THE ROLE OF ECONOMIC DIVERSIFICATION IN REGIONAL ECONOMIC DEVELOPMENT AND ITS IMPACT ON COMPETITIVENESS (CASE OF KHOREZM REGION)

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Annotation: This study examines the theoretical and methodological foundations of economic diversification and its impact on regional economic development and competitiveness. The Khorezm region is selected as the empirical case to analyze structural changes in sectoral composition, production dynamics, and the development trends of the service sector. The research identifies a strong relationship between the degree of economic diversification, regional stability, and competitiveness. Empirical findings demonstrate that shifts in the balance between industry, services, and agriculture significantly influence economic growth dynamics in the region. At the same time, the persistence of sectoral concentration in certain industries may hinder long-term sustainable development. The study proposes scientifically grounded recommendations aimed at deepening diversification processes, improving intersectoral balance, and enhancing innovation-driven development in the region.

Keywords: regional economic development, diversification, competitiveness, economic structure, industrialization, service sector, structural transformation, regional economy, economic stability.

In the context of modern economic transformation, regional development has become a central issue in ensuring sustainable economic growth, reducing territorial disparities, and improving resource efficiency. The stability and long-term development of a regional economy largely depend on the structural composition of its economic activities and the degree of diversification. In this regard, economic diversification emerges as a key determinant of resilience and competitiveness.

Diversification contributes to increasing the internal complexity of an economic system, thereby enhancing its capacity to withstand external shocks and cyclical fluctuations. Regions that rely heavily on a limited number of sectors are more vulnerable to market volatility and structural imbalances. In contrast, a diversified economic structure allows for the expansion of growth sources and strengthens the region's adaptive capacity.

The Khorezm region provides a relevant case for analyzing these dynamics. Historically, the regional economy has been largely dependent on agriculture and textile production, leading to a relatively narrow specialization pattern. However, recent structural reforms have stimulated diversification processes. Between 2017 and 2024, the Gross Regional Product (GRP) of Khorezm increased by more than twofold, reflecting a stable upward trend driven primarily by industrial expansion.

As of 2024, the sectoral structure of the regional economy indicates that industry accounts for approximately 27% of GRP, while services contribute nearly 40%, and agriculture still maintains a relatively high share exceeding 30%. Although these figures suggest partial diversification, they also highlight the persistence of structural imbalances, particularly the dominant role of the agricultural sector.

Industrial development has been one of the key drivers of diversification in the region. Between 2020 and 2024, industrial output increased by approximately 1.8–2 times, with notable growth in construction materials, food processing, and textile industries. Nevertheless, the industrial sector remains largely concentrated in low- and medium-technology activities, which limits the potential for generating high value-added outputs.

The expansion of the service sector has also contributed significantly to regional diversification. In particular, tourism, trade, and transport services have shown consistent growth, with annual growth rates averaging 10–12% in recent years. This trend indicates a gradual shift toward a more balanced economic structure.

From a theoretical perspective, diversification plays a crucial role in enhancing regional competitiveness. Structural transformation and the expansion of economic activities foster innovation, improve productivity, and enable regions to integrate into broader economic networks. A more diversified economy is better positioned to attract investment, develop human capital, and respond effectively to global economic challenges.

However, the case of Khorezm also demonstrates that diversification processes are not yet fully complete. The concentration of economic activity in a limited number of sectors continues to pose risks to long-term sustainability. Therefore, further structural transformation is required to achieve a more balanced and resilient economic system.

The findings of this study confirm that economic diversification is a fundamental driver of regional economic development and competitiveness. In the case of the Khorezm region, a clear relationship has been identified between the degree of diversification and key economic indicators such as growth rates, employment levels, and structural stability.

First, diversification enhances the structural balance of the regional economy, reducing dependence on a limited number of sectors and mitigating exposure to external economic shocks. Second, it expands the sources of economic growth by fostering the development of new industries and increasing value-added production. Third, diversification contributes to social and economic stability by creating employment opportunities and improving income levels.

Moreover, a diversified economic structure strengthens the region's innovation capacity and enhances its competitiveness at both national and international levels. However, the persistence of sectoral concentration in Khorezm indicates that diversification policies must be further intensified.

In this regard, policy measures should focus on promoting high-tech industrial development, expanding the service sector, supporting innovation activities, and improving the investment climate. Particular attention should be given to aligning diversification strategies with regional resource endowments and comparative advantages. Only through a comprehensive and well-coordinated approach can sustainable regional development and long-term competitiveness be achieved.

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