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**CHALLENGES AND DEVELOPMENT
GUIDELINES OF THE SERVICE
INDUSTRY IN UZBEKISTAN**

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Key words: Service, service providers, government program for development of services, dispersed markets, compact market.

Abstract: The article discusses challenges and policy perspectives of services sector in Uzbekistan. The country adopted the special program targeted to accelerate development of service activities. However, still there is much potential to be studied and involved in dimension of ongoing reforms.

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Over recent decades many advanced countries have experienced continuous increase of services sector share in their economies (D'Agostino, Serafini, and Ward-Warmedinger, 2006). Studies demonstrate that various factors contribute to the change of economy structure from "industry-dominated to a services-dominated employment structure". Last decades made clear growing national strategies to promote and strengthen services sector in many developing economies.

Economic literature suggests different theories explaining growth of employment in service sector. According to Baumol (1967), keeping relative productivity differential between industry and service sectors determines shift of larger portion of increasing workforce to service activities. Fuchs (1980) concludes that a considerable proportion of the increase in service sector is conditioned by increase of labor market participation. The study of service sector is however still underexplored enough. "Despite the recent advances, services are still inadequately studied by researchers, underestimated by politicians and insufficiently exploited by many entrepreneurs. The traditional perception of services as unproductive still persists in the common mind of the present society" (Maroto-Sanchez, 2007, p.6).

What is clear is that service sector development contributes overall economic development and sustain employment and economic growth. This sector covers broad range of services - banking, insurance, construction, telecommunications, tourism, transportation, etc.

Considering this, the rapid development of the services sector of Uzbekistan was determined by Government as one of the major priorities and important objectives of economic reform in recent years; the services sector was accepted as an important factor in promoting employment, income growth and the improved livelihoods of the population (IMF, 2008).

A special program has been adopted for taking practical steps in this dimension, creating a number of incentives and preferences in the services sector (IMF, 2008). The major in the development of service sector in Uzbekistan was the service industry development program for 2006-2010. This program was focused on creating and sustaining conditions for further intensive development of service industry, increase of this sector share in economy, employment and population income increase as well as domestic consumer market saturation with various modern quality services. During the period the legal institutions were developed to create modern,

highly effective and competitive service industry in our country.

As analysis of service industry status and development in our country in comparison with the developed foreign countries shows the difference between levels of volumes of rendered services and types of services is small and trends to be developed. This situation can be seen in growth rates of paid services being rendered to the population in the Republic of Uzbekistan. As a result of consolidated measures, the service industry share in gross domestic product increased from 42.5% in 2007 to 49% in 2010.

"Producing services tends to require relatively less natural capital and more human capital than producing agricultural or industrial goods. As a result demand has grown for more educated workers, prompting countries to invest more in education - an overall benefit to their people" (Soubotina, 2000). Starting advantage to promote fast development of services sector was the availability of good level of basic education and workforce. Moreover the Government steadily has developing reforms in education sector that gave opportunity to further strengthening of structure and quality of education. National program of training specialists laid the foundation for reformations of the educational system in Uzbekistan; it conditioned formation of a new generation of experts with high professional and general culture distinguished for their creative and social activity.

The survey study of regions in Uzbekistan has shown that activities like transport, trade and catering services are developing very fast in all regions. However, other services, important for innovative economic growth and competitiveness of national economy, also should take a dynamic path development.

Rural areas stay far behind in development of service activities and this remains of the main challenges in boosting the overall service sector in the country. There are substantial differences in the level and quality of public services across regions of the country. It should be noted that the share of services provided to rural populations, despite growth, is still at a fairly low level. Therefore, one of the priority areas of the service sector growth policy is a significant improvement of service of the rural population. Government seeks to provide favorable environment using special tax and credit incentives to entrepreneurs operating in rural areas.

Another important challenge is keeping disproportion between demand and supply in qualified and innovative workforce needed for advanced service activities like telecommunications, engineering, insurance. International development experience shows that "... service industries have fallen behind in systematically nurturing human resources for the industries (through, for instance, secondary and tertiary education) and in developing curriculums for that purpose" (METI, 2007, p.11). From this approach, the improving of links among professional and higher education, in one side, and service businesses is considerably needed.

As in many other countries, in Uzbekistan the service-sector comprises wide range of activities. Therefore, the strategy of accelerated development of service sector requires adequate prioritizing and targeting policy. The government should further make improvements in this area. Grouping sector branches that are most income and growth generating, that while their growth could deliver synergy effect on other growth areas of overall economy. "The results show that the contribution of communications, business services, and financial services has in fact risen to the point where it contributes more to growth of GDP than manufacturing" (Eichengreen, B., Gupta, P., 2011, p.7)

Information technologies open new opportunities for new service activities. Faster developing of communication and information services require further improving of local public management, decreasing bureaucracy and regulation costs for small and medium businesses.

Undoubtedly, continuous reforms made during last two decades provided starting shift in developing service branches such as banking, insurance, tourism, IT, etc. However, nowadays the focus should be made on more fine tuning and coordination of intersectoral measures. Understanding linkages among different service sector segments becomes crucial for policy planning and coordination.

Modern market has increased innovation factor to keep balanced growth and development for a nation. Then, the education and science institutions should stimulate and get deeper involved into innovative teaching and research environment.

Main objectives regarding renewal of priorities and targets in service sector of Uzbekistan are as follows:

- further improvement of legislation facilitating modern service development, competitive environment in service industry;
- service industry development on base of new service classification worked out in accordance with international practice and service accounting methodology perfection;
- priority development and strengthening of material-technical base of service enterprises in rural area, and first of all, in the sphere of agricultural production provision, water supply, machinery parks, veterinary services, residential housing and repair, public facilities;
- development of traditional and new prospective sectors of service industry including banking, financial, insurance, legal, consulting, leasing, etc.;

- widening tourism, formation of tourist services network all over the country;
- increasing competitiveness level of national enterprises services in international market and export services increase (at republican and regional level);
- training and retraining personnel for service industry (at republican and regional level).

Level of service industry development in the country is very important for increase of material and cultural level and population living standard. Service industry development will allow save material, labor and financial resources, facilitate people spare time increase, improve creative sense of their work, reduce irrational expenses during spare time, and make life more comfortable for all social population layers.

For service industry of the Republic of Uzbekistan under market conditions the strategic objective is a provision of stable development of this branch without decrease of level of quality of services rendered to population. Creation of new service business entities and keeping the existing ones is very important because the competitive environment will be created at the service market.

To create affective market economy and well-deserved inclusion in the world economy, the country needs to have large-scale service industry with developed transport, communication, trade, finance-credit and insurance sector, complex of business services, education and public health sphere meeting modern requirements.

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