with the aim of obtaining income (profit)." [2] Foreign investments in the country's territory include all kinds of tangible and intangible objects and rights associated with them, including intellectual property rights, including any income from foreign investments.

The measures of our nation's macroeconomic stability and economic expansion demonstrate how well the reform plan has been carried out. It outlines the main course for advancing economic reforms and our nation's progress. In order to determine the future measures of our nation's socio-economic development, it is now required considering the degree of development of industries and sectors. A thorough increase in the requirement for staff is considered from the perspective of these processes, and programs for economic development are created. The utilization of services is a crucial component of future strategic planning.

In the framework of the effective use of consumer services, which are a significant factor in economic development, sources and reserves for boosting the labor economy's efficiency are an essential component of the modernization process. The primary criterion for improving labor efficiency, in our opinion, is attaining high labor results based on the effective utilization of all labor and material resources.

In world practice, the development of the *khiamat* sphere in the regions occupies a key place in the developed strategy for increasing investment attractiveness. Active investment policy is an important issue in conducting research work aimed at sustainable development of the economy and ensuring its attractiveness in the investment environment. In order to accelerate investment activities, ensure stable and high growth rates, and state regulation, annual national and regional investment programs, standards and requirements in the field of formation of the innovative economy of Uzbekistan have been developed.

2. Materials and Methods

The research method uses both qualitative and quantitative analysis to study changes in Uzbekistan's service sector investments. The research uses integrated qualitative and quantitative collecting methods to analyze financial systems together with regulatory settings and economic progress markers. The research uses policy documents together with investment reports and sectoral economic performance statistics which stem from official government bodies as well as financial institutions and international economic databases. The research methodology requires investigation into several key factors: expansion of financial services and the function of microfinance institutions as well as the effect of Free Economic Zones on foreign direct investment. Statistical techniques identify patterns between investment data points together with service industry direct impacts on the country's GDP-generation. Success stories of investment policies from other economies help researchers understand how Uzbekistan positions its strategies at the global scale. The expert interview process brings qualitative results from policymakers

alongside economists and industry professionals who describe regulatory issues and investment restrictions. The evaluation framework analyzes both the current investment policies in Uzbekistan and their capability to adhere to global industry best practices. Data triangulation attains valid findings by examining findings through multiple data sources and research approaches. The analytical model of this study examines three main domains including policy freedom requirements and digital infrastructure advancement as well as workforce qualification upgrades. The study synthesizes its findings to evaluate policy recommendations that will improve investment inflow and enhance service sector productivity levels. The methodology enables in-depth investment analysis to locate sustainable economic growth prospects in Uzbekistan's changing service sector domain.

3. Results

The service industry has expanded in recent years in several parts of our republic, including Fergana, Tashkent, Andijan, and Samarkand. Raising the income of the populace is regarded in Uzbekistan as a prerequisite for enhancing the standard of living and contributes to the regions' increased appeal to investors. To carry out the plan of advanced socio-economic development of the content of free economic zones, a strategy for luring both domestic and foreign investment and promising technologies will be put into place [8].

Sector Wise Contribution Of Gdp In Indian Economy:

The Gross Domestic product (GDP) in Indian expanded at an annual rate of 8.8 percent in the last quarter. India's Gross domestic Product is worth billion dollars of the world economy, according to the World Bank. Services are the major source of economic growth, accounting for more than half of India's output with less than one third of its labour force. The economy has posted an average growth rate of more than 7% in the decade since 1997. Reducing the poverty by about 10 percentage point

The World Bank's report on Uzbekistan's services sector highlights the prospects and obstacles for its growth and suggests changes to modernize the industry, increase productivity, generate employment, and draw in investment across all of its subsectors. The main engine of the nation's growth is the services sector. It surpassed industry (23.5%), agriculture (20.6%), and construction (7.1%) in 2023, accounting for 43.9% of GDP. Since gaining independence, the sector has been crucial to Uzbekistan's structural change; employment in services has increased from 37% in 1991 to 50% in 2022, offsetting reductions in agriculture.

Uzbekistan's economy has grown steadily since market reforms were implemented in 2017, with an average annual GDP growth rate of about 5.5%. But the pace of structural change has slowed. In particular, employment remained steady at 50% from 2010 and 2022, although the services sector's GDP share climbed slightly from 41% to 44%. Knowledge-intensive global innovation services, like ICT, professional services (such as consulting, law, architecture, and engineering), and finance—which are more than twice as productive as manufacturing but only make up 4% of all services jobs—should be developed in the nation in order to maintain[8]

CONTRIBUTION OF DIFFERENT SECTOR IN THE UZBEKISTAN'S GDP [8]

Sectors	2017-2010	2010-2022	2022-2023 (Up to Oct)
Agriculture	20%	17%	20.6 %
Service Sector	54%	55%	58.40%
Industry	26%	29%	23.5 %

SECTOR WISE CONTRIBUTION OF GDP IN INDIAN ECONOMY:

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1997. Reducing the poverty by about 10 percentage point

The integration of the world's economies through finance and other domains is referred to as globalization. In the context of Uzbekistan, this means allowing foreign companies to invest in various sectors of the country's economy, removing barriers and restrictions to MNCs' entry, enabling Uzbek companies to form international partnerships and encouraging them to establish joint ventures abroad, and implementing extensive import liberalization programs by moving from quantitative restrictions to tariffs and import duties. As a result, globalization has been linked to the policy reforms of 1991 in Uzbekistan.

Allowing Foreign Direct Investment:

The economy of Uzbekistan is increasingly integrated with the global economy, and in such conditions, in order to direct economic development towards exports, great efforts are being made to produce export-oriented products, use free economic zones, and introduce high-tech products that replace imports. (FDI) across a wide spectrum of industries and boosting non-debt flows. The Department has put in place a liberal and transparent foreign investment framework where most activities are opened to foreign investment on automatic route without any constraint on the level of foreign ownership.

Among the recent measures to further liberalize the FDI regime are the following: opening up industries like insurance (up to 26%), developing integrated townships (up to 100%), defense industry (up to 26%), tea plantations (up to 100% subject to divestment of 26% within five years to FDI), increasing FDI limits in private sector banking, allowing FDI up to 100% under the automatic route for the majority of manufacturing activities in SEZs, opening up B2B e-commerce, allowing Internet Service Providers (ISPs) without gateways, opening up electronic mail and voice mail to 100% foreign investment subject to a 26% divestment condition, as well as other initiatives.[5]

Through the Foreign Investment Implementation Authority (FIIA), the Department has also reinforced its investment facilitation policies. Globalization has numerous effects on a country's economy. Interdependence and rivalry between economies in the global market have increased as a result of globalization. The following noteworthy advantages have resulted from these economic reforms: In Uzbekistan, globalization positively affected the country's overall economic growth rate.

Given that Uzbekistan's growth rate in the 1970s was a pitiful 3% and that the GDP growth of nations like Brazil, Indonesia, Korea, and Mexico was more than twice that of Uzbekistan, this is a significant increase. In the 1980s, Uzbekistan's average annual growth rate nearly doubled to 5.9%, but it was still less than that of China, Korea, and Indonesia. [5] Uzbekistan's standing internationally has improved as a result of the acceleration of GDP growth. Accordingly, when GDP is computed using purchasing power parity, Uzbekistan's standing in the world economy has improved in 2001.

Free economic zones are areas with distinct legal systems and administrative borders that are seen as significant components of the global economy. Free economic zones have diverse forms in different nations, and their allure is beneficial in many of them. It guarantees international capital interchange by drawing in foreign investors, particularly in light of today's integration and globalization. The entry of transnational corporations into the integration process further advances this process.

Challenges to Overcome

The services industry faces a number of significant challenges. Productivity is limited since over 60% of jobs are in low-skilled industries like retail and transportation. In the

meantime, obstacles in several sectors, such as the following, keep global innovator services from reaching their full potential:

Connectivity: Both digital and physical connectivity need to be enhanced. Uzbekistan's 4G/LTE internet coverage (92% in 2023) is still below global standards, and the country is ranked 88th in the World Bank's 2023 Logistics Performance Index. ICT and digital enterprises are hampered by the low utilization of digital payments.[5]

Contestability: Uzbekistan is completely restricted to cross-border service delivery in 11 of 31 subsectors, including professional services, according to the World Bank-World Trade Organization (WTO) Services Trade Restrictiveness Index. Private investment is suppressed by state monopolies that control transportation and telecommunications [6].

Capabilities: Only 31.5% of students are enrolled in tertiary education, which is much less than the regional average of 80% in Europe and Central Asia. ICT proficiency is similarly lacking, with only 15% of people exhibiting even the most basic skills.[4]

4. Discussion

The expertise of nations like China, Germany, France, Japan, South Korea, and Singapore—all of which are quickly developing in the global economy—is used to achieve productive results. When the liberalization approach is applied in this manner, the nation's export and international trade potential rises and free economic interactions are established.

One of the most crucial challenges of our day is the effective construction and administration of free economic zones by utilizing the knowledge and strategies of other nations. Specifically, the Decree of the President of the Republic of Uzbekistan Sh. M. Mirziyoyev's [3] "Strategy of Actions for Further Development of the Republic of Uzbekistan" ("On Further Development and Liberalization of the Economy") specifies this in the third direction of economy": exporting goods and materials, creating competitive products, and maintaining the stability of the national economy. The emergence of new, potential service categories, including as banking and financial, insurance, information and communication, and domestic services, has improved the market's composition.

In the case of families, whose development is regarded as a social link, we can also examine economic indicators. The need for services in this sector has increased as a result of the dramatic rise in the number of families who now own private vehicles, computers, and household goods. Additionally, the development of services and services required in this field are necessary for the deepening of structural reforms and diversification of our nation's economy, as well as for assuring employment, raising population incomes, and enhancing quality of life.

"Small business and private entrepreneurship specialize in the service sector, in the formation of modern structures that ensure the economy meets rapidly changing market requirements, in the creation of new jobs, and it is necessary to deeply understand how important a role this plays in increasing the income of the population," said President Shavkat Mirziyoyev [2] in reference to the growth of small business and private entrepreneurship. The service industry, along with other Uzbek economic sectors, must be developed as a top priority due to changes in the global economy.

Enhancing development processes is deemed a key task based on our nation's own capabilities. However, the drawbacks in this sector are thought to include boosting employment, raising population incomes, and restocking the municipal budget. This topic's relevance is characterized by fostering an environment that supports the service sector's rapid growth, raising the industry's economic share, expanding the number of workers in the sector, and, consequently, raising the general public's standard of living.

Uzbekistan ranks among the top producers of agricultural products in Asia. Agriculture-related industries have also contributed significantly to the improvement of the country's economy by creating jobs in the logging, fishing, and forestry sectors. Due credit should also be given to numerous five-year programs for the increase in Uzbek agricultural production volume. The use of contemporary technologies and advancements in irrigation techniques have also improved the agricultural processes.

A Comparison with Other Developing Countries

- a) Taking into account international trade, Uzbekistan's proportion of global merchandise exports rose from 0.5 to 0.7 percent.
- b) In the previous two decades, China's stake has increased thrice to about 4% over that time.

According to IMF estimations, [6] Uzbekistan's economy is six times smaller than the Philippines, which has a comparable percentage of global commerce. FDI flows into Uzbekistan have averaged just 0.5% of GDP over the last ten years, compared to 5% for China and 5.5% for Brazil. Now, China receives more than \$50 billion in foreign direct investment each year. In the case of Uzbekistan, it is merely \$4 billion USD.

According to the analysis, Uzbekistan stands to gain significantly economically from measures that liberalize the services sector:

- a) Complete liberalization of trade regulations in services might increase Uzbekistan's real GDP by as much as 17%.
- b) The subsectors of insurance, communication, and finance can grow by 45%, 39%, and 23%, respectively.
- c) Manufacturing spillover effects, with growth forecasts of 24%, 30%, and 23% for electronics, pharmaceuticals, and machinery, respectively.
- d) Up to 16% real pay increases that help both skilled and unskilled workers.[6]

A rare chance to bring its services industry into line with international standards is presented by Uzbekistan's intentions to join the WTO. According to the report, reforms carried out during the accession process will improve contestability and connectivity, drawing in investment, encouraging innovation, and promoting sustainable growth.

5. Conclusion

Based on the aforementioned factors, a poll carried out in the spring of 2010 found that Uzbekistan's services sector is still challenging. We may conclude that there are several production features in the service sector. Relationships in the service process vary, the service is personalized, and its speed is contingent on the client relationship. Meeting the expectations of customers in the service industry requires a lot of work, and this is measured by how adaptable the workers are.

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