

RISK MANAGEMENT IN THE CONTEXT OF ECONOMIC MODERNIZATION

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Annotation. The article discusses the importance of risk management in the context of economic modernization. With global changes, digitalization, and transformation of key economic sectors, risk management has become a crucial element of strategic planning for long-term sustainability. The article focuses on both the theoretical aspects of risk and its practical application in introducing innovations and reforms across various economic sectors. It discusses the main types of risk, including economic, financial, technological, and social risks, as well as the methods of assessing and minimizing them. Key tools and mechanisms are also analyzed, such as crisis management and insurance, that can be used to reduce the impact of these risks in the context of economic transformation. The article also discusses examples of successful practices and challenges faced by organizations and governments in the process of modernization, as well as suggestions for optimizing risk management procedures at all levels of the economic system.

Key words: risks, economic modernization, economic transformation, risk assessment, diversification.

«Risk management means protecting oneself from the adverse and unexpected decisions others may make and, in the process, making better decisions than they do»

Peter Bernstein

(an American financial historian, economist)

Introduction. Risk management in the process of economic modernization involves a set of designed to minimize the negative consequences of potential risks that may arise during the transition period associated with the renewal and transformation of an economic system.

Economic modernization often involves a high degree of uncertainty, since it requires the implementation of new technologies, legislative changes, market adaptation, and the revision of existing structures. As a result, risk management emerges as a crucial component for successful modernization efforts.

Types of Risks in Economic Modernization [3]

There are several types of risks that countries and organizations face during economic modernization. These risks can be divided into the following categories:

Economic Risks:

- Risks associated with inflation, such as possible price increases due to the introduction of new economic models.
- Financial risks, including budget deficits, increased public debt, and fluctuations in exchange rates.
- Unemployment risks resulting from automation and decreased demand for certain professions.
- Social inequality risks, which may arise from the uneven distribution of benefits resulting from modernization.

Technological Risks:

- Failure to successfully implement new technologies.
- Obsolescence of technology and the need for frequent upgrades due to rapid technological progress.
- Challenges in transitioning to new production standards.

Political Risks:

- The risks of changing legislation, which may not support the necessary economic transformation.
- Potential changes in the political climate, which could lead to a slow-down or halt in reforms.
- Conflict of interests between different groups in the country, such as the state, businesses, and society.

Social risks:

- Resistance from the population to the proposed reforms.
- Loss of public confidence in the government and economic system if modernization fails.
- Challenges with training and re-skilling personnel for new technologies and positions.

Environmental concerns:

- Impact of new economic models on environmental conditions, such as excessive industrialization and depletion of natural resources.
- Issues with sustainable development if ecosystem and environmental factors are not adequately addressed.

Risk Management Methods and Tools [4]

In order to successfully implement modernization, it is essential to use a range of risk management techniques and instruments. Here are a few examples:

Risk Assessment:

- A systematic process for identifying, evaluating, and analyzing potential risks. Includes both quantitative and qualitative approaches to assessing the likelihood of risk occurrence and its potential impact on the economy.

Strategic Planning:

- Creating long-term strategies for economic development that take into account potential risks and strategies to minimize them. This includes forecasting various scenarios and developing plans for crisis management (for example, plans to overcome an economic crisis).

Risk Diversification:

- Distributing investments and efforts across different areas of modernization in order to minimize losses if one area fails. For instance, this could involve investing in both emerging industries and traditional sectors of the economy.

Flexibility and Adaptability:

- The adoption of a policy that allows for timely adaptation of modernization plans based on changing conditions. This can be achieved through the establishment of flexible economic mechanisms and the monitoring of program implementation.

Monitoring and Feedback:

- Creating systems for continuous monitoring of the economic situation and the effectiveness of applied reforms. Feedback from market participants, the public, and other stakeholders allows us to respond promptly to new risks and deviations from the plan.

Education and Training:

- Investing in education and training for the workforce to minimize unemployment and social tensions.

Stakeholder Participation:

- Including various sectors of society, businesses, and civil society in decision-making regarding modernization. Dialogue and consensus help minimize resistance to reform and social risks.

International cooperation:

- Interaction with international financial institutions, countries, and organizations to seek external assistance, access to technologies, knowledge, and expertise in the field of risk management.

Examples of Risk Management in Economic Modernization

In recent decades, China's economic modernization has been guided by a strategy of gradual market liberalization. This approach has helped to minimize social and political risks by ensuring the consistent implementation of market reforms. Additionally, China has actively diversified its economy by investing in new industries such as high-tech and environmentally friendly sectors, while maintaining state control over key economic areas[1].

India, on the other hand, faces challenges due to uneven regional development, social disparities, and technological obstacles posed by the slow adoption of digital technologies. To address these challenges, India has implemented comprehensive educational programs and support initiatives for small and medium-sized enterprises.

Risk management in the context of economic modernization is not just a technical or economic challenge, but also a significant socio-political issue. Successful modernization necessitates a comprehensive approach that encompasses both internal measures, such as training and financial diversification, and external measures, like international cooperation and adaptation to global challenges[1].

In conclusion, it can be emphasized that risk management during the period of economic modernization is a crucial aspect in ensuring the stability and success of the transition to a new stage of development. With rapid changes in the external and internal environments, as well as the introduction of innovative technologies and structural transformations, entrepreneurs and government agencies face numerous uncertainties and threats.

Effective risk management not only helps to minimize potential losses, but also optimizes the use of resources, improves competitiveness, and promotes sustainable growth. To successfully implement modernization processes, it is essential to integrate risk forecasting, analysis, and monitoring systems at all levels.

During the period of modernization, risk management plays a crucial role in the economy. It allows us to quickly respond to challenges and adapt to changing circumstances. Special attention should be given to training specialists and fostering a culture of risk management within organizations. This will make the adaptation process more flexible and less vulnerable.

Risk management during modernization not only contributes to successful transformation of economic processes but also builds confidence in the economic system. This creates favorable conditions for long-term growth and development, benefiting both individuals and businesses.

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