



ДЖАФАРЛІ Г.А.

доктор економічних наук, професор,
доцент кафедри фінансів та аудиту,
Азербайджанський державний економічний університет (UNEC)
вул. Незалежності, 6, Баку, Республіка Азербайджан, AZ1001
E-mail: jafarlihanifa1967@gmail.com
ORCID: 0000-0002-8104-2426

СРМОЛЕНКО О.А.

кандидат економічних наук, доцент
доцент кафедри соціальної економіки
Харківський національний економічний університет імені Семена Кузнеця
просп. Науки, 9а, Харків, Україна, 61165
E-mail: Oleksii.Yermolenko@hneu.net
ORCID: 0000-0003-3590-5187

ЧУПРИНА Я.О.

старший викладач кафедри правового регулювання економіки
Харківський національний економічний університет імені Семена Кузнеця
просп. Науки, 9а, Харків, Україна, 61165
E-mail: Yana.Chuprina@hneu.net
ORCID: 0000-0002-6645-0296

ПРОБЛЕМИ ДИВЕРСИФІКАЦІЇ НАЦІОНАЛЬНОГО ГОСПОДАРСТВА В СУЧАСНИХ ЕКОНОМІЧНИХ УМОВАХ

Актуальність. У статті розглядається постійна структурна вразливість національної економіки Азербайджану, що виникає внаслідок тривалої залежності від доходів від вуглеводнів. Незважаючи на стабільне зростання, зумовлене нафтогазовим сектором, зовнішні шоки, зокрема коливання цін на нафту, продовжують дестабілізувати макроекономічні показники, викривати нестабільність інституційних механізмів та обмежувати розширення ненафтового сектору. У контексті глобальних економічних трансформацій і зростаючої важливості диверсифікованих, інноваційних моделей розвитку, дослідження підкреслює актуальність прискорення економічної диверсифікації як необхідної умови стабільності, конкурентоспроможності і стійкості. Актуальність проблеми ще більше посилюється нерівномірним розвитком секторів, технологічною відсталістю деяких галузей та обмеженою здатністю фінансових установ підтримувати продуктивні інвестиції.

Мета та завдання. Дослідження має на меті визначити структурні обмеження, що перешкоджають ефективній диверсифікації національної економіки Азербайджану, та оцінити механізми, що спроможні сприяти розвитку ненафтових секторів. Його основні завдання включають аналіз поточної економічної структури, виявлення основних перешкод для диверсифікації, оцінку стратегічних напрямків політики та визначення потенційного внеску промисловості, сфери послуг та високотехнологічних галузей у сталий розвиток. Дослідження також має на меті сформулювати загальні висновки щодо умов, необхідних для довгострокового, збалансованого економічного розвитку Азербайджану.

Матеріали та методи. Методологія дослідження базується на описовому та якісному аналізі, що є доцільним для економічних досліджень, орієнтованих на політику. Вона спирається на офіційні макроекономічні та галузеві статистичні дані Державного статистичного комітету Азербайджану, аналізує національні стратегічні документи та державні програми, а також узагальнює висновки з вітчизняної та міжнародної наукової літератури. Порівняльні ілюстративні приклади з Норвегії, Саудівської Аравії та Об'єднаних Арабських Еміратів забезпечують контекстуальне розуміння без створення формальної міждержавної моделі. Експертна інтерпретація використовується для інтеграції теоретичних висновків із спостережуваною структурною динамікою.

Результати. Аналіз показав, що економічна структура Азербайджану залишається висококонцентрованою у вуглеводневому секторі, тоді як ненафтовий сектор, незважаючи на періоди відновлення, продовжує демонструвати нестабільність і недостатнє технологічне оновлення. Порівняльні приклади показують, що

успішна диверсифікація в інших нафтовидобувних державах залежала від довгострокових інституційних реформ, стратегічних інвестицій у виробництво й високотехнологічні галузі, а також розширення секторів передових послуг. У статті визначено основні інституційні бар'єри в Азербайджані: нестабільність промислових потужностей (особливо машинобудування), обмежена підтримка фінансового сектору для продуктивних інвестицій та неповне впровадження структурних реформ. Водночас, нові технопарки, поліпшення логістики та транзитних послуг, а також цільові ініціативи в галузі промислової політики створюють основу для прискорення диверсифікації національного господарства.

Висновки. У дослідженні зроблено висновок, що для сталої диверсифікації необхідний комплексний та регіонально збалансований підхід, який зміцнює нафтові сектори, підвищує інноваційний потенціал, модернізує промислову інфраструктуру та поліпшує ефективність розподілу інвестицій. Азербайджан повинен вдосконалити свою модель розвитку шляхом інтеграції універсальних економічних механізмів з національними пріоритетами, уникаючи прямого копіювання іноземних стратегій та поглиблюючи структурні реформи. Розширення конкурентоспроможних, орієнтованих на експорт галузей промисловості та секторів послуг є необхідним для зменшення залежності від вуглеводнів і забезпечення довгострокової макроекономічної стабільності. Необхідні подальші дослідження для розробки інтегрованих аналітичних рамок та секторальних дорожніх карт, адаптованих до інституційного та структурного контексту Азербайджану.

Ключові слова: економічна диверсифікація, ресурсозалежні економіки, розвиток нафтового сектора, структурна трансформація, економіка Азербайджану, економічна резильєнтність.

JAFARLI H.,
Dr. Sc. (Economics), Professor
Associate Professor of the Finance and Audit Department
Azerbaijan State University of Economics (UNEC)
Istiqlaliyyat str., 6, Baku, Azerbaijan, AZ1001
E-mail: jafarlihanifa1967@gmail.com
ORCID: 0000-0002-8104-2426

YERMOLENKO O.,
PhD (Economics), Associate Professor
Associate Professor of the Department of Social Economics
Simon Kuznets Kharkiv National University of Economics
Nauky ave., 9a, Kharkiv, Ukraine, 61165
E-mail: Oleksii.Yermolenko@hneu.net
ORCID: 0000-0003-3590-5187

CHUPRYNA Y.,
Senior Lecturer of the Department of Legal Regulation of the Economy
Simon Kuznets Kharkiv National University of Economics
Nauky ave., 9a, Kharkiv, Ukraine, 61165
E-mail: Yana.Chuprina@hneu.net
ORCID: 0000-0002-6645-0296

PROBLEMS OF THE NATIONAL ECONOMY DIVERSIFICATION IN MODERN ECONOMIC CONDITIONS

Topicality. The article addresses the persistent structural vulnerability of Azerbaijan's national economy arising from its long-standing dependence on hydrocarbon revenues. Despite sustained growth driven by the oil and gas sector, external shocks – particularly oil price volatility – continue to destabilise macroeconomic performance, expose fragile institutional mechanisms, and constrain the expansion of the non-oil sector. In the context of global economic transformations and the increasing importance of diversified, innovation-driven development models, the study underscores the urgency of accelerating economic diversification as a prerequisite for stability, competitiveness, and resilience. The issue is further amplified by the uneven development of sectors, the technological backwardness of several industries, and the limited capacity of financial institutions to support productive investment.

Aim and tasks. The study aims to examine structural constraints hindering effective diversification of Azerbaijan's national economy and to assess mechanisms capable of enhancing the development of non-oil sectors. Its key objectives include analysing the current economic structure, identifying the principal barriers to diversification, evaluating strategic policy directions, and determining the potential contributions of manufacturing, services, and high-technology industries to sustainable growth. The research also seeks to formulate general conclusions on the conditions required for long-term, balanced economic development.

Materials and methods. *The research methodology is based on descriptive and qualitative analysis appropriate for policy-oriented economic studies. It draws on official macroeconomic and sectoral statistics from the State Statistical Committee of Azerbaijan, reviews national strategic documents and state programmes, and synthesises insights from domestic and international scholarly literature. Comparative illustrative examples from Norway, Saudi Arabia, and the United Arab Emirates provide contextual understanding without constituting formal cross-country modelling. Expert-narrative interpretation is employed to integrate theoretical insights with observed structural dynamics.*

Research results. *The analysis demonstrates that Azerbaijan's economic structure remains highly concentrated in the hydrocarbon sector, while the non-oil sector – despite showing periods of recovery – continues to exhibit instability and insufficient technological upgrading. Comparative examples reveal that successful diversification in other oil-producing states has depended on long-term institutional reforms, strategic investment in manufacturing and high-technology industries, and the expansion of advanced service sectors. The article identifies core constraints in Azerbaijan: the fragility of industrial capacities (particularly machine-building), limited financial sector support for productive investment, and the incomplete implementation of structural reforms. At the same time, emerging technoparks, improvements in logistics and transit services, and targeted industrial policy initiatives provide a foundation for accelerating diversification.*

Conclusion. *The study concludes that sustainable diversification requires a comprehensive and regionally balanced approach that strengthens the non-oil sectors, enhances innovation capacity, modernises industrial infrastructure, and improves the efficiency of investment allocation. Azerbaijan must refine its development model by integrating universal economic mechanisms with national priorities, avoiding the direct imitation of foreign strategies, and deepening structural reforms. Expanding competitive, export-oriented industries and service sectors is essential for reducing dependence on hydrocarbons and ensuring long-term macroeconomic stability. Further research is needed to develop integrated analytical frameworks and sector-specific roadmaps tailored to Azerbaijan's institutional and structural context.*

Keywords: *economic diversification; resource-dependent economies; non-oil sector development; structural transformation; Azerbaijan economy; sustainable economic resilience.*

Problem statement and its connection with important scientific and practical tasks. In our view, the Azerbaijani economy has currently entered one of the most complex periods in its history. The successful implementation of the oil and gas strategy, along with several years of continuously rising oil prices on the world market, has enabled our country to establish a model of national economic development that demonstrates stable growth on a global scale. The national economy has multiplied several times, export capacity has increased, and the potential for expanding the national economy has emerged. However, within the framework of objective realities, a question that has been widely discussed for a long time has not yet been fully substantiated with strong arguments and supported by real mechanisms, practical courses of action, and operational tools. This issue, undoubtedly, is related to the significant reduction of the national economy's dependence on oil, as well as the fact that exports mainly consist of crude oil and natural gas – in other words, mineral raw materials – and it remains highly relevant today. It is true that the economic policy of our state is fully directed toward improving the structure of the national economy, strengthening the development of various non-oil sectors, implementing comprehensive measures for the development of entrepreneurship and the improvement of the business environment, creating favourable conditions to stimulate the inflow of foreign investment, and, in short, ensuring the dynamism of national economic development

through the consistent implementation of measures. For these purposes, numerous state programs and measures have been developed and implemented, and currently, work is underway to accelerate these processes in many directions (Administration of the President of the Republic of Azerbaijan, 2021). On the other hand, strategic roadmaps have been identified with the aim of renewing and improving the main mechanisms and indicators of national economic development, and their implementation has already begun.

All these factors should be regarded as commendable, and we believe that in the near future the planned strategic measures will produce sufficient results, the renewal of the main mechanisms of the national economic development model will accelerate, and favourable conditions will be created for solving the problems of diversifying the national economy as a whole.

Analysis of recent publications on the problem. The issue of national economic diversification in resource-rich economies – particularly those dependent on oil and gas – has long been the focus of extensive academic discussion. A broad body of research emphasizes that sustained reliance on extractive industries exposes national economies to heightened vulnerability stemming from commodity price volatility, limited structural adaptability, and reduced innovation incentives.

Early classical contributions, such as the “Dutch disease” theory, laid the conceptual foundation for understanding how resource-driven booms can

crowd out manufacturing, distort factor allocation, and impede long-term growth (Corden & Neary, 1982). The model developed by Corden and Neary explains how a boom in the resource sector leads to real exchange rate appreciation and the subsequent decline of non-resource tradable sectors through both “spending” and “resource movement” effects. Subsequent empirical studies have confirmed that resource dependence is associated with macroeconomic instability, slowed institutional development, and reduced diversification capacity (Sachs & Warner, 2001; Venables, 2016).

The seminal work of Sachs and Warner (2001) provided robust empirical evidence demonstrating that countries with great natural resource wealth tend to grow more slowly than resource-poor countries. Their research showed that resource-abundant countries tended to be high-price economies, and consequently, these countries missed out on export-led growth that characterized successful development trajectories elsewhere. Van der Ploeg (2011), in his comprehensive survey of the resource curse literature, documented that the empirical evidence suggests either positive or negative outcomes are possible depending on specific national circumstances. His analysis identified that resource bonanzas can induce real exchange rate appreciation, deindustrialization, and poor growth prospects, with adverse effects being more severe in countries with weak institutions, corruption, and underdeveloped financial systems.

Venables (2016) argues that many developing countries struggle to convert their natural resource wealth into sustained economic progress. He explains that making effective use of resource endowments is a complex, multi-stage economic and political process. It involves attracting private investment for resource discovery and extraction, designing suitable fiscal frameworks to secure public revenue, making prudent decisions on how these funds are spent and invested, and implementing policies that can smooth volatility and limit negative spillovers to the broader economy.

The role of institutional quality in mediating the relationship between resource abundance and economic development has received substantial scholarly attention. Mehlum et al. (2006) demonstrated empirically that institutional quality is decisive for whether natural resources become a curse or a blessing. Their research showed that more natural resources push aggregate income down when institutions are “grabber friendly”, while more resources raise income when institutions are “producer friendly”. This finding contrasts with earlier resource curse models that implied an

unconditional negative relationship between resource abundance and growth.

The mechanisms through which resource abundance affects human capital development have also been extensively documented. Gylfason (2001) showed that economic growth has varied inversely with the share of natural capital in national wealth across countries, identifying four main transmission channels: Dutch disease effects, rent-seeking behaviour, overconfidence among policymakers, and neglect of education. His findings demonstrated that public expenditure on education, expected years of schooling, and secondary-school enrolment are all inversely related to the share of natural capital in national wealth.

Ross (2015), in an extensive survey of scholarship on the political aspects of the resource curse, found strong evidence that oil revenues often strengthen the longevity of authoritarian governments, foster particular forms of corruption, and contribute to the outbreak of violent conflict in lower- and middle-income states. His findings underscore that effective diversification strategies must take into account not only economic factors but also the political dynamics associated with heavy reliance on natural resources.

More recent empirical contributions have examined the specific challenges facing oil-dependent economies in achieving structural transformation. Lashitew et al. (2021), in their analysis of diversification performance in resource-rich countries, found that extremely resource-dependent countries face particular difficulties in building competitive capabilities and developing non-resource sectors. Their research emphasized that there is no single “success formula” for diversification, with successful cases leveraging different types of competitiveness policies and building on natural endowments specific to each national context.

Regional studies have provided important insights into the specific challenges facing oil-dependent economies in various geographic contexts. Research on Gulf Cooperation Council (GCC) countries has demonstrated that economic diversification remains an imperative for long-term economic health despite substantial progress in reducing oil dependency in some cases (Alkhatlan, 2013). The implementation of national vision strategies such as Saudi Vision 2030 and UAE Vision 2021 represents systematic attempts to address diversification challenges, though outcomes remain mixed across the region.

Overall, the existing research demonstrates that economic diversification is a multidimensional process requiring coordinated reforms in industrial

policy, human capital development, innovation ecosystems, and financial markets. However, the literature also indicates that there is no universal model suitable for all resource-rich economies; diversification strategies must be tailored to specific national conditions, resource endowments, institutional capacities, and development priorities.

Allocation of previously unsolved parts of the general problem. Despite a growing body of literature on economic diversification in resource-dependent economies, several aspects of the problem remain insufficiently addressed in the specific context of Azerbaijan's national economic development.

First, while the theoretical foundations of the resource curse and Dutch disease are well established in international scholarship, there is a lack of systematic analysis examining how these phenomena manifest in post-Soviet transitional economies with distinct institutional legacies and governance frameworks. The direct applicability of policy models developed for Gulf States or Scandinavian countries to Azerbaijan's economic context remains largely unexplored.

Second, existing research on Azerbaijan's diversification challenges tends to examine individual sectors or policy instruments in isolation, without providing an integrated assessment of the interrelationships between industrial development, non-oil sector expansion, and macroeconomic stability. The question of how these elements can be balanced within a coherent national development strategy requires further elaboration.

Third, the dynamic relationship between oil price volatility and structural transformation in Azerbaijan has not been comprehensively documented. Although the adverse effects of the 2014–2015 oil price collapse on the national economy are widely acknowledged, a systematic evaluation of the lessons learned and their implications for future diversification policy remains limited.

Fourth, the potential contribution of specific economic sectors – including manufacturing, services, tourism, and high-technology industries – to Azerbaijan's diversification efforts has not been sufficiently assessed against objective criteria and national development priorities. The identification of sectors with the greatest potential for sustainable growth and export expansion warrants more detailed examination.

Finally, there is a shortage of analytical frameworks that situate Azerbaijan's diversification experience within a broader comparative perspective, drawing upon the successes and failures of other oil-dependent economies while

accounting for the country's unique geopolitical position, resource endowments, and development trajectory.

Formulation of research objectives (problem statement). The persistent dependence of Azerbaijan's national economy on hydrocarbon revenues continues to generate structural vulnerabilities, expose the economic system to external shocks, and constrain the development of competitive non-oil sectors. Despite the implementation of multiple state programmes, strategic roadmaps, and targeted development initiatives, the diversification process remains incomplete. The non-oil sector demonstrates moderate but unstable growth, while manufacturing industries face technological constraints, and the service sector exhibits uneven development patterns.

The central problem addressed in this study is the examination of structural challenges that impede effective diversification of Azerbaijan's national economy, alongside an assessment of the approaches and mechanisms that may facilitate this process. The research recognises that international experience, while instructive, cannot be directly transferred to Azerbaijan due to significant differences in institutional context, market structure, and historical development trajectories.

Accordingly, the research pursues the following interrelated objectives:

- To examine the current structure of Azerbaijan's national economy, with particular emphasis on the composition and dynamics of the non-oil sector and its share in gross domestic product.
- To identify the principal challenges hindering diversification, drawing upon both domestic research and the experience of selected oil-dependent economies.
- To assess the strategic directions and policy measures that may contribute to accelerating diversification and strengthening the resilience of the national economy.
- To analyse the potential role of key economic sectors – including industry, services, and high-technology activities – in expanding the structure of the national economy.
- To formulate general conclusions regarding the conditions necessary for sustainable diversification in the context of Azerbaijan's national interests and strategic development goals.

The study adopts a descriptive and analytical approach, synthesising available statistical data, policy documents, and scholarly literature to provide an integrated overview of the diversification problem and its potential solutions.

Materials and methods. The methodological framework of this study is grounded in qualitative and descriptive analytical approaches appropriate to the exploratory nature of the research. The investigation does not employ econometric modelling or advanced quantitative techniques; rather, it relies on methods consistent with policy-oriented economic analysis.

Descriptive analysis. The study utilises descriptive analysis to examine macroeconomic indicators and structural characteristics of Azerbaijan's national economy. This approach involves the interpretation of statistical data on GDP composition, non-oil sector dynamics, and sectoral contributions to economic output. The analysis is intended to identify general patterns and trends rather than to establish causal relationships.

Analysis of secondary statistical data. The research incorporates statistical information obtained from official publications of the State Statistical Committee of the Republic of Azerbaijan, including data on GDP structure, sectoral growth rates, and non-oil sector performance. These data are presented in graphical form to illustrate key structural features of the national economy.

Comparative illustration. The study draws upon selected examples from other oil-dependent economies – notably Norway, Saudi Arabia, and the United Arab Emirates – to contextualise Azerbaijan's diversification challenges. This comparative element is illustrative rather than systematic, serving to highlight common patterns and divergent approaches to diversification without constituting a formal cross-country analysis.

Literature-based synthesis. The article incorporates findings from scholarly works by Azerbaijani and international researchers to situate the analysis within broader academic discourse on economic diversification and resource dependence. The literature review supports the theoretical grounding of the study and informs the interpretation of empirical observations.

Policy document review. The research takes into account national development strategies, state programmes, and strategic roadmaps relevant to non-oil sector development and economic diversification in Azerbaijan. The review of these documents informs the discussion of policy directions and priorities.

Expert-narrative interpretation. Given the qualitative nature of the study, the analysis relies substantially on interpretive judgements informed by the author's understanding of Azerbaijan's economic system and development context. This approach is characteristic of policy-oriented

research and is employed to draw conclusions regarding the significance of observed trends and the potential effectiveness of proposed measures.

The methodological approach reflects the study's primary aim of providing an integrated analytical overview of diversification challenges rather than testing specific hypotheses through rigorous empirical methods.

An outline of the main results and their justification. The problems of diversifying the national economy are currently relevant and important for the majority of oil-based economies. Undoubtedly, in addressing the challenges of economic diversification in Azerbaijan, it could be valuable to examine and assess the diversification processes taking place in those countries. Nevertheless, in our view, Azerbaijan should evaluate and solve its diversification problems in line with its national interests and strategic goals. That said, paying attention to the approaches taken by other oil-based countries to address diversification issues would not be without merit.

In Norway, where the national economy and living standards are sufficiently high, mechanisms to reduce dependence on oil have been developed over a long period, and in the modern era, these processes continue to be improved. Although Norway's economy was stable from 2003 to 2014, in recent years the level of unemployment has increased even in Stavanger, the country's oil hub. Therefore, the Norwegian government is compelled to revisit its model for diversifying the national economy, and reducing dependence on oil has been accepted as a priority direction. Similarly, an examination of Saudi Arabia's national economic structure shows how complex diversification issues can be. For example, in 2014, oil accounted for 56% of the country's GDP. Oil sales represented 90% of state revenues and 85% of export earnings. Consequently, in recent years, the Saudi government has placed significant emphasis on developing the petrochemical industry to reduce oil dependence. As a result of the measures taken, by the end of 2023 the share of the non-oil sector in GDP had reached 50%, the highest figure in the country's history. According to McKinsey experts, reducing Saudi Arabia's dependence on oil by 2030 will require an investment of USD 4 trillion. Among oil-based economies, one of the countries Azerbaijan is particularly interested in is the United Arab Emirates. By efficiently directing oil revenues into non-oil sectors – especially trade, services, tourism, and high technology – the UAE has managed to balance its national economy and reduce its dependence on oil to some extent. The main goal is to reduce the share of oil production

revenues in GDP to 30% by 2025. The resilience of an economy during global crises is directly linked to the level of its diversification. Following the recent global crisis and the sharp decline in oil prices on the world market, instability and currency devaluation have become inevitable in most oil-oriented countries – and this is currently also characteristic of Azerbaijan.

Therefore, diversifying the national economy and constantly improving its investment attractiveness are of vital importance. Strengthening the economy involves not only improving its core mechanisms but also accelerating diversification. This ensures the stability and resilience of the national economy, creates additional opportunities for the introduction of new technologies, the active adoption of innovations, and the improvement of living standards. Sustainable growth and dynamic development of the national economy are closely and harmoniously linked with its diversification. In general, the problems of diversifying the national economy are currently among the most widely discussed issues in the global economic arena. In this regard, it would be appropriate to highlight a set of key problems:

- First and foremost, as noted above, the problem of minimizing dependence on the extractive industry, particularly oil, and ensuring the implementation of related strategic goals;
- Every mechanism and element of the national economic development model should be thoroughly assessed and improved from the perspective of immunity against modern challenges and global threats;
- The concept for determining and implementing successful solutions to the problem of selecting an effective model for the national economy should be largely completed;
- Factors arising from the specific characteristics of national economic development should be studied in depth, and appropriate measures should be systematically implemented and closely monitored;
- The potential and productive development directions of sectors capable of strengthening their position within the structure of the national economy should be assessed on the basis of objective realities and criteria, and the accelerated development of priority areas should be ensured;
- In order to achieve the optimal level of diversification, priority should be given to economic development directions based on principles and criteria such as creating a new level of entrepreneurship and business environment in the country, establishing conditions for more business-oriented and transparent operations, preventing

monopolistic practices, and facilitating access to credit and technological resources.

It should be noted that the problems of diversifying Azerbaijan's national economy also remain in the focus of attention in various countries and economic approaches worldwide. For example, according to research conducted by the China Institute of International Studies, accelerating efforts to reduce the country's dependence on oil is considered essential, and it is deemed advisable to make maximum and effective use of the opportunities offered by the Silk Road Economic Belt.

In general, research conducted by experts and scholars suggests that there are six key factors enabling Azerbaijan to diversify its national economy. These include the presence of macroeconomic and political stability and a favourable investment environment, the adequacy of foreign exchange reserves, financial freedom, a unique development model of the non-oil sector and the potential for Azerbaijani products to access global markets, and finally, the country's image as a reliable partner for the international community.

It should be noted that the comprehensive consideration of national economic development problems has always been at the center of academic attention. This includes manoeuvring development directions and targets based on objective resource potential, and are reflected in the works of researchers. Latif Zeynalli & Murteza Hasanoglu (2022) emphasizes that Azerbaijan is endowed with abundant natural resources and possesses strong production, scientific-technical, intellectual, and labour potential. Azerbaijan is located at the crossroads of East and West, Europe and Asia, and holds significant geostrategic importance. These advantages will enable Azerbaijan, in the first decades of the 21st century, to implement the priorities of its economic strategy and to achieve high economic growth indicators. The expansion of work in this direction and the acceleration of non-oil sector development could, alongside addressing many challenges, provide a relative solution to the problems of diversifying the national economy. Researcher Sh. Aliyev (2025), while analysing the factors influencing Azerbaijan's economic development processes, has noted that the instability of global oil prices and the impact of financial and economic crises determine not only the sustainability of the oil and gas industry and extractive sectors, but also the stable development of other branches of the national economy – primarily the manufacturing sector. This, in turn, necessitates the production of competitive goods, diversification of the structure of domestic products

and foreign trade turnover.

It should be emphasized that, for now, the industrial sector holds the largest share in the diversification of the structure of Azerbaijan's national economy. Unfortunately, despite the vast potential of the agricultural sector, its share in the structure of the country's GDP remains significantly lower than its actual capacity. Fig. 1 presents the structure of the Gross Domestic Product of the Republic of Azerbaijan for the year 2024.

As can be seen from Figure 1, in the improvement of the structure of the national economy, the activity of the non-oil sector as well as the diversification of services emerges as important issues. In this regard, as we have mentioned earlier, the diversification of the national economy should be accelerated, the activity of potential economic sectors should be expanded to

ensure GDP growth, and especially the development of the non-oil sectors should be strengthened. Taking all this into account, ensuring the sustainable development of the national economy under market conditions and regulating macroeconomic dynamics and structural changes are among the most important tasks.

Raising the level of economic development to a new stage requires consideration of the regularities of processes shaped by global transformations and the fundamental principles and criteria associated with them. A comparative study of the experience of foreign countries and our republic in implementing structural reforms makes it possible to determine the role of state and private entrepreneurship in the structure of the economy and to show their impact on the overall results of economic development and the formation of a competitive environment.

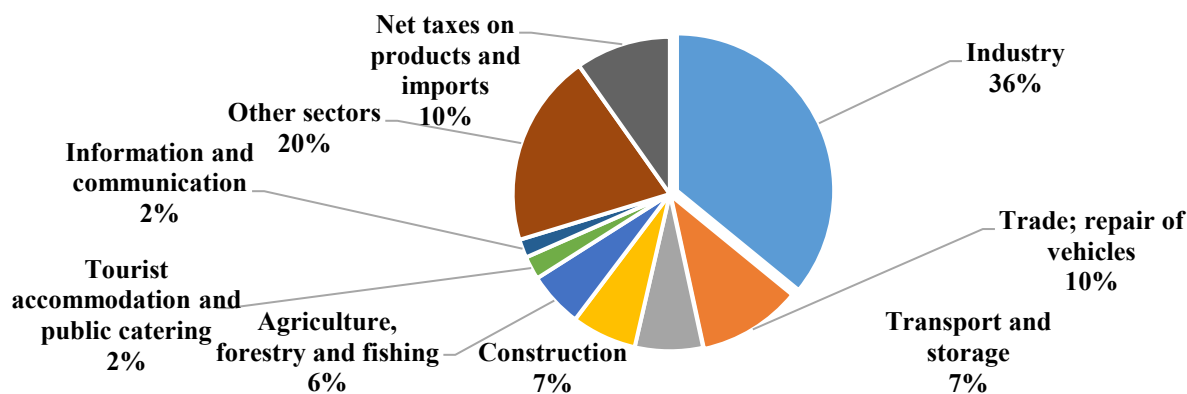


Fig. 1. Structure of gross domestic product in the Republic of Azerbaijan in 2024, in percent
Source: Author's calculations based on the State Statistical Committee of Azerbaijan datasets (various years).

However, while restructuring its economy, Azerbaijan should avoid imitating certain models, because despite having sufficient potential, it is still at the initial stage of forming market mechanisms. Therefore, instead of a "revolution in the economy", it must go through a long-term evolutionary path to adapt technology to the appropriate context. This approach remains highly relevant even today. The search for a more advanced model of development for our national economy is still ongoing. What is certain, however, is that our country cannot rely solely on a strong oil and gas sector to sustain a one-sided, continuous, and stable economic development model, and in recent years we have felt the bitter consequences of this.

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

As can be seen from Figure 2, GDP has not demonstrated a significant growth trend in the years

following 2013. During this period, although there was progress in the growth of the non-oil sector, the growth rate in 2015 decreased by nearly 6% compared to 2014. However, in 2017–2019 the growth rate was restored, while in 2020 it declined by almost 7% compared to 2019. Nevertheless, during 2021–2024, significant growth was observed.

On the other hand, in our previous research, we also addressed the features, principles, and criteria of certain economic development models that had achieved relative success in the world, and unequivocally did not consider the direct transfer of any of those models into our country's economic system as acceptable. This is because the full formation and development of a national economic development model, as well as the testing of the sustainability of its main mechanisms, require time and stages. The supporting pillars of our national economic system are not yet strong; due to this

fragility, the strengthening of global influences has revealed problems in the development of our national economy. These problems necessitate in-

depth research, broad structural changes, and the acceleration of the diversification of the national economy.

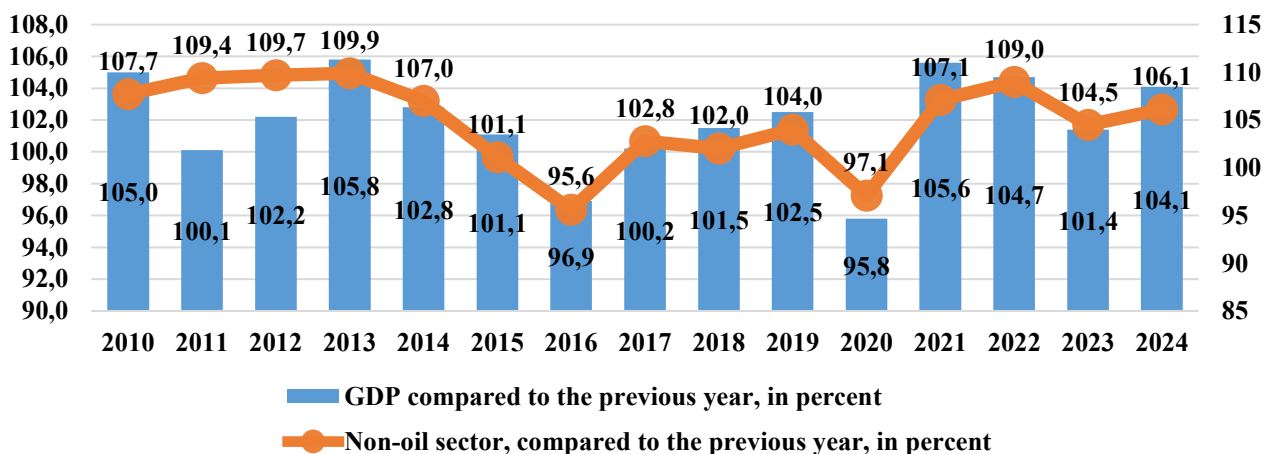


Fig. 2. GDP and non-oil sector in the Republic of Azerbaijan, compared to the previous year, in percent
 Source: Author's calculations based on the State Statistical Committee of Azerbaijan datasets (various years).

In order to assess the depth of structural changes in the national economy and to develop maximally optimal modernization mechanisms, it is crucial to evaluate the current resilience of the country's economic system, the characteristics of national economic development, the realities of the socio-economic situation in the country, the adequacy of economic growth, the level of the business and entrepreneurial environment, the efficiency of the use of investments and capital expenditures, the compliance of production development with global economic challenges, the identification of the potential sources of national income growth, and so on. All these measures and strategic tasks should be balanced under the condition of preserving macroeconomic proportions, while the expansion of the structure of the national economy and the acceleration of its diversification should be carried out consistently. Greater use should be made of the potential of processing industries in diversifying the structure of the national economy, since the development of these sectors can generate greater added value for the national economy. In the diversification of the national economy, it is also necessary to take into account the characteristics of the economic systems of economically developed countries. For example, one of the defining features of the past 20–30 years is the significant increase in the share of services and high-technology-related sectors in the structure of national economies. These factors should be considered in the priorities of diversifying the national economy within the framework of national interests and the strategic development and goals of the national economy.

In the new global reality, Azerbaijan must

thoroughly examine and objectively evaluate its own reform and development realities, and complete the refinement of its new economic development model under modern conditions. One of the key conditions for strengthening competitiveness in non-oil sectors is the concentration of capital and production capacities, as well as the expansion of production cooperation. Such processes make the application of consolidated reporting and prudential supervision in many sectors of the national economy even more relevant from the perspective of economic efficiency. Ensuring transparency in the use of funds allocated for solving socio-economic problems in the country is also a crucial task. These issues have been particularly evident in the last two years in our country's economic system, especially in the banking-financial system, in ensuring the efficiency of budget expenditures, and in the effectiveness of investments and concessional loans directed toward socio-economic development and the advancement of real economic sectors. It has become clear that despite the existing high potential, the banking sector has shown little interest in directing financial resources toward the development of economic sectors capable of creating added value. Large amounts of credit and financial resources have been allocated to consumer loans for the purchase of goods at high interest rates with the aim of generating quick returns. Of course, the provision of loans for goods and services necessary to improve the living conditions and consumption levels of the population is a positive factor. However, it must be taken into account that our country has not yet fully established the

sustainability of its economic development. In this regard, investments should be directed toward strengthening the structure and diversification of the national economy, as well as expanding individual real economic sectors and the service sector, taking into account long-term strategic goals. Ensuring the acceleration of the development of these sectors and the strengthening of their potential is essential.

It is not at all coincidental that the banking sector, which shows little interest in projects and measures for the diversification of the national economy, in other words, in financing the development of real economic sectors, has emerged as one of the areas most affected in our country even by minor deformations in economic balance and the monetary-financial system. In this regard, the problems of national economic diversification should be addressed by forecasting and ensuring the stability of the macroeconomic level, maintaining the long-term effectiveness of macroeconomic indicators, achieving the optimality of the main mechanisms of economic growth, and considering the characteristics of economic process volatility (Sadigov, 2014). Determining the optimal development mechanisms of the national economies of oil-dependent and oil-producing countries, as well as forming a more optimal variant of national economic diversification, is of sufficient urgency and relevance.

At the same time, to improve the structure and competitiveness of oil-dependent countries' economies, the structure of their national economies must reflect modern realities and economic challenges in order to balance economic development. Studying the problems of modernization and diversification of the economies of oil-producing CIS countries, M. Guliyev & T. Azizov (2022) points out using the example of the machine-building industry that in Azerbaijan, the majority of fixed assets are highly worn out and the material-technical base is weak, while in Russia, the equipment and technical provision of this sector meet standards, and in Western countries, the highest quality equipment is produced, with sufficient financial resources and marketing networks to deepen innovation in this sector. From this, it can be concluded that the problems of ensuring the development and organizing the modernization of the machine-building sector – a field that could play a significant role in the diversification of our national economy – remain unresolved. The issue is that the oil-gas chemical machine-building sector, one of the key machine-building branches, has traditionally been significant for the Azerbaijani economy since the Soviet period and has distinguished itself with competitiveness.

At one time, advanced machine-building factories operated in this sector in our country, but unfortunately, their activity is not noticeable in the modern period, and thus, in terms of national economic diversification, a promising and high-potential industrial sector is not being fully utilized. Undoubtedly, the state should play a decisive role in rebuilding such industrial sectors based on modern technologies and take substantial measures. Indeed, one of the most complex problems of the development of the Azerbaijani economy in the modern period is accelerating its diversification. Huseynov et al. (2023) rightly note that the state acts as the main initiator of modernization and diversification policy in Azerbaijan. The country's industrial policy and industrial diversification priorities are directly related to improving the quality and competitiveness of industrial production and developing new import-substituting and export-oriented industrial products. Regulating the activities of industrial sectors, particularly accelerating the modernization of heavy industries as previously noted, can provide a strong impetus for the diversification of the national economy. The problem of diversifying the Azerbaijani economy will remain one of the most pressing issues at least in the near future, as the development of the industrial sector constitutes a key component of the country's overall economic development strategy.

One of the important elements of the state's industrial policy is implementing an effective anti-monopoly policy and reducing the dependence of monetary-credit policy on raw material resources. Therefore, the state must timely examine and identify gaps in its industrial policy and implement comprehensive and consistent measures to accelerate the development of the real sectors of the national economy, first and foremost the non-oil sectors. In this case, broader opportunities will arise for solving the problems of national economic diversification.

For example, in recent years, processes aimed at expanding the activities of the non-oil sector in our country have been intensified, including the commissioning of modern production networks and large facilities based on high technologies, as well as the strengthening of the technopark institution. Technoparks have begun to play a significant role in strengthening the country's industrial and export potential, intensifying the development of the non-oil sector, diversifying the national economy, and ultimately implementing new economic mechanisms. Since technoparks operate as efficient economic mechanisms that integrate science and innovation activities – key elements of these fields – they are typically tasked with achieving strategic

objectives. The process of diversifying the Azerbaijani economy through high-tech economic sectors is accelerating. The establishment of such technoparks will play a significant role in ensuring the sustainable development and competitiveness of our national economy, expanding innovation and high-tech sectors based on scientific and technological achievements, and increasing the range of export-oriented products that meet high international standards. On the other hand, accelerating the development of non-oil sectors in the post-oil era is crucial for addressing structural problems in the national economy and significantly intensifying the diversification of the national economy under current conditions.

In addition, in this context, it is long overdue to increase the role of the service sector alongside the real economy sectors in the diversification of the national economy. At present, the demand for high-quality types of services has increased significantly. Along with this, considering our country's transit potential, the demand of domestic and foreign enterprises and companies for a wide range of trade and transport services is growing. The expansion of port infrastructure and the logistics system in our country also indicates the increasing role of services. Through the expansion of services, the formation of new productive sources and potential in solving the problems of diversifying the national economy should be seriously considered and evaluated. Expanding the development of non-oil sectors and aligning the scope of the service sector's activities with its potential will play a significant role in the near future in reducing the national economy's dependence on oil and will have a notably positive impact on the effective diversification of the national economy. For example, similar analogous economic development processes attract attention in the world experience of oil-dependent countries. Norway's oil resources have become a fundamental factor in the diversification of its economy. However, later the Norwegian government was able to minimize oil dependence by developing a highly advanced industrial complex and processing sectors, as well as a wide range of service sectors, thereby creating a solid foundation for the long-term stability of the country's socio-economic development. In order to reduce the national economy's dependence on oil and accelerate the solution of diversification problems, the creation of a network of competitive, export-oriented enterprises based on high technologies, the training of highly qualified personnel, the efficient utilization of human potential, and the improvement of the effectiveness of utilizing the country's tourism potential should

be objectively assessed and evaluated.

The diversification of the national economy should be regarded as a serious modern challenge for the national economies of oil-producing countries. Moreover, it is hardly possible to model the development of the national economy and diversify its structure without addressing the problems of economic diversification. Indeed, without sources of productive growth and competitive production and service sectors, maintaining the growth dynamics of the national economy and ensuring macroeconomic stability during global crises becomes a rather complex task. The diversification of the national economy and the provision of mobility and productivity in its structure require the balancing and improvement of numerous complex economic components.

The economy must possess strong immunity and defence mechanisms to protect itself from any external or internal shocks, make the most efficient use of its self-development capabilities, regulate the interconnections of economic sectors with mutual interaction effects, and give preference to mechanisms and development directions adequate to the overall economic system. The national economy cannot remain closed; therefore, appropriate operational mechanisms for elements of an open economy must be developed. Measures should be taken to protect and strengthen the country's economic sovereignty and economic security, and each of these measures should prioritize the activities of economic sectors that enable the expansion of the national economic structure and the increase of its efficiency. The manoeuvrability and competitiveness of the national economy are based on its improved and diversified structure.

The diversification of the national economy's structure necessitates addressing the mentioned problems and activity directions, as well as simultaneously implementing profound structural changes. Indeed, without addressing the issue of diversification, it is impossible to inject new dynamism into economic development processes. In the majority of countries worldwide, carrying out structural reforms has acted as a fundamental component of diversifying the structure of the national economy. Currently, decisive steps are also being taken in this direction in Azerbaijan. The strategic goals for the development of the national economy have been determined, structural changes have begun, measures to improve economic management have been expanded, and most importantly, practical steps to accelerate the development of various non-oil sectors have been intensified. All such measures have created a solid

foundation for significantly diversifying the country's economy.

Determining a more optimal version of the national economy's structure and effectively conducting the process of economic diversification requires addressing a large number of complex tasks.

Conclusions and perspectives of further research. The diversification of the national economy should be carried out by taking into account every factor that enables sustainable and proportional development of the country's economy, including the development priorities of the regions. When diversifying the economy, aspects such as the development of regions in terms of economic priorities, the potential for expanding economic sectors, resource availability, and more productive use of labour resources should be considered through a comprehensive approach. In this case, the effectiveness of the main mechanisms of national economic development is ensured, while also creating additional opportunities to maintain and regulate the proportions of economic growth. Otherwise, certain regions or national territories may lag behind the overall level of economic development, leading to disproportions in the

development of the national economy and potentially lowering its competitiveness.

It should be noted that the main economic priorities of our country impose new demands over certain periods, and it is impossible to ignore them. In the modern era, improving and renewing the national economic development model has become an inevitable requirement. While addressing this issue, not only should the complex structural changes currently faced by the national economy be considered, but also the future strategic goals of the economic development model must be taken seriously. In the processes of improving the economic development model and renewing the structure of the national economy, every feature of the complex and wide-ranging relationships between producers and consumers must be deeply studied, and appropriate mechanisms should be developed and put into circulation. Currently, the main goal of Azerbaijan in the direction of national economic diversification is to incorporate new and universal economic mechanisms into its unique development model and to achieve significant progress in expanding the structure of the national economy through modelling the development of the non-oil sector.

REFERENCES

- Administration of the President of the Republic of Azerbaijan. (2021). *Azerbaijan 2030: National priorities for socio-economic development*. <https://president.az/articles/50474.5>
- Aliyev, S. (2025). Directions for increasing production along the value-added chain in the petrochemical industry of Azerbaijan in the context of sustainable development. In *International Conference on Economic Sciences and Management in the Changing World 2025* (pp. 5–14). Futurity Research Publishing. <https://doi.org/10.5281/zenodo.17098691>
- Alkhathlan, K. A. (2013). The nexus between remittance outflows and growth: A study of Saudi Arabia. *Economic Modelling*, 33, 695–700. <https://doi.org/10.1016/j.econmod.2013.05.010>
- Corden, W. M., & Neary, J. P. (1982). Booming sector and de-industrialisation in a small open economy. *The Economic Journal*, 92(368), 825–848. <https://doi.org/10.2307/2232670>
- Guliyev, M., & Azizov, T. (2022). Diversification through promotion of export-oriented production and “green transformation” in Azerbaijan. *Scientific Horizons*, 25(10), 62–70. DOI: [https://doi.org/10.48077/scihor.25\(10\).2022.62-70](https://doi.org/10.48077/scihor.25(10).2022.62-70)
- Gylfason, T. (2001). Natural resources, education, and economic development. *European Economic Review*, 45(4–6), 847–859. [https://doi.org/10.1016/S0014-2921\(01\)00127-1](https://doi.org/10.1016/S0014-2921(01)00127-1)
- Huseynov, A., Hamidova, L., & Samedova, E. (2023). Economic diversification as a factor of sustainable development: A case of Azerbaijan. *Problems and Perspectives in Management*, 21(3), 153–163. [https://doi.org/10.21511/ppm.21\(3\).2023.12](https://doi.org/10.21511/ppm.21(3).2023.12)
- Lashitew, A. A., Ross, M. L., & Werker, E. (2021). What drives successful economic diversification in resource-rich countries? *The World Bank Research Observer*, 36(2), 164–196. <https://documents1.worldbank.org/curated/en/099011409112372304/pdf/IDU08045dfc90b792042730a3570eaaa60d467c1.pdf>
- Mehlum, H., Moene, K., & Torvik, R. (2006). Institutions and the resource curse. *The Economic Journal*, 116(508), 1–20. <https://www.econstor.eu/bitstream/10419/63059/1/354828169.pdf>
- Ross, M. L. (2015). What have we learned about the resource curse? *Annual Review of Political Science*, 18, 239–259. <https://newuniversityinexileconsortium.org/wp-content/uploads/2022/09/What-Have-We-Learned-about-the-Resource-Curse.v2.pdf>
- Sachs, J. D., & Warner, A. M. (2001). The curse of natural resources. *European Economic Review*, 45(4–

- 6), 827–838. <https://www.earth.columbia.edu/sitefiles/file/about/director/pubs/EuroEconReview2001.pdf>
- Sadigov, Sh. M. (2014). Priority development of non-oil sector in Azerbaijan's economic policy. *Investytsiyi: praktyka ta dosvid*, 15, 94–99. http://www.investplan.com.ua/pdf/15_2014/22.pdf
- Van der Ploeg, F. (2011). Natural resources: Curse or blessing? *Journal of Economic Literature*, 49(2), 366–420. <https://www.jstor.org/stable/23071620>
- Venables, A. J. (2016). Using natural resources for development: Why has it proven so difficult? *Journal of Economic Perspectives*, 30(1), 161–184. <https://doi.org/10.1257/jep.30.1.161>
- Zeynalli, L., & Hasanoglu, M. (2022). An Assessment of the Impact of Public Expenditure on Economic Growth in Azerbaijan. *Uluslararası Yönetim Akademisi Dergisi*, 5(3), 544–553. <https://doi.org/10.33712/mana.1179687>