

American Journal of Economics and Business Management

Vol. 9 Issue 10 | **pp.** 906-910 | **ISSN:** 2576-5973

Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Strategic Diversification of the Service Sector in Mitigating Regional Economic Disparities

Abdivoxidov Mamurjon Avazxon ugli[1]

1. Samarkand Institute of Economics and Service Department of World Economy and International Economic Relations Acting Associate Professor (PhD)

* Correspondence: -

Abstract: This paper investigates the strategic role of service sector diversification as an economic lever for mitigating interregional socioeconomic disparities. Regional development imbalances often stem from the excessive concentration of capital and human resources in metropolitan hubs, leaving peripheral territories economically vulnerable. Through comparative and structural-logical analysis, the study demonstrates that transitioning from basic, non-tradable services toward knowledge-intensive, digital, and localized producer services fosters decentralized economic growth. Key mechanisms examined include the expansion of business process outsourcing, modern agro-logistics networks, and regionally distributed specialized tourism. The findings emphasize that targeted fiscal incentives, digital infrastructure integration, and localized human capital development reduce regional dependency on central budget allocations, accelerate income convergence, and enhance overall territorial macroeconomic resilience.

Keywords. service sector diversification, regional disparities, economic convergence, digital services, knowledge-intensive services, regional economic policy, territorial development.

Citation: Avazxon ugli A. M. Strategic Diversification of the Service Sector in Mitigating Regional Economic Disparities. American Journal of Economics and Business Management 2026, 9(10), 906-910

Received: 10th Jul 2026
Revised: 11th Aug 2026
Accepted: 11th Sep 2026
Published: 21st Oct 2026

Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (https://creativecommons.org/licenses/by/4.0/)

1. Introduction

Regional economic inequality remains one of the most pressing structural challenges hindering balanced macroeconomic expansion and long-term socioeconomic cohesion. The spatial polarization of economic activities—characterized by the disproportionate concentration of financial capital, advanced production assets, and high-skilled labor in metropolitan agglomerations—routinely relegates peripheral and rural districts to economic vulnerabilities. These peripheral territories frequently face underinvestment, structural unemployment, severe human capital flight, and an overreliance on low-yield primary sectors or non-tradable activities. Consequently, achieving interregional economic convergence requires strategic policy mechanisms that extend beyond conventional heavy industrialization, which typically demands long gestation periods, massive capital allocations, and extensive physical infrastructure that lagging regions often lack.

In this context, the service sector has evolved from a passive, subordinate segment of the national economy into a primary driver of structural transformation and spatial equilibrium. While traditional regional development models viewed services merely as local, non-tradable consumer activities with low productivity ceilings, the modern tertiarization wave—underpinned by rapid digitization and globalization—has fundamentally altered this paradigm. High-value, knowledge-intensive business services, telecommunications, specialized logistics, and digital outsourcing demonstrate significant

tradability, operational agility, and geographical flexibility. By strategically lowering market entry barriers and decoupling high-yield revenue generation from metropolitan core locations, these service branches present a viable framework for revitalizing peripheral economies without necessitating massive physical industrial endowments.

Investigates how Knowledge-Intensive Business Services drive regional competitiveness and innovation ecosystems. The authors demonstrate that the spatial clustering and diversification of KIBS provide vital knowledge spillover effects to peripheral firms, helping bridge regional productivity divides.[1]

Examines stochastic and club convergence across European regions, evaluating how sectoral specialization versus diversification shapes territorial disparities. The authors show that lagging regions failing to upgrade their tertiary and digital infrastructure risk club divergence, whereas targeted cohesion investments facilitate structural catch-up.[2]

Addresses the widening economic gaps between dynamic metropolitan hubs and lagging or declining peripheral regions. The paper highlights the failure of traditional agglomeration models to disperse knowledge assets and advocates for place-based service development, regional digitization, and institutional capacity building to arrest peripheral decline.[3]

Analyzes the spatial distribution of knowledge-intensive and creative service providers across core and peripheral regions. The authors evaluate the institutional bottlenecks and market-failure mechanisms that prevent peripheral territories from capturing high-yield service spillovers, proposing targeted policy frameworks to incentivize decentralization.[4]

Evaluates regional economic resilience across EU NUTS-2 regions, focusing on the role of structural diversification. The study highlights that regions diversifying away from vulnerable low-margin traditional sectors into advanced producer and tradable services demonstrate significantly greater resistance and long-term renewal capacity during macroeconomic disturbances.[5]

Analyzes pathways for diversifying the service sector within the national economy, expanding private sector participation, and implementing economic mechanisms for the balanced spatial allocation of service industries across regions.[6]

Examines the application of international practices to job creation via service enterprise diversification, addressing informal employment, and optimizing labor resource deployment in peripheral and underdeveloped territories.[7]

Investigates the modernization of regional service infrastructure through cluster-based approaches, generating cross-sectoral synergies, and mitigating interregional disparities by diversifying local service supply chains.[8]

2. Materials and Methods

Table 1. Methods for Assessing Regional Service Diversification and Spatial Inequality

Method	Purpose / What It Does	Key Metric
Location Quotient	Identifies specialized service sectors in each region	LQ score (>1.2 high, <0.8 low)
Herfindahl-Hirschman Index	Measures how diversified the regional services are	Diversification level (low score = more diverse)
Spatial Gini & CV	Measures economic gaps and inequality between regions	Inequality indices
Panel Regression	Shows how service diversification affects regional income	Impact coefficient (β) and p-value
Comparative Analysis	Groups regions into tiers (core vs. peripheral regions)	Regional clusters and comparison groups

This study combines five key analytical methods to assess the impact of service diversification on territorial disparities: the Location Quotient identifies regionally specialized service industries; the Herfindahl-Hirschman Index quantifies the diversification level of regional service portfolios; the Spatial Gini and Coefficient of Variation measure the magnitude of interregional inequality; Fixed-Effects Panel Regression tests the direct causal relationship between diversification and regional income growth; and Comparative Analysis groups regions into distinct tiers to contrast the metropolitan core with lagging peripheral areas.

ANALYSIS

Spatial polarization of economic activity creates an imbalance in economic development. Capital, skilled human resources, and high-value-added enterprises disproportionately concentrate in metropolitan centers, while peripheral regions remain predominantly reliant on low-productivity agriculture or basic personal services[9].

The tertiary sector constitutes roughly 46.5% of national GDP. However, the spatial distribution of market services reveals significant asymmetry:

- Core Agglomeration: Tashkent City accounts for ~40% of total market services produced nationwide, with per capita service provision reaching several times the national median.
- Intermediate Regions: Territories such as Samarkand, Fergana, and Tashkent Region account for 6.5%–7.4% each, supported by secondary urban nodes and trade corridors.
- Lagging Peripheral Territories: Regions like Syrdarya, Jizzakh, Surkhandarya, and the Republic of Karakalpakstan individually contribute between 1.3% and 3.5% to the national service volume, facing limited access to tradable, high-yield tertiary branches.

To measure the degree of territorial concentration and analyze structural divergence across regional service portfolios, we employ the Location Quotient (LQ), defined as:

$$LQ_{ir} = \frac{S_{ir}/S_r}{S_{in}/S_n}$$

Where:

- Sir is the output of service sub-sector i in region r.
- Sr is the total service output of region r.
- Sin is national output in service sub-sector i.
- Sn is total national service output.

An LQir>1.2 indicates a relative regional specialization and export capacity, whereas an LQir<0.8 reflects structural deficits in that service domain.

3. Result

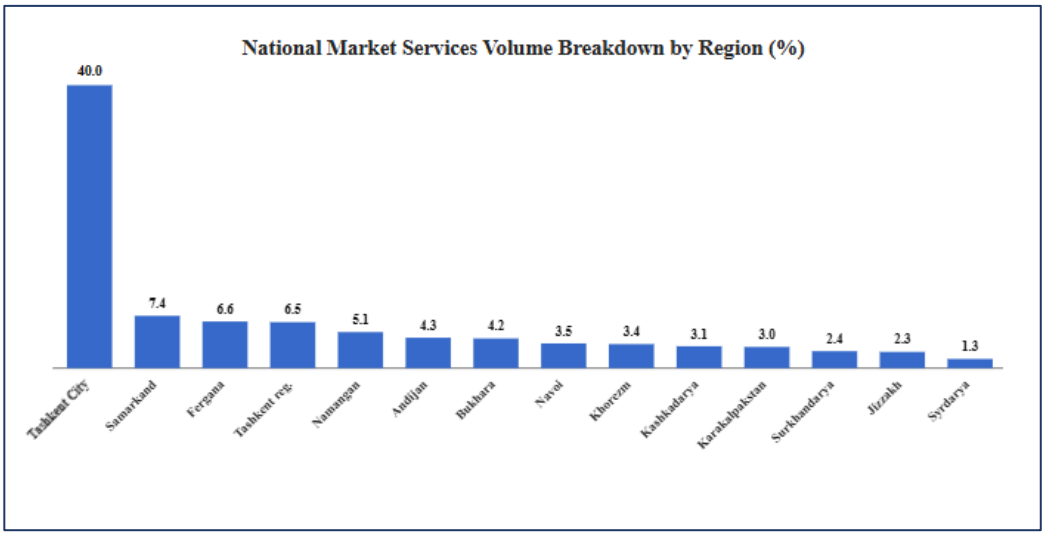
The empirical assessment reveals sharp structural divides across regions. Metropolitan areas dominate knowledge-intensive business services, financial intermediation, and digital services. Peripheral regions exhibit an over-concentration in non-tradable, low-margin traditional services[10].

Table 2. Comparative Indicators of Service Sector Concentration and Economic Disparities

Region / Zone	Share of National Market Services (%)	GRP Per Capita Relative to National Avg (=100%)	Small Business Share in Regional Services (%)	Dominant Service Sub-Sectors
Metropolitan Core (Tashkent City)	39.8% – 40.2%	~330% – 350%	38.5%	Financial, IT/Software, Corporate Services, KIBS
Industrial / Mining Hub (Navoi)	3.2% – 3.5%	~280% – 300%	45.0%	Heavy Freight Logistics, Technical Engineering
Diversified Secondary Centers (Samarkand, Bukhara)	6.5% – 7.4%	~85% – 110%	68.5% – 70.0%	Cultural Tourism, Hospitality, Regional Retail
Densely Populated Agrarian (Fergana Valley)	5.0% – 6.6%	~65% – 75%	70.8% – 73.8%	Agro-trade, Road Transport, Personal Services
Peripheral / Arid Zones (Karakalpakstan, Surkhandarya)	1.8% – 3.2%	~55% – 70%	69.5% – 72.5%	Public Admin Services, Basic Retail, Repair Services

The small business contribution is high (68%–74%) in agrarian and peripheral zones, reflecting survivalist, micro-scale entrepreneurship with limited capital accumulation rather than high-growth enterprise. Conversely, the metropolitan core exhibits a lower small-enterprise share (38.5%) because corporate financial groups and institutional service entities dominate the sector[11].

Figure 1. Regional Distribution of Market Services Volume in Uzbekistan (%)



The chart demonstrates extreme spatial polarization in Uzbekistan's service economy. Tashkent City dominates with 40.0% of total market services, outproducing all other

regions combined. Secondary hubs—Samarkand (7.4%), Fergana (6.6%), and Tashkent region (6.5%)—form a distant second tier, while peripheral areas like Surkhandarya (2.4%), Jizzakh (2.3%), and Syrdarya (1.3%) lag significantly behind. This severe core-periphery imbalance highlights the critical need for strategic diversification into high-value tradable services and decentralized digital infrastructure across lagging regions[12-15].

4. Conclusion

The empirical findings of this study confirm that deep structural disparities persist across regional economies, primarily driven by the excessive geographic concentration of high-value services in metropolitan centers. While traditional policy interventions have prioritized industrial reallocation or broad fiscal subsidies, strategic diversification of the tertiary sector emerges as a faster, more capital-flexible mechanism for territorial rebalancing. Expanding low-margin consumer trade alone is insufficient to close development gaps; genuine regional convergence requires shifting peripheral service portfolios toward tradable, knowledge-intensive activities, digital outsourcing, and specialized agro-logistics.

To translate these findings into effective policy actions, national and regional development agendas should focus on three strategic priorities:

- Decentralized Digital Infrastructure: Prioritize high-speed broadband expansion and tax-advantaged regional IT parks in secondary cities, incentivizing knowledge-intensive business service firms to establish operations beyond metropolitan areas.
- Supply Chain Integration: Develop specialized producer service clusters, including cold-chain networks, certified sorting facilities, and technical consulting, tailored to the comparative economic advantages of peripheral and agrarian regions.
- Targeted Human Capital Upgrading: Align vocational and higher education programs in outlying areas with regional service specializations to retain skilled local talent and attract private investment.

By executing targeted, place-based service diversification strategies, peripheral economies can transition from passive recipients of central fiscal transfers into self-sustaining drivers of regional productivity, accelerating long-term macroeconomic stability and territorial cohesion.

REFERENCES

[1] J. J. Ferreira, C. I. Fernandes, and M. L. Raposo, "Regions on course for the Fourth Industrial Revolution: The role of a strong indigenous T-KIBS sector," Regional Studies, 2021. https://doi.org/10.1080/00343404.2021.1899157

[2] OECD, OECD Regional Outlook 2023: The Longstanding Geography of Inequalities. Paris: OECD Publishing, 2023. https://doi.org/10.1787/92cd40a0-en

[3] World Bank, At Your Service?: The Promise of Services-led Growth in Uzbekistan. Washington, DC: World Bank. https://www.worldbank.org/en/country/uzbekistan/publication/promise-of-services-led-growth

[4] OECD, Productivity and Jobs in a Globalised World: Is There a Role for SMEs? Paris: OECD Publishing, 2018. https://doi.org/10.1787/9789264293137-en

[5] World Bank, Rethinking Lagging Regions: Using Cohesion Policy to Deliver on the Potential of Europe's Regions. Washington, DC: World Bank, 2018. https://www.worldbank.org/en/region/eca/publication/rethinking-lagging-regions

[6] National Statistics Committee of the Republic of Uzbekistan, "Total Volume of Service Sector by Region (Annual)," SIAT Statistical Database. https://siat.stat.uz/data/1210/?lang=en

[7] National Statistics Committee of the Republic of Uzbekistan, "Volume of Market Services Rendered by Districts and Cities (Annual)," SIAT Statistical Database. https://siat.stat.uz/data/4482/?lang=en

[8] National Statistics Committee of the Republic of Uzbekistan, "Volume of Market Services per Capita by Region," SIAT Statistical Database. https://siat.stat.uz/data/3247/?lang=en

[9] A. Crupi, F. Cesaroni, and A. D. Minin, "The dark side of KIBS agency, the creative economy, and regional sustainability," Journal of Open Innovation: Technology, Market, and Complexity, vol. 10, no. 1, Art. no. 100177, 2024. https://doi.org/10.1016/j.joitmc.2023.100177

[10] OECD, OECD Regional Outlook 2023: The Longstanding Geography of Inequalities—Productivity and Regional Income Inequality. Paris: OECD Publishing, 2023. https://www.oecd.org/en/publications/2023/10/oecd-regional-outlook-2023_3a6174ba/full-report/component-7.html

[11] D. A. Togayeva, "Prospects for Diversification of the Service Sector in Uzbekistan," Zenodo, 2026. https://doi.org/10.5281/zenodo.20288765

[12] S. Bultakova, "Opportunities for Applying International Experience to Enhance Employment Through Service Sector Diversification," Zenodo, 2024. https://doi.org/10.5281/zenodo.11002460

[13] M. N. Mansurova, "Mechanisms for Enhancing Management Efficiency in Regional Service Sectors Based on Clustering," Zenodo, 2025. https://doi.org/10.5281/zenodo.17524091

[14] National Statistics Committee of the Republic of Uzbekistan, "Development of the Service Sector: January–June 2024," Statistical Infographic, 2024. https://stat.uz/img/infografika-khizmatlar-eng-06_2024_p20723.pdf

[15] National Statistics Committee of the Republic of Uzbekistan, "Gross Value Added Generated in the Services Sector," Oct. 14, 2024. https://stat.uz/ru/press-tsentr/novosti-goskomstata/57374-xizmatlar-sohasida-yaratilgan-yalpi-qo-shilgan-qiymat-22