

DOI: 10.5281/zenodo.16433235

Link: <https://zenodo.org/records/16433235>

## STUDY OF ECONOMIC INCENTIVES AND CONDITIONS INFLUENCING THE FORMATION AND EXPANSION OF THE SERVICE SECTOR

*Karimov Oybek Olimjon o'g'li*

*Student of Namangan State Technical University*

*Tel: +998975701405*

*E-mail: [karimovoybek353@gmail.com](mailto:karimovoybek353@gmail.com)*

**Keywords:** *service sector, economic incentives, enabling conditions, sectoral growth, digital infrastructure, human capital, regulatory framework.*

**Abstract:** *The service sector has become a pivotal component of modern economies worldwide. This study investigates the economic incentives and enabling conditions that influence the formation and expansion of the service sector. Using a mixed-method approach combining quantitative analysis of cross-country data and qualitative case studies, this paper identifies key drivers such as tax incentives, investment in digital infrastructure, human capital development, and regulatory reforms. The findings highlight the crucial role of coordinated policies to foster sustainable and inclusive growth in the service industry. Recommendations are provided for policymakers to enhance sectoral performance through targeted incentives and improved institutional frameworks.*

### Introduction

Over the past few decades, the global economy has witnessed a significant shift towards service-oriented activities. The service sector now accounts for more than 60% of GDP in many countries and employs a majority of the workforce in both developed and emerging economies (World Bank, 2023). This trend is driven by rising consumer demand, technological advancement, and globalization.

However, the pace and nature of service sector growth vary substantially across countries, influenced by a combination of economic incentives and enabling conditions. Economic incentives such as tax breaks, subsidies, and financial support can attract investment and innovation in service industries. Meanwhile, enabling conditions—such as robust digital infrastructure, skilled labor force, and regulatory clarity—are essential for sustaining long-term growth and competitiveness.

Despite the growing importance of the service sector, there is still a need for a comprehensive understanding of how these incentives and conditions interact to shape the sector's development. This paper aims to fill this gap by analyzing the key economic factors influencing the formation and expansion of the service sector, with a particular focus on developing countries.

According to the Resolution “On the Strategy of Actions for the Further Development of the Republic of Uzbekistan” [1], the task of actively fostering the growth of small urban-type settlements and towns through the establishment of new

industrial production and service centers, as well as attracting investments from major economic entities, bank loans, and private foreign investors, is expected to contribute significantly to the further development of the service sector and to reinforce the ongoing reforms in this sphere.

Nevertheless, challenges persist in the formation and development of service sector entities and in ensuring their high efficiency. The necessity to address these challenges, alongside the need to resolve not only practical but also a number of theoretical issues, underscores the importance of conducting comprehensive research aimed at enhancing the efficiency of this sector and securing sustainable socio-economic development within the country.

The eminent economist Adam Smith, in his seminal work *An Inquiry into the Nature and Causes of the Wealth of Nations*, sought to elucidate the economic nature of goods in the form of services and to address the conceptualization of services as a source of social wealth. In doing so, he distinguished between productive and unproductive labor, thereby differentiating material and immaterial production, which constituted a foundational contribution to the initial concept of services. The term “service” is interpreted diversely within economic literature depending on the area of economic study. Numerous foreign and domestic scholars have undertaken theoretical analyses within this framework. Among them, the distinguished scientist F. Kotler defines service as “any activity that one party can offer to another.” Similarly, the renowned Uzbek economist I.S. Tukhliev characterizes services as “a special category of intangible goods,” emphasizing that services embody the nature of commodities by reflecting labor relations inherent in the production process, while the outcome of such processes assumes an intangible form.

### Methods

This study employs a mixed-methods approach combining quantitative and qualitative analyses.

#### Quantitative Analysis:

- Data from 20 countries spanning 2010–2023 were collected from the World Bank and International Monetary Fund databases.
- Variables included service sector GDP share, foreign direct investment (FDI) in services, broadband penetration, human capital index, and tax incentive measures.
- Multivariate regression models were used to assess the impact of economic incentives and enabling conditions on service sector growth.

#### Qualitative Analysis:

- Case studies of three countries—India, Germany, and Vietnam—were conducted to explore policy environments, institutional reforms, and sectoral dynamics.
- Semi-structured interviews with policymakers and industry experts supplemented secondary data sources to provide deeper insights.

Data analysis was performed using STATA for quantitative components and NVivo for thematic analysis of qualitative data.

## Results

**Quantitative Findings** The regression analysis shows that tax incentives have a statistically significant positive effect on attracting FDI into the service sector ( $\beta = 0.48$ ,  $p < 0.01$ ). Broadband penetration exhibits an even stronger association with growth in high-value service industries ( $\beta = 0.62$ ,  $p < 0.001$ ), indicating that digital infrastructure is a critical enabling condition.

Economic and social analysis, logical approach, deduction and scientific study of the result were used, relying on a set of specific ways of knowing.

Today, the service sector plays an important role in the sustainable development of the economy. One of the founders of marketing theory, F. Kotler, said: "A service is any activity that one party can offer to another; as a result of which nothing is obtained. The provision of a service may be associated with a material product.

Sometimes it is difficult to distinguish between goods and services. In general, services have four characteristics: intangibility; impermanence; inseparability from the service provider and variability in quality. In addition, the service sector, as an integral part of the economy, has the following unique characteristics: - services are not tangible as tangible goods, and most service providers are individuals; - service providers are unique as individuals and cannot be separated or sold separately from their providers; - the quality of the service varies, that is, the service of one person can have different qualities at the same time and services do not appear as objects in the process of buying and selling; - the service cannot be stored and stored, but can only be consumed during the service; - the service itself cannot be moved from one place to another without being separated from its owner, but the production and consumption of the service occur simultaneously; - service providers and consumers may be directly involved in the service process, etc.

These aspects, in addition to the generally recognized features on a global scale, also include features that are relevant to the development of our country. It should also be noted that the invisibility of services means that we cannot observe them - they cannot be displayed, transported, stored, packaged (packaged) or studied after purchase. By their very nature, the services market develops according to the laws of a market economy and is part of the goods market. At the same time, it has a number of its own characteristics, requiring a special approach to meeting the demand for services in entrepreneurial and marketing activities. Services are both an economic and a social sphere at the same time. Because the activities of the service industry are used in all areas, including economic, social and even political spheres.

The economic sectorality of services is manifested in the fact that a part of the country's gross domestic product is created in this sphere. Its social sphere is that most of it is aimed at improving people's lives and making their lives more convenient. As a result of this service being directly integrated into the communication service, modern paid services - remittance channels (Paynet, Unipay, Western-union, etc.) have been formed. The development of the services market in the republic serves as an incubator for entrepreneurship. Because, due to the rapid turnover of capital, favorable conditions are created for business entrepreneurship. The structure of the services market in most cases consists of small enterprises, which allows the majority of economically active

persons to engage in business. The services market represents the purchase and sale relations for the provision of household, educational, medical, technical, communal, cultural, communication, transport, consulting, engineering, leasing and other services to the population. It also forms its own branches and institutions. This, in turn, is an important guarantee of the formation of the middle class of owners (entrepreneurs) and is the basis for the development of the country's economy. Therefore, it is appropriate to consider the economic analysis of the reforms being carried out in the service sector in the Republic of Uzbekistan, the processes of their implementation and the results.

The fact that the service sector accounted for 47.3 percent of the gross domestic product in 2017 indicates how significant the role and influence of this sector in our economy are. It is worth noting that, given that today more than half of the employed population in the entire economy of the Republic of Uzbekistan works in the service sector, it is necessary to act now for the prospects of the sector. The experience of developed countries shows that private entrepreneurship, especially service sector entities, is one of the main factors ensuring socio-economic stability in all aspects of social development.

The development of this sector leads to the enrichment of the country's population, economic development, consumer market saturation, an increase in state budget revenues, and a decrease in unemployment. It is also necessary to practically substantiate the fact that one of the important directions for increasing the efficiency of the service sector is the efficiency of economic potential and develop a system of indicators expressing them, as well as ways to identify and analyze the factors affecting their change; - identify and analyze the factors affecting private enterprises engaged in the service sector; - show that, based on the importance of determining the break-even point of the service sector today, a number of methods can be used and show ways to increase efficiency by analyzing the factors affecting its change; - improvement of standardization, licensing and certification systems in increasing the efficiency of the service sector; - based on the importance of increasing the profit and profitability of the service sector in the conditions of a free economy, by analyzing the factors affecting their change, to show the ways to find internal opportunities for improving these indicators.

Human capital development, measured through education indices and vocational training availability, correlates positively with both service sector employment and productivity. Countries with higher regulatory quality scores demonstrate more robust service sector expansion, confirming the importance of transparent and supportive institutional frameworks.

#### Qualitative Findings

- India: Tax incentives combined with a large skilled workforce and government support for IT parks contributed to rapid growth in information technology and business process outsourcing sectors.
- Germany: Investments in digital infrastructure and strong vocational training systems facilitated the expansion of specialized service industries such as finance and professional services.

- Vietnam: Regulatory reforms to ease service sector entry and increased FDI openness spurred growth in tourism and telecommunications services.

### Discussion

The findings reinforce the hypothesis that economic incentives alone are insufficient without supportive enabling conditions. Digital infrastructure emerges as a cornerstone for service sector development, enabling innovation and access to global markets. Human capital investment enhances the quality and diversity of services offered, while regulatory clarity reduces uncertainty and encourages entrepreneurship.

Policy implications suggest a need for integrated strategies that combine tax and financial incentives with improvements in digital and human capital infrastructure. For developing countries, focusing on these areas can bridge gaps in service sector performance relative to advanced economies.

However, the study acknowledges limitations including the potential for unobserved variables and the challenge of isolating the effects of intertwined economic factors. Future research could expand the scope by including environmental sustainability considerations and the impact of automation on service sector labor markets.

### Conclusion

The formation and expansion of the service sector are influenced by a complex interplay of economic incentives and enabling conditions. Policymakers should prioritize coordinated approaches that leverage tax incentives alongside investments in digital infrastructure and human capital. Regulatory reforms that enhance transparency and reduce barriers are also vital for sustaining sectoral growth. This integrated framework can help economies realize the full potential of service-led development. The “New Uzbekistan Development Strategy for 2022-2026” outlines a wide range of goals and objectives. In light of these directives, it is essential to ensure the continued consistency of reforms, with particular emphasis on the systematic development of the service sector moving forward.

Accordingly, we consider it appropriate to put forward several proposals aimed at advancing this sector within the framework of the current digital economy. It is crucial to maintain the alignment of these reforms, especially by fostering the systematic growth of the service sector in the future. Primarily, this involves expanding the range of modern market services, fostering a favorable competitive environment within the sector through the introduction of new service types, and substantially increasing the sector’s contribution to the national economy. To achieve this, efforts must be directed towards enhancing the overall efficiency of the service sector and transforming it into a key engine of economic growth.

### References

1. World Bank. (2023). *World Development Indicators*.
2. IMF. (2022). *International Financial Statistics*.
3. OECD. (2021). *Digital Infrastructure and Service Sector Growth*.



4. Smith, J., & Patel, A. (2019). Tax incentives and productivity in the services industry. *Journal of Economic Policy*, 45(3), 210–234.
5. Johnson, R., & Lee, K. (2020). Human capital development and service sector performance. *International Journal of Service Industry Management*, 31(2), 145–162.
6. Decree of the President of the Republic of Uzbekistan Sh. Mirziyoyev "On the Strategy of Actions for the Further Development of the Republic of Uzbekistan" dated February 7, 2017 No. PF-4947. // "Word of the People" dated February 8, 2017 No. 28 (6722).
7. Razomasova E.A. Sphere style: theory, cost and development: monograph / E.A. Razomasova; NOU VPO Tsentrosoyuza RF "Sibirsky universitet potrebitelskoy kooperatsii". - Novosibirsk, 2011. - 136 p.
8. Lazarev V.A. K voprosu o sootnoshenii concepts "service sphere", "non-proizvodstvennaya sphere", "social sphere", "obslyuzhivaniya sphere" and "service sphere" // Internet magazine "NAUKOVEDENIE" Volume 8, No. 6 (2016) <http://naukovedenie.ru/PDF/53EVN616.pdf> (dostup svobodnyy). Go to the screen. summer Russian, English
9. Muhammedov M.M. "Development of the service sector is a priority issue". Service Journal. No. 1, 2009.- pp. 47-56.
10. Tukhliev I.S., Khaitboev R. Basics of tourism // Science and technology 2014-328.
11. Tukhliev I.S., Khaitboev R. Basics of tourism // Science and technology 2014-328.
12. Botirova R., Ikromov I. Current directions of development of the service industry in the regions. No. 11(119)-2017. <http://www.biznesdaily.uz>
13. Abdulazizovich, X. U. B. (2025). BILIMLAR IQTISODIYOTI SHAKLLANISHINING USTUVOR YO 'NALISHLARI. *Journal of new century innovations*, 74(2), 65-70.
14. Abdulazizovich, X. U. B. (2025). INNOVASION FAOLIYATNING MOLIVAVIY TA'MINOTINI KUCHAYTIRISH ZARURLIGI VA OMILLARI TAHLILI. *Scientific Journal of Actuarial Finance and Accounting*, 5(03), 142-146.
15. Xolmirzayev, U. B. (2024). Bilimlar iqtisodiyoti jamiyat taraqqiyotini zamonaviy bosqichining asosidir. *YASHIL IQTISODIYOT VA TARAQQIYOT*, 2(6).