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THE ROLE OF THE SERVICE SECTOR IN THE DEVELOPMENT OF THE COUNTRY'S ECONOMY

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Abstract: Service sector is nowadays a key bullet of economic growth, because in this sector, customer satisfaction depends on human resource not machines which can last for a few years but human resource is endless one comparing to other resources and always keeps its value the same.

Keywords: Service sector, Economic growth, Human resources, Entrepreneurial ecosystem, Digital services, Global GDP, Employment, Technological advancements.

АННОТАЦИЯ

В статье рассматривается сфера услуг, как ключевой фактор экономического роста в настоящее время, так как в этом секторе удовлетворенность клиентов зависит от человеческих ресурсов, а не от машин, которые могут прослужить несколько лет, но человеческий ресурс бесконечен по сравнению с другими ресурсами и всегда сохраняет свою ценность неизменной.

Ключевые слова: Сфера услуг, экономический рост, человеческие ресурсы, предпринимательская экосистема, цифровые услуги, глобальный ВВП, занятость, технологические достижения.

AHHOTATSIYA

Maqolada xizmat ko‘rsatish sohasi hozirda iqtisodiy o‘sishning asosiy omillaridan biri hisoblanishi, bu sohada mijozlarning qoniqishi mashinalarga emas, balki inson resurslariga bog‘liq ekanligi, mashinalar bir necha yil xizmat qilishi mumkin bo‘lsa, inson resurslari cheksiz bo‘lib, boshqa resurslarga qaraganda doimo o‘z qiymatini saqlab qolishi ko’rib chiqilgan.

Kalit so’zlar: xizmat ko‘rsatish sohasi, iqtisodiy o‘sish, inson resurslari, tadbirkorlik ekotizimi, raqamli xizmatlar, global YaIM, иandlik, texnologik taraqqiyot.

To have competitive economy in this given time, More developing countries, especially Uzbekistan, should focus on developing service sector, and should allocate most of its resources to shape entrepreneurial ecosystem for this sector. Because The services sector’s share of global GDP increased from 53 per cent to 67 per cent between 1970 and 2021.[1]

[1] The future of trade lies in services: key trends-World Trade Organization

Structural shifts across world economy brought service sector in the heart of economy because any kind of business needs a lot of different services to improve their relationship with their customers , increase their profit , find potential problems and solutions to them and so on .Why do we need so many services is that because we have invented so many devices , methods that require more and more specialists to control and monitor their action in order to avoid from failings that can stop many's actions in daily operations and that may cause potential income to be lost.

The most advantageous sides of developing of service sector is that it can provide millions of people with job. The services sector today generates more jobs (50 per cent share of employment worldwide) and output (67 per cent share of global GDP) than agriculture and industry combined – and is increasingly doing so in economies at earlier stages of development. A clear example is Apple Inc, whose manufacturing workforce is far smaller than the number of employees in the service firms that support it. Apple's Manufacturing Workforce: Apple does not directly manufacture most of its products. Instead, it outsources production to companies like Foxconn, Pegatron, and Wistron, which assemble iPhones, MacBooks, and other devices. Foxconn had 767,000 employees in Taiwan in 2022. During peak manufacturing season, Foxconn employs over one million people worldwide.[2] However, Apple itself has only about 161,000 direct employees worldwide, most of whom work in design, marketing, and retail rather than manufacturing.[3]Service Firms Supporting Apple (Larger Workforce) : Beyond manufacturing, Apple depends on millions of service workers for retail, logistics, software, and marketing.

1. Retail & Customer Support Apple has over 500 retail stores worldwide, employing over 65,000 people. Third-party retailers like Best Buy, AT&T, and Verizon employ hundreds of thousands more to sell Apple products.[4]

2. Logistics & Supply Chain: Companies like DHL[5], FedEx,[6] and UPS[7] ship millions of Apple products annually, employing over 1.5 million workers globally.

3. Software & App Development: The App Store ecosystem supports around 2,2 million developers, indirectly creating jobs in software companies and IT services.[8]

4. Marketing & Advertising : Apple's marketing campaigns are managed by agencies like TBWA\Media Arts Lab,[9] which employ thousands in advertising, media, and creative fields.

Services can generally be classified into two broad categories: modern services and traditional services.

Modern Services: Modern services are heavily reliant on information and communication technology (ICT) and can be delivered electronically across borders. Unlike traditional services, they do not require physical presence and can be broken down

[2] https://www.statista.com/statistics/1389729/foxconn-employee-number/
[3] https://seo.ai/blog/how-many-people-work-\
[4] https://www.washingtonpost.com/technology/2022/02/18/apple-retail-stores-union-labor/
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into different tasks along a value chain, similar to goods. This allows businesses to outsource and offshore various service-based tasks efficiently.

Examples of modern services include:

- Insurance claim processing
- Call centers and customer support
- IT network management and maintenance
- Financial analysis and auditing
- Medical transcription and electronic health records

Traditional Services: In contrast, traditional services require face-to-face interaction and are not as dependent on ICT. These services are more localized and cannot be easily digitized or transported electronically.

Examples include:

- Transportation services
- Hospitality (hotels, restaurants)
- Personal care (barbers, salons)
- Education and healthcare
- Community and government services

According to Ejaz Ghani (2010), three key factors—often called the "3Ts"—are fueling the rapid expansion of modern services:

1. Increased Tradability – Many services that were once restricted to local markets can now be delivered globally through digital platforms.

2. Technological Advancements – Improved ICT infrastructure allows for greater specialization, economies of scale, and outsourcing.

3. Lower Transport Costs – The internet and telecom networks significantly reduce the cost of delivering services across borders.

These advancements have made modern services a crucial part of the global economy, enabling businesses to operate more efficiently and reach international markets with ease.

For a long time, services have been the main driver of economic growth in wealthy nations. However, this trend is now also evident in developing countries, where services contribute a growing share to GDP. In many of these nations, productivity in the service sector has surpassed that of the industrial sector. This shift is largely due to the rapid expansion of modern commercial services such as business process outsourcing, finance, insurance, and communications.

The growth in modern services is powered by three key factors, often referred to as the "3Ts":

1. Tradability – More services can now be delivered across borders due to digital connectivity.

2. Technology – Advancements in ICT enhance efficiency, specialization, and scalability.

3. Transportability – Digital infrastructure allows services to be delivered remotely and at lower costs.

For over two centuries, economic development was believed to depend on shifting labor from agriculture to manufacturing. Many economists (Baumol, 1967; Kaldor, 1966)

argued that expanding the service sector would lead to slow economic growth, as services were traditionally seen as low-skill, low-wage, and low-productivity industries with little innovation or learning potential (McCredie and Bubner, 2010).

However, in the modern era, the service sector has emerged as one of the most dynamic and fast-growing areas of the economy, even in low-income countries, reshaping traditional views on economic transformation.

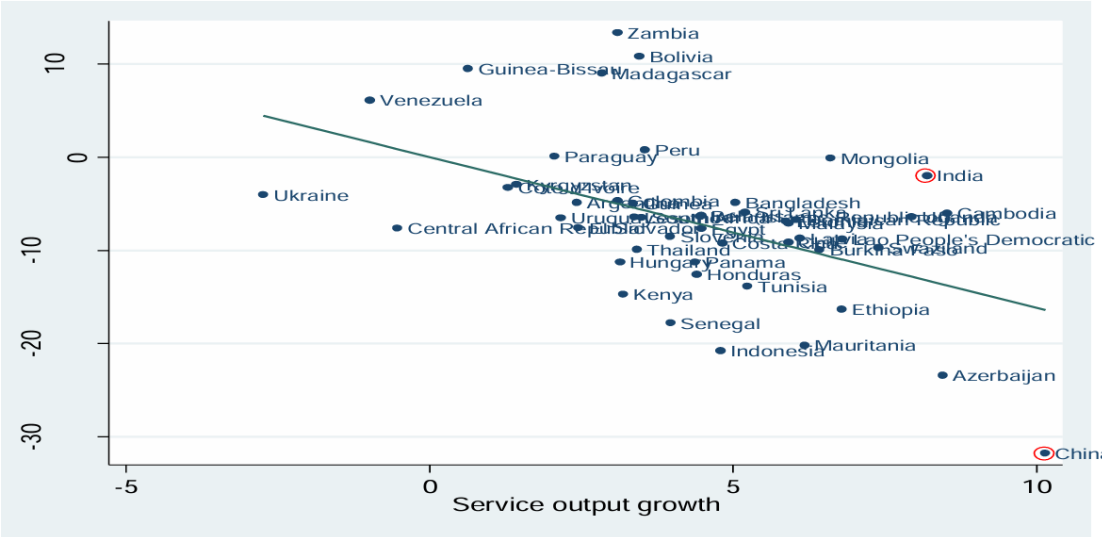

Figure 1: Change in Poverty and Growth in Service Output (1990-2005)[10]

Source: World Bank, World Development Indicators. Note: Change in poverty (1991-2205) after controlling for initial level of poverty, and growth in agricultural output, manufacturing output, and service output.

We find that growth in the service sector is more correlated with poverty reduction than growth in agriculture for a sample of 50 developing countries. Visually, we can plot the change in poverty between 1990 and 2005 against the growth of services (Figure 1). The negatively sloped line indicates the strong association between services output growth and poverty reduction for our sample of developing countries.

Services contribute to poverty reduction via two channels. Directly, they provide the largest source of new job growth. Indirectly, they provide the income that, when spent, drives further demand for goods and services and jobs to produce these. Because Multiplier effect plays an important role in economy. Clearly, as above mentioned example of Apple, if a new hotel is opened, it can hire 10 or 20 employees. Beyond this, indirect Jobs – Jobs created in supplier industries (e.g., businesses providing cleaning supplies to the hotel hire more workers) and Induced Jobs – Jobs created due to increased spending by new employees can be created.

Comparing to manufacturing, service sector is creating more jobs because manufacturing requires high capital intensity and need more physical infrastructure and all process is automated, less human engagement exists. But it is reverse in service sector. Perhaps, it requires initial investment to human resources and technology but then it brings more productivity that can last for long time. Before everybody saw manufacturing sector as a driver of economic growth, however, nowadays, this task is being done by

[10] https://www.researchgate.net/publication/227352242_The_Service_Revolution

service sector. A lot of developing countries trying to develop production are turning to service sector to boost their economies.

The main reasons are the manufacturing sector is increasingly more capital intensive than labor intensive, hence can no longer absorb large amounts of labor as it did in the past. Furthermore, countries specializing in a low-skill and low productivity manufacturing such as garments (e.g. Cambodia) and food processing (e.g. Indonesia) find it increasingly difficult to diversify into a medium or high-tech manufacturing. And finally, many economies, especially smaller ones, face the challenge to compete in foreign markets dominated by big players, such as the People's Republic of China. In this industry, developing country's opportunity to success is less. Moreover, Service sector is wide range of field of opportunities. Governments should focus on how to improve

and attract their citizens to set up business in this field.

For this, firstly, Healthy competition must be among citizens and foreign entrepreneurs. Second, skilled workforce should be available if we want to boost our economy with service sector. So that, Government officials should pay attention on quality of education. Because in this digitized world, digital literacy is key of success. Things should be done in curricula are organizing lessons that provides basic skills of coding or understanding of algorithms and in Uzbekistan, this kind of things are being done. For example, according to the republic of Uzbekistan President's decision that is about "On measures to further improve the educational system in the field of information technology, develop scientific research and integrate it with the IT industry" in 2020.10.06[11], We are trying to prepare our citizens to be IT specialists who are in high demand. Finally, Infrastructure availability for them unlike manufacturing, it does not need physical infrastructure which requires more investment. Instead of it, it needs access to electricity, internet and regulatory framework. Because legal framework provides them with freedom to act they want without breaking law. If they have from their future, they do not invest enough to develop country.

So, we should not stick to an ancient idea that manufacturing helps us to boost our economy, we should seize opportunities emerging in other sectors, I think.

For example, Data analytic is more popular job and service that is important every company to analyze their data to extract necessary information. Working with big data and finding the direction of firm can guarantee future achievements and this kind services cost high.

If government tries to prompt to develop this fields, result can be goldfish. For this firstly, it should create stimulation to attract everybody to learn skills required for this service sector as Uzbekistan declared to cover the payments of IELTS exam if candidate get seven or more than it.

This kind of action can prompt more people learn this and get a job, because creating job in manufacturing demands more investment but in service it does not.

For example, in Uzbekistan, Studying data analytic (such as in MAAB Innovation) costs 24000000 so'm during one year. And if we try to provide 100 person with job in

[11] https://lex.uz/ru/docs/-5032128

manufacturing especially in textile , Government should spend 100 million $ or more because for textile industry , we should purchase expensive technologies and machines (190 000,00 for $-YXS-A-Width of warp beam 230cm-Yongxusheng[12]) to produce fabric and clothes in good quality. However, spending 2400000000 so'm is best option, by little money big results can happen in service sector.

One of my liked actions has been done the 1 million coder[13] by our government initiative, Edacity which was founded in 2012 as an expansion of Stanford University's computer science program support. This kind of initiatives has prompted thousands of the young to learn coding and get a job from foreign IT companies. Even there are citizens who work in famous IT companies such as Google and Microsoft

Summary: Government initiatives to lead the young and the old to learn soft skills and hard skills for high-salary-service jobs should be taken to seize new opportunities emerging in service sector rather than sticking manufacturing. 1 million coder and covering the payments of IELTS exam if candidate get seven or more than it should not be alone. We should mount the number of this kind of projects directed to digital service development in country, I think.

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