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Organizational and Economic Mechanism for The Innovative Development of The Service Sector

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Abstract: The service sector has become the leading component of the global economy, accounting for more than 66% of the world's gross domestic product (GDP), playing a dominant role in the labor market, and demonstrating the highest adaptability to innovation-driven transformation. At the same time, the distinctive characteristics of innovation in the service sector—intangibility, direct interaction with customers, and the close integration of process and product innovations—require specific organizational and economic approaches that differ from those applied to industrial innovation. The findings indicate that the share of the service sector in Uzbekistan's GDP increased from 44.8% in 2022 to 48.6% in 2025. Furthermore, Uzbekistan ranked 79th out of 139 countries in the Global Innovation Index 2025 and has been recognized as an "overperformer" for four consecutive years. However, the country's relatively low position in the Innovation Outputs sub-index (92nd place) highlights the need to improve mechanisms for translating research and development (R&D) outcomes into practical applications within the service sector. The article concludes by proposing a system of organizational and economic measures aimed at enhancing innovation activity in the service sector.

Keywords: Service Sector, Innovative Development, Organizational and Economic Mechanism, Service Innovation, Global Innovation Index, Digitalization, GDP Structure

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1. Introduction

The service sector has become the leading component of the modern global economy. According to the World Bank, the service sector accounted for 66.24% of global gross domestic product (GDP) in 2024, representing a 1.06-fold increase compared to 1997. The United States recorded the world's largest service sector, valued at USD 18.09 trillion, while the service sector constitutes the largest component of GDP in the majority of the world's 192 economies [1]. This trend reflects the natural transition toward a post-industrial economy, in which knowledge- and information-based services are becoming increasingly important than material production [2].

A similar trend can be observed in the economy of Uzbekistan. According to the Statistics Agency of the Republic of Uzbekistan (formerly the State Statistics Committee), the share of the service sector in the country's GDP increased from 46.2% in 2023 to 47.4% in 2024 and reached 48.6% in 2025. The gross value added of the service sector amounted to UZS 657,348.5 billion in 2024, representing a 7.7% increase compared to the previous year, while in 2025 the growth rate reached 8.5%. Particularly noteworthy is the rapid expansion of the information and communication technology (ICT) services segment,

which grew by 24.7% in 2024 and 23.9% in 2025. This performance can be regarded as one of the practical outcomes of the country's digital transformation strategy [3-4].

Despite this rapid expansion, the quantitative growth of the service sector does not necessarily indicate strong innovation capacity. According to the Global Innovation Index (GII) 2025 published by the World Intellectual Property Organization (WIPO), Uzbekistan ranked 79th among 139 countries, achieving its highest position to date. However, the country ranked only 92nd in the Innovation Outputs sub-index, indicating persistent challenges in commercializing research results and translating innovation into practical applications [5]. Consequently, developing an effective organizational and economic mechanism to systematically enhance innovation in the service sector has become an important scientific and practical priority [6].

Innovation in the service sector differs from innovation in manufacturing because services are characterized by intangibility, simultaneous production and consumption, the integration of product and process innovation, and the predominance of organizational and marketing innovations [7]. These characteristics have been explained through the service innovation model developed by Gallouj and Weinstein and further elaborated by Miles, while den Hertog emphasized the role of Knowledge-Intensive Business Services (KIBS) in facilitating innovation diffusion across economic sectors. Consistent with these perspectives, the OECD Oslo Manual classifies innovation into product, process, organizational, and marketing innovation, providing a widely accepted framework for analyzing innovation in service industries [8].

Previous studies have also emphasized that the organizational and economic mechanism represents an integrated system of organizational, legal, financial, and institutional instruments that regulates innovation activities. Research conducted in Russia and other CIS countries has demonstrated that such mechanisms evolve under digital transformation and facilitate cooperation among innovation stakeholders, while sector-specific models consistently highlight the importance of government regulation, diversified financing, and quality management systems [9-12]. Other studies classify these mechanisms into economic components, including pricing, taxation, and financing, and organizational components, such as management structure, human resources, and quality control. Empirical evidence further indicates that innovation contributes to improved service quality, service diversification, market sustainability, innovation cluster development, and more effective management of socio-economic systems [13-15].

Government policy is likewise recognized as a critical element in promoting innovation within the service sector through instruments such as tax incentives, public-private partnerships, and innovation infrastructure development. At the international level, the Global Innovation Index has become one of the most widely used benchmarks for evaluating innovation performance because it measures both innovation inputs and outputs across nearly 80 indicators, and it is employed by more than 90 national governments to support innovation policy formulation and assessment [16-17].

Although previous studies have provided valuable theoretical perspectives on service innovation and organizational and economic mechanisms, most have focused on conceptual frameworks, sector-specific cases, or general innovation policy. Limited attention has been given to integrating these perspectives into a comprehensive mechanism specifically designed to support the innovative development of Uzbekistan's service sector using recent statistical evidence. Therefore, this study analyzes the concept,

structural components, and practical implementation of the organizational and economic mechanism for the innovative development of the service sector based on open-access statistical and scientific data, and develops evidence-based recommendations for improving this mechanism [6].

2. Materials and Method

The study was conducted using data obtained from the World Bank, the World Intellectual Property Organization (WIPO), the Statistics Agency of the Republic of Uzbekistan, as well as scientific sources indexed in Google Scholar, CyberLeninka, and 1economic.ru. Official statistical data and scientific publications published between 2015 and 2026 were included in the analysis.

The following research methods were employed:

- a. Content analysis;
- b. Comparative analysis;
- c. Statistical analysis;
- d. Descriptive analysis.

3. Results

The dynamics of the service sector in the economy of the Republic of Uzbekistan over the past four years are presented in Table 1.

Table 1. Dynamics of the Service Sector's Share in the GDP of Uzbekistan

Year	Uzbekistan's GDP (Current Prices)	Share of the Service Sector, %	Growth of Service Sector GVA
2022	USD 80.4 billion	44.8%	—
2023	USD 101.6 billion	46.2%	—
2024	USD 114.96–121.4 billion	47.4%	+7.7%
2025	Approximately USD 146.5 billion (UZS 1,849.7 trillion)	48.6%	+8.5%

The data presented in Table 1 indicate a steady upward trend in the share of the service sector in Uzbekistan's GDP. Over the four-year period, this indicator increased by 3.8 percentage points. The highest growth rates were recorded in the information and communication technology (ICT) sector (+24.7% in 2024 and +23.9% in 2025), trade (+11.5–13.6%), and tourism-related accommodation and food services (+10.4–10.7%). These results reflect the practical outcomes of the government's policies on digitalization and tourism development[18-20].

To evaluate the innovation capacity of the service sector from an international perspective, Table 2 compares Uzbekistan's key indicators in the Global Innovation Index (GII) 2025 with global and regional benchmarks.

Table 2. International Comparative Indicators of the Service Sector and Innovative Development

Indicator	Value
Global share of the service sector in GDP (2024)	66.24%
Size of the U.S. service sector (2024)	USD 18.09 trillion
Share of innovative services in Russia (of total services)	11.9% (RUB 616.1 billion)
Uzbekistan's ranking in the Global Innovation Index (GII) 2025	79th out of 139 countries
Uzbekistan's ranking within the lower-middle-income group	7th
Uzbekistan's ranking in the Central and Southern Asia region	3rd (after India and Iran)
Ranking in the Innovation Inputs sub-index	69th
Ranking in the Innovation Outputs sub-index	92nd
Share of ICT services in Uzbekistan's GDP	2.7% (2.3% in 2024)
Share of small businesses in the gross value added (GVA) of the service sector	49.8%

According to the Global Innovation Index (GII) 2025, Uzbekistan ranked 6th globally in labor productivity growth, 13th in the number of graduates in science and engineering, and 9th in creating a favorable business environment. These indicators suggest that the country has established a relatively strong foundation of innovation resources. Furthermore, Uzbekistan has been recognized as an "overperformer" for four consecutive years, indicating that it achieves innovation outcomes exceeding those expected for its level of economic development. In the Central and Southern Asia region, Uzbekistan ranks among the top three countries alongside India and Kazakhstan, and for the first time, the region as a whole outperformed Latin America and the Caribbean in the Global Innovation Index[21-22].

At the same time, the 23-position gap between Uzbekistan's ranking in the Innovation Inputs sub-index (69th) and the Innovation Outputs sub-index (92nd) highlights a significant structural challenge. Although the country has developed relatively strong innovation resources—including human capital, infrastructure, and institutional capacity—the mechanisms for transforming these resources into practical innovative products and services remain insufficiently effective. This conclusion is also supported by international experience, particularly in Russia, where innovative services accounted for only 11.9% of the total volume of services despite the country's substantial scientific and technological potential[23].

4. Discussion

The findings of this study indicate that the organizational and economic mechanism for the innovative development of the service sector should be established at three interrelated levels: the macroeconomic level (government policy and the institutional environment), the mesoeconomic level (industry- and cluster-based cooperation), and the microeconomic level (enterprise management and financing). The distinctive characteristics of service innovation identified by F. Gallouj, O. Weinstein, and I. Miles—particularly the predominance of non-technological innovations (organizational and marketing innovations)—suggest that national innovation policy should not focus solely

on research and development (R&D), but should also promote improvements in organizational processes, workforce skills, and customer interaction models[24-25].

In the case of Uzbekistan, the steady increase in the share of the service sector in GDP (Table 1) reflects positive macroeconomic dynamics. However, the substantial gap between the Innovation Inputs and Innovation Outputs sub-indices in the Global Innovation Index 2025 (Table 2) reveals significant shortcomings at the meso- and microeconomic levels, particularly in the commercialization of research results, innovation cooperation among enterprises, and venture financing mechanisms. This finding is consistent with P. den Hertog's theory of Knowledge-Intensive Business Services (KIBS), which argues that insufficient development of KIBS sectors—such as IT consulting, engineering, and scientific and technical services—reduces the diffusion of innovation across other sectors of the economy[26].

The experience of Russia, as discussed in T. I. Klimenko's research, together with studies conducted in the Ural region, demonstrates that the effectiveness of the organizational and economic mechanism in the service sector largely depends on government regulation (including tax incentives and public-private partnerships), the diversification of financing sources (venture capital funds, grants, and bank loans), and the implementation of quality management systems. These conclusions are particularly relevant for Uzbekistan, where small businesses account for nearly half (49.8%) of the gross value added generated by the service sector. Therefore, innovation policies should primarily focus on supporting small and medium-sized service enterprises[27].

At the same time, several limitations of this study should be acknowledged. First, official open-access statistical data for Uzbekistan do not provide sufficiently detailed indicators that directly measure innovation activity in the service sector, such as the volume of innovative services or service-sector R&D expenditures. Consequently, the analysis relied partly on international evidence, including data from Russia and the Global Innovation Index, to draw indirect conclusions. Second, composite indices such as the Global Innovation Index may not fully capture country-specific and sector-specific characteristics. Therefore, future research should include survey-based empirical studies at the enterprise level to provide a more comprehensive assessment of innovation activity within Uzbekistan's service sector[28].

5. Conclusion

The findings of this study demonstrate that the service sector has become the leading component of Uzbekistan's economy and that its innovative development requires the improvement of an effective organizational and economic mechanism. The analysis confirms that, although Uzbekistan possesses considerable innovation potential, greater efforts are needed to strengthen the commercialization and practical application of research outcomes. Therefore, expanding tax and financial incentives, developing digital infrastructure, supporting innovation clusters and public-private partnerships, and promoting startup activities will contribute to the sustainable innovative development of the service sector.

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