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## Theoretical and Institutional-Economic Foundations for Enhancing the Competitiveness of the Services Sector

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**Abstract:** This article examines the theoretical and institutional-economic foundations for enhancing the competitiveness of the services sector. The study argues that service competitiveness is not limited to price or cost advantages; it is determined by productivity, innovation capacity, service quality, digital readiness, human capital, market openness, and the reliability of institutions. Based on comparative analysis, systems thinking and synthesis of recent international statistics, the article proposes an integrated framework for assessing service-sector competitiveness at macro-, meso- and microeconomic levels. Particular attention is paid to Uzbekistan, where the service sector has become a major source of gross value added, employment, innovation diffusion and export diversification. The article identifies institutional bottlenecks, including regulatory fragmentation, unequal market access, limited digital skills, insufficient quality certification and weak commercialization of knowledge-intensive services. Practical recommendations are proposed for strengthening competition policy, improving digital infrastructure, developing professional standards, expanding services exports and introducing evidence-based institutional reforms.

**Keywords:** Services Sector, Competitiveness, Institutional Economics, Digital Services, Productivity, Service Quality, Uzbekistan, Trade In Services, Innovation, Human Capital.

### 1. Introduction

The services sector has become the central arena of structural transformation in the twenty-first century. In traditional economic theory, services were often treated as non-tradable, labour-intensive and less productive than manufacturing. Contemporary evidence shows a different reality: finance, transport, logistics, information technology, education, healthcare, tourism, professional consulting and digital platforms increasingly determine the competitiveness of national economies. Services are embedded in manufacturing value chains, agricultural modernization and public-sector efficiency; therefore, their quality and accessibility influence the performance of the entire economy [1], [2], [3], [4], [5].

The relevance of this topic is strengthened by three global tendencies. First, the share of services in world trade and GDP is rising, while digitally deliverable services are expanding faster than many goods categories. Second, institutional quality, transparent regulation and protection of competition increasingly determine whether firms can enter service markets, scale operations and attract investment. Third, developing countries face the challenge of converting domestic service growth into exportable, knowledge-intensive and innovation-driven services.

The object of this research is the services sector as a system of economic activities that create intangible value for households, firms and public institutions. The subject of the research is the theoretical and institutional-economic mechanisms that shape the competitiveness of this sector. The purpose of the article is to develop a structured scientific explanation of the factors that enhance service competitiveness and to formulate practical recommendations for Uzbekistan. The tasks are: to review the theoretical approaches to service competitiveness; to identify institutional determinants; to analyse recent statistical trends; and to propose a mechanism for improving the competitiveness of the services sector.

### **Literature Review**

The theoretical roots of competitiveness research can be traced to classical, neoclassical, institutional and evolutionary economics. Classical theory emphasized specialization and comparative advantage, while neoclassical models focused on efficient allocation of resources and price competition. However, these approaches alone are insufficient for explaining competitiveness in the services sector because services are characterized by simultaneity of production and consumption, strong dependence on trust, quality uncertainty, customization and human interaction.

Porter's concept of competitive advantage highlighted the role of factor conditions, demand sophistication, related industries and firm strategy. For services, this logic must be expanded to include institutional reliability, professional standards, consumer protection, digital infrastructure and the capacity to process information. Institutional economics, especially the work of North, explains that formal rules and informal norms reduce uncertainty and transaction costs. In service markets, where contracts are often incomplete and quality is difficult to observe before consumption, institutions become a direct source of competitiveness.

Modern research also emphasizes the productivity paradox of services. Some low-productivity services remain highly labour-intensive, whereas digital and knowledge-intensive services can achieve scale economies through platforms, data and network effects. The OECD Services Trade Restrictiveness Index demonstrates that regulatory barriers remain a major obstacle to cross-border services trade, while WTO and UNCTAD statistics show the increasing importance of digital delivery. Thus, a competitive services sector requires both market incentives and institutional coordination.

In the context of Uzbekistan, services-led growth is especially relevant because the country is implementing market reforms, developing tourism and transport corridors, expanding information technologies and preparing for deeper integration into the global economy. The World Bank has emphasized that reforms in services trade could have significant positive effects on GDP, incomes and related manufacturing sectors. Therefore, the literature supports a comprehensive approach that connects competitiveness with institutions, digitalization and human capital.

## **2. Methodology**

The methodological basis of the article consists of comparative analysis, system analysis, institutional analysis, statistical grouping and analytical generalization. Comparative analysis is used to examine the differences between traditional and modern views of services competitiveness. System analysis is applied to identify relationships between institutions, productivity, service quality, innovation and export potential. Institutional analysis is used to explain how rules, standards, competition policy and public governance affect the behaviour of service providers [6], [7], [8], [9].

The statistical part of the research relies on publicly available international and national sources, including the World Bank, WTO, UNCTAD, OECD and the National Statistics Committee of the Republic of Uzbekistan. The article uses descriptive indicators

such as the share of services in gross value added, services trade growth, digitally deliverable services, regulatory barriers and projected gains from liberalization. The proposed framework does not claim to replace econometric estimation; instead, it provides an analytical basis for future empirical research and policy diagnostics.

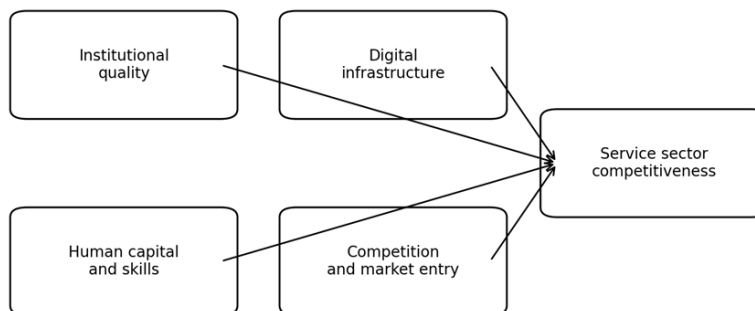
### 3. Results

The competitiveness of the services sector can be understood as the ability of service providers and institutions to create high-quality, innovative and internationally comparable services at sustainable cost while generating productivity growth, employment and export revenues [10]. This definition includes four dimensions: cost efficiency, quality and reliability, innovation and digitalization, and institutional capacity. Table 1 summarizes these dimensions and their measurable indicators.

**Table 1.** Main dimensions of services-sector competitiveness.

<b>Dimension</b>	<b>Economic meaning</b>	<b>Indicative indicators</b>
Cost efficiency	Ability to provide services with lower transaction and operating costs	labour productivity, cost per transaction, logistics time, and administrative burden
Quality and reliability	Ability to deliver stable and standardized value to users	consumer satisfaction, certification, complaint resolution, service continuity
Innovation and digitalization	Ability to scale services using data, platforms, and new technologies	ICT penetration, digital payments, platform usage, R&D, and intangible investment
Institutional capacity	Ability of formal and informal institutions to reduce uncertainty	rule of law, licensing transparency, market-entry conditions, competition policy
Exportability	Ability to sell services across borders or to foreign consumers domestically	services export value, tourism receipts, digitally delivered services, professional services exports

International data confirm the growing strategic role of services. WTO statistics show that global trade in goods and commercial services reached a very high level in 2025, while services expanded faster than goods. UNCTAD data also show that digitally deliverable services accounted for more than half of global services exports in 2024. These indicators demonstrate that competitiveness in services increasingly depends on digital capacity, skills and institutional openness rather than only on physical infrastructure.



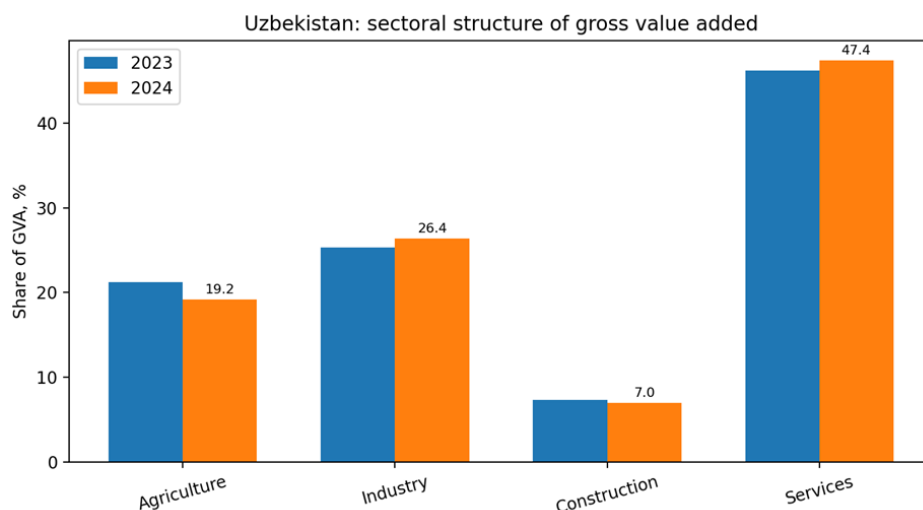
Theoretical mechanism: productivity, quality, innovation, exportability and resilience

**Figure 1.** Integrated theoretical framework of services-sector competitiveness.

**Table 2.** Selected statistical evidence on the role of services.

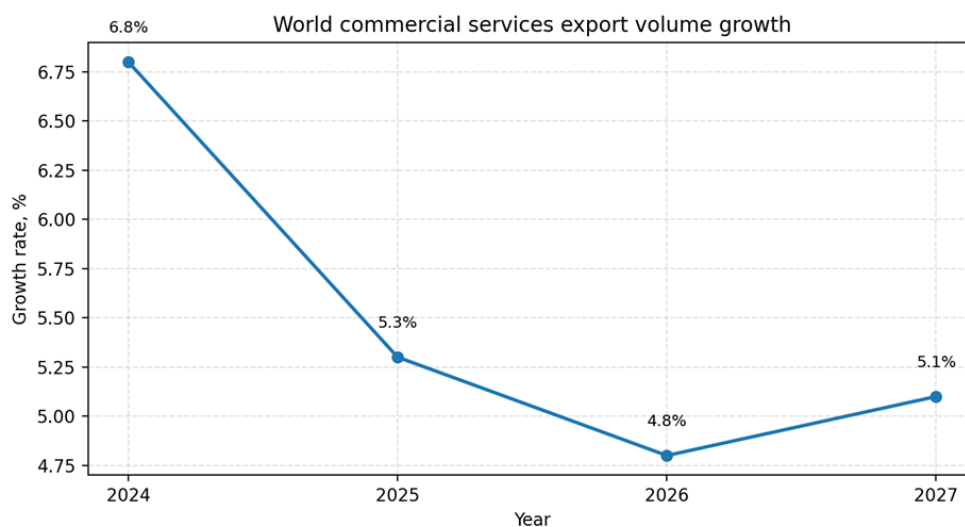
Indicator	Latest value used in the article	Interpretation for competitiveness
World goods and commercial services trade	US\$34.65 trillion in 2025; services grew faster than goods	Services are becoming a larger component of global exchange
Share of services in global trade	27.6% in 2025 according to WTO summary	Service firms must compete internationally, not only locally
Digitally deliverable services	56% of world services exports in 2024	Digital infrastructure and skills are decisive competitiveness factors
Uzbekistan service sector share in GVA	47.4% in 2024; 48.6% in 2025 preliminary annual data	The sector is central to national structural transformation
Potential reform gains in Uzbekistan	Up to 17% real GDP gain under full services-trade liberalization according to World Bank assessment	Institutional reforms can generate economy-wide spillovers

For Uzbekistan, the services sector is not merely a supporting area; it is a core element of economic modernization. According to the National Statistics Committee, the share of the service sector in the sectoral structure of gross value added increased from 46.2% in 2023 to 47.4% in 2024, while agriculture declined from 21.2% to 19.2%. Preliminary annual data for 2025 indicate a further increase in the service-sector share to 48.6%. This trend reflects urbanization, rising household incomes, transport and logistics development, tourism, ICT expansion and the increasing demand for business services.



**Figure 2.** Uzbekistan: changes in sectoral structure of gross value added, 2023-2024.

The statistical trend is important because services often work as a multiplier for other sectors. Logistics improves agricultural market access; financial services reduce investment constraints; ICT services increase management efficiency; education and healthcare build human capital; tourism stimulates small business; and professional services support entrepreneurship. Therefore, service-sector competitiveness should be evaluated not only by the direct value added of services but also by their spillover effects on the productivity of industry, agriculture and public administration.

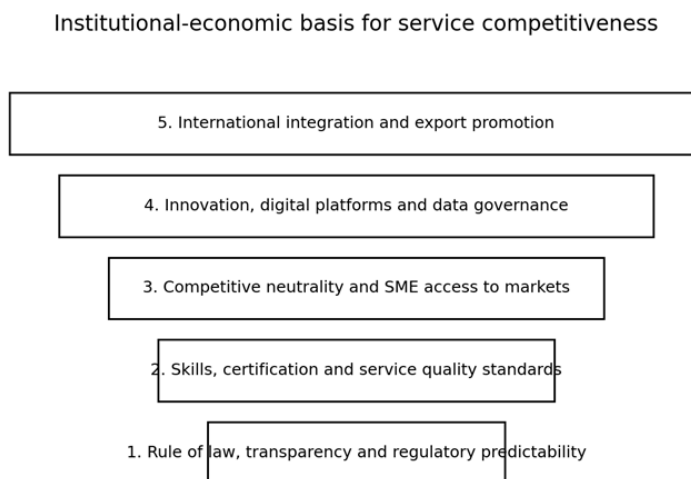


**Figure 3.** World commercial services export volume growth and near-term projections.

At the institutional level, the competitiveness of services depends on the reduction of transaction costs. In many service markets, users cannot fully assess quality before purchase. A patient cannot easily evaluate a medical service before treatment; a tourist cannot fully evaluate hospitality before arrival; a small business cannot fully assess legal or consulting services before receiving them. Consequently, trust, certification, professional ethics, licensing transparency, consumer protection and dispute resolution become economic resources. Countries with predictable and transparent institutions attract more investment into knowledge-intensive services.

The institutional-economic foundations of service competitiveness can be grouped into five layers. The first layer is the rule of law and regulatory predictability. The second

is human capital and professional certification. The third is competitive neutrality, which allows private firms and small enterprises to enter markets on equal terms. The fourth is digital infrastructure and innovation policy. The fifth is international integration, including trade agreements, mutual recognition of qualifications and export promotion. Figure 4 presents this layered mechanism.



**Figure 4.** Institutional-economic layers for enhancing service competitiveness.

The analysis also reveals several constraints that may limit services competitiveness in developing economies. First, regulatory fragmentation increases the cost of formalization and discourages small firms from expanding. Second, insufficient digital skills reduce the capacity of service providers to use platforms, online payments, data analytics and e-commerce. Third, weak quality standards reduce consumer trust and limit export readiness. Fourth, infrastructure gaps in transport, broadband and logistics limit territorial inclusion. Fifth, lack of competition in network services can increase prices for downstream firms.

**Table 3.** Institutional problems and proposed solutions.

Problem area	Effect on competitiveness	Institutional-economic solution
Complex licensing and permits	Raises entry costs and reduces formal competition	Simplify procedures, introduce one-stop digital licensing and regulatory impact assessment
Unequal access to infrastructure	Creates regional inequality and weak service diffusion	Invest in broadband, transport hubs and logistics facilities in secondary cities
Weak quality certification	Limits trust and exportability	Develop professional standards, accreditation and consumer protection mechanisms
Insufficient digital skills	Reduces productivity and innovation	Launch sector-specific digital-skills programs for SMEs and service workers
Limited access to finance	Restricts scaling of service startups	Expand credit guarantees, venture finance and intangible-asset valuation tools

Regulatory barriers to services trade	Reduces exports and foreign knowledge transfer	Gradual liberalization, mutual recognition and transparent market-entry rules
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A service competitiveness index for policy purposes may combine five groups of indicators: productivity, quality, digital readiness, institutional quality and export performance. Such a composite index would help compare regions, sectors and firms. For example, tourism may score highly on employment but lower on digital integration; ICT services may score highly on exportability but require stronger human capital; transport and logistics may require infrastructure and regulatory improvements. Table 4 presents a proposed diagnostic matrix.

**Table 4.** Diagnostic matrix for measuring services-sector competitiveness.

Block	Suggested indicators	Policy use
Productivity	gross value added per worker, revenue per employee, time per service transaction	identifies efficiency gaps and training needs
Quality	certification coverage, complaint rate, customer satisfaction, service continuity	identifies trust and standardization gaps
Digital readiness	broadband access, digital-payment use, online platform participation	identifies digitalization priorities
Institutional quality	licensing time, number of permits, regulatory predictability, competition enforcement	identifies reform bottlenecks
Export performance	services exports, tourism receipts, digital services exports, foreign clients	identifies sectors with international potential

From a policy perspective, the greatest opportunities for Uzbekistan are linked to transport and logistics, tourism, education services, healthcare services, ICT, financial services and professional consulting. The country's geographic position creates potential for logistics and transit services. Cultural heritage and natural landscapes support tourism. A young population creates demand for education, digital services and creative industries. However, the transformation of these advantages into competitiveness requires institutional reforms that improve predictability, quality assurance and digital integration.

The World Bank assessment of Uzbekistan's services-led growth indicates that regulatory reforms in services trade could raise real GDP by up to 17% under full liberalization. It also points to large potential gains in finance, communication and insurance, with spillovers into manufacturing activities such as pharmaceuticals, electronics and machinery. This finding supports the article's central argument: services competitiveness is an economy-wide development factor, not a narrow sectoral issue [11], [12].

#### 4. Discussion

The theoretical analysis shows that service competitiveness is a multidimensional phenomenon. In manufacturing, competitiveness can often be measured through unit labour cost, technological complexity and export share. In services, the measurement is more complex because quality, trust, reputation and interaction with consumers are central. Therefore, service competitiveness should be interpreted as an institutionalized capacity to create value under conditions of uncertainty.

The institutional approach is especially useful because many service markets suffer from information asymmetry. When information is incomplete, consumers rely on brands, certificates, professional associations, reviews and public regulation. If these institutions are weak, price competition may lead to a decline in quality rather than productivity growth. For this reason, service-market reforms should combine liberalization with quality control and consumer protection.

Digitalization changes the nature of service competitiveness. Digital platforms allow small firms to reach wider markets, reduce transaction costs and collect data about consumer preferences. At the same time, digitalization creates risks related to data privacy, cybersecurity, platform dominance and unequal access. A balanced institutional framework must promote innovation while preventing unfair market power and protecting users.

For Uzbekistan, the key strategic issue is to move from extensive service growth to intensive, productivity-based service development. Extensive growth relies on the expansion of trade, basic transport, retail and household services. Intensive growth requires knowledge-intensive services, digital exports, professional certification, innovation ecosystems and stronger links between education, research and business. The latter path is more sustainable and more compatible with long-term competitiveness [13], [14], [15].

## 5. Conclusion and Proposals

The article concludes that the competitiveness of the services sector is based on a combination of theoretical, institutional and economic factors. The theoretical foundation includes comparative advantage, competitive advantage, transaction-cost economics, human capital theory and innovation theory. The institutional-economic foundation includes transparent regulation, competition policy, quality standards, professional certification, digital infrastructure, consumer protection and international integration.

The analysis confirms that services are becoming increasingly important in global trade and national development. Digitally deliverable services now represent a major share of global services exports, while Uzbekistan's service sector is expanding within the structure of gross value added. These trends create opportunities for diversification, but they also require reforms that increase productivity and quality.

The following proposals are recommended: first, introduce a national diagnostic system for measuring service-sector competitiveness by region and subsector; second, simplify licensing and administrative procedures through digital public services; third, develop professional standards and certification systems for tourism, education, logistics, healthcare and consulting services; fourth, strengthen competition policy and reduce barriers to market entry; fifth, expand broadband infrastructure and digital-payment ecosystems; sixth, support services exports through marketing, training, mutual recognition and export financing; seventh, improve the integration of universities with service-sector employers in order to develop practical skills and innovation projects.

In summary, enhancing the competitiveness of the services sector requires not only investment but also institutional modernization. A modern service economy is built on trust, knowledge, digital connectivity and fair competition. For Uzbekistan, this means that service-sector reforms should be treated as a strategic direction of national economic policy and as a driver of inclusive, innovation-oriented and export-capable growth.

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