

**INNOVATIVE FACTORS' INFLUENCING TO AZERBAIJAN NATIONAL ECONOMY TRANSFORMATION**

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**ABSTRACT**

*Activation of state influence on country economic development contributes to the process of production structure optimizing, ensures the efficiency of economic systems' functioning. The main element in state's role strengthening is to ensure economic growth and development through the achievement of science and new knowledge, innovations in all spheres of economy. The new technological order contributes not only to meeting the growing needs, but also ensures the transition of quantity to a new quality in a rapidly changing economy. The real and effective implementation of many innovative projects depends not only on the amount of investment, but also on the quality and efficiency of the management system. It is important to consider the former USSR republics' comparative data on the use of budgetary funds, innovative transformations, and also on investments in the economy. It is also important to know the place of former USSR republics in various world rankings - in terms of economy, labor productivity, labor poverty, etc. The article also discusses the state's role in economy strengthening and an expert assessment of Azerbaijan national economy strengthening on the basis of the state's innovation policy and proposes measures to improve state support for innovative transformations.*

*For 30 years of their independent existence, the former republics of USSR have reached many heights. In this regard, it is important to consider their comparative data on the use of budgetary funds, innovative transformations, as well as on investments, on research work, on labor productivity in the economy, and on other indicators.*

*The research methods are observation method, statistical data analysis method, data grouping method, expert evaluation using PEST and SWOT analyses. The study used the economic works of foreign and domestic authors, data from world organizations, the media, and past research by the authors.*

*Key words: theoretical questions of innovative transformations; factors influencing innovative transformations; state indices for various macroeconomic indicators; expert assessment of innovative transformations in the national economy; strengthening the state role in the implementation of innovative projects.*

*JEL codes: F63, H50, I38, L51, O11, O30, O38, P5.*

**1. INTRODUCTION**

Increasing the efficiency of public investment for industry innovative development and, in general, for achieving economic growth is becoming relevant. In turn, the efficiency of public investment is influenced by the following factors: restructuring, structural reforms, coordination, rational distribution of finance across sectors of the economy, existing mechanisms for planning, development, management and incentives. Public capital invested in transport, communications, healthcare, infrastructure, services and education is efficient and has a positive impact on its growth and development.

Public capital is generally efficient, as it contributes to the growth of production, productivity and poverty reduction. Real institutional reforms are expedient, primarily aimed at changing the economy structure, primarily in industry and in the sphere of management. Improving the efficiency of public administration and the development of competition will contribute to the real growth and development of countries.

The purpose of the study is to study various factors that influence the strengthening of the national economy of Azerbaijan and compare the indicators of USSR former republics.

**The main objectives of the study are:**

- Study of the main factors influencing innovative transformations in the economy;
- Studying the state role in economy strengthening: a comparative analysis of the main macroeconomic indicators of USSR former republics;
- Expert assessment of the strengthening of Azerbaijan national economy and proposals for improving state support for innovative transformations.

**2. THE MAIN FACTORS INFLUENCING INNOVATIVE TRANSFORMATIONS IN ECONOMY**

The transition to the concept of sustainable growth involves a deep rethinking of what is available, not a return, but giving them balance, thoughtfulness and realism. Shimon Peres noted: "Americans invent something new because they believe in tomorrow, and Israelis invent because they don't like today" (Peres, 2019, p.260).

J.Schumpeter argued that the innovation process covers not only production and entrepreneurial activities, but also market segments, its purchasing power, consumer groups, marketing and advertising activities, as well as sales markets (Schumpeter, 1982). According to J.Bright, the innovation process covers not only the sphere of production and entrepreneurship, but also the sphere of social services and the sphere of social management. From these statements, it follows that the transformed and improved new goods, when entering the foreign market, compete with analogue goods on the international market, therefore, innovative transformations cover foreign economic relations (Table 1) (Abasova, 2014). And the state solves such legal, organizational, managerial and marketing issues as:

- Intersectoral flow of capital (the state decides in which innovative activities to direct investments so that they are potentially more profitable for country);
- Change in the technological structure in the industrial sectors of the economy;
- Mass appearance of goods with higher consumer properties (Grishin, 2010, p.46).

The economic growth of any country is determined by six main factors:

- 1) Quantity and quality of natural resources;
- 2) Quantity and quality of labor resources;
- 3) The volume of fixed capital;
- 4) Technology;
- 5) The use of innovation as a strategic factor in economic growth (Petrukhina, 2012);
- 6) The growing role of man, the improvement of skills and intelligence, adequate to modern requirements (Abalkin, 2004).

If the first four factors are associated with the physical ability of the economy to grow, then the last two factors are associated with qualitative transformations in society. The use of innovation as a strategic factor in economic growth is a factor for countries with sufficiently high intellectual and industrial potentials (Petrukhina, 2012).

It is known that resources create material conditions for economic growth, but resources do not determine success. England began its development with coal, the United States with oil, but no one said that they were raw material appendages. For Azerbaijan oil contributed to the achievement of the foundations of sustainable development and creation of foundations for post-oil economy. Oil exports subsidize other sectors of Azerbaijan economy. Human capital is related to productivity, and productivity is the efficiency with which factors of production are turned into finished goods.

Productivity is influenced by technology, specialization, and skills, all of which are functions of human capital. Human capital is a combination of skills inherent in a person (education, intelligence, experience, creativity, charisma, entrepreneurial ability, the unique combination of skills and knowledge). Human capital is a kind of "economic passport". Human capital in the modern economy is a more important form of capital that contributes to the creation of wealth and growth (Yuzbashiyeva, 2019).

There is a relationship between the level of a country's human capital and its economic well-being, but there is no relationship between natural resources and living standards. For example, Japan and Switzerland are the richest countries in the world, although they are not endowed with natural resources, but have a high per capita income.

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On the contrary, Nigeria, Africa, the countries of the Middle East, UAE, CA, Russia, Azerbaijan, Kazakhstan, have large reserves of oil and gas, but have a low per capita income (Yuzbashiye, 2010).

**Table 1: PEST analysis of the main factors influencing innovation transformations in the economy**

<b>Pozitive aspects</b>	<b>Negative aspects</b>
<b><i>Political factors</i></b>	
<ul style="list-style-type: none"> <li>➤ Many states support innovative development through various state programs, economic development banks and special banks;</li> <li>➤ Developed countries encourage large manufacturers to create radical innovations, especially in the field of space exploration, electronic and robotics.</li> </ul>	<ul style="list-style-type: none"> <li>➤ In the world, in addition to developed countries, there are many countries with developing economies, for which the provision of food is a priority function of the state.</li> </ul>
<b><i>Economic factors</i></b>	
<ul style="list-style-type: none"> <li>➤ The modern economy is characterized by rapid technological changes, short product life cycles, increased risk of doing business;</li> <li>➤ A new approach to doing business is being formed, based on the use of non-traditional business models to solve the problems of strengthening competitiveness and entering new markets.</li> </ul>	<ul style="list-style-type: none"> <li>➤ With the emergence of new threats (pandemics, natural disasters or military conflicts, etc.), business conditions are rapidly changing, fundamentally new technologies are emerging, many economic processes are going online;</li> <li>➤ The rate of development and implementation of innovative products in everyday use is increasing many times and this requires companies to constantly assess new market opportunities and threats.</li> </ul>
<b><i>Social factors</i></b>	
<ul style="list-style-type: none"> <li>➤ In the countries of Western Europe in the next decade, an increase in highly qualified professionals by more than one and a half times is expected;</li> <li>➤ McKinsey Global Institute confirms the need to rebuild the education system with a focus on innovative technologies.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The labor market demonstrates the presence of multidirectional trends;</li> <li>➤ Along with the growing concentration of the population in industrial and scientific centers, there is a shortage of highly qualified personnel with a simultaneous increase in low-skilled personnel.</li> </ul>
<b><i>Technological factors</i></b>	
<ul style="list-style-type: none"> <li>➤ Innovations are becoming a decisive factor for increasing the sustainability and active development of both individual companies and the country's economy as a whole.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The share of innovative companies in advanced industries reaches 10-20%.</li> </ul>

Source: compiled by S. Abasova according to sources (Abasova, 2013; Abasova, 2015; Petrukhina, 2012; Sokolova, Bondareva, 2019)

Innovations, being the main factor of high-quality economic growth, influence the GDP dynamics. Their impact on economic growth rates is manifested as a result of increased labor productivity and improved production efficiency. Qualitative economic growth, in addition to a quantitative increase in production, is accompanied by many structural, technological and other changes.

Attention should be paid to the strong relationship between innovation factors that determine the size of GDP. The transformation of each structural component of the innovation environment affects other elements. Innovative factors are also indirectly influenced by 3 more factors (Sokolova, Bondareva, 2019):

- Unprecedented growth in information exchange's speed, creating the possibility of unlimited communications, expanding the forms of business cooperation and the exchange of achievements, the most effective level of commercialization of innovations;
- Significant changes in the structure of consumption due to the possibility of a new approach to commodity supply. It became possible to share goods and services, to measure goods using Internet platforms that allow increasing access to various benefits, reducing their cost and search speed;
- Growing responsibility for the state of the environment, a conscious attitude to environmental issues, which led to significant changes in the structure of energy consumption. A significant contribution to the preservation of the environment is made by innovations in the production of electric vehicles, modular structures in construction, the creation of new materials in industry, and so on.

The presence of radical innovations and modern technologies, such as digitalization, robotization, allows to automate more than 60% of manual operations. Simultaneously with the growth in the number of innovative technologies, the level of their availability is growing.

State incentives for innovation in the high-tech sector include the following:

- Multicomponent support for innovation should be carried out taking into account regional characteristics and government priorities;
- Each of the stages of development and transformation of knowledge, R&D needs financial, consulting, information and other types of support;
- The state needs to actively support the development of links between science and industry through the business sector;
- The infrastructure of the knowledge-intensive industry - the condition of roads, airports, other communications - should be rational for potential investors, and not serve as an obstacle to innovative development.

### **3. Factors Influencing the State Role Strengthening in Azerbaijan National Economy: a Comparative Analysis with the Indicators of Former USSR republics**

The world economy testifies to the growing role of the state in the redistribution of generated income. As you know, the share of the state budget in the distribution of GDP has increased from 10-20% to 50% or more. This is the result of an increase in public spending on education, healthcare, science, and social contributions, but the increase in spending does not always give positive results (Yuzbashiyeva, Abasova, 2021).

The state is trying and taking many measures to prevent the growth of social stratification of population, contributes to the achievement of stability, sustainable and dynamic growth and development of economy and the country as a whole. Therefore, it is advisable to increase the efficiency of budget expenditures based on GDP, since the higher this indicator, the more efficient the expenditures. A small increase provides a larger increase in GDP. It is also expedient to consider the effectiveness of budget expenditures using the coefficient of budgetary security (see Table 2).

**Table 2: Efficiency of budgetary expenditures using the budgetary provision ratio (in national currency)**

Countries	2015	2017	2019	2021	Adjusted for 2021 inflation	Taking into account the course of the national currency 2021
Azerbaijan	2.19	2.55	2.66	2.95	0.67	1.74
Belarus	3.96	4.34	5.31	6.874	0.75	2.05
Georgia	2.51	3.02	3.83	5.08	0.55	1.68
Kazakhstan	529.16	721.42	755.65	968.73	129.2	2.16
Kyrgystan	27.81	31.99	31.57	38.28	2.97	0.46
Latvia	4.63	5.05	6.01	7.61	2.93	7.11
Lithuania	4.42	4.84	5.91	7.82	2.61	7.31
Moldova	16.35	19.61	24.6	32.36	10.90	1.75
Russian Federation	199.99	217.791	252.099	326.40	55.32	4.41
Tajikistan	1.807	2.440	2.454	2.691	0.34	0.22
Turkmenistan	3.898	4.131	3.666	3.803	0.31	1.09
Uzbekistan	1752.860	2209.262	4260.376	6510.873	593.52	0.58
Ukraine	20.097	29.383	39.405	53.52	5.64	1.83
Estonia	6.202	7.100	8.241	9.857	2.60	9.21

Source: calculated by G.Yuzbasiyeva based on the specified data <https://svspb.net/danmark/> (20.12.2021)

If the coefficient grows, then this means an increase in the efficiency of spending from a social point of view. Thus, taking into account the exchange rate of national currencies, the efficiency of spending from a social point of view is higher in Latvia (7.11), Lithuania (7.31) and Estonia (9.21). In Azerbaijan, the effectiveness of budget spending is still low, which requires clarity in coordination, execution and increased responsibility. The influence of inflation is also strong. As you can see, resources create the material conditions for economic growth, but resources do not determine success (<https://svspb.net/danmark>).

A systematically pursued economic and social policy, supported by real political achievements, is helping to improve the current situation. Crises are used by developed countries as an effective tool for managing the world economy, military conflicts are one of the elements of economic competition (energy and food prices). Unfortunately, military conflicts first solve the problem of economic stimulation of certain zones of economic activity in order to concentrate commodity and financial resources.

The standard of living determines productivity growth. If productivity increases by 2% per year, then we become richer by 2% annually, since we can use the same factors introduced into production and produce 2% more goods, or get the same volume of production, use 2% fewer factors, put into production. Productivity growth makes people richer, no matter what happens in the rest of the world. Depends on investment in physical capital, in human capital, in R&D, in improving the efficiency of state institutions, on innovation and technical and technological progress (Whelan, 2018, p.38).

Labor productivity contributes to economic growth and development, increasing competitiveness and living standards in the economy. Labor productivity is the total output (measured in terms of gross domestic product, GDP) produced per unit of labor (measured in terms of hours employed or worked) during a given reference time period. This indicator provides an estimate of GDP labor cost levels and growth rates over time.

Thus providing general information on the effectiveness and quality of human capital in the production process for a given economic and social context, including other complementary resources and innovations used in production.

**Table 3: Indicators affecting labor productivity**

	2019			2020			
	Working poverty rate	Level of social protection coverage	Labor productivity	Employment rate, %	Labor force dependency ratio	Share of labor income	Labor cost\$
Azerbaijan	0	39	0.5	60.6	1.15	51	10.46
Belarus	0	36	4.0	60.7	0.99	49	17.26
Georgia	3.0	97	-0.8	53.5	1.34	50	-
Kazakhstan	0	100	2.4	65.7	1.15	41.0	8.94
Kyrgyzstan	0	42	-0.3	52.2	1.84	39	-
Latvia	-	97	8.3	55.9	1.15	53	14.57
Lithuania	-	93	6.2	57.3	1.07	48	14.57
Moldova	0	42	9.4	36.8	2.22	59	0.52
Russian Federation	0	90	5.1	58.3	1.11	52	15.93
Tajikistan	1	27	3.4	37.2	3.30	29	-
Turkmenistan	1	-	3.5	43.4	2.32	47	-
Uzbekistan	7	43	4.6	53.9	1.60	41	-
Ukraine	0	73	3.6	50.8	1.34	43	10.15
Estonia	-	98	8.5	59.7	1.01	58	19.20

Source: prepared by Yuzbashiyeva & Yuzbashiyevev on dates from <https://ilostat.ilo.org/topics/labour-costs/> (12.12.2021)

Thus, GDP per hour worked (GDP at constant 2017 prices in international PPP dollars) in 2021 was: Estonia - \$42.0, Latvia - \$33.9, Lithuania - \$41.0, Russia - \$30.3, Kazakhstan - \$29.5, Belarus - \$21.8, Turkmenistan - \$19.6, Georgia - \$16.8, Azerbaijan - \$15.8, Ukraine - \$15.8 \$, Moldova - \$14.4, Uzbekistan - \$9.2, Tajikistan - \$8.0, Kyrgyzstan - \$7.1. The working poverty rate in Georgia is 3.0, in Tajikistan it is 1, in Turkmenistan it is 1, in Uzbekistan it is 7, and in other countries it is zero (Table 3). (<https://ilostat.ilo.org/topics/labour-costs/>) The role of the ILO in strengthening a country's capacity to produce well-paid labor is growing (Table 3.). The cost of labor serves as an indicator of the competitiveness of manufactured goods in the international market, is an important factor in the ability of enterprises and countries to compete. In Uzbekistan 7% of the population is classified as moderately poor, 23% - poor and 3% - almost poor; in Georgia - 2%, 9% and 24% respectively; in Tajikistan - 1%, 6% and 23% respectively; in Turkmenistan - 1%, 3% and 17% respectively; in Kyrgyzstan - 5% poor and 4% almost poor.

As can be seen from the data, it is advisable to increase responsibility, clarity and coordination in the implementation of programs adopted by the government and the actual implementation of the planned activities in order to achieve truly sustainable socio-economic development.

The importance lies in the fact that positive consequences of economic growth (an increase in production, national wealth, the country's importance in the international division of labor, an increase in the standard of living of the population and an improvement in working conditions) affect the satisfaction of Azerbaijan population. But negative consequences (deterioration of the country's ecological situation, the problem of unemployment, depletion of resources, overpopulation of cities) should be taken into account in socio-economic development program by government. The creation of special programs for the innovative development for specific industries of Azerbaijan will help strengthen national economy which involves improving in structural quality of economic system and expanding its capabilities in terms of innovation.

#### **4. Assessment of Innovative Transformation in Former USSR Countries**

The restoration of the previous (pre-reform period) production volumes in the economy is not yet accompanied by a process of restructuring, modernization and structural changes in order to limit further growth and development. To solve this problem, it is advisable to conduct a real investment and innovation policy.

Investments create the foundations for economic growth and development. An increase in the rate of growth and development of the economy should be based on the importance of creating prerequisites for strengthening the

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implementation of investment and innovation processes in order to carry out restructuring, structural and technological modernization, which, in turn, will create conditions for real implementation of existing opportunities for Azerbaijan socio-economic development, and not play catch-up with other countries.

**Table 4: R&D/GDP and innovation index, %/place**

Countries	R&D/GDP, %/place		Innovation Index, %/place			
	2015	2018	2018	2019	2020	2021
Azerbaijan	0.22/77	0.18/62	30.20/81	30.20/84	27.20/82	28.40/80
Belarus	0.50/55	0.61/40	29.40/85	32.10/72	31.30/64	32.60/62
Georgia	0.32/69	0.30/51	35.00/58	37.00/48	31.80/63	32.40/63
Kazakhstan	0.17/80	0.12/65	31.40/73	31.00/79	28.60/77	28.60/79
Kyrgyzstan	0.12/87	-	27.60/93	28.40/90	24.50/93	24.50/98
Latvia	0.63/48	0.63/39	43.20/34	43.20/34	41.10/36	40.00/38
Lithuania	1.04/35	0.94/32	-	41.50/38	39.20/40	39.90/39
Moldova	0.31/71	0.25/54	37.60/47	35.50/58	33.00/59	32.30/64
Russian Federation	1.10/34	0.99/30	37.90/45	37.60/46	35.60/48	36.60/45
Tajikistan	0.11/91	0.10/67	26.50/100	26.40/100	22.20/109	23.90/103
Turkmenistan	-	-	-	-	-	-
Uzbekistan	0.61/52	0.47/46	-	-	24.50/94	27.40/86
Ukraine	0.17/81	0.13/64	38.50/42	37.40/47	36.30/45	35.60/49
Estonia	1.47/23	1.43/21	50.50/25	50.00/24	48.30/25	49.90/21

Source: prepared by Yuzbashiyeva&Yuzbashiyevev on dates from <https://www.theglobaleconomy> (21.02.2022)

The main indicator is the indicator of R&D - the ratio of spending on research and development to GDP and its dynamics (Table 4), which contributes to progress in high-tech industries not only in industry, but throughout the economy. Really increasing the ratio of R&D to GDP can achieve real progress in high-tech industries. With the dominance of the neoclassical school, production faded into the background, priority was given to the financial sector and tourism, although it was the manufacturing sector that supplied new technological and organizational opportunities. The increase of productive capacity has got the crucial in existing problems' solving, as evidenced by the pandemic (Table 4).

As can be seen from the table 6 Azerbaijan moved from position 77 to position 62 in indicator of R&D expenditures, Belarus from 55 to 50, Georgia from 69 to 51, Kazakhstan from 80 to 65, Latvia from 48 to 39, Lithuania from 35 to 32, Moldova from 71 to 54, Russia from 34 to 30, Tajikistan from 91 to 67, Uzbekistan from 52 to 46, Ukraine from 81 to 64 and Estonia from 23 to 21 positions respectively. This was also reflected in indicator of innovation index, which improved the almost all CIS countries' positions in 2021, but in relation to 2018 were improved the positions two countries - Belarus (62nd place) and Estonia (21st place).

The data confirm the above - an increase in the rate of growth and development of economy should proceed from the importance of creating prerequisites for strengthening the implementation of investment and innovation processes in order to carry out restructuring, structural, technical and technological modernization, which, in turn, will create conditions for real implementation of existing opportunities of social - economic development of country (Table 5).

**Table 5: SWOT analysis of former USSR republics' participation in innovative transformations**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>➤ Estonia, Russia, Lithuania allocate a lot of money from the budget to support innovative development. The Baltic countries, unlike Russia, support venture enterprises, supporting start-ups of young researchers;</li> <li>➤ The level of employment and labor</li> </ul>	<ul style="list-style-type: none"> <li>➤ The exchange of scientific information is reduced, either scientific and technical cooperation and cooperation between researchers of post-Soviet space is deteriorating;</li> <li>➤ The lowest level of social protection coverage</li> </ul>

<p>productivity remains high in Baltic countries, Moldova and Russia;</p> <ul style="list-style-type: none"> <li>➤ The efficiency of budget spending is the highest in Baltic countries;</li> <li>➤ Social protection coverage is very high in Kazakhstan and Baltic countries.</li> </ul>	<p>is observed in countries of Central Asia;</p> <ul style="list-style-type: none"> <li>➤ The level of working poverty is high in Uzbekistan and Georgia.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>➤ Azerbaijan, Ukraine Kazakhstan and Moldova prefer to introduce previously investment oriented innovation projects into national economy;</li> <li>➤ Kazakhstan and Azerbaijan like as Russian Federation are space powers and have their own space development programs;</li> <li>➤ Russia, Ukraine, Belarus spend budgetary funds on large innovative projects.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Military conflicts in the territories of former USSR primarily affect scientific research, many scientists do not participate in conferences, do not share their experience;</li> <li>➤ The level of employment and labor productivity in countries of Transcaucasia are the worst;</li> <li>➤ The countries of Central Asia, at best, direct their budget funds to investment projects.</li> </ul>

Source: compiled by S.Abasova based on data (Labour market, 2021); be5.biz/makroekonomika/profile/ru (15.11.2021); <https://www.theglobaleconomy> (21.02.2022).

Protection of state interests plays an important role in determining the direction of state investment policy. It is important to transform industries, reduce imports of components for agricultural machinery, drilling equipment, ferrous metallurgy products and other industries. It is important to create branding, that is, the creation of a trademark.

### **5. State Regulation of Innovations' Introduction to Azerbaijan National Economy**

As a result of innovations in Azerbaijan, a new generation of investment policies has emerged, where growth and sustainable development of economy are at the forefront. They are aimed at the system integration of sustainable development and its management with the help of specific indicators and mechanisms, both at the national and international levels. Distinctive characteristics of this generation of investment policies are the recognition of the role of investment as a driving force for economic growth, the desire to achieve social goals simultaneously with economic ones, and the need to improve the effectiveness of policies to attract investment resources.

Now Azerbaijan has got the stability in economic development and effective political system. The existing structure of political system copes with emerging imbalances in economic development, contributes to the creation of the foundations for sustainable socio-economic growth and development of the country (Yuzbashiyev, 2010). In Azerbaijan, there is a positive dynamics of GDP, but at a low rate, that is, there is a multi-speed development. According to the dynamics of population growth, a steady growth trend is observed. The dynamics of the growth of labor qualifications is positive and improving qualitatively, which indicates integration into the world economy (Yuzbashiyeva, 2019).

The economy of Azerbaijan, first of all, should become an economy of high technologies and services. Reforms should be carried out when the most favorable conditions for them develop. Azerbaijan needs to combine two directions - innovative transformations and provision of innovative projects with investments - for sustainable progress, as well as for the harmonious development of the economy. We hope that in the near future Azerbaijan will become a country with high productivity and competent coordination of reserves and resources.

Taking into account the resource potential and specialization of the industry, it is planned to develop the production of science-intensive and labor-intensive goods. Increasing the production of products from local raw materials - food products, wood products, textiles, building materials - is of paramount importance. Only a systematic approach in implementation of state structural policy, aimed at overcoming the existing imbalances, can have a positive effect in implementation of new economic policy for Azerbaijan. We can say that the increased impact of structural factors on economic dynamics means that the role of industrial policy should not only increase, but also change qualitatively.



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The current situation in Azerbaijan is the result of a crisis of abundance, not depletion. It is important to return the invested subsidies for development of country's fuel and energy complex. Oil and gas production is a high-tech industry. Surplus profits should not only cover the import of high-tech equipment, but should also form their own industrial base based on innovation and focus on real development and profit. Buy modern equipment for the production of non-innovative products.

The main prerequisite for transition to an innovative development path is a change in the relative efficiency of borrowing and innovation, since the full development of innovative technology sector is hindered by foreign manufacturers that occupy a leading position in technology market. This problem is closely related to the problem that hinders the development of innovative products' and services' exports from Azerbaijan.

The new technological order contributes not only to meeting the growing needs, but also ensures the transition of quantity to a new quality in a rapidly changing economy.

Activation of Azerbaijan state impact on economic development will contribute to process of optimizing the production structure in order to ensure the efficiency of economic systems' functioning. The main thing is to ensure economic growth and development through qualitative factors, including the achievements of science and new knowledge, since not just innovations and qualifications are important, but their rational balance in order to obtain synergistic effects from their use. People are the only benefit of the post-oil economy. The new technological order contributes not only to meeting the growing needs, but also ensures the transition of quantity to a new quality in a rapidly changing economy. It is advisable to carry out a product leadership strategy that promotes an innovative way of economic development. The real and effective implementation of many projects does not depend on the amount of investment (money invested), but on the quality and efficiency of the management system.

### **6. CONCLUSION**

The implementation of economic reforms in Azerbaijan and the policy of "openness" for 30 years has enabled the economy to achieve certain success. Azerbaijan has its own model of socio-economic development and public administration (a set of features that determine the place and role of the state in the political system).

The characteristic features of this development model are: strong and effective state power; the development of all forms of ownership (the desire to achieve the optimal ratio of the public and private sectors, taking into account national interests); strengthening the importance of privatization as a means of attracting interested investors; implementation of investment and innovation projects (creation from scratch of new plants and factories in the food and metallurgical industries, construction of airports, construction of smart cities, etc.), multidirectional foreign economic policy; the basis of the economic model is social policy (Yuzbashiyeve, 2010).

The current model of the economy based on innovation (Naumova, 2017) includes five main areas of development that are interdependent and interdependent from each other. These directions take into account the peculiarities of the economic policy of state administration and the national mentality (Yuzbashiyeve&Abasova, 2021). They are the following:

1. Identifying the role of the state in innovation management or a "model of strong and effective power";
2. The effectiveness of the investment process or the "investment inflow model", where investments act as part of the process of innovative development;
3. "Export development model" for solving the problems of import substitution and concentration of funds for Azerbaijan economy development based on its own innovations;
4. "Model of priority development of industry and agriculture" (use of foreign technologies in the field of creating smart cities, planting greenery in cities, melioralization, introduction of irrigation systems);
5. Effective social policy is the basis of economic model of social innovation.

The process of combining development models based on innovations has begun in Azerbaijan. Firstly, there is an interaction between the models of "strong and effective power" and the "service economy" that creates conditions for the development of a market economy. The state does not directly interfere in the economy, it only forms the regulatory and legislative framework and indirectly regulates the market.

Secondly, it is necessary to combine the development of Azerbaijan economy along the path of a "model of investment inflow for the introduction of innovations" and the development of consumption growth. Thirdly, it is necessary to correct the

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"model for the development of exports of science-intensive products" and switch to the criterion of balanced foreign trade and trade turnover. Fourth, the "priority development model for industry and agriculture" creates the basis for innovative development and stable economic growth, develops certain industries and enhances the importance of product competitiveness. Fifth, an effective social innovation policy contributes to improving the welfare of Azerbaijan population.

It should be noted that many researchers have studied the influence of innovative factors on the development of economic growth, and the authors of this article have repeatedly considered one or another aspect of innovative transformations. But the identification of external and internal factors affecting the innovative development of economy and strengthening the state role still requires a detailed study of each of the factors separately.

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