

# PROBLEMS OF MODERNIZATION OF THE STRUCTURE OF THE NATIONAL ECONOMY TAKING INTO ACCOUNT GLOBAL ECONOMIC CONDITIONS

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**Abstract.** In the article the problems of modernization of the structure of the national economy in modern conditions and ways of their solution are considered. The aim was to find the ways how to improve the process of modernization of the structure of the national economy, taking into account the world economic situation. *The object* of the article is the process of technological modernization of the structure of the national economy of Azerbaijan. *The subject* of the study are theoretical, methodological and applied aspects of creation of components for technological modernization of the national economy of the country. To this end, the issues of improving the modernization of the structure of the national economy, taking into account the global economic situation and the expansion of the activities of sectors of the economy, which are characterized by the creation of competitive added value, have been studied more optimally. It is important to improve the structure of the national economy in a more optimal and efficient way, to identify methods of solving problems related to modernization and to ensure their adaptability to the system of mechanisms of the national economy. In this connection, it is necessary to define the goals, objectives and tasks in the most optimal way. To this end, based on objective realities, the analysis of economic development processes took into account the reconstruction of the processing sector, the formation of production capacities, an increase in the economic activity of regions, the development of industrial infrastructure, a significant reduction and acceleration of the country's dependence on oil. In general, the article focuses on the inclusion of modernization of economic development as a priority. The article gives recommendations on the considered problems, makes suggestions and forms scientific and practical views, gives the author's position on the problems of modernization of the structure of the national economy: the efficient use of the potential of the oil and gas industry, which is the main leading sector of the national economy, should be ensured, first of all, to ensure the intensive development of the non-oil sector. *Results.* The competitiveness of the country's economy should be increased year by year, the business environment should be improved, the development of business and entrepreneurship in the "public-private-societal" triangle, the national economic development model should be designed in the context of global economic challenges. Strategic development and action programs should be adopted to ensure that the level is interesting and effective. Modernized competitive economic activities should be actively integrated into the structure of the country's economy, the network of manufacturing enterprises should be expanded, export potential should be increased by organizing import-substituting activities, and sources of foreign exchange should be diversified. In general, it is important to comprehensively and systematically implement key measures to strengthen the competitiveness of the national economy and its resilience to global economic threats in order to ensure the sustainability of its sources of growth.

**Key words:** structure of the national economy, modernization, economic development.

**JEL Classification:** E02, O10, O20, O30, O40, O11

## 1. Introduction

Problems of improvement and diversification of the structure of the national economy are typical for most countries of the world. In particular, the severity of

these problems increases significantly during the development and application of new mechanisms and practical tools of the national economy in anti-crisis conditions. Due to the negative consequences

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of the recent global financial crisis, there is a need to modernize the structure of the national economy in most countries, including the leading countries of the world. The main reason for this is that the previously productive sectors of the economy do not meet the global economic challenges and the new requirements arising from global trends. In other words, the improvement or modernization of existing mechanisms in many traditional sectors of the economy has arisen from objective necessity. In fact, these processes are not new in the world economic processes, each time after the known crises, including energy, oil, financial, currency crises, the negative impact of the economy has made it necessary to develop new mechanisms (Jafarli, 2018). On the other hand, world civilization and economic processes do not stay together, they are constantly developing, economic views are changing, in this case the emergence of new economic mechanisms and tools can be characterized as a natural process. In this regard, the countries of the world must constantly improve their economic development models and economic systems, modernize and diversify them in accordance with the characteristics of economic development and resource potential of their countries. In any case, the country's economic development model should be based on economic mechanisms that keep pace with modern requirements, and practical tools that can produce productive results should be applied.

In addition, during the modernization of the structure of the national economy, measures should be taken to actively apply incentive economic mechanisms, first of all, to develop and model the real economy. The responsibility of state bodies for structural changes should be defined and control mechanisms for certain periods should be applied (Kadyrov, 1999). It is important to improve the structure of the national economy in a more optimal and efficient way, to identify methods of solving problems related to modernization and to ensure their adaptability to the system of mechanisms of the national economy. In this connection, it is necessary to define the goals, objectives and tasks in the most optimal way. In these processes, the effectiveness of economic and organizational mechanisms, approaches to budgeting and monetary policy should be taken into account (Jafarli, 2018). In the process of structural modernization, special attention should be paid to the conditions for deepening institutional reforms. It is important to protect property rights in a market economy, to ensure a healthy competitive environment, to create an investment and innovation environment in the country, to enforce the law, and finally to have specific goals and mechanisms for each mechanism of the economic system. In addition, serious attention should be paid to the effectiveness of practical tools for the implementation of strategic goals and priority

issues (<http://economics.studio>). In order to ensure the sustainability of the economic system in the global context and its immunity to existing global influences in the anti-crisis environment, the state must take sustainable and systematic measures, carry out structural modernization and focus on the formation of maximum productive sectors. In the global context, structural changes must be based on issues that enable the solution of global problems (Jafarli, 2018). The modernization of the structure of the economy is not a simple task and must be balanced and coordinated by the state with development programs that reflect long-term and strategic goals. In addition, structural modernization should differ from the traditional mechanisms of the economic system and attract attention with its productivity (Balcerowicz, 1980). Structural modernization should not create socio-economic tensions in society, take into account the situation of vulnerable groups, create favorable conditions for solving existing problems and identify sources of funding for its implementation. Otherwise, inefficient implementation of structural modernization can slow down the development of key areas of economic activity and create problems for the pace of development of the national economy as a whole (Balcerowicz, 1980).

From this point of view, the method of analysis of the studied problem is used in the process of modernization of the structure of the national economy in modern conditions, taking into account the characteristics of the post-oil period, improving the existing mechanisms in the context of different approaches, re-modeling the key indicators of sustainable development. This is explained by the possibilities of making. The main idea of the article is the author's approach to the problem and his position. The author believes that in comparison with the world experience in the optimization of the solutions of the problems of modernization of the structure of the national economy in modern conditions, an adequate model of national economic development has not been formed yet, which would allow sustainable and dynamic economic growth of Azerbaijan. This should be done.

## **2. Analysis of the current state of the structure of the Azerbaijani economy in modern conditions**

The structure of the national economy is quite complex, and it is not easy to modernize it in a few years. In this regard, all possible areas of activity should be evaluated and used within the framework of long-term strategic goals. Azerbaijan has known strategic approaches in these areas, and the main task in the near future is to achieve strategic goals, expand the development of the national economy in the value

chain, enrich and improve the national economic development model through maximum efficient use of modern technology-based economic sectors. Some initial positive points in this direction have already been noted. Economic and financial shocks, panic, setbacks, and downward trends are now behind the country, as the country's economic system has managed to build its own necessary immunity to the anti-crisis conditions. Why does this conclusion arise? Maybe there's not enough objectivity? According to the author, the recorded trends in socio-economic development, the resumption of growth in many areas, especially in the non-oil sector, more confident steps, positive results, and an increase in non-oil products and exports are sufficient.

Figure 1 shows the dynamics of Azerbaijan's GDP, which is one of the main indicators of national economic security, in 2005–2020.

Based on Figure 1 it can be concluded that the real volume and value of GDP in Azerbaijan will increase 3.23 times in 2005–2020. If in 2010 the real value of GDP in the country was 52.9 billion USD. In 2015 this figure was 53.0 billion USD and in 2016 significantly lower – 37.8 billion USD. In 2017 the real value of GDP will increase to 40.9 billion USD, in 2018 it will increase significantly to 46.9 billion USD, in 2019 to 48.1 billion USD and in 2020 significantly lower – 42.7 billion USD. If one looks at what was mentioned above, one can see that the growth rate in 2016 decreased by about 28.5% compared to 2010–2015, but the growth rate resumed in 2017, and at least in 2018–2019 the growth rate will be even higher. Objectively speaking, this increase in 2010–2015 was due to the exchange rate difference of the manat against the

dollar. The volume of the country's GDP in 2019 was accompanied by an increase compared to 2018. This means that Azerbaijan was able to get away from the difficulties caused by the negative consequences of the global economic and financial crisis. However, in 2020 the GDP decreased due to the negative consequences of the pandemic. It can be said that the negative consequences of the pandemic have been eliminated, the country's economic growth rate is being restored, and systematic work is underway to create new sources of growth.

Figure 2 shows the structure of GDP by type of economic activity in Azerbaijan in 2020.

Based on the analysis of Figure 2, it can be noted that the main place in the structure of the country's economy is still occupied by industry, which is 33.7%. In recent years, the share of social and other services has been growing, and their share in the structure of GDP is 18.9%. The share of trade and repair of vehicles is 11.5% of GDP. Unfortunately, despite the high potential of agriculture, agro-industrial complex, information and communication technologies, and tourism with high potential, their share in the country's GDP is much lower than their potential. Given this fact, in the next paragraph it is necessary to consider in detail and reveal the problems of modernizing the structure of the national economy.

### 3. Disclosure of problems of modernization of the structure of the national economy

Of course, there is a lot of talk about the problems of modernizing the structure of the national economy, information is provided, and there are statistics. However, the main issue is to increase the strength of the foundations of sustainable and sustainable

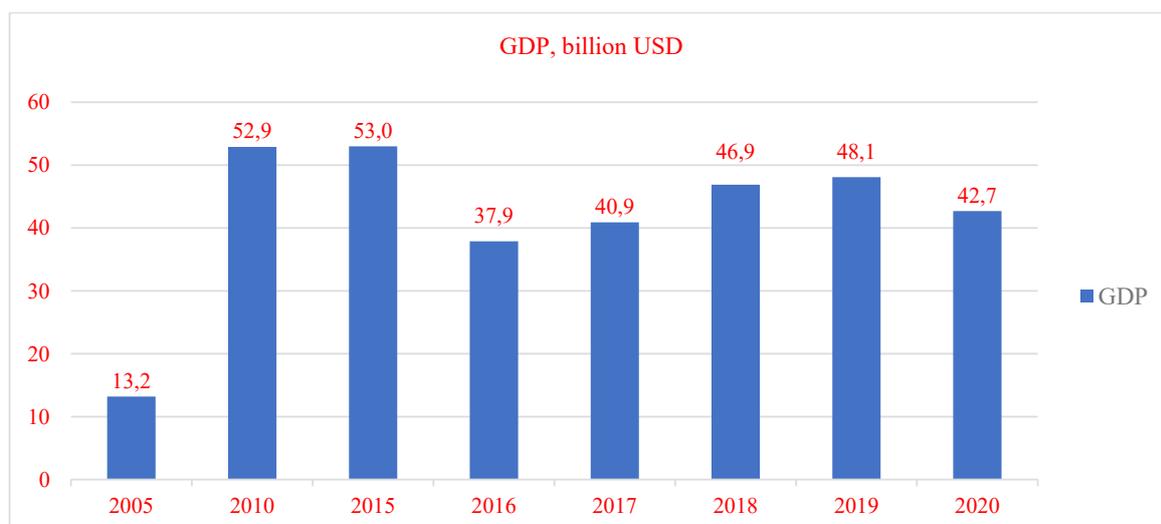
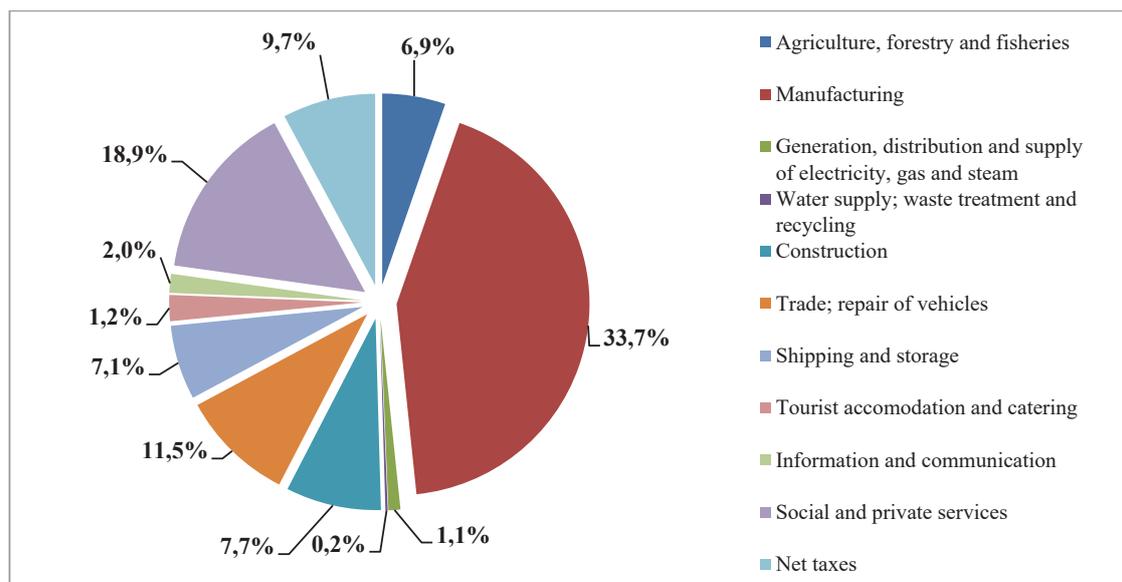


Figure 1. GDP dynamics in the Republic of Azerbaijan in 2005–2020, billion USD

Source: prepared by the author on the basis of the State Statistics Committee of the Republic of Azerbaijan. 2021.  
Available at: <http://www.stat.gov.az>



**Figure 2. Structure of GDP by types of economic activity in Azerbaijan in 2020, in %**

Source: prepared by the author on the basis of information from the State Statistics Committee of the Republic of Azerbaijan. 2021.  
Available at: <http://www.stat.gov.az>

development of the national economy, to take more effective measures to solve the problems of diversification of the national economic development model. Are there too many problems for this? Sometimes one tries to avoid problems, but global economic threats see them clearly and do not forgive, and sooner or later they make themselves felt, and one is forced to look for a way out again.

With regard to the problems of modernization of the structure of the national economy of Azerbaijan, it is important to note the following:

- considering that the process of large-scale investments in the oil and gas sector of Azerbaijan will continue until 2050, the reconstruction of the processing sector of this sector and the creation of a petrochemical complex based on modern technologies must be resolved in the near future. Much can be said about the processing capabilities and value-added potential of this sector, in fact, it is said that programs and projects are offered, but unfortunately, the scope and scale of specific works do not reflect the real potential;
- the refining network of the oil and gas sector should not be limited to oil refining, and the fact that oil refining has remained at the same level for many years should not be overlooked, so the steps taken to expand the refining network are not enough. Nevertheless, a huge plant was built to organize gas processing and to produce agricultural fertilizers. It should be noted that most of the products are export-oriented, which will be another reliable source of foreign exchange inflows into the country. However, this is not the end of the matter, it is possible to obtain a wide range of new processed

products from oil and gas raw materials, and increasing the depth of processing in these areas is an important condition. The developed countries of the world pay special attention to this issue, and the non-oil countries have managed to create various refining industries by actively importing oil, thus forming a strong economic potential. In addition, the process of obtaining new products and semi-finished products from gas raw materials for the development of various sectors of the national economy, the formation of production capacity in Azerbaijan is still weak. More specifically, the use of opportunities in this area is only at the initial level of existing potential;

- another important issue is the creation of favorable conditions for the development of entrepreneurship in the oil and gas sector. Important steps are being taken to develop the State Oil Company, to turn it into a world-class transnational company, to bring the corporate governance system up to world standards, to establish SOCAR offices in various countries, all of which should be commended, but one peculiarity should not be forgotten. When will the participation of the private sector in the country's oil and gas sector and the creation of a healthy competitive environment, the organization of private companies and enterprises take place? It is known that this will take some time, but is it too late to create the necessary conditions to intensify these processes, to create a legislative framework, to create a healthy competitive environment and other related issues? It is important to accelerate the search for answers to these questions and to answer them with real practical work;
- it should be noted that measures are being taken to boost the development of the chemical and

petrochemical complex, which is an important downstream industry in the oil and gas sector. Earlier, it was mentioned that the commissioning of a regional plant is already a major project, and in this regard, technological facilities will be put into operation. In addition, another large processing complex has been built – a plant for the production of various polyethylene products. Polymer products are export-oriented, but they also have the ability to create added value. Thus, by organizing the processing of these products, it is possible to create production facilities and enterprises in different regions of the country. This, in turn, means the creation of new jobs, the creation of national production, the increase of economic activity in the regions, the development of production infrastructure, the organization of the use of intellectual and human resources, the increase of incomes;

– taking into account the modeling of the development of the non-oil sector and the potential to create added value, a significant increase in their share in the structure of the national economy and, ultimately, a significant reduction in the country's dependence on oil, etc.

It should be noted that the modernization of the development processes of the national economy, especially its structural problems, is not a simple matter. The main attention should be paid to the selection of the most efficient and productive mechanisms in the process of economic development. It is necessary to ensure the harmonious course of economic processes, intensification of production processes in the value chain and acceleration of activities that enable economic growth. In order to solve the problems of modernization of the economic system and the structure of the national economy, the country needs to deepen reforms at the institutional level, regulate the state economic policy in accordance with global economic challenges and bring economic activity to the required level (Radieva, 2018). In addition, more attention should be paid to ensuring the maximum efficiency of the economic system, as well as the identification and consistent solution of related problems.

In the economic policy of the state, the structural problems of the national economy must be considered at a high enough level and the necessary strategic decisions must be made. In order to solve the problem of ensuring the improvement of the structure of the national economy in accordance with the goals of economic development of the country and raising the standard of living of the population, it is necessary to coordinate and balance the views and approaches at the state and public levels. It is necessary to provide a creative and strategic approach to the problems of development and modernization of the structure of the national economy (Ahmed Alawi Al Dhahab, 2016).

At the same time, the opportunities for the formation and development of new channels of economic growth should be fully utilized by strengthening the resilience of the national economy, increasing the immunity of individual sectors of the economy in times of crisis, and improving the structure of the national economy using its self-development characteristics. One of the important and pending issues for this is that the models and methods chosen for the modernization of the structure of the national economy reflect the characteristics of efficiency, flexibility and national development (Wray Randall L., Dantas Flavia, 2022). The focus should be on the creation of productive sources of economic development and economic growth and related measures, elimination of intersectoral disparities at the macroeconomic level, development and implementation of necessary state programs for the development of the country's regions, implementation of economic rehabilitation of economically disadvantaged areas, ensuring, expanding and accelerating the activities of sectors of the economy that create competitive added value, and making inclusive economic development a priority in general. The problems of modernization of the structure of the national economy and effective use of the potential of activities that allow its sustainable growth should be considered in a comprehensive manner and their solutions and mechanisms should be identified (Richard C. Barth, Chorng-Huey Wong, 1994). Special attention should be paid to strengthening the basic principles of economic development. The criteria and principles of economic development indicators, which can be a guarantee of macroeconomic stability in the country, must be protected, and economic security issues must be kept under special control. Serious consideration and evaluation of the investment factor should be taken into account at the strategic level in order to ensure the stability of the economic development of each country and the improvement of the structure of the national economy (Feldman, Tom, Lanahan, 2016). Instead, measures to measure and assess the potential of economic development to modernize the solution of socio-economic problems in the country should be carried out systematically. On the basis of economic reforms, as mentioned above, more attention should be paid to improving the living standards of the country's population and at the same time increasing its competitiveness by using the structural potential of the country's economy. The problems of development of the national economy and formation of sources of growth should be reasonably planned in the long term and forecast as optimally as possible within the planned priorities (Kolawole, Ojapinva, 2013). Frequently, the problems associated with the inclusive development of the national economy are exaggerated, which is

natural, as it is impossible to model and forecast the goals of the national economy in the face of global economic challenges without ensuring inclusive development. On the other hand, inclusive development is a fairly important approach in terms of modern economic development trends in the world economy, and it is impossible not to take into account these realities (Samans, Blanke, 2017). At the same time, the implementation of economic development priorities must be accompanied by the necessary steps to ensure the sustainability of the national economy, ensure the balance of institutional and economic reforms, and improve state control mechanisms. In this regard, it should be ensured that mechanisms and instruments of economic development with high potential are actively involved in economic development processes (Deaton, 2010).

It should be noted that in modern times the problems of modernization of the structure of the national economy of Azerbaijan are always in the limelight. Almost every year, continuous measures are taken in this direction. Attention is paid to strengthening the competitiveness of the national economy, deepening structural reforms and forming new development paradigms. Improving the structure of the country's economy, strengthening the coordination of macroeconomic policy, forming an optimal macro-fiscal framework in terms of financial stability, meeting the demand for money in line with the inflation target, increasing the level of institutional development of the securities market, increasing capitalization in the economy, balanced development of the financial services market remains as (Hasanov, 2017). In the near future, it is possible to predict the intensification of development processes of the national economy with the most effective use of the potential to create added value.

#### 4. Conclusions

Summarizing the above, it is possible to draw certain conclusions, namely: the national economy of countries with significant natural resources, especially oil and gas, runs the risk of becoming dependent on the extractive industry. The modernization of the structure of the national economy of these countries, in particular Azerbaijan, should take into account the development of the processing industry.

The process of large-scale investment in the oil and gas sector will take another thirty years. The issue of reconstructing the processing sector of this industry needs to be resolved. It is necessary to create a petrochemical complex based on modern technologies. But this work will take time. The

potential of the oil and gas industry, which is the main leading sector of the national economy, must be used effectively, especially to ensure the intensive development of the non-oil sector.

The economy of the country should not only be engaged in oil processing. The recycling network should be expanded. A plant for the organization of gas processing and production of agricultural fertilizers has already been built. Most of the products are export-oriented. However, this is not the end of the story, a wide range of new processed products can be obtained from oil and gas raw materials, an important condition is to increase the depth of processing in these directions.

The developed countries of the world, which import oil, managed to create various branches of oil refining and thus formed a powerful economic potential.

The process of obtaining new products and semi-finished products from gas raw materials for the development of various branches of the national economy and the creation of production capacities is still weakly developed.

Another important issue is the creation of favorable conditions for the development of entrepreneurship in the oil and gas complex. The participation of the private sector in the oil and gas sector of the country should be stimulated and a competitive environment should be created.

Every year it is necessary to increase the competitiveness of the country's economy, improve the business environment, develop business and entrepreneurship in the triangle of the "state – private sector – society", and conceptualize a model for the development of the national economy in the context of global economic challenges. It is necessary to adopt strategic development and action programs to make the level interesting and effective.

It is advisable to create production facilities and enterprises in various regions of the country. This, in turn, means creating new jobs, national production, increasing the economic activity of regions, developing the production infrastructure, organizing the use of intellectual and human resources, and increasing the income of the population.

It is necessary to actively include modernized competitive types of economic activity into the structure of the country's economy, expand the network of manufacturing enterprises, increase export potential by organizing import substitution activities, and diversify sources of foreign exchange. In general, it is important to comprehensively and systematically implement important measures to strengthen the competitiveness of the national economy, as well as its resistance to global economic threats, ensuring the sustainability of its growth sources.

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