

SECTOR-SPECIFIC DIVERSIFICATION AS AN IMPORTANT STAGE FOR GREEN ECONOMY DEVELOPMENT

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Abstract: *The article raises one of the most pressing problems of regional economic development – increasing the level of diversification of its structure in the context of the transition to a green economy. At present, the focus on industries diversification is defined as one of the main guidelines for the strategic development of the region.*

Key words: *green economy, regional economy, diversification, economic development*

Annotatsiya: *Maqolada mintaqa iqtisodiyotini rivojlantirishning eng dolzarb muammolaridan biri – yashil iqtisodiyotga o'tish sharoitida uning strukturasi diversifikatsiya qilish darajasini oshirish ko'tarilgan. Ayni paytda tarmoqlarni diversifikatsiya qilishga e'tibor mintaqani strategik rivojlantirishning asosiy yo'nalishlaridan biri sifatida belgilangan.*

Kalit so'zlar: *yashil iqtisodiyot, mintaqaviy iqtisodiyot, diversifikatsiya, iqtisodiy rivojlanish*

Аннотация: *В статье поднимается одна из актуальнейших проблем развития экономики региона – повышение уровня диверсификации её структуры в условиях перехода к зелёной экономике. В настоящее время ориентация на диверсификацию отраслей определяется в качестве одного из основных ориентиров стратегического развития региона.*

Ключевые слова: *зеленая экономика, экономика региона, диверсификация, экономическое развитие*

The economic development of a nation often hinges on the optimal utilisation and management of its primary sectors such as agriculture, fishing, forestry, and mining. Over time, the processes of specialisation, diversification, and re-specialisation within these sectors have played a pivotal role in shaping the trajectory of growth and sustainability. This literature review explores these concepts in detail, drawing on various scholarly sources to analyse their interrelationships, challenges, and implications for long-term economic and environmental sustainability.

Investigations show that the development path of a country regarding economic diversification occurs in “Specialisation in primary sectors – Sector specific diversification – Effective Re-specialisation” sequence. See, for instance, Imbs, Wacziarg (2003) and Dan Ciuriak (2015).

Specialisation refers to the process by which countries or regions focus on producing goods or services that they can produce most efficiently, leveraging

comparative advantage [Smith, 1776; Ricardo, 1817]. Specialisation in primary sectors is often driven by resource endowments such as fertile land, mineral deposits, or favourable climatic conditions [Krugman, 1991]. The benefits of specialisation include increased productivity, economies of scale, and higher export potential [Heckscher & Ohlin, 1933]. However, excessive reliance on one primary sector has often been critiqued due to the risk of vulnerability to price volatility, external shocks, and environmental degradation [Auty, 1993].

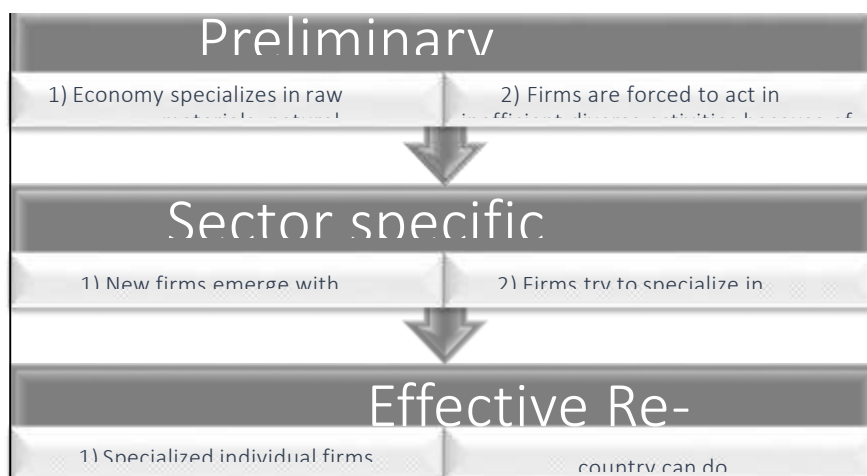
For instance, agricultural specialisation in developing economies has been shown to enhance food production and export earnings, but at the expense of biodiversity loss and soil depletion [Pretty et al., 2018].

Therefore, when the economy is not diversified enough as it is in the first phase (Figure 1.5), industrial sectors experience several obstacles so that they need the government support even by the trade barriers.

On the other hand, when the economy successfully becomes diverse enough (the second phase in Figure 1.5), productivity opportunities and the effectiveness of other industrial supportive policies increase. Diversification is widely recognised as a strategy to mitigate the risks of over-specialisation. Sector-specific diversification involves expanding the range of products, markets, and value-added processes within a particular sector, thereby reducing dependence on a narrow set of activities (Hesse, 2008). In the primary sectors, diversification can take several forms, such as crop rotation in agriculture, multi-species fishing, or mineral beneficiation in mining.

Empirical studies have demonstrated that diversification within primary sectors can enhance resilience to external shocks, such as global price fluctuations and climate variability [Collier & Dercon, 2014]. For instance, in the agricultural sector, diversification into high-value crops, organic farming, and agri-tourism has been shown to generate additional income streams and reduce reliance on staple crops [Pingali, 2007]. Similarly, fisheries have benefited from diversification into aquaculture and value-added seafood processing, which have bolstered income and food security in coastal communities [Allison & Ellis, 2001].

However, the process of diversification is not without challenges. It often requires significant investment in infrastructure, technology, and capacity building, which can be difficult for resource-constrained economies. Additionally, diversification efforts must be carefully planned to avoid environmental trade-offs, such as deforestation or water overuse in the pursuit of new activities [Barbier, 2011].



Source: Prepared by the author based on the literature review.

Figure 1.5: Economic diversification and specialisation in the country's development path

Re-specialisation refers to the strategic shift from one specialised activity to another, often in response to changes in market demand, resource availability, or technological advancements. This process requires a careful balance of retaining core competencies while transitioning to new opportunities [Glaeser, 2005]. In the context of primary sectors, re-specialisation often occurs when traditional activities become unsustainable or unprofitable, necessitating a shift to more sustainable and economically viable alternatives.

One notable example is the transition from monoculture farming to sustainable agriculture practices, such as agroforestry and regenerative farming [Altieri, 1995]. Similarly, regions dependent on coal mining have increasingly explored renewable energy industries as an avenue for re-specialisation [McKinsey Global Institute, 2020]. The success of re-specialisation efforts often hinges on effective policy support, investments in education and training, and the development of supportive institutions and infrastructure [Rodrik, 2004].

Moreover, re-specialisation requires careful attention to social and economic equity, particularly in resource-dependent communities where livelihoods are closely tied to the primary sector. Without inclusive planning, re-specialisation efforts can exacerbate social inequalities and lead to resistance from affected stakeholders [Bebbington, 2012].

In other words, widening the structure of production and diversifying also exports of a country should be the crucial purposes of policymakers in their strategic trade policies [International Trade Centre (2017)], and export sophistication including export diversification is a leading determinant of economic growth [Cherif, Hasanov and Wang (2018)].

Interlinkages Between Specialisation in primary sectors – Sector specific diversification – Effective Re-specialisation

The interplay between specialisation, diversification, and re-specialisation is complex and context-dependent. While specialisation enables economies to capitalise

on their comparative advantages, diversification and re-specialisation provide mechanisms for addressing the limitations of over-reliance on a single sector or activity. For sustainable development, a dynamic approach that balances these processes is essential.

Studies suggest that economies that successfully transition through these stages tend to prioritise long-term planning, invest in education and research, and adopt adaptive policies that respond to evolving global and local conditions [Hausmann et al., 2007].

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