



PROBLEMS OF DIVERSIFICATION OF THE NATIONAL ECONOMY IN MODERN ECONOMIC CONDITIONS

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Introduction

Azerbaijan has achieved the formation of a national economic development model that is steadily developing in the world due to the implementation of a successful oil and gas strategy. However, providing an answer to a question that requires extensive discussions within objective realities remains relevant in the full sense. This issue is undoubtedly related to a significant reduction in the dependence of the national economy on oil, as well as the dependence of exports mainly on crude oil and natural gas, in other words, on mineral raw materials. All this will accelerate the renewal of the main mechanisms of the development model of the national economy and create favorable conditions for solving the problems of diversification of the national economy as a whole.

1. Evaluation of the Problems of Diversifying the National Economy

The problems of diversification of the national economy are relevant and important for most oil-economy countries in the modern era. Undoubtedly, in solving the problems of diversification of the economy in Azerbaijan, it would be important to consider and evaluate the diversification processes taking place in those countries. True, in our opinion, Azerbaijan should evaluate and solve the problems of diversification in accordance with its national interests and strategic goals. However, it would not be bad to pay attention to the approaches to the problems of diversification in oil-economy countries.

Following the recent world crisis and several drops in oil prices on the world market, instability and devaluation of national currencies have become inevitable in most oil-dependent countries, and these processes are currently characteristic of Azerbaijan. In this regard, the diversification of the national economy and the constant improvement and improvement of its investment attractiveness are important issues. The path to strengthening the economy consists of accelerating its diversification along with improving its basic mechanisms. Thus, in this case, it becomes possible to ensure the stability and sustainability of the national economy, additional opportunities arise for the application of new technologies, the active involvement of innovations in circulation, and the improvement of the standard of living. The diversification of the national economy and its sustainable growth and dynamic development are harmoniously closely related. In general, the problems of diversification of the national economy are currently characterized as one of the most widely discussed problems among the world economic problems.

Problems of diversification of the national economy:

- First of all, as we have mentioned, the problem of minimizing the degree of dependence of the national economy on the extractive industry, mainly oil, and the implementation of strategic goals related to them should be ensured;
- Each mechanism and element of the national economic development model should be seriously evaluated and improved from the point of view of immunity in the context of modern challenges and global threats;
- The implementation of the concept of identifying and implementing successful solutions to the problem of choosing an efficient model in the national economy should be largely completed; In-depth study of the factors arising from the development characteristics of the national economy and taking adequate measures to them should be systematically ensured and kept under strict control;

- the existing potential of the areas of activity that can be strengthened in the structure of the national economy and the directions of productive development should be assessed on the basis of objective realities and criteria, and the acceleration of the development of priority areas of activity should be ensured;
- in order to achieve the strategic goals intended to achieve the optimal level of diversification of the national economy, the organization of a new level of the entrepreneurial and business environment in the country, conditions for more businesslike and transparent activities, prevention of monopoly situations, facilitation of access to credit and technological resources, etc., priority should be given to economic development directions based on criteria and principles, etc.

2. Analysis and Evaluation of the Current State of Diversification of Azerbaijan's Economy in the Modern Context

In general, the research conducted suggests that Azerbaijan has six important factors for diversifying its national economy. These include the presence of macroeconomic and political stability and favorable investment conditions, the adequacy of foreign exchange reserves, financial freedom, a unique development model of the non-oil sector and the ability of Azerbaijani products to enter world markets, and finally, Azerbaijan's image as a reliable partner for the countries of the world. The country is located at the junction of East and West, Europe and Asia, and is of significant geostrategic importance.

The instability of oil prices in world markets and the impact of financial and economic crises, along with the oil and gas industry, the extractive industry, and other sectors of the country's economy, primarily the processing sector, require the continuous development of this sector, the production of competitive products in this area, and the solution of the problems of diversification of the structure of the national product and foreign trade turnover. It should be noted that the share of the industrial sector in the diversification of the structure of the national economy of our country is still large. Unfortunately, despite the great potential of the agricultural sector, the share of this sector in the structure of the country's GDP is much smaller than its potential. Figure 1 shows the structure of the gross domestic product in the Republic of Azerbaijan in 2024.



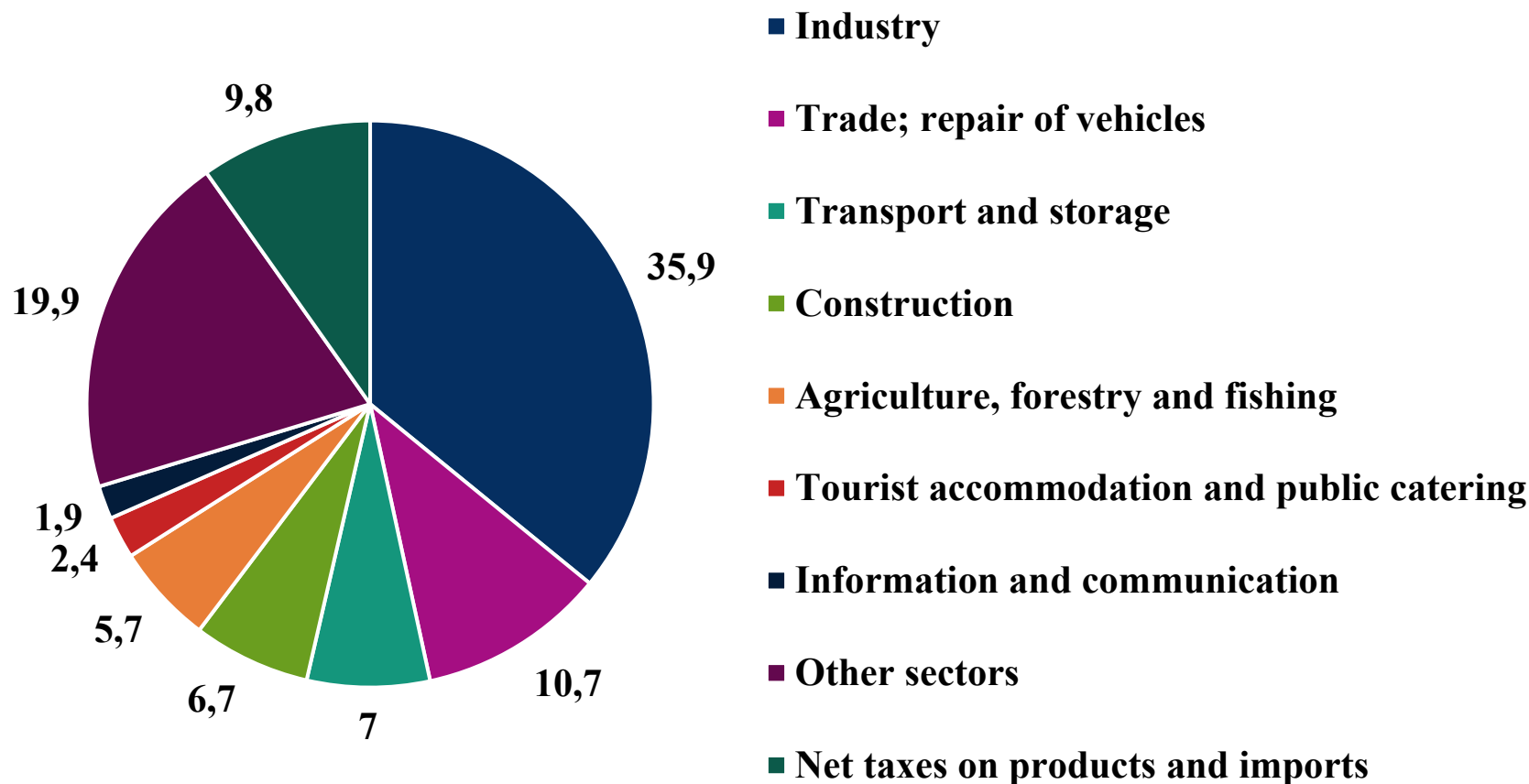


Figure 1. Structure of gross domestic product in the Republic of Azerbaijan in 2024, in percent. Source: Azerbaijan - Facts and Figures. Statistical Bulletin. Baku, 2025. <https://www.stat.gov.az/>

As can be seen from Figure 1, the expansion of the activities of non-oil sector sectors, as well as the range of services, is an important issue in improving the structure of the national economy. In this regard, as we mentioned earlier, the diversification of the structure of the national economy should be accelerated, the activities of potential economic sectors for GDP growth should be expanded, and the development of non-oil sector sectors in particular should be strengthened. Taking all this into account, ensuring the formation of stable development of the national economy in a market economy and regulating macroeconomic dynamics and structural changes are important issues.



Raising the level of economic development to a new stage should take into account the regularities of the processes of global transformations and the main principles and criteria related to them. A comparative study of the experience of foreign countries and our republic in structural reform of the economy allows us to determine the place of state and private entrepreneurship in the structure of the economy, to show their influence on the overall results of economic development, on the formation of a competitive environment.

However, when rebuilding its economy, Azerbaijan should refrain from imitating certain models, since, despite having sufficient potential, it is still at the beginning of the formation of a market mechanism, therefore, in order to bring technology to the appropriate content, it must go through a long-term evolutionary path, not a “revolution in the economy”. One truth is clear that our country cannot be satisfied with a one-sided model of sustainable and sustainable economic development only at the expense of a strong oil and gas sector.

Figure 2 reflects the growth dynamics of GDP and the non-oil sector in the Republic of Azerbaijan compared to the previous year.

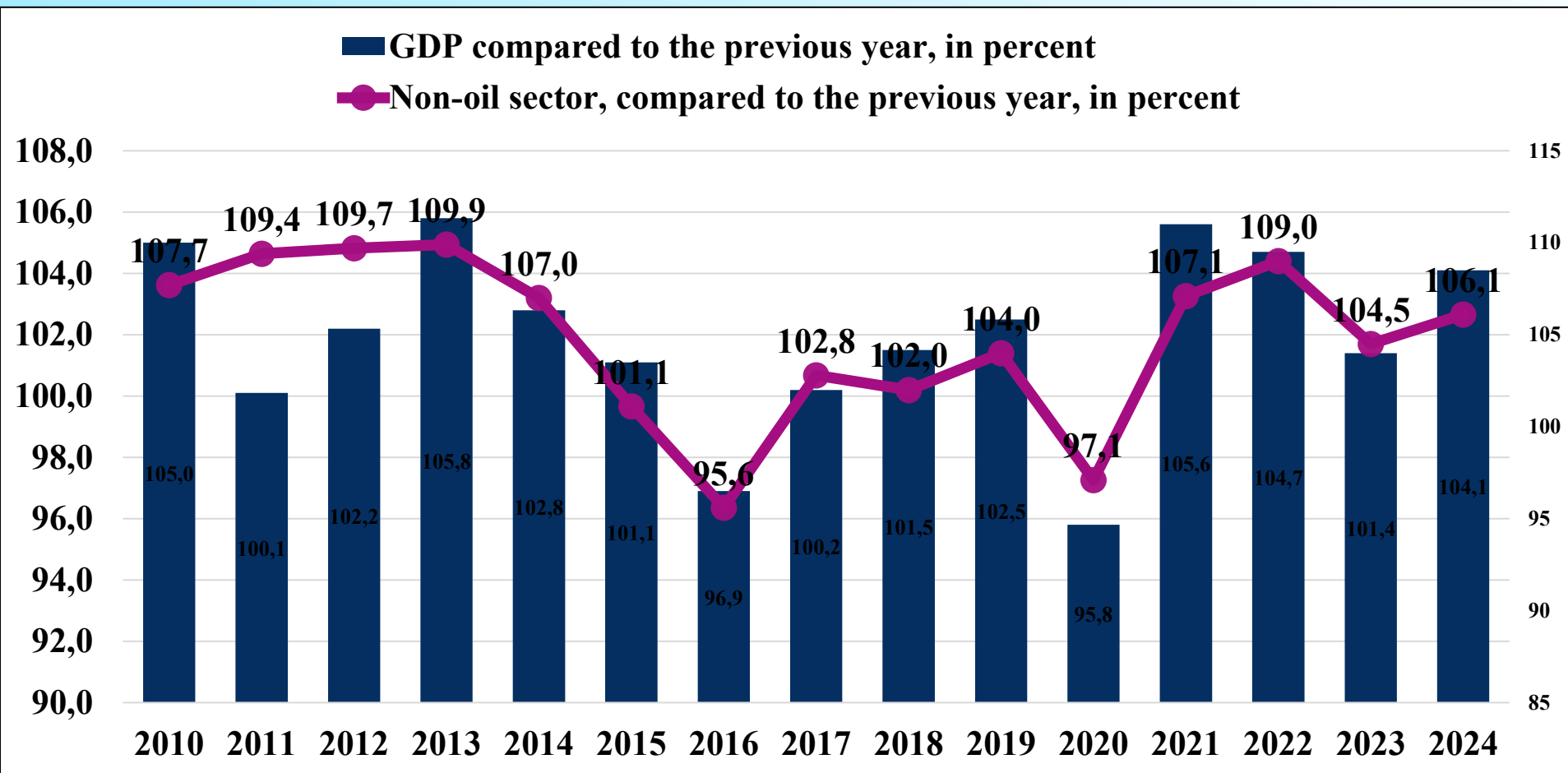


Figure 2. Change in GDP and non-oil sector in the Republic of Azerbaijan compared to the previous year, in percent. Source: System of national accounts and balance of payments of the Republic of Azerbaijan. Statistical compilation. Baku, 2025. <https://www.stat.gov.az/>

As can be seen from Figure 2, GDP has not been able to demonstrate a significant growth trend in the years after 2013, and although there was progress in the growth of the non-oil sector during this period, the growth rate in 2015 decreased by about 6% compared to 2014, but the growth rate recovered in 2017-2019, and in 2020 the growth rate decreased by about 7% compared to 2019, but significant growth was demonstrated in 2021-2024.

In order to assess the depth of structural changes in the national economy and develop the most optimal modernization mechanisms, the level of stability of our country's economic system, the development characteristics of the national economy, the realities of the socio-economic situation in the country, the adequacy of economic development, the assessment of the level of entrepreneurship and business environment, measuring the efficiency of the use of investments and capital investments, the compliance of production development with global economic challenges, determining the potential of sources of growth of national income, etc. are characterized as important tasks.

All these measures and strategic tasks should be consistently balanced, while preserving their macroeconomic proportions, and the expansion of the structure of the national economy and the acceleration of its diversification should be implemented. In diversifying the structure of the national economy, the potential of processing industries should be used more, and the development of these industries can bring more added value to the national economy.

In diversifying the national economy, it is necessary to evaluate the features inherent in the economic systems of economically developed countries, for example, the characteristic feature of the last 20-30 years, namely the significant increase in the share of sectors related to services and high technologies in the structure of the national economy, and these factors should be considered in the priorities for diversifying the national economy within the framework of national interests and the strategic development and goals of the national economy.

Conclusion and Recommendations

- Diversification of the national economy should be carried out taking into account every factor that allows for the sustainable and proportional development of the country's economy, including the development priorities of the country's regions.
- When diversifying the economy, the most important aspects of the development of regions in terms of economic priorities, the potential for expanding economic sectors, resource provision and more productive use of labor resources should be considered in a comprehensive approach.

- In the modern era, while improving and renewing the development model of the country's economy, along with the problems of structural changes in the country's economy, the future strategic goals of the economic development model should also be seriously taken into account.
- In the processes of improving the economic development model and renewing the structure of the national economy, each feature of the wide spectrum of complex relations between producers and consumers should be studied in depth and adequate mechanisms should be developed and brought into circulation.
- In the modern era, the main goal of Azerbaijan in the direction of diversifying the national economy is to add new and universal economic mechanisms to its unique economic development model and achieve significant progress in the problem of expanding the structure of the national economy by modeling the development of the non-oil sector.



THANK YOU FOR YOUR ATTENTION!