



## The Factors and Trends in the Development of the Service Sector in the Republic of Karakalpakstan

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### **Abstract**

In this article, it is based on the fact that the existing mechanism in the service sector of the Republic of Karakalpakstan is important for the implementation of full control of their activities in the service market and the development of the management system of entities.

**Keywords:** *Service Sector; Economic Development; Gross Domestic Product; Economic Activity; Entrepreneurship; Service Sector; Capital; Agrotourism; Banking; Finance; Leasing; Export*

### **Introduction**

The development of the service sector in the world leads to changes in the structure of the national economies of countries and to the transformation of all directions of economic activity. The effective development of the service sector, based on the diversification of its modern branches, creates the opportunity to create certain social and economic conditions for increasing the labor potential in society, to ensure the employment of the population, to increase the volume of the gross domestic product, to form the population's demand for services, and to expand the division of labor.

In the conditions of the transformation of the economy, the service sector is more economically efficient than industrial production, because the organization of initial activities in the service sector requires efficient use of funds. At the current stage of the economic development of our country, high demands are placed on the quantity and quality of services. The introduction of the experience of leading foreign countries ensures the growth of demand for services.

Further increasing the efficiency of their development through the accumulated experience in the formation of individual elements of the service sector based on the introduction of innovative management technologies requires a special scientific approach. Effective development of the service sector is carried out by assessing the socio-economic efficiency of both individual types of services and individual sub-sectors of the service sector.

Increasing contribution of service sector industries in the gross domestic product in the post-industrial stage of economic development we can see that the types of modern services are expanding in

interaction with [1]. Knowledge and information are becoming an important factor of production (service) in the service system.

Currently, the services provided in the services market are conditionally classified into the following directions, that is, services provided to consumers, services provided to business entities, and services provided to both consumers and business entities at the same time.

Since the fifties of the 20th century, special attention has been paid to the development of the service sector in developed countries. It should be noted that the development of the service sector is important in creating new jobs. Therefore, the higher the dynamic development trend of this sector, the higher the growth rate of the country's gross domestic product.

It is known that in the social and economic policy of our country special attention is paid to the development of the service sector.

If we look at the analysis of the main economic indicators of the Republic of Karakalpakstan, the volume of the gross regional product increased by 112.5% compared to the previous year in 2016, and this indicator was 102.1% compared to the previous year in 2020. The volume of gross added value in the region increased by 112.5% in 2016 and 102.1% in 2020, respectively, compared to the previous year. The volume of industrial output (including construction) increased by 134.6% in 2016 compared to the previous year, and this indicator increased by 103.5% in 2020. In these periods (2016–104.7%, 2020–100.4%) the volume of services grew at lower rates compared to the growth rates of industry and agriculture. In particular, the consequences of the coronavirus pandemic, which occurred in the world in 2020, had a serious negative impact on the service sector, in particular on the tourism sector. In particular, trade, the volume of accommodation and food services in 2020 was completed by 98.9% compared to 2019. A downward trend in these sectors has been observed due to the imposition of strict restrictions and the suspension of people and businesses in order to mitigate the consequences of the pandemic, the opportunities to provide services in trade, accommodation and food have decreased. However, the expansion of activities based on digital technologies during the pandemic led to an increase in the volume of transportation and storage, information and communication services (107.5% in 2020). In particular, the field of communication and information services is expanding, and the volume of the gross product created in it is increasing (Table 1). A downward trend in these sectors has been observed due to the imposition of strict restrictions and the suspension of people and businesses in order to mitigate the consequences of the pandemic, the opportunities to provide services in trade, accommodation and food have decreased. However, the expansion of activities based on digital technologies during the pandemic led to an increase in the volume of transportation and storage, information and communication services (107.5% in 2020). In particular, the field of communication and information services is expanding, and the volume of the gross product created in it is increasing (Table 1). A downward trend in these sectors has been observed due to the imposition of strict restrictions and the suspension of people and businesses in order to mitigate the consequences of the pandemic, the opportunities to provide services in trade, accommodation and food have decreased. However, the expansion of activities based on digital technologies during the pandemic led to an increase in the volume of transportation and storage, information and communication services (107.5% in 2020). In particular, the field of communication and information services is expanding, and the volume of the gross product created in it is increasing (Table 1).

It should be noted that the specific aspect of the development of the service industry in relation to industrial production is that labor productivity in industrial enterprises tends to increase regularly, while in service, labor productivity tends to decrease over time in some of its branches.

Table 1. Composition of the gross territorial product of the Republic of Karakalpakstan by types of economic activity [2]

Indicators	Unit of measure	2016	2017	2018	2019	2020
GNP	billion soums	8568.3	10855.1	15703.5	19715.0	21949.3
	Compared to last year, %	112.5	106.1	105.8	107.0	102.1
Gross value added	billion soums	8163.1	10222.0	14469.8	17985.2	20501.6
	Compared to last year, %	112.2	105.9	105.7	107.0	102.1
Net taxes on products	billion soums	405.2	633.1	1233.7	1729.8	1447.7
	Compared to last year, %	120.0	108.6	108.0	107.5	102.7
Industrial output (including construction)	billion soums	2122.7	3219.8	5295.2	6542.2	7185.6
	Compared to last year, %	134.6	109.2	108.4	109.3	103.5
Agricultural products	billion soums	2420.3	2783.7	4005.9	5034.1	6005.0
	Compared to last year, %	108.3	103.5	101.4	107.5	102.4
Total Services, from which:	billion soums	3620.1	4218.5	5168.7	6408.9	7311.0
	Compared to last year, %	104.7	105.6	106.5	104.3	100.4
Shopping, accommodation and catering services	billion soums	527.9	616.4	755.7	879.7	988.0
	Compared to last year, %	109.7	103.2	104.9	103.6	98.9
Transportation and storage, information and communication services	billion soums	709.6	778.6	929.4	1053.6	1194.9
	Compared to last year, %	105.0	105.2	112.2	107.0	107.5
Other services	billion soums	2382.6	2823.5	3483.6	4475.6	5128.1
	Compared to last year, %	103.6	106.3	105.2	103.7	99.0

At present, it is important to implement the existing mechanisms in the service sector of the Republic of Karakalpakstan to fully control their activities in the service market and to develop a management system of entities. It includes financial support and crediting of the sector, the level of arming with funds, legal services and marketing research and insurance services as the priority directions of socio-economic development of service enterprises.

Effective development of the services market in the republic consists of the following directions [3]:

- According to the form of ownership (state, private, collective, mixed and foreign);
- According to the direction of formation (legal, financial, information, marketing and intermediary services);
- According to the scale of the offered services (international, national, regional, local);
- By types and directions of services: services for business activities (tax-credit, financial-investment, insurance and insurance services), according to the direction of distribution (catering, restaurant, trade services), services performed in the social sphere (science, education, health, physical education and cultural services).

Many foreign economists propose to classify the structural structure of the service industry in terms of its industry characteristics and development.

The classification of services is important in improving the socio-economic efficiency of service networks. However, in the economic policy of the Republic of Karakalpakstan, the innovative development of enterprises in the service sector requires the implementation of reforms to increase the volume of direct services, expand their range, and implement modern service services.

Ensuring the employment of the population is an important basis for the reproduction of the labor force. Because increasing the potential of personnel in the field and ensuring their competence, developing the professional qualification system, increasing the level of employment in the field, creating new jobs leads to the improvement of labor relations. Therefore, the problems related to ensuring the employment of the population, reducing unemployment, and organizing work activities are considered particularly urgent for the economy of our republic, and include the functional system of sectors and industries.

The structural reconstruction of the material base in the field of production and its continuous improvement, the decrease in the rate of economic growth lead to the acceleration of the process of reduction of active labor based on the introduction of innovative technologies. As a result, the problem of employment becomes more complicated. In the 80s of the last century in economically developed countries, it became clear that neither direct promotion of employment of the population, nor measures of indirect promotion of employment were justified.

Therefore, in the current conditions of innovative development, the development of the service sector, on the one hand, provides an increase in the level of employment, and on the other hand, it allows to increase the labor potential. The development of the service sector and the transformation of the economy require the formation of flexibility in the employment of the population and the effective use of labor resources.

In 2011–2020, the total number of employed people in the economic sectors and sectors of the Republic of Karakalpakstan increased by 19.9%. Between these years, the share of total employment in the service sector in the republic increased by 20.2%. Among them are management activities and support services (2.8 times), accommodation and catering services (121.4 percent), health and social services (118.1 percent), arts, entertainment and recreation. the highest growth rates in the manufacturing sector (115.6%), transportation and storage (114.3%), wholesale and retail trade, repair of automobiles and motorcycles (114.0%), public administration and defense, compulsory social security (111.5%), education (106.2%) and they were observed during various studies. In the remaining sectors of the republic, a decrease in employment was observed in 2020 compared to 2011. The main reason for this is the strict restrictions imposed due to the global coronavirus pandemic (Table 2).

The peculiarity of the activity of business entities in the service sector is reflected in their management system. This, in turn, is the adoption of various decisions in the organization and will depend on the scientific justification of the plan's indicators.

Table 2. In the Republic of Karakalpakstan the number of people employed in economic sectors and industries [4] (per year, thousand people)

Indicators	2011	2016	2018	2020	2011–2020 growth, %
Clauses–total:	590.0	638.6	705.2	707.4	119.9
Including:					
Agriculture, forestry and fisheries	168.8	190.9	192.5	193.5	114.6
Industry	55.0	60.9	60.7	66.1	120.2
Construction	50.0	58.6	59.5	67.7	135.4
Wholesale and retail trade, repair of motor vehicles and motorcycles	62.2	69.8	71.5	70.9	114.0
Transportation and storage	27.2	32.7	33.9	31.1	114.3
Accommodation and food services	10.3	12.3	12.8	12.5	121.4
Information and communication	2.6	2.6	2.7	2.0	76.9
Financial and insurance activities	3.9	3.1	3.5	3.2	82.1
Transactions with real estate	2.1	2.6	1.7	1.3	61.9
Professional, scientific and technical activities	6.6	6.5	5.5	4.8	72.7
Management activities and support services	1.7	1.7	3.4	4.7	2.8 times
Public administration and defense, compulsory social security	31.4	31.1	33.7	35.0	111.5
Education	75.7	76.0	76.2	80.4	106.2
Provision of health and social services	30.9	31.1	31.4	36.5	118.1
Arts, entertainment and recreation	3.2	3.2	3.3	3.7	115.6
Providing other types of services	58.4	55.5	113.1	94.0	161.0

Therefore, any decisions taken on the management of the enterprise are focused on the effective organization of production (service) processes.

The service industry is one of the most important sectors of the economy. Positive results were achieved due to the implementation of the policy of state support and the promotion of the development of the service sector in our country [5].

The fact that the number of entities operating in the service sector is high is directly and indirectly influenced by the development of enterprises and organizations in this sector.

It should be noted that the programs and future measures being developed and adopted in connection with the implementation of investment activities in the enterprises of the service sector will not lead to an increase in the efficiency of investment activities in the future. This situation complicates the conditions for achieving the goals set by individual economic entities and in the whole sector at the specified time. This indicates that the service industry has special features compared to other sectors of the economy.

In our opinion, it is appropriate to develop the service sector in the Republic of Karakalpakstan in the following directions:

- Creation of favorable conditions for increasing entrepreneurial activity in the service sector networks, in particular, implementation of promising programs in this direction based on the development characteristics of the regions;
- Development of a strategic plan for such areas as finance and banking, public transport services, construction, information, medical and communal services, traditional services in rural areas,

development of agricultural tourism, transportation, tourism, engineering and communication infrastructures;

- Based on the diversification of the types of services provided in the service sector, increasing their volume and improving their quality, expanding the types of services;
- Improving the preferential lending system for the development of small service enterprises that do not require large amounts of capital;
- Development of services and services in rural areas, in particular, expansion of services such as agro-tourism, communal, household, water use, housing repair and construction, veterinary, processing and packaging of agricultural products;
- Development of traditional services in the republic, restoration of services related to some forgotten national crafts;
- Rapid development of modern types of services, in particular, legal, consulting, banking, finance, insurance, leasing, digital services;
- To ensure the increase in the quantity and quality of services in the world market of enterprises in this field in order to increase the export of services of the republic;
- Formation and support of orders to educational institutions for the training of specialists working in the field of service provision, their orientation to the profession, retraining and improvement of their qualifications.

Today, fundamental changes in the economy, rapid development of service sector enterprises and improvement of the socio-economic basis for achieving efficiency in increasing the intensity of labor processes are considered particularly relevant.

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