



THE IMPROVEMENT OF ECONOMIC MECHANISM OF DEVELOPMENT OF SERVICES SPHERE THROUGH INNOVATIONS

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ABSTRACT

The article analyses the economic mechanism of the development of services sphere through innovations. In particular, the volume of investments on R&D is examined and its influence on economic growth is discussed.

Keywords: *R&D, innovations, investments, economic growth, economic mechanism.*

Services are increasingly dominating the world economy, contributing over 70 % of employment in OECD countries and 58 % of worldwide gross national product¹. In order to reach the higher living standards, Uzbekistan needs to develop all branches of economy gradually. Geographically, Uzbekistan is as landlocked as Luxembourg is. The republic is rich in natural resources such as coal, gas, gold, nonferrous metals and other minerals. Therefore, during the soviet regime the economy of republic was oriented to export raw materials and agricultural products.

In Uzbekistan, services constitute almost half of GDP. The concept of service innovation has emerged recently after popularization of Porter's theory of competitive advantage in 1990 where he described innovations as one of the crucial factors in achieving economic advantage. However, to this day there is no single conventional definition of innovation. This is due to its coverage of all kinds of "newness". Thousands of literature and many theories about innovations have been developed but none of them cover all the versatile forms of innovation².

We will research statistical relationship of several factors: number of enterprises performing service innovations, annual volume of investments on R&D, annual volume of R&D, tax load, customs tariffs with the annual volume of services. Further, we build econometric model and based on this, forecast the volume of services for next two years. Then we can test our hypothesis whether the volume of R&D have incremented services' volume or other factor caused the change. In case our hypothesis is not refuted, we analyze main factors influencing scientific activity in the republic, such as number of researchers, number of articles, laboratories, research institutions and etc by building a new econometric model. At the end, we give our conclusions based on the results of the model.

INTRODUCTION

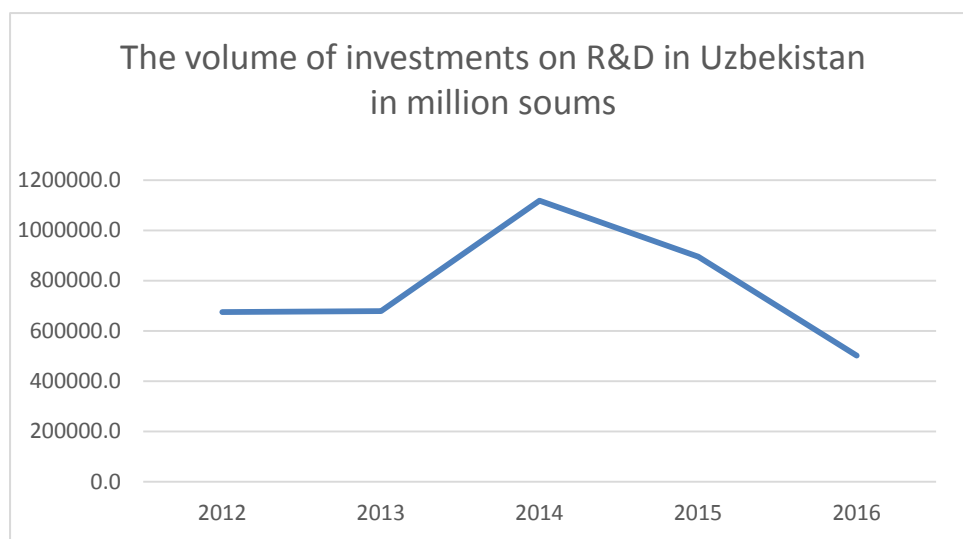
PROBLEM STATEMENT

In recent years, significant amount of funds have been spent on R&D, but so far the effect is not sufficient. The volume of investments has decreased owing to the low efficiency of investing assets in 2016³.

¹ Baltacioglu T, Ada E, Kaplan MD, Yurt O, Kaplan YC (2007) A new framework for service supply chains. *Serv Ind J* 27(2):105–124;

² Poole MS, Van de Ven AH (2004) *Handbook of organizational change and innovation*. Oxford University Press, Oxford p.vi

³ Khudaynazarov A. –journal of "Economic overview", edition 6, P.25, (2018);



Innovative fast growing ventures in particular face financing problems. Given their risk profile, external equity financing is often most suited to their needs but difficult to access⁴. A lack of risk capital that constrains the growth ambitions of such dynamic firms at the micro level can translate into macroeconomic effects such as lower growth⁵. In Uzbekistan, there are also many 'hidden' bureaucratic barriers that strangle the development of innovative enterprises. However, the root of the problem lies in the lack of creative specialists. There are many problems in the education system which wait for solution.

According to the data of department of statistics, in 2017, research institutes and higher educational institutions were involved in only 3% of all innovations. 95% of all innovations were adopted from foreign countries. This figure shows that the national research institutions and HEIs participate passively in innovational activity in the republic of Uzbekistan.

PURPOSE OF STUDY

By working out suggestions and directions to develop service innovations, assist government in macroeconomic decision-making.

THE SIGNIFICANCE OF RESEARCH

The share of services in GDP of Uzbekistan in 2017 accounted for 47.3%⁶. It means that the development of services sector greatly influences the amount of GDP, or in other words, fuels the economic growth.

Experiences of development of different types of economies show that an innovative economy is essentially underpinned by the development of knowledge and technologies, originated significantly from within the national innovation system and building independent innovation capability⁷. The developed countries of the world, such as USA, Japan, Germany, France, Finland and others have already formed their own national innovation system, which guarantees them economic advantage. In these countries, at least 2 % of GDP

⁴ OECD (2015), New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments;

⁵ L.Casanova, P.K. Cornelius, S.Dutta- "Financing entrepreneurship and innovation in emerging markets" p.20;

⁶ www.stat.uz.

⁷ Xuedong Ding, Jun Li- " Incentives for innovation in China" page 29 (2015)

accounts for spending on R&D- scientific research and other creative work, while this indicator constitutes only 0.3% in Uzbekistan⁸.

Innovations in one service can lead to emergence of new services. This will create the so called cluster of services. In Uzbekistan, the opportunities of creating service clusters have not been investigated so far.

The president of Uzbekistan Sh.M. Mirziyoyev initiated reforms in many spheres of economy including services sector. The president's order № PO-4947 about "The Strategic actions on further development of the Republic of Uzbekistan" has outlined the plan of actions to develop various spheres of economy including services sector for 2016-2020. Especially, ancient cities of Samarkand, Bukhara have great potential for development of new touristic services-service innovations. Therefore, we can say that in these regions the development of services will significantly boost the living standards of local people.

The results of this research will be sent to the Ministry of innovative development of the Republic of Uzbekistan for consideration and will be used in seminars conducted for future entrepreneurs, who have their own startups as well as in student books.

LITERATURE REVIEW

Well-known economists such as J.A. Schumpeter, M. Porter created school of innovational economics. In particular, Schumpeter's landmark work "The theory of economic development" contributed to the emergence of an important factor of economic growth-innovation in economic theory. Schumpeter vividly characterized innovation as "industrial mutation," which incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. He used to describe this process as a creative destruction⁹.

In 1990, in his famous book "*The competitive advantage of nations*", the American economist Michael E. Porter proposed the theory of national competitive advantage. His theory of competitive advantage disseminated the idea of innovational economics throughout the world¹⁰. In explaining, the competitive advantage of nations, he suggests four distinct stages of national competitive development: factor-driven, investment-driven, innovation-driven and wealth-driven stages. He says that the first three stages represent successive upgrading of a nation's competitive advantage while the fourth stage illustrates a drift and decline.

Vargo and Lusch define services as "the application of specialized competencies (knowledge and skills) through deed, processes and performances for the benefit of another entity or the entity itself¹¹". We will develop our proposal based on this definition of services.

In his work "Open services innovation: Rethinking your business to grow and compete in a new era" American scholar-Henry Chesbrough demonstrated how companies in any industry could make the critical shift from product-to service-centric thinking, from closed to open innovation where co-creating with customers enables sustainable business models that drive continuous value creation for customers¹². Also, Vittorio Chiesa, Paul Coughlan, and Chris Voss presented a framework for auditing technical innovation management. Their auditing methodology can be used in developing action plans for improving performance in many industries¹³. The foundation of their audit methodology is a process model of technical innovation. The model addresses the

⁸ Khudaynazarov A. –journal of "Economic overview", edition 6, P.23, 2018

⁹Thomas K. McCraw- Prophet of Innovation: Joseph Schumpeter and Creative Destruction, p.4;

¹⁰ Xuedong Ding, Jun Li- " Incentives for innovation in China" page 29;(2015)

¹¹ Vargo SL, Lusch RF (2004) Evolving to a new dominant logic for marketing. J Mark 68(1):P.2

¹² H. Chesbrough, "Open services innovation: Rethinking your business to grow and compete in a new era" P. 3, (2010)

¹³ V.Chiesa, P. Coughlan, Ch.A.Voss –"Development of a technical innovation audit" P.105-136 (1996),

managerial processes and the organizational mechanisms through which innovation is performed. Underlying this method is the notion that success in innovation is related to good practice in the relevant management processes. The model identifies four core processes: concept generation, product development, process innovation, and technology acquisition.

Among the Uzbek scholars U. Akhmedov, Y. A. Abdullaev, S.S. Gulomov, K.D.Mirzaev, M.Q. Pardayev, B.Sh.Safarov and others carried out research works on the development of services sphere. U. Akhmedov describes service innovations as a “result of creative activity of establishing new touristic services through advanced technologies, booking services, modernization of hotel administrative services and other activities¹⁴”. Professor K.D. Mirzaev defines innovations as an “event of using continuous research, based on previous scientific achievements¹⁵”. Professor B. Sh. Safarov in his works asserts that creating touristic cluster will boost the development of services as a whole and outlines the steps to create touristic cluster in Uzbekistan¹⁶. We will also refer to their ideas in our work.

METHODOLOGY

Logical and comparative analyses, statistic and econometric modelling.

CONCLUSIONS

The research will try to solve significant problem of services development. The results of research may be used in macroeconomic decision-making process. This also will be food for further extensive research as it will include comparative analyses of service development of developed countries and Uzbekistan.

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¹⁴ International conference-“The role of tourism in providing stable socio-economic development”, Samarkand 2010, P.113

¹⁵ Mirzaev K.D. –“Service economics”, P.93, Tashkent (2014)

¹⁶ B.Sh.Safarov- “Methodology basis of innovative development of national service market”-P.33, Tashkent, 2016

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