



# DEVELOPMENT OF THE SERVICE SECTOR IN UZBEKISTAN: PRIORITY DIRECTIONS AND PROSPECTS

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<b>Article history:</b>		<b>Abstract:</b>
<b>Received:</b>	14 <sup>th</sup> January 2025	This article examines key aspects of the development of the service sector in Uzbekistan, its impact on the country's economic growth, and the social well-being of citizens. Strategic initiatives aimed at modernizing the service sector are analyzed, including digitalization, the development of transport and tourism infrastructure, and the reform of financial and medical services. Special attention is given to the challenges faced by regions and government support measures aimed at increasing service volumes and attracting investments. Specific examples of successful projects are presented, along with recommendations for further improvement of the sector
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Today, under the chairmanship of the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, a video conference meeting was held on the development of the service sector in the regions.

The modern global economy demonstrates that the development of the service sector is an integral part of successful economic growth. In high-income countries, services account for more than 70% of GDP, and their contribution to job creation exceeds 60%. Even in industrially strong countries such as Germany and South Korea, services ensure sustainable development through digitalization, financial technologies, and innovative services.

There are numerous examples of successful service sector development:

➤ **USA and the EU** – In these countries, the service sector dominates the economy, covering IT, finance, education, and healthcare. The growth of innovative services, including cloud technologies and digital transformation, contributes to their leadership in the global economy.

➤ **Singapore** – Investments in logistics, the banking sector, and tourism have transformed the country into a global financial and trade hub.

➤ **China** – Despite its status as the "world's factory," China is actively developing the service sector, including e-commerce and consulting, increasing its share in GDP.

➤ **India** – The country has become a global leader in software and digital technology through service development and outsourcing.

In recent years, Uzbekistan has focused on developing the service sector as a key driver of growth. The country has significant potential in areas such as tourism, financial technologies, transport and logistics, and e-commerce.

Key directions for the development of the service sector in Uzbekistan:

➤ The country's rich cultural heritage contributes to the development of the hotel business, gastronomic and medical tourism. The introduction of electronic visas and modernization of infrastructure have already led to increased tourist flows.

➤ The expansion of digital payment systems, the development of fintech startups, and online banking are modernizing the economy.

➤ Uzbekistan's geographical location makes it an important transit hub between Asia and Europe. Investments in transport corridors and logistics hubs enhance the country's trade potential.

➤ The development of private universities, online education, and medical tourism not only boosts economic growth but also improves the quality of life.

Thus, global experience proves that expanding and modernizing the service sector are crucial factors for sustainable economic growth. For Uzbekistan, this is



not only an opportunity to diversify its economy but also a means to improve citizens' quality of life, create new jobs, and strengthen international competitiveness.

In this regard, the President personally oversees the development and diversification of the service sector. During the recent video conference, key tasks for the industry's development were discussed. It was noted that a large-scale program adopted three years ago is already yielding significant results. In particular, an additional 1.5 million people have gained stable income in the service sector, and the volume of services has increased from \$19 billion in 2018 to \$65 billion, reflecting a 3.5-fold growth. The most significant progress has been observed in IT, financial services, tourism, aviation, education, and healthcare. Over the past seven years, citizens' incomes and purchasing power have doubled, leading to increased demand for new types of services.

Ministers and regional leaders pointed out the lack of a unified approach to service sector development and insufficient coordination among them. For example, despite a plan to attract 6 million local and foreign tourists to Khorezm, actual numbers remain low. There are only 52 flights and 23 train services per week to the region, limiting annual passenger capacity to 800,000. Many tourists visiting Bukhara and Samarkand cannot travel to Khorezm due to the lack of flights and are forced to leave.

Another example is the tripling of private clinics in seven years. However, many face issues with registering branded medical equipment, which takes up to six months. Entrepreneurs propose simplifying this process. Businesses wishing to open medical laboratories spend months on accreditation. Estimates suggest that each region has at least ten entrepreneurs ready to invest \$1 million each in opening laboratories.

The volume of private sector projects in healthcare, aviation, and energy has exceeded \$20 billion. However, there is almost no such investment in water supply, sewage, and road construction. Meanwhile, many local entrepreneurs are ready to invest and create 10,000 jobs if the necessary conditions are provided.

Three years ago, incentives were introduced for the construction of trade and service facilities over 5,000 square meters. As a result, 209 such facilities have been built. However, work in this area has been deemed unsatisfactory in Bukhara, Jizzakh, Kashkadarya, and Navoi regions.

Over the past four years, \$700 million has been invested in livestock development from international financial institutions, with an additional \$350 million planned for this year. This will create demand for at least 20,000 veterinary specialists. In Bukhara alone, the need is 250 veterinarians. By the end of the year,

private veterinary and para-veterinary services are expected to grow fivefold.

During the video conference, it was noted that service sector development in the regions is uneven. For example, in Nukus district, services reached 364 billion soums last year, up 22% from the previous year. However, in Gulistan, where the population is twice as large, service volumes were 30 billion soums lower than in Nukus. In Namangan, per capita service volume is below 13 million soums, while in Jizzakh, it is 33 million soums, indicating a high level of shadow economy.

Criticism was directed at lagging IT services in Nishan, Yangiurgan, and Narpay districts, declining financial services in Samarkand, Yangiyer, Mirzaobod, and Myrzaachul, and slow trade growth in Karshi, Jambay, Urgut, and Urgench districts. In seven districts of Fergana, medical services have declined. The President emphasized that ministers and regional leaders must actively seek ways to expand service types daily. Major goals have been set: increasing the service sector by 15% this year to \$82 billion and exports to \$8.5 billion, as well as creating 2.5 million new jobs in the sector.

The full document provides further details on Uzbekistan's service sector development, investment strategies, and governmental initiatives aimed at fostering economic growth.

Over the past three years, 3,000 high-rise buildings have been put into operation, and 38 million square meters of non-residential premises have been constructed. Developers have been permitted to convert 10-15 new residential areas into non-residential real estate. They are interested in selling these properties, while trade and service centers seek to lease or rent them. However, there is no effective system of interaction between them. In this regard, a proposal has been approved for banks to purchase non-residential real estate directly from developers and subsequently lease it to entrepreneurs under favorable conditions. This measure will bring 50,000 square meters of non-residential premises into circulation, generate 70 billion soums in budget revenue, and create 100,000-150,000 jobs. Additionally, leasing conditions will be 10-15% cheaper than rental prices. Responsible authorities have been instructed to develop a package of projects worth 4 trillion soums together with developers for leasing non-residential premises to priority industries.

Clear plans have been established to increase the volume of financial services by 30%. The President noted that state banks lag behind private banks in developing online services and creating attractive products for the population. For instance, last year, the number of remote service users in private banks grew by 32%, while in state banks, it was only 13%. The need to increase remote banking services by at least 30% in 2025 was emphasized. In particular, if the



cadastral, tax, and justice databases are integrated with banking systems, the procedure for imposing restrictions on collateral through a notary will become obsolete. The task has been set to simplify the process of obtaining online loans and to prepare the necessary regulations.

In recent years, special attention has been paid to developing the night economy. The transformation of 17 streets in the Almazar district of Tashkent, with a total length of 7.3 km, into a gastronomic zone has been approved. This project will establish 250 trade and service facilities, providing jobs for at least 1,500 people. Additionally, there are plans to convert 26 streets in the capital into round-the-clock commercial and entertainment zones and to increase the number of 24-hour retail outlets by 1,000, considering tourists' preferences. The need to extend the operating hours of tourist and service establishments in the evening was highlighted.

Starting this year, a new approach will be applied to the development of the service sector in the regions. A total of 1,156 key projects have already been selected and approved, with 1 trillion soums allocated for infrastructure. As part of these projects, 72 coastal recreation areas will be launched, 62 parks will be modernized, 154 round-the-clock tourist and gastronomic streets will be created, and 364 road and other service facilities will be built this year.

Despite significant attention to the construction of highways and internal roads in neighborhoods (mahallas), the issue of inter-district roads, which are crucial for service sector development, remains unresolved. In this regard, local authorities have been tasked with improving the infrastructure of fifty inter-district roads.

Two years ago, a social tax rate of 1% was established for enterprises in the trade and service sectors. During this period, the number of enterprises increased by 1.5 times, and the number of employees grew by 220,000. Most importantly, many enterprises emerged from the shadow economy and began correctly reporting wages, resulting in a 3.2-fold increase in salaries and an additional 2.1 trillion soums in tax revenues. In this regard, many entrepreneurs have requested an extension of the preferential period for another three years. This proposal has been approved, and now the benefit will apply to service enterprises employing staff under 30 years old with salaries of at least 3 million soums. At the same time, control over entrepreneurs engaged in shadow activities and paying wages "off the books" will be strengthened.

Enterprises in the construction, trade, and food service sectors will be allowed to conclude short-term simplified employment contracts for daily or piecework employment. Over the past three years, 27 types of government services have been transferred to the

private sector. However, during the video conference, it was noted that ministries still have significant work to do in this area. For example, it was emphasized that the Agency for State Asset Management could transfer the function of conducting exams and assigning categories to realtors and appraisers to the private sector. The Tourism Committee could transfer the issuance of guide qualification certificates to private companies, and the Agro-Industrial Inspection could transfer mandatory technical inspections of agricultural and special equipment. Many other services in various ministries and agencies could also be carried out by entrepreneurs.

In this regard, responsible authorities have been instructed to transfer 11 types of government services to the private sector by March 1, and another 18 types by October 1. Each ministry has been tasked with preparing proposals on which services within their system can be transferred to the private sector, including through outsourcing, and which new services can be introduced. The responsibility for this process has been assigned to the Antimonopoly Committee.

Since entrepreneurs face numerous questions regarding the terms of leasing or privatizing land plots and state property, the task has been set to develop and publish transparent, beneficial, and fair conditions. The need for concrete actions and results in the development of creative industries—IT, tourism, design, engineering, and other services—was emphasized.

According to the new decree, state-owned properties of up to 10,000 square meters that remain unsold for six months will be leased directly to entrepreneurs for ten years starting March 1. If rent payments are made on time for four years, the property will be transferred to the entrepreneur's private ownership. Entrepreneurs training young people in IT and foreign languages with the issuance of international certificates will be exempt from rent payments for the first year. Thus, in 2025, five state-owned properties in each region will be leased, enabling at least 100,000 young people to be trained in IT and foreign languages.

It has been noted that the time has come to take the export of remote services to a new level. It is necessary not to limit it to technical support but to develop the export of accounting, consulting, insurance, legal, and other professional services.

Responsible authorities have been instructed to analyze service imports and the requirements of foreign countries, adapt educational programs, and train relevant specialists. In 2025, \$50 million has been allocated for startup projects in the creative economy sector. For example, Beknazar Abdullaev, who worked at Amazon and returned to Nukus, attracted \$3 million in investments in Facebook, bringing his assets to an estimated \$15 million. Hundreds of such young specialists from Uzbekistan work in leading global IT



companies. The Ministry of Digital Technologies has been tasked with implementing startup projects in collaboration with these young professionals. Overall, in 2025, the volume of IT services needs to increase by 30%—to over 83 trillion soums, while exports should exceed \$1 billion.

The President emphasized that increasing the competitiveness of the service sector is directly linked to the level of digitalization in regions and industries. The Cadastral Agency has been instructed to complete the creation of a unified real estate address registry as soon as possible, while the Ministry of Transport must launch a unified platform for purchasing tickets for all types of passenger transport. "I repeat: any leader who delays digitalization is acting against the policy of openness," stated the President. The Cabinet of Ministers has been instructed to establish individual KPIs and clear digitalization tasks for each minister and regional governor.

For example, the Tourism Committee must implement a unified platform allowing tourists to book hotels and recreation areas, purchase tickets for air and rail transport, museums, and theaters, as well as hire guides and translators. Additionally, the Ministry of Foreign Affairs and the Ministry of Justice have been instructed to ensure that electronic visas to Uzbekistan can be issued within three days.

The development of the service sector is impossible without high-quality transport infrastructure. In 2024, the volume of transport services grew by 8.6%, reaching 145 trillion soums. However, this is insufficient to ensure high economic growth. To increase the share of local freight forwarders in international transportation, they have been exempted from VAT, allowing the Ministry of Transport to raise their share to 25% this year and 50% by 2026. The import of freight vehicles meeting the Euro-5 environmental standard or higher will be exempt from customs duties and recycling fees for another three years.

In cooperation with private airlines, it is necessary to double the number of flights to Samarkand, Bukhara, Urgench, Nukus, and Termez, serve 15 million passengers this year, and increase the volume of aviation services by at least 20%. During the video conference, it was also noted that the launch of modern electric train routes from Tashkent to Yangiyul, Chinaz, and Syrdarya district must be expedited.

Currently, 50% of railway service exports come from transit freight transportation. In this sector, plans are in place to increase transit cargo volume to 22 million tons by 2030. In this regard, it has been instructed to provide entrepreneurs with free land along highways for the construction of 72 modern roadside service facilities and to launch their operations. Additionally, a three-year program has been set to

double the number of large multimodal logistics centers and begin work in this direction.

To expand the service sector, one of the taxi aggregator companies has proposed acting as a guarantor for loans on 2,000 vehicles. This will provide jobs for 4,000 people, thereby increasing the number of modern taxis. Banks are ready to allocate loans worth 1 trillion soums for such projects. Many car dealerships offer discounts for full vehicle payments; however, under current regulations, banks do not accept these discounts when purchasing a car on credit. If banks are allowed to consider such discounts, the loan interest rate will decrease by 4%. It was emphasized that it is important to lift this restriction for local vehicles.

Overall, in 2025, the volume of transport services should increase by 15% to reach 185 trillion soums, while exports should reach \$2.2 billion. In 2025, the export of tourism services amounted to \$3.5 billion; however, it was noted that this figure does not fully reflect the country's potential. For instance, in Malaysia and Indonesia, there are about 7 million followers of the Naqshbandi Sufi order who wish to visit Uzbekistan's holy sites before their Umrah pilgrimage. All conditions for organizing tours where pilgrims travel from Kuala Lumpur or Jakarta to Samarkand and Bukhara for at least two days before continuing to Umrah on Uzbek aircraft are already in place. In this regard, the introduction of the "Umrah Plus" tour package for pilgrims from Malaysia and Indonesia has been instructed.

Despite the presence of such tourist attractions as Ak-Saray in Shakhrisabz, Ichan-Kala in Khiva, Lyabi-Hauz in Bukhara, and the "New Uzbekistan" Park in Tashkent, no concerts or exhibitions are planned there. It was noted that if world-class concerts are organized in six tourist centers, hotels, restaurants, cafes, trade, and service facilities will be filled with tourists. In this regard, the task has been set to develop a program for holding concerts, business forums, and exhibitions that will attract at least 1 million tourists. Additionally, given the large number of under-researched historical sites, it has been instructed to collaborate with scholars to develop a three-year program for their identification and restoration.

It was emphasized that social sector institutions should also actively participate in export activities. Last year, the "Hospitality of Medical Services" program was launched. For example, surgical, dermatological, and endocrinological centers earn up to \$1 million annually by serving foreign citizens. However, the export of services in 18 scientific centers has not even reached \$300,000. In this regard, the goal has been set to increase medical service exports in 24 specialized centers to \$30 million and to accelerate the transfer of five specialized centers to private management with the assistance of the Asian Development Bank (ADB).



In sixty hospitals located near border checkpoints of neighboring countries, more than 300,000 people received medical services in 2024. For example, in a single private clinic opened in the Aerotop international trade zone, 15,000 foreign citizens received medical care last year. However, in Tashkent region, which has seven customs posts and borders three countries, there are no clinics in border areas. The same situation is observed in Namangan. In this regard, governors have been instructed to begin the establishment of 21 multidisciplinary clinics in border areas.

Over the past eight years, 125 new higher educational institutions have been established, including 23 branches of foreign universities. However, it was noted that the export of higher education last year amounted to only \$26 million, which does not fully reflect the existing potential. The Ministry of Higher Education has been instructed not to limit cooperation to only two universities from the top-1000 rankings but to increase this number to 10 in the coming years.

In 2024, 15 cultural centers were transferred to the private sector. Entrepreneurs invested 86 billion soums and organized more than 1,500 cultural events. At the same time, 120 cultural and artistic centers under the ministry remain unused. In this regard, the Minister of Culture has been instructed to organize the transfer of these centers to the private sector, taking into account advanced international experience.

During the meeting, the President not only listened to reports from responsible officials but also engaged in an open and constructive dialogue with entrepreneurs. Representatives of domestic businesses are actively implementing projects aimed at improving infrastructure, enhancing service quality, and increasing income levels for the population. For example, Bahrom Raupov, an entrepreneur from Surkhandarya, informed the President about a project to construct a youth recreation center on the banks of the Kyzylsu River. This facility is expected to be commissioned by the end of February this year. The businessman also noted that he was inspired to launch another project by the President's working visit to the region last year and his call to actively develop the area's natural resources.

As a result, production facilities have been fully constructed, and modern technological equipment has been acquired. In August–September this year, the production of competitive basalt-based products will commence, creating 250 new jobs. Furthermore, after the completion of the youth center's construction, more than 1,000 additional jobs will be created.

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