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Competitiveness through new industrialisation in the EAEU

Viachaslau Yarashevich

Institute of Sociology, Ludwig-Maximilians University, Munich, Germany

ABSTRACT

Having recently passed its first five-year anniversary, the Eurasian Economic Union is still strolling economic shallows determined by commodity dependence and deindustrialisation of postcommunist political economy. Potentially these challenges can be overcome by a new industrialisation effort targeting macroeconomic competitiveness as a comparative capacity of adapting to globalisation. Indeed, while commodity exports currently dominating the mutual trade in the EAEU bound its members by the inherited infrastructure, as well as discounts on oil and gas, manufacturing can do so through value chains, which would also require more sophistication in common economic regimes, particularly concerning technical and financial regulation. A common industrialisation agenda would be helpful here, yet to be efficient in the specific postcommunist context of the EAEU it would have to depart from the existing paradigm and get focused on managing institutional misalignment, eschewing from communist-era grandeur, upkeeping the social sector and promoting private–public partnerships in innovative manufacturing activities.

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Introduction

Raising ‘the competitiveness of and the cooperation between the national economies’ constituting the Eurasian Economic Union (EAEU) was among the top objectives on its launch in 2015 (<http://www.eaeunion.org/?lang=en#about>). Yet evaluating the EAEU progress with this ambition is intricate not so much due to still insufficient timescale as to persistent ambiguities associated with the very notion of competitiveness in its macroeconomic applications. Indeed, many economists would agree with Krugman (1994) who more than quarter of a century ago made a well-known claim that ‘competitiveness is a meaningless word when applied to national economies’ (p. 44) and is merely ‘a poetic way of saying productivity’ (p. 34). As time has passed, though, the academic debate on macroeconomic competitiveness has become more established, not least to the efforts of some Swiss-based organisations such as the Institute of Management Development or the World Economic Forum, which greatly contributed to its popularity among business and political elites. Consequently, competitiveness of its members as a feature of macroeconomic systems has got associated with a capacity to provide for universally high living standards through innovation-driven economic growth (Reinert, 2008). With this intrinsic welfare dimension, competitiveness agenda inevitably shifts into

CONTACT Viachaslau Yarashevich  viachaslau.yarashevich@soziologie.uni-muenchen.de

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the realm of international political economy as a suitable measure of comparative analysis of economic development patterns across the world (Fagerberg, 1988). Likewise, competitiveness can be a measure of regional economic success, particularly if it applies to international organisations (IOs) with supranational remits. The European Union would perhaps be the most typical IO of this kind, but one can also think of the EAEU here as it does have supranational bodies and seeks, at least formally, a closer level of policy coordination than is usually the case with most other IOs. An additional justification for the regional outreach in applying the term 'competitiveness' to the EAEU is that this IO is unique in bonding nations that as recently as three decades ago were already part of one country with a political economy system quite distinct by itself.

Having said this, competitiveness should not be confused with the concept of development, at least in its modern interpretation arguably 'reduced to an assault on poverty' (Harriss-White, 2006, p. 1241). Instead, a more appropriate theoretical framework for competitiveness seems to come from a classic institutionalist perspective, which, according to Chang and Andreoni (2019) focuses on 'constitutive' rather than 'constraining' (p. 418) functions of institutions as 'special methods of life and of human relations' (Veblen, 1922, p. 188). From this perspective, competitiveness reflects a combination of factors, mostly institutional in nature, which determines the status of a national economy or its supranational agglomerations in the global economic system. And as status is typically related to welfare, the main issue of competitiveness then is about the origins and prospects of the latter, understood in a comparative context, i.e. with due credit to 'specific structural, organisational, institutional and political economy features' and their cross-country dynamics (Andreoni et al., 2019, p. 3).

Analysing competitiveness of the EAEU from this perspective cannot begin without taking into account its historical legacy and institutional capacity. Initially launched by Belarus, Kazakhstan and Russia on 1 January 2015, it was joined by Armenia and the Kyrgyz Republic later that year, and was built on the Customs Union and Single Economic Space among the former three members. Given that all five were part of the USSR on the one hand, and obvious domination by Russia whose leader yet in 2005 called Soviet break-up 'the greatest geopolitical catastrophe of the [21st] century' (<https://www.independent.co.uk/news/world/europe/putin-collapse-of-the-soviet-union-was-catastrophe-of-the-century-521064.html>) on the other hand, speculation that the EAEU is ultimately about Russia's power exercise is understandable (Dragneva & Wolczuk, 2017). Nevertheless, some important nuances in the set-up of the EAEU, as well as its empirical record suggest that this IO is anything but USSR and can do little for industrial-based competitiveness of its members.

Fundamentally, this is largely due to their extreme commodity dependence, particularly on the part of Russia and Kazakhstan, which can be expected to be less enthusiastic about Eurasian integration as the price of crude oil, their key export commodity, collapsed from the average of over 100 USD per barrel in 2010–2014, to 50 USD in 2015–2019, and then halved again in early 2020 (<https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>). To be sure, neither Russia nor its smaller Eurasian partners are unique in jeopardising their economic prospects while trying to make the most of their rich resource endowments, yet they differ from other similar cases in one key respect – the postcommunist transformation that began in the late 1980s and was formalised by the USSR break-up in late 1991. Unprecedented in

history, as there was ‘no known recipe for unmaking an omelette’ (No halfway house: Eastern Europe moves right, 1990), or turning centrally planned economic systems based on communist ideology into capitalist ones, postcommunism has affected the livelihoods of several hundred millions populating one-sixth of the global surface area.

Among the changes that took place in the early 1990s and were determined mostly in the framework of the neoliberal paradigm, mass privatisation on the background of profound political instability has arguably had the most dramatic and lasting impact on the EAEU competitiveness. Indeed, the privatisation itself was conducted mostly for political reasons and resulted not only in suboptimal new property structures but capture of political processes throughout the region, with the emergence of oligarchy as their most infamous ‘trademark’ (Hellman, 1998). With oligarchs swiftly taking control of most lucrative public assets, including natural resources, across the former USSR, a path for commodity dependence and deindustrialisation was set, while the region lost its chance to emulate East Asian success based largely on industrialisation. China is the most telling example here, as in 1990–1999 its manufacturing value added (MVA) in current terms tripled from 117 to 342 billion USD, while that of the future Eurasian partners collapsed proportionally, from 150 to 45 billion USD (<https://stat.unido.org/database/MVA%202019,%20Manufacturing>).

In fact, a period of continued economic expansion in the EAEU area during the 2000s was to a great extent determined by a boom in prices of commodities, which, in turn, was fuelled largely by extra demand for them from China. This political economy model could deliver in terms of welfare generation even in the absence of viable external political constraints, characteristic of those Central and East European postcommunist countries that opted for integration with the European Union (EU). Yet when commodity prices started to falter in the period following the global financial crisis, the EAEU found itself in a situation resembling that of the Soviet Union prior to *glasnost* and *perestroika*, as its commodity-based and deindustrialised political economy model got increasingly unstable on the background of globally depressed commodity prices, and by no means compatible with competitiveness in the long term.

Breaking this vicious circle requires new vision and political will, and this paper will set an argument for a new industrialisation as the ultimate solution to the EAEU’s woes. It will start with an overview of theoretical debates concerning competitiveness, analysing it as a phenomenon of the international political economy due to its welfare implications, well suited for cross-country and regional comparisons. In order to take into account post-communist specifics, the next, empirical, part of the paper will introduce the EAEU as an international organisation with an implicit development mandate, and then compare its constituting economies with those in Eastern Europe that are considered successful not only in terms of transformation/transition but also in a wider economic context as Europe’s new industrial core (ENIC): Czechia, Hungary, Poland, Slovakia and Slovenia. In fact, it will be demonstrated that their development patterns, certainly exceptional due to the effects of the EU membership, have been very much determined by industrialisation. Admittedly, it was powered by the expansion of West European value chains and aided by geography, converting the region into EU’s new periphery. Yet in purely statistical terms and considering the postcommunist context this process has been quite spectacular and might have had the greatest impact on the competitiveness of ENIC economies, fermenting their newly acquired status in the developed world (confirmed, *inter alia*, by the OECD

membership), and positioning them even farther from the EAEU members and other postcommunist peers than what was already observed in the pre-transformation period.

While the EAEU can by no means repeat ENIC experience, it can certainly learn from it, taking advantage of its natural and financial resources which in recent decades have invariably been channelled abroad. In particular, it could take note of the role various EU's policies played in promoting reindustrialisation and competitiveness of its new postcommunist members. The EAEU's untainted reputation could also be used for overcoming the sanctions gridlock which has overshadowed its genesis, but this would be unlikely in the absence of well elaborated and funded common development programmes. They could and should be coordinated in the framework of a new industrialisation agenda, and the final parts of this paper will be dedicated to the overview of relevant issues and their possible solutions.

Theoretical debates on competitiveness

Despite ongoing theoretical debates on the very nature and applications of competitiveness, in recent decades it has become commonplace to consider it not just a business or product feature, but in a broader sense, as a concept for comparing macroeconomic fortunes (Fagerberg, 1988, p. 355). Consequently, it can be used for elaborating on the question why 'some countries perform so much better economically than others over long period of time' (Fagerberg & Srholec, 2017, p. 905), and for making likewise claims on their regional agglomerations in the form of supranational IOs. All too often, however, such cross-country and cross-regional comparisons equate macroeconomic competitiveness with productivity. For example, according to Porter (2008), competitiveness is determined by productivity (p. 176), which is also central to the analytical framework employed by the World Economic Forum in its regular competitiveness rankings since 2004 (Schwab, 2018, p. 5). In his aforementioned seminal article Krugman (1994) went as far as to argue that applying the notion of competitiveness to national economies is no more than 'a poetic way of saying productivity, without actually implying that international competition has to do with it' (p. 35). But the reality is quite different, as direct associations of competitiveness with competition among countries, regions or even civilisations abound (Kruk & Waśniewska, 2017, p. 339) and may actually be responsible for its perceived theoretical ambiguity.

Indeed, if competitiveness is seen as 'a capacity to successfully compete with rivals', it can be 'properly understood' only at the microeconomic level (Olczyk, 2016, p. 430). From a political economy perspective, though, directly associating competitiveness with either international competition or productivity, not to mention with costs and exchange rates, seems misleading for it unavoidably overstates the role of international trade at the expense of other aspects of national development-shaping profiles of relative well-being. As useful as it is for measuring important yet not exclusive aspects of competitiveness, not least due to the abundance, accessibility and coherence of the appropriate data, international trade itself may be a reflection of the workings of other welfare-determining factors, some of which, like natural resources or geographic positions, can be endowed, but most are developed through prolonged historical periods and are commonly referred to as institutions. They can be regarded as subsystems (Bronfenbrenner, 1977, p. 515)

constituting a social infrastructure which in economic terms ‘encourages capital accumulation, skills acquisition, invention, and technology transfer’ (Hall & Jones, 1999, p. 84).

Institutions related to innovation and forming what is commonly referred to as national innovation systems may have the greatest impact on macroeconomic competitiveness in the modern globalised world. Brought forward in the late 1980s by Freeman (1987) and Lundvall (1988), they were analysed both in a narrow and a wider sense (Edquist, 2013, p. 3). The former encompasses innovative firms and public infrastructure they interact with, while the latter extends to all learning and other innovation-related activities regardless of their exact affiliation or location (Fagerberg & Srholec, 2017, p. 909). In either perspective, however, national innovation systems are inherently linked to industry or more specifically – manufacturing as ultimate testing grounds for the bulk of modern innovations. Indeed, innovation-driven manufacturing is fundamental to competitiveness, as ‘for most of recent economic history, ‘industrialised’ meant rich. And indeed most countries that were highly industrialised were rich, and were rich because they were industrialised’ (Arrested development, 2014).

Due to its superior productivity growth potential (Kaldor, 1967; Rodrik, 2013), determined by ‘relatively high levels of innovation, foreign direct investment (facilitating technological diffusion), economies of scale, high degrees of tradability, and strong interlinkages with other sectors,’ even the International Monetary Fund (IMF, 2018) came to acknowledge manufacturing’s ‘pivotal role’ (p. 140) in economic development. Like in no other sector productivity gains here are channelled through inherent tradability of most manufactured goods, from more competitive global markets to local ones, increasing competition for labour from the service sectors, and thus driving up wages and internal migrations, working as ‘a speedboat that pulls the rest of economy’ (Arrested development, 2014). Inherently superior productivity of manufacturing also means that its output prices tend to decrease relative to prices in other sectors, which also affects its relative standing in national accounts (UNIDO, 2017, p. 6). Yet since 1990 (the earliest period with the available data from UNIDO, the organisation with the internationally recognised authority for and resources concerning industrial development throughout the world) in absolute terms global manufacturing output has been expanding steadily, and in case of China – virtually exponentially (see Figure 1).

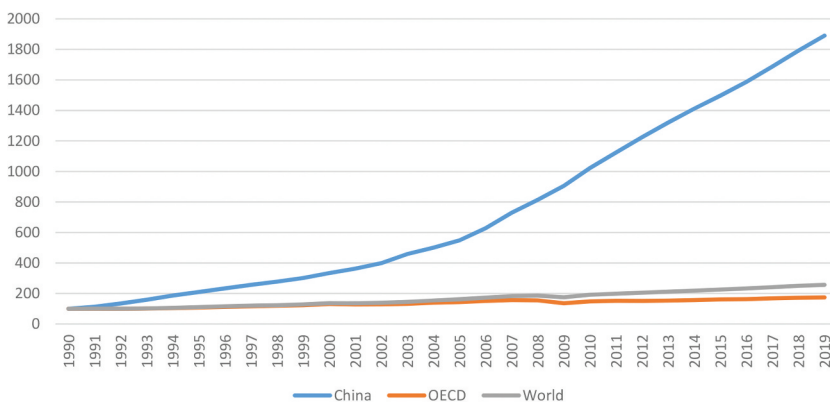


Figure 1. Global MVA dynamics in constant USD, 1990 = 100%. Source: UNIDO (<https://stat.unido.org/database/MVA%202020,%20Manufacturing>)

Despite its critical importance, though, from a classic institutionalist perspective manufacturing progress cannot be considered the only factor of macroeconomic competitiveness. Not accompanied by changes in other social subsystems, it can quickly run out of steam, as suggested by empirical evidence of unaccomplished industrialisations across the world, typically pointed out by *laissez-faire* advocates (Devarajan, 2016). Indeed, manufacturing progress is unfeasible without qualified workforce on the one hand, a function of national education systems, and constant innovations on the other hand, a function of national R&D systems. To produce competitiveness-inducing synergies through interaction with manufacturing at a macroeconomic level, these systems also depend on the workings of other institutional factors, which can collectively be referred to as social capital, or ‘that in life which tends to make ... tangible substances count for most in the daily lives of a people, namely, goodwill, fellowship, mutual sympathy and social intercourse’ (Hanifan, 1916, p. 130).

At the end of the day, macroeconomic competitiveness may be seen as a comparative capacity to generate rent on social capital produced by all, but foremost technology-related, synergies in interaction of manufacturing and social sectors. This is particularly helpful in explaining the resilience of some small industrialised and open economies lacking scale potential yet withstanding even the most turbulent shockwaves of globalisation, as was demonstrated in case of Iceland a decade ago (Iceland lifts capital controls: The end of a saga, 2017). Indeed, while their limitations in demography and geography may seem disadvantageous from macroeconomic standpoint, they are naturally beneficial for the genesis of social capital, which, in turn, determines the efficiency of their innovation systems.

Typically, this kind of efficiency is associated with the capacity to generate new technologies that can enjoy global demand. While emerging mostly through learning activities of the social sphere, concentrated in education and science, such technologies require approbation. Manufacturing provides the necessary testing grounds for this, serving as a sort of macroeconomic lab for social capital in general and innovation systems in particular. Due to its structural characteristics and placebo-like linkages with innovation, this sector can also be fairly resilient, which is best attested by the aforementioned observations on its absolute value-added trends. In turn, its declining share in national and regional outputs across the globe may be caused by the transformation of its development functions: even if they fail to provide as much of relative value added or employment as was common for the early periods of the industrial era, modern industrialisations are still key for setting in motion a ‘virtuous cycle [of development by] creating income, diversifying demand and massifying consumption’ (UNIDO, 2017, p. 4).

Such an option appears problematic for the absolute majority of developing economies, which either did not industrialise (i.e. reached per capita manufacturing output short of 2,500 international dollars by purchasing power parity according to UNIDO (2016, p. vii)), or set on the path of what Rodrik (2016) called ‘premature deindustrialisation’ (p. 1). As argued by Baldwin and Venables (2013), this phenomenon may be determined by the recent shift in the technological gears of globalisation: for most of history the latter was driven by improvements in transportation and telecommunications, which contributed to the first ‘spatial unbundling’ of production along global value chains, while nowadays this process takes its ‘second step’ (p. 245) triggered by the information and technology revolution. Advantages typically associated with industrialisation may relate

mostly to the initial ‘unbundling,’ as they implied ‘a long and arduous process’ in which aspiring countries such as Japan or Korea ‘needed to build capabilities along the whole of a supply chain’ but ‘were rewarded with a rich and diverse economy’ (Arrested development, 2014). Due to modern information technologies, certainly progressive by themselves, this development logic of industrialisation has been modified and in many cases reversed (Baldwin & Venables, 2013). As they enable ‘reshoring,’ or return of production to industrially developed countries (Coming home: Reshoring manufacturing, 2013), which in many Western economies received additional political dimension, an industrial path to competitiveness becomes ever more challenging. This applies to both individual economies and their agglomerations, either relatively loose or tighter ones, in the form of customs and/or economic unions. It is also more problematic in regions stereotypically associated with low levels of development, such as sub-Saharan Africa or South Asia, not least due to their demographic, geographic, historical and political specifics.

EAEU’s postcommunist industrial profile in comparative perspective

In case of the EAEU, these challenges are further complicated by the postcommunist transformation. A grand political economy experiment in what Offe (1991) called capitalism ‘by design,’ it involved multiple changes the speed and magnitude of which does not fit in standard patterns observed in the mainstream economic literature (Olofsgård et al., 2018, p. 830). For example, such observations typically take for granted the existence of markets and predominance of profit-maximising behaviour by predominantly private actors, yet none of these was in place in Eastern Europe and Central Asia in the early 1990s. Several decades later there is still a considerable scope for institutional consolidation there, despite increasingly common views that postcommunist transformation is either over (Sonin, 2013) or no longer relevant (Müller, 2019). Consequently, competitiveness of the EAEU economies is likely to depend on what they have in focus while performing such a consolidation.

The EAEU as a potential institutional vehicle of new industrialisation

Institutional consolidation can take different forms, and not infrequently is associated with advances in establishing formal structures. In contemporary international relations, they are typically represented by international organisations, and there has been no deficit of them across the former USSR as many of its former republics sought to preserve economic and social links while securing their newly acquired sovereignty. The Eurasian Economic Union is so far the most vivid example of such efforts, also seen as a new medium of Russian domination in the region. To be sure, it would hardly be feasible without the integration zeal and resources, particularly financial and human ones, of this great nation. Russia accounts for around 85% of the EAEU’s combined output, with similar shares in trade, investment and other key economic variables. It has the biggest population in the bloc, and throughout it, Russian is still spoken fluently, with Russians also forming major non-title ethnic communities in all of the member states of the EAEU. The Eurasian Economic Commission, its headquarters, is located in Moscow (though quite afar from the Kremlin in the premium-class office compound ‘Vivaldi-Plaza’ in Zamoskvorechye district), while Russian ruble is the official accounting currency of the EAEU budget. Last but not least, for

much of modern history Russia was the epicentre of major political developments in the northern part of the Eurasian continent, in the post-war period extending its geopolitical reach across the globe thanks to the superpower status of the USSR. This status, in turn, reflected not just ideologically and nuke-based international activism, but a novel and peculiar development model, however contestable it may seem nowadays.

It is a clear-cut development credo which has been missing in the EAEU as its first five years were spent mostly for sorting out numerous barriers in mutual trade, quarrelling about the extent of involvement in Russia's sanctions warfare with the West, and bargaining for best terms of energy trade in the bloc. Not surprisingly then that the share of mutual trade among Eurasian partners, a key measure of economic integration intensity, has hovered around 10% of their combined total foreign trade, or more than six times lower than in the EU, five times lower than in NAFTA, and more than twice lower than in either ASEAN in Asia-Pacific or EAC and SADC in Africa (<https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>) on average from 2015 to 2018. Among established international economic organisations by the extent of internal merchandise exchange in the same period the EAEU can be compared to ECOWAS (9.5%) or WAEMU (12.9%) in Africa, CARICOM (11.6%) or MERCOSUR (12.8%) in Latin America, and GCC (10.7%) or SAARC (7.3%) in Asia. Moreover, this exchange is mostly between Russia and its smaller Eurasian partners, while trade among them is insignificant. A similar situation can be observed with mutual industry-aimed direct investment: according to some estimates, it accounts for just a few per cent of the EAEU's internal capital exchange, which, in turn, is just a fraction of its total FDI, most of which comes from Russia and goes into energy and telecommunication sectors. And while some Eurasian enthusiasts like to point at the vibrancy of the common labour market, it should be stressed that the bulk of internal labour migration in the bloc is of temporary and low-qualified nature, concentrated in a few service sectors, particularly construction, and again carried between Russia and its partners, notably the smallest ones – Armenia and the Kyrgyz Republic.

There is also a background of relatively weak economic progress in the EAEU, as its output expansion has lagged considerably behind that of the world. Notably, while in current US dollars the latter has grown by nearly a tenth in 2015–2018, the EAEU shrank by as much as a fifth, which also starkly contrasts its own performance in a similar period preceding the bloc's launch, when it expanded by more than a third in 2011–2014, or faster than the world (<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>). This is mostly due to lacklustre performance of Russia, which grew on average by a mere half percentage point annually since 2015 (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>). Similar dynamics can be observed in per capita terms: while the bloc's overall standing here, measured in current international dollars by purchasing power parity (PPP), has remained higher than the global average, the positive margin has shrunk from two-thirds in 2011–2014 to one half since 2015, reflecting a huge difference in average growth rates, as in the latter period global per capita output has expanded at more than double the rate of the EAEU (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>).

All in all, then, if one considers that the EAEU brings together countries that used to be deeply integrated within the centrally planned economy of the USSR and enjoyed more than a decade of growth following the early postcommunist disarray, it is obvious that current economic foundations for a common Eurasian industrialisation agenda are far

from being optimal. There is no adequate ideological footing either: while the Soviet Union was based on communist maxims and the European Union grounds on the idea of European solidarity (which is undoubtedly being tested by COVID-19), as a product of postcommunism the EAEU understandably eschews from any similar grandeur.

In fact, as far as industrial development is concerned, it is devoted only two articles (#93-94) in the EAEU's founding treaty of 118 articles and is explicitly declared a matter of national policy-making. On the supranational level industrial cooperation is effectively limited to information exchange and consultations in the framework of 'Main directions of industrial cooperation', the EAEU's key text in industrial sphere, while on the national level there are close to a hundred similar documents, mostly uncoordinated and effectively amounting to a grand Soviet-type paper tiger if juxtaposed against empirical evidence. A special unit within the Eurasian Economic Commission, the EAEU's managing body, is responsible for industrial cooperation, but its activities go largely unnoticed, and a study of its website (http://www.eurasiancommission.org/ru/act/prom_i_agroprom/dep_prom/Pages/default.aspx) finds that its five subunits are likely to be preoccupied with the issues of subsidies (covered by Article 94 of the EAEU's Treaty) and market research rather than with deliberations of a new industrialisation agenda based on a common industrial policy.

To be sure, just as competitiveness itself, the latter is still a matter of debates dating back to the Middle Ages (see Reinert & Daastøl, 1997, pp. 253, 263), but getting increasingly obsolete in recent years (Stiglitz & Lin Yifu, 2013). In fact, as claimed by Rodrik (2009), industrial policy has been an inherent if not always a popular part of modern policy-making related not just to manufacturing, but to sectors ranging from agriculture to health care, and despite numerous and well-established 'practical difficulties with its implementation' its debating should be concerned with the question of how rather than if (p. 2). Nevertheless, establishing unequivocal cases of successful industrial policies may be difficult even at national level, not to speak about international organisations (with a tentative exception of the EU). For the EAEU, however, industrial policy may be the prime *raison d'être* given its plentiful resource endowment, common historical legacy, and at least formal intentions of its elites to break away with the peripheral position in the global economic system.

Should such a policy to be conceived at the EAEU level at all, which is highly unlikely due to the relatively low extent of mutual economic exchange, high heterogeneity and commodity dependence among its members, it could hardly be carried out by the organisation itself, and the key reason is funding. Indeed, at about 100 million euros for 2020 (<http://www.minfin.gov.by/upload/ministerstvo/cooperation/eaes.pdf>), or just 0.006% of the bloc's GDP, the common Eurasian budget is far from being fit for socio-economic activism similar, for instance, to the EU's Common Agricultural or Regional Policies. Moreover, in the EU the financial burden of such activism is shared among several more prosperous core members (Germany, France, Italy, and until recently – the United Kingdom) mostly in favour of less prosperous members from Eastern Europe (https://ec.europa.eu/budget/graphs/revenue_expenditure.html). By contrast, in the EAEU it is Russia which is already responsible for the highest budget contribution, at 85% commensurate to its share in the EAEU's combined output, and would be expected to carry the bulk of any budgetary increases. They would be imperative both for highlighting the investment nature of the common budget and for the mere launch of a new industrialisation. Using the EU as

a benchmark, however, where the common budget accounts for around 1% of combined output and stood at around 160 billion euros in recent years, in the EAEU this would require nearly 20 billion euro of extra funding, 17 billion of which would have to come from Russia. Judging by the EU experience, much of this money would have to be spent in smaller Eurasian members, notably for upgrading infrastructure to the essential needs of new industrialisation. Consequently, one can expect little if any Russia's enthusiasm about the prospect of turning the EAEU into the vehicle of the latter given the recent turmoil in energy markets and uncertainty related to economic effects of the COVID-19 pandemic.

It does not mean, however, that the EAEU should not focus its limited resources on elevating the issue of industrially based competitiveness to the very top of intergovernmental agenda in the bloc, structuring the relevant discourse, coordinating the efforts of other regional economic institutions such as the Eurasian Development Bank or the Eurasian Fund for Stabilisation and Development, and using its position as a relatively young and aspiring international organisation for developing efficient partnerships with more established IOs possessing resources and expertise in the field of industrial development. One can expect at least more attention to these issues considering the recent changes at the top of the Eurasian Economic Commission, which is now chaired by industrially minded Mikhail Myasnikovich from Belarus, and was also joined by Sergei Glazyev, Putin's economic advisor from 2012 to 2019.

Deindustrialisation in the EAEU vs industrialisation in ENIC

Largely as a reaction to the neoliberal 'discipline and encouragement' agenda promoted by international financial institutions the postcommunist economic pathways of the EAEU members have been characterised by deindustrialisation (World Bank, 2002, pp. 53–8). Notably, the EAEU's combined MVA halved in the early 1990s, from 258 bn USD (at constant 2010 prices) in 1990 to 133 bn in 1995, and has recovered to its original level only in 2013 (<https://stat.unido.org/database/MVA%202019,%20Manufacturing>). In per capita terms, this meant a fall from 1414 constant 2010 dollars in 1990 to 730 in 1995, and steadying in the range of 1400–1500 dollars since 2012, with only Belarus and Kazakhstan registering positive dynamics. In the same period, global per capita MVA increased by two-thirds, to nearly 1800 constant dollars in 2018. The EAEU's inferior average, however, is mostly due to Russia, which has accounted for around 90% of the bloc's MVA (see Table 1).

The lacklustre industrial performance of the EAEU stands in a particular contrast to that of ENIC, a group which typically includes Czechia, Hungary, Poland and Slovakia (IMF, 2013), but can also be added by Slovenia for a more akin comparison. Indeed, both regional groupings share a lot in terms of the postcommunist context, modern history and geography; feature both disproportionally big members, such as Russia and Poland, and disproportionally small members, such as Armenia and Kyrgyz Republic in the EAEU, and Slovakia and Slovenia in the ENIC; and are not much different by combined output and population, as well as by relative economic status at least if measured by purchasing power parity (see Table 2).

As far as industrial dynamics are concerned, between 1990 and 2018 the ENIC's MVA measured in constant 2010 dollars (to adjust for inflation) more than quadrupled both in

Table 1. EAEU and global MVA dynamics in constant 2010 USD, 1990/2018.

<i>Indicator</i>	Armenia	Belarus	Kazakhstan	Kyrgyz Republic	Russia	EAEU	World
MVA, billion							
1990	2.1	4.9	10.0	1.7	239.0	257.6	5,782.6
2018	1.3	14.8	20.4	0.9	228.1	265.6	13,542.6
% change	-36	204	105	-47	-5	3	234
Per capita MVA							
1990	591	476	602	383	1,620	1,414	1,091
2018	459	1,563	1,110	146	1,585	1,468	1,778
% change	-22	229	84	-62	-2	4	63
% EAEU MVA 2018	0.5	5.6	7.7	0.3	85.9	100	-
% global per capita MVA 1990	54.2	43.6	55.2	35.1	148.5	129.6	100
% global per capita MVA 2018	25.8	87.9	62.4	8.2	89.1	82.6	100

Source: UNIDO (<https://stat.unido.org/database/MVA%202019,%20Manufacturing>).

Table 2. EAEU and ENIC basic data, 2018.

<i>Bloc/ country</i>	Population, thousand	Share of the bloc, %	GDP, million current \$	Share of the bloc, %	Per capita GDP by PPP, current int. \$	% of the bloc's average
EAEU	181,508	-	1,917,084	-	26,473	-
Armenia	2,952	1.6	12,433	0.6	10,342	39.1
Belarus	9,485	5.2	59,663	3.1	19,996	75.5
Kazakhstan	18,277	10.1	179,340	9.4	27,879	105.3
Kyrgyz Republic	6,316	3.5	8,093	0.4	3,885	14.7
Russia	144,478	79.6	1,657,555	86.5	28,037	105.9
ENIC	65,888	-	1,148,686	-	33,066	-
Czechia	10,626	16.1	245,226	21.3	39,742	120.2
Hungary	9,769	14.8	157,883	13.7	31,102	94.1
Poland	37,979	57.6	585,664	51.0	31,336	94.8
Slovakia	5,447	8.3	105,905	9.2	33,736	102.0
Slovenia	2,067	3.1	54,008	4.7	38,056	115.1

Source: World Bank ([https://data.worldbank.org/indicator/ ...](https://data.worldbank.org/indicator/))

absolute and per capita terms. As a result, its volume almost reached parity with that of the EAEU, whereas at the onset of postcommunism it was less than a quarter of the latter. Likewise, in 2018 the ENIC's per capita MVA exceeded that of the EAEU by 2.6 times, while in 1990 it was more than a third short of it. And in even bigger contrast to the EAEU, the ENIC's industrial progress has been much more even (see Table 3).

A more careful comparative reading of data in Tables 1 and 3 reveals, perhaps, the key characteristic of the EAEU's postcommunist industrial profile, which is related to its

Table 3. ENIC's MVA dynamics in constant 2010 USD, 1990/2018.

<i>Indicator</i>	Czechia	Hungary	Poland	Slovakia	Slovenia	ENIC
MVA, billion						
1990	20.3	12.1	11.9	7.9	6.0	58.1
2018	63.5	31.4	117.4	29.1	10.6	252.0
% change	212	160	888	269	78	334
Per capita MVA						
1990	1,966	1,162	313	1,488	2,977	881
2018	5,976	3,242	3,082	5,331	5,099	3,821
% change	204	179	884	258	71	334
% ENIC MVA 2018	25.2	12.5	46.6	11.5	4.2	100
% global per capita MVA 1990	180.2	106.5	28.7	136.4	272.9	80.8
% global per capita MVA 2018	336.1	182.3	173.3	299.8	286.8	214.9

Source: UNIDO (<https://stat.unido.org/database/MVA%202019,%20Manufacturing>)

comparative dynamics. Notably, if at the onset of postcommunist transformation the average per capita industrial output of the future Eurasian partners exceeded that of the world by almost one-third, three decades later it lagged behind the global one by nearly a fifth. Only Belarus and Kazakhstan saw relative improvements of their industrial standing vis-à-vis the world, while in case of Russia, the EAEU's locomotive, it worsened by two-thirds. On the contrary, from lagging behind the world in terms of per capita MVA, the ENIC countries managed to more than double their lead over it, with none of them registering negative dynamics.

Indeed, from an economic viewpoint postcommunist development of the ENIC has been a tale of reindustrialisation (Stojčić & Aralica, 2018, p. 713), which is the single most important factor of their competitiveness potential in the long term. By contrast, the EAEU has evidently embarked on the path of deindustrialisation, fuelled by commodity boom and proliferation of the service sectors neglected during the communist era. Perhaps it is the intricate, laborious and long-term nature of industrialisation agenda which might have prevented it from becoming an obsession among those who shaped the institutional structures detrimental for macroeconomic competitiveness. It can be discerned, for instance, from the words of Belarus' former prime minister Rumas, who said a potential driver of economic development is the service sector, because here it is 'realistic to achieve immediate fast growth with little investments and efforts' (Aleksandrov, 2020). The fact that this statement ignored industry in a country with seemingly most dynamic industrial profile in the EAEU, and took place during an introduction of a new minister of economy to his colleagues may be indicative of the official attitude to industrialisation in the whole bloc. However, this does not imply the absence of power groups interested in industrialisation in all EAEU members: they may exist, but evidently lack political clout given the persistent contrast between the bloc's modest progress and official declarations related to both competitiveness and manufacturing.

To sum up, after several decades of effective deindustrialisation the EAEU's industrial profile looks bleak not only in global perspective but also vis-a-vis Europe's new post-communist industrial core. As an IO with significant political ambitions but insufficient financial resources, the EAEU can hardly lead a new industrialisation among its members. Yet it is imperative for its own goal of 'improving competitiveness', and by bonding major resource-rich members such as Russia and Kazakhstan with smaller ones concerned about energy supplies from and access to these bigger markets, the Eurasian bloc still rests on the firm logic which can be realised foremost by extending and empowering the EAEU' industrial command.

What kind of industrialisation for the EAEU?

Introducing an authoritative anthology of post-war development economics, Meier (1984) argued that 'economic thought is commonly induced by the need to solve policy problems' (p. 4). As much as it was true for the postcommunist region immediately after the Second World War or in the early 1990s, this is certainly the case for the EAEU at present. Having identified the development of manufacturing as a key factor of macroeconomic competitiveness, one can safely presume that industrialisation is the ultimate mechanism for solving this policy problem. Indeed, the lack of a strong common industrial agenda was lamented by the chairman of the Eurasian Economic Commission,

Mikhail Myasnikovich, yet in his preceding tenure as the head of Belarus' senate (Petrovsky, 2020). While he repeated these concerns during his appointment for the EAEU's top administrative position in early 2020, it is also clear that the EAEU is in the need for a different type of industrialisation given the specifics of its existing economic structures largely established during the Soviet era.

As argued by Buchanan in 1946, 'the war seemingly settled the dispute as to whether Russia had or had not succeeded in industrializing her economy' (p. 534). While this statement may not have applied to many parts of the present EAEU as of the mid-1940s, by the end of 1991 all of its future members had been by and large industrialised. To their predicament, however, the USSR demise coincided with a rapid technological transformation of global manufacturing largely driven by IT, which none of the new post-Soviet independent states was in a position to cope with, embroiled in political economy turn-around and macroeconomic turmoil. As a result, the inherited manufacturing sector across the former Soviet Union has lagged behind global technological overhaul and required constant state support. The situation was further complicated by politically speeded and flawed privatisations, as well as by stabilisation drives prioritising monetary stability at the expense of productive investment which virtually halted during the 1990s. Then, since the onset of the new millennium incentives to revive manufacturing have been compromised by the commodity boom, and by the time Russia and its Eurasian partners should have begun contemplating their new development options following first the global financial crisis and then a period of regional economic and political instability in the mid-2010s, global manufacturing arena has been profoundly reconfigured, mostly along global value chains (OECD, 2013), some of which have a very clear regional dimension, as is the case with ENIC.

Institutional aspects

As the EAEU is already industrialised in the conventional sense promoted by development economics since 1950s, one can carefully advocate a new industrialisation agenda for it, aimed foremost at securing macroeconomic competitiveness rather than just 'having more factories or industrial plants' (Buchanan, 1946, p. 538). Such an approach would fully acknowledge the multifaceted nature of industrialisation determined by its intrinsically institutional nature:

Institutions play a key role in the process of industrialisation. Indeed, they are at the same time both the result and one of the main drivers of economic development and manifest themselves in different ways in different contexts and time. (Chang & Andreoni, 2019, p. 410)

The institutional vacuity created by the hastened rejection of communist ideology in favour of a previously hostile capitalist one led to a 'structural coordination failure' (Andreoni & Chang, 2019, p. 141) to align the Soviet production system with the new ideological context, making, perhaps, the greatest contribution to deindustrialisation in the EAEU. While this kind of alignment could and did happen more or less swiftly in non-production sectors, particularly in politics, with engineers, mechanics and researchers, not to speak about the ordinary industrial workers, it turned more problematic, as most of them appeared simply lost in new realities of primitive capitalism, with neither adequate

knowledge of its principles nor any commensurate practical experience, particularly of ‘the very practice of capitalist profit-making’ (Andreoni & Chang, 2019, p. 139).

In the EAEU Belarus provides a good example hereto, as its seemingly less severe postcommunist deindustrialisation (compared to other EAEU members) can to some extent be explained by its early rejection of many neoliberal dogmas and preservation of the Soviet-era institutional framework of production coordination, in the form of sectoral ministries, concerns and other bodies supervised by industrially minded bureaucrats such as, *inter alia*, Myasnikovich (Petrovsky, 2020). But whereas this institutional conservatism could play a positive role during the 1990s, it may have exhausted itself after the global financial crisis, as evidenced by the country’s lacklustre manufacturing and general output performance despite massive investment of the ‘authoritarian modernisation’ (Shevtsov, 2008) initiated in the past decade, which made a bigger ‘contribution’ to external debt than to manufacturing added value (see Table 4).

To be sure, one can agree with Buchanan (1946) that ‘even if an industrialisation programme ... misfires [it] is likely to have lasting benefits’, as a new effort can ‘start from a higher plane’ (p. 553). Yet any episode of such a ‘misfiring’ is likely to have not only lasting financial consequences but also negative public opinion implications, delaying or even minimising chances for ‘the next attempt’ at a critical period of the global economy embracing the new industrial revolution (The third industrial revolution, 2012).

Following the argument in the theoretical section of this paper, among the plethora of institutions that underpin the fabric of modern societies and are typically context-specific, there are some that may be of critical importance for new industrialisation efforts in the EAEU. Innovation systems, as institutional networks, are certainly one example of them. Social capital is another one, vital not only per se, but foremost for the efficient performance of the social sector, notably education, health care, justice and other subsystems. In the framework of innovation systems and smoothed by the social capital, the workings of the social sector create the broader environment for flourishing of new manufacturing activities, which also depend on institutions related to production, corporate governance, finance and macroeconomic management (Andreoni & Chang, 2019, pp. 425–33). While in various forms all of them already exist across the EAEU, some may be still largely formal, such as institutions of corporate governance, while others may be incorporated into broader structures and thus lacking powers and visibility, such as, for instance, institutions of industrial change and restructuring. It is also clear that most of the existing institutions are suited for the industrial structures that developed in the course of postcommunist deindustrialisation and may not be particularly relevant for new industries, especially related to information technology.

Table 4. Selected indicators of Belarus economic performance, 1991–2018.

Indicator	1991–4	1995–9	2000–8	2009–18
GDP dynamics, % change average	–7.5	3.1	8.0	1.7
Gross capital formation, % GDP average	34.7	25.1	28.6	33.4
External debt, % GNI average/period end	5.3/8.7	15.7/22.3	21.8/25.3	60.5/67.7
MVA, % change average	–8.5	6.3	11.2	2.7
MVA, billion current \$ average/period end	5.8/4.0	4.1/3.4	7.3/15.9	13.6/12.8

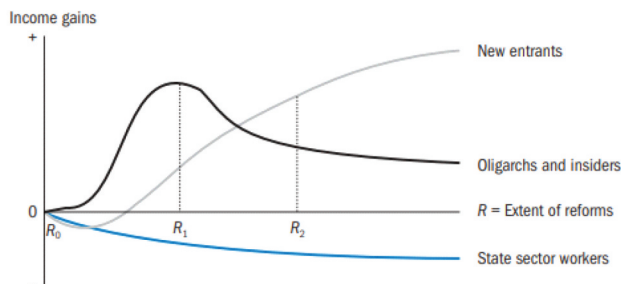
Source: World Bank (<https://data.worldbank.org/indicator/> ...)

In another example from Belarus, its booming IT sector has succeeded in securing a special economic regime to be applied to its 'High Technology Park' cluster and has been advocating for a new government body to regulate its activities, albeit less successfully (Astrasheuskaya, 2019). Similar examples of institutional misalignment can also be found across the EAEU, particularly in Russia. Among other things, the initiatives such as 'Skolkovo' and 'Innopolis' highlight attempts to tune up national innovation systems which are still dominated by Soviet-type structures staffed with underpaid young enthusiasts who are supervised by bureaucratically minded old guard often preoccupied with the quality of planning and reporting than genuine innovations. Outflows of financial and human capital are also to be seen in this context, *inter alia*, reflecting low trust in the existing institutional frameworks, as well as frustration with the lack of long-awaited 'change in the whole economic structure' (Hilgerdt, 1945, p. 30) that is characteristic of any industrialisations. Such a 'change' can hardly be expected in the EAEU as long as it continues to rely on Soviet-era production structures with highly rigid institutional dimensions, as well as on inherited physical infrastructure and natural resources, to support its conservative and commodity-based development models unfit for competitiveness.

Political economy aspects

To be sure, structural changes, or reforms, have featured prominently in the popular discussions related to postcommunism, but they have seldom been shaped in terms of political economy, another critical aspect of new industrialisation agenda for the EAEU related to the 'distribution of interests, incentives and resources' (Andreoni et al., 2019, p. 3). The Eurasian bloc, along with other postcommunist economies, has been home to a very dynamic and intricate overplay of these issues since the early 1990s. By and large, the process of postcommunist transformation entailed deprioritisation of workers' interests versus those of the new capitalist classes, established through far-reaching liberalisation and privatisation programmes in the spirit of 'Washington consensus', as aptly illustrated in the seminal World Bank report summarising the outcomes of the transformation's first decade (see Figure 2).

Winners and Losers from Reform



Note: R_0 = no reforms; R_1 = point at which income gains of oligarchs and insiders are maximized; R_2 = level of reforms that allows the winners of reforms beyond R_1 (new entrants) to compensate for or exercise enough political pressure to neutralize the resistance of oligarchs, insiders, and state sector workers.

Figure 2. 'Winners and Losers' from the postcommunist transformation. Source: (World Bank, 2002, p. 93).

The vicissitudes in property relations, accompanied by political emancipation and technological advances, contributed to a dramatic overhaul of incentive configurations in the region, which turned particularly damaging for manufacturing. Depending on new technologies like no other sector, it saw its own capacity to develop them affected by the erosion of the “soft” infrastructure critical for research and development activities, as well as little if any ‘investment in knowledge-based capital,’ related to things such as branding, networks, software, etc. (OECD, 2013, pp. 32, 40). The combined effects of this technological lag and decreasing production resulted in falling prestige of manufacturing as a prospective professional area, and led to a long-term decline of STEM (science, technology, engineering, and mathematics) education in favour of business and law degrees, provided largely in communist-era traditions and typically failing to meet expectations of young generations, increasingly opting for an unapologetic pursuit of animal spirits as their ultimate incentive. And the bleak political economy background for prospective new industrialisation in the EAEU is consolidated when one considers critically the postcommunist patterns of resource distribution. Among them, shrinking public sector features most prominently, along with dramatic increases in poverty and inequality, particularly during the 1990s (Klugman et al., 2002; Milanovic, 1998).

The issue of resource distribution is directly related to the issue of state role in economy. To be sure, an economically weaker state, the institution with historically most operative authority for resource distribution, would hardly be in a position to carry out industrialisation either on its own or in cooperation with other countries in the framework of an IO even if it had a supranational dimension as is the case with the EAEU. This was characteristic of the colonial world, where according to Meier (1984) ‘the economic role of the state was very limited’ (p. 6), and has also become a feature of postcommunism, not least as a result of the ‘discipline’ approach promoted towards the public sector (World Bank, 2002, pp. 53–6). As any industrialisation effort implies investment, including in infrastructure, the state can expedite it not only by its credit guarantees or similar direct measures but also indirectly via planning and regulation. Here one effectively talks about entrepreneurial and visionary states ‘manned by politicians and bureaucrats’ who are focused on ‘industrial upgrading, namely, structural shifts to high-technology and high-value-added industries, which provide good prospects for demand expansion and technical progress’ (Chang, 1994, pp. 306–7).

The same logic could be naturally expected to apply to a supranational IO: if its members featured ‘visionary’ states, prospects for a viable common industrialisation agenda would be far greater than for IOs bonding countries with states institutionally weak in terms of industrial development. Hence, the effectively minimalistic profile of the state across much of the EAEU is as precarious as the generally low public trust in it as ‘the only institution which can ensure that the transfer and seizure of assets do not degenerate into mere theft and anarchy’ (Harriss-White, 2006, p. 1241). It was the neoliberal political economy orientation of postcommunism which largely determined this profile, and was realised foremost through hasty liberalisations and mass privatisations of the 1990s.

One may argue that the extent of shifts in interests, incentives and distribution configurations resulting from the weakening of the state and its oligarchic control varies enormously across the EAEU and that any claims about state capture during postcommunist carry heavy loads of political bias. Indeed, oligarchs have been visible in Russia but not so much in Kazakhstan, Kyrgyz Republic or Armenia, and in a country such as Belarus they

seem to be non-existent due to its procrastination with large-scale privatisation and political system specifics. In turn, as in the region the institution of the state is popularly associated with its visibly rather strong leaders, some would naturally disagree with the very proposition of state weakness in the EAEU. Nevertheless, given the total destruction of savings in the early 1990s (World Bank, 2000), the extent of corruption, diverging patterns of public trust in specific state institutions (such as courts, police, tax collectors, etc.) vs personal approval ratings of political leaders, but above all steadily eroding public revenues in all Eurasian partners, it would hardly be an exaggeration to claim that the EAEU is a project of clay colossi when it comes to its integral state capacity essential for both competitiveness and new industrialisation as the optimal mode of its securing.

Speed and scope aspects

Traditionally, industrialisations were conceptualised either as ‘big push’ affairs, or likewise sufficiently centralised initiatives involving massive financial outlays, mostly with a view to create external economies and cope with adverse social effects (Nurkse, 1953, p. 109; Rosenstein-Rodan, 1957). Such an approach may seem especially appealing for some elite circles as well as older generations in the EAEU, yet its prospects may be dismal if one considers critically postcommunist realities, particularly related to actual institutional capacities either at national or supranational levels. To be sure, such capacities, which can also be conceptualised as ‘complex institutional preconditions of capitalism’ according to Harriss-White (2006, p. 1242), take time to develop, and since they were hardly properly considered during the early stages of postcommunism, the institutional void created by it was filled in ‘incomplete, arbitrary and localised’ ways (p. 1243).

The irrelevance of ‘big push’ for the EAEU is also determined by context, as it was invented and may still apply for unindustrialised developing countries, notably the least developed ones among them, which lack either critical infrastructure (communication, energy, security, transport, water, etc.) or social systems characteristic for industrialised economies at high levels of competitiveness. Mostly thanks to communist-era industrialisation the EAEU is different, despite variations in quality, which means that ‘big push’ approach there may be appealing only from a populist or otherwise economically sub-optimal perspective, typical for many developing countries contemplating their industrialisation options in the immediate post-war period (Clark, 1984, p. 64).

Besides, the ‘big push’ may be unfeasible for a new industrialisation *a priori*. This phenomenon concerns already industrialised economies and is mostly about developing an efficient private-public institutional nexus, which, according to Andreoni et al. (2017), amounts to ‘complex and dynamic interdependencies spanning across various industries and sectors’ (p. 881) of national and regional production systems, as well as finding a new balance of interests within existing political economy settings. Of course, the EAEU has its own agenda here, quite different from that of the EU or the OECD, for example, but it cannot be simplified to either massive investment programmes or radical restructuring of existing production systems already attempted by neoliberal practitioners under the motto of ‘implement now, revise later’ (World Bank, 2002, p. 56).

Viewing new industrialisation as a highly context-specific ‘institutional political economy process’ (Andreoni & Chang, 2019, p. 145), one can argue that what the EAEU really

needs is a painstaking institutional realignment. It should be aimed foremost at finding a fair and stimulating balance of interests, for industrialisations always transform the existing modes of resource distribution as well as incentive configurations, and are historically prone to conflicts in various social strata. Labour relations are particularly sensitive in this regard, as technologies introduced by new industrialisation may affect some professions while generating demand for others, often entirely new ones, naturally leading to resentment. Consequently, the entailing industrial conflicts, even if mostly in discreet and latent forms, contribute to misfiring of 'big push' and intrinsically traditional industrialisation efforts in the absence of adequate institutional mechanisms for labour adjustment, which is a characteristic of the postcommunist context (Lehmann & Muravyev, 2011).

In the EAEU this might have been the case not only in Belarus with its big state industry modernisation intensified in 2008–2013 but also in Kazakhstan with its third industrialisation programme to begin in 2020 (Satubaldina, 2019), as well as in Russia with Medvedev's largely rhetorical 'modernisation plan' of 2009 (Black, 2015, pp. 98–107). In all these countries industrial conflicts have been habitually subdued by a combination of authoritarianism in politics, preservation or reincarnation of communist-era institutions, such as trade unions in Belarus or 'United Russia' party in Russia, or revitalisation of the clan system, as in Kazakhstan. Yet less stable Armenia's and Kyrgyzstan's postcommunist trajectories are indicative of potential political economy issues that may resurface across the EAEU should another 'big push' misfiring there coincide with moments of global or regional instability.

Managing institutional misalignment as the core of a new industrialisation effort in the region implies abandoning illusions not only about 'big push' but also small and medium enterprises (SME). To be sure, their promotion has been central to mainstream postcommunist economic agenda, particularly during the 1990s, as they were hoped to become the driving force of changes and founders of the new economic structures resembling those in mature Western economies (World Bank, 2002, pp. 6, 39–41). Several decades later, however, it is clear that these expectations were exaggerated, as SME share in EAEU's economies remains minor, overshadowed by still large public sector and new corporate business that for the most part emerged from privatisations. Even more troublesome appear its structural characteristics: across the EAEU small business is still very much about retail trade by individual entrepreneurs just as it was at the onset of postcommunism. Again, this may be an outcome of institutional misalignment, as formal institutions have been focused on public sector and big business, while informal ones failed to generate sufficient public support and remained largely marginalised. Consequently, Eurasian SME has developed in a spontaneous manner without strategic guidance that would either enable its cooperation with large business or orient it at productive activities with innovation potential.

Nevertheless, some new institutional arrangements already take form. For example, in Belarus, several medium-sized private producers of specialised equipment (arguably representing dozens of similar enterprises) decided to join forces and establish their association with a specific goal to influence policy related to their business, ostensibly discontent with the pertinent official agenda (<http://aim-association.by/about/association/>). The fact that they did so only in 2017, or following several decades of independent

and formally uncoordinated development, only illustrates how protracted institutional misalignment can be in any given postcommunist context.

Social aspects

This very context, however, carries some implications that can actually be conducive for new industrialisation efforts in the EAEU. Foremost they are related to the state of social sector. Indeed, as new industries evolve from technologies to meet constantly changing demand in most efficient ways, they need secure access to stable pools of human energy, skills, and talent – very much like modern humans need access to standardised energy, water and other supplies. By undertaking catch-up industrialisation before and after the World War II, as well as for mere ideological reasons, the Soviet Union and its satellites had to establish extensive social infrastructure which is an essential characteristic of developed countries and is still missing in many developing countries, not least because of their procrastination with industrialisation, even if only of traditional kind.

Postcommunism may have led to deindustrialisation, but it has not been associated with desocialisation, as most if not all postcommunist economies, including the EAEU ones, have come to appreciate the benefits of the inherited social infrastructure despite its maintenance costs and efforts. Admittedly, much of this bequest was ravaged due to chronic under-financing and became unfit for the present needs of postcommunist societies, especially as far as economic efficiency and technological standing are concerned. Nevertheless, its very existence in the organised form of social systems such as health care, education and science, as well as many others, is critical for macroeconomic competitiveness. Since even if they seem to be outdated, for industrial development they are still better than nothing, while their replacement is hardly feasible. Just as unfeasible is a prospect that new industrialisation can happen overnight, replacing old and less efficient industries with new and more efficient ones. Instead, this process is likely to be protracted and uneven, much in Hirschman's (1958) and Streeten's (1959) fashion of 'unbalanced growth', requiring resources that can only be securely provided by the existing real economy regardless of its efficiency.

In this process, it is the social sector which is most likely to generate demand for ever more intensive changes in the configuration of the production system that may affect institutions just as much as core industries in country-specific and non-linear ways (Chang, 2011, p. 482). Likewise, the social sector can play an important passive role of aiding human resources in their adaptation to new technologies, both with income support and skills upgrades. Finally, it is the social sector which is to supply new industries, should they at all conceive and mature, with human resources of adequate quality, i.e. in good health, well-educated and enthusiastic about innovations.

Ensuring this quality, however, gets increasingly problematic as maintenance of extensive social systems during deindustrialisation seems not only overly expensive but also inordinate. The ensuing fuzzing of standards is just as inevitable as it is precarious for the prospects of new industrialisation and hence competitiveness in the EAEU. For it is only natural for well-educated and innovation-minded people in good physical shape to get frustrated with falling standards of health care and education for their children and seek better fortunes abroad, particularly in the West due to its historically embedded multi-faceted appeal and relative geographical proximity. Coincidentally, it is exactly this kind of people that new industries need, hence retaining

them is critical yet hardly feasible without addressing the fundamentals related to social sphere. In the EAEU this means finding efficient ways of enhancing the latter using proceeds from natural rents which were transferred into private hands, frequently unscrupulous and mostly unconcerned about the existential problems of public health care, education, science and many other components of the social sector. Consequently, not only was it forced to ditch hopes for extra funding on human resources and physical infrastructure but had to be rolled back in many areas deemed unpromising by the politicians and bureaucrats lacking long-term vision of both their societies and the EAEU as a novel platform for their cooperation.

The role of R&D

Incidentally, one of such areas has been research and development, or science as it is typically referred to in the postcommunist vernacular: in some cases, including in the EAEU, spending on it plummeted from a level similar to that of the industrialised world, i.e. 2–3% of GDP, to levels typical for Africa and Latin America, i.e. less than 1% of GDP (<http://data.uis.unesco.org/index.aspx?queryid=74#>). For example, in 2017 gross domestic expenditure on research and development (GERD) as a share of GDP in Kyrgyz Republic stood at a mere 0.11%, in Kazakhstan – 0.13%, in Armenia – 0.23%, in Belarus – 0.59% and in Russia – 1.11%. By contrast, among the ENIC countries, it ranged from 0.88% in Slovakia to 1.85% in Slovenia, while the world's average for 2016 was 1.68%, with Israel and Korea being long-standing global leaders by GERD at 4% (<http://data.uis.unesco.org/index.aspx?queryid=74#>).

As scientific sector is essential for competitiveness, its demise in the EAEU is perhaps the greatest challenge for its potential new industrialisation agenda. Yet addressing it simply by raising the overall funding of existing institutions or streamlining it along with selected promising projects such as Russia's 'Skolkovo' is unlikely to succeed in the absence of commensurate institutional changes covering a broad spectrum of political economy issues, including incentives and state role. In fact, these two may be interconnected, as it is publicly funded science which is typically the entry point for many if not most researchers, and if its financing is either limited or unfairly distributed, which is also typical in the postcommunist context, R&D prospects may be in peril, naturally affecting competitiveness. This may explain why despite a relatively minor share of the state in GERD across the world and among industrialised countries, relative to GDP public financial commitments in the latter have been steadily approaching 1% of national output (<http://data.uis.unesco.org/index.aspx?queryid=74#>). And the fact that despite traditional state predominance in scientific funding across the postcommunist world and in the EAEU in particular total GERD there has been falling only confirms the argument that in the postcommunist context it is the institutional bottlenecks that block synergies between theoretical and practical science on the one hand, and public and private R&D on the other hand, also preventing public funding from being a catalyst of total GERD expansion, as is evident in both Israel and Korea, as well as in most other OECD members.

Given the persistence of institutional misalignment and general conservatism of the EAEU political economy, a radical reconsideration of the R&D role there is just as unlikely as it may be unpractical. Since new industrialisation is more about incentives for private innovative enterprises rather than support of the big industry, either privatised or still public, the EAEU as a supranational IO could assist R&D by elaborating well-funded and

hassle-free programmes for private scientific ventures while setting clear guidelines for members to upkeep their existing public organisations with a view of forging public-private nodes proliferating among the advanced economies.

Conclusion

Needless to say that theorising competitiveness of the EAEU through new industrialisation is much easier than conceptualising it in a policy-relevant manner, not to mention its implementing. Yet theory based on experience, much in the *Erfahrungswissenschaft* tradition of German development economics (Reinert, 2005), may be critical for understanding what is going on in the EAEU and what can be expected of its economic fortunes from the established in this paper perspective of competitiveness. Its ingredients seem to be in place, since in the communist period the region had already passed through traditional industrialisation, and since the social sector which was its part and parcel has been maintained, albeit not without losses. However, the quality of these ingredients has been eroded by the ideology and practices of postcommunism. The resulting institutional misalignment between the old economic structures and present configuration of interests, incentives and resource distribution has already led to deindustrialisation and commodity dependence across the EAEU.

In the absence of strong external influence enjoyed by those postcommunist countries that became members of the EU, particularly from the ENIC group comprising Czechia, Hungary, Poland, Slovakia and Slovenia, hopes for a different outcome in the EAEU might have been tenuous in the first place. Indeed, it was like expecting the old 'hardware' of communist-era production structures to perform according to new capitalist norms of efficiency in the absence of new institutional 'software', believing that it could appear quickly from policies no matter how well intended or devised still implemented by the people brought up in the old system. Their ultimate answer was aptly coined by Viktor Chernomyrdin, Russia's prime minister from 1992 to 1998, as 'we wanted the best, but it turned out like always' Viktor Chernomyrdin: Obituary, 2010).

The state as the key institutional player was directly responsible for these misfortunes, but it was itself subjected to a radical transformation according to neoliberal dogmas. Struggling to upkeep its active economic role, it has taken a defensive and essentially conservative stance, aimed at preservation of the existing structures, interests and incentive configurations, as well as models of resource distribution moulded in the 1990s. This kind of conservatism, which is very specific and should not be confused with its other historical and regional variations, seems to be deeply embedded not just in the EAEU, but across much of the postcommunist world, and can be seen as a natural institutional reaction to the political economy upheaval of the late 1980s and early 1990s. As demonstrated by developments in Georgia, Moldova and Ukraine outside the EAEU, however, and Armenia and the Kyrgyz Republic inside it, transcending this conservatism leads mostly to superficial political changes, unrelated to fundamental political economy reconfigurations. In other words, postcommunist political vicissitudes, no matter how radical in appearance, have not yet contributed to the origins of a truly entrepreneurial state (Mazzucato, 2013) with a vision and capacity for a new industrialisation as the ultimate means of securing competitiveness.

As far as the EAEU genesis is concerned, this means that it might have been conceived as another ex-USSR's club-like structure very much in the spirit of Medvedev's modernisation, i.e. big in words but small in deeds. Its grounding on the Customs Union, essentially a protectionist institution, is the principal reflection of its inherent conservatism, which is also verified by the postponed common energy agenda and the absence of well-funded common programmes aiming at overcoming the myriad of economic and social issues common for all members of the EAEU. From the political economy perspective taking into consideration its postcommunist context, this very specific regional conservatism might have been determined by the controversial attitude to neoliberalism, particularly on the part of Russia's elites. Indeed, they likely viewed the Eurasian integration primarily as a convenient way of transferring the protectionist dimension of their domestic policy-making onto the regional level, even if it implied some supranational limitations. At the same time, keeping up to the neoliberal creed and bashing the hopes of the smaller partners, these very elites have not yet been ready to turn the EAEU into a true development vehicle.

Still, this makes an appropriate ideological rationale for the bloc: distanced from neoliberalism, it can freely refer to alternative economic theories and seek for partnerships across the whole spectrum of IOs. And given its special status in the regional political matrix, the EAEU has a chance of becoming a kind of testing lab for bringing forward and elaborating unorthodox economic ideas that its smaller members would find uneasy to contemplate on their own given the oversight from Washington-based and -allied IOs with heavy financial leverage. New industrialisation aimed at boosting macroeconomic competitiveness naturally looms large here.

One is tempted to believe that the EAEU may need more time both for a deeper transformation of the existing institutions and unrestrained genesis of the new ones, and for their gradual alignment with the existing production structures which can be expected to wane but not vanish. In any case, they ought to be maintained foremost as a stable source of revenue for the social sector, the key competitiveness advantage of the Eurasian economies which was inherited from the Soviet period. However, as the new industrial revolution 'rages' (The third industrial revolution, 2012) on the background of apparently subdued but by no means exhausted globalisation, time may be in short supply for the competitiveness prospects of the EAEU. Some would even argue that so much of it is already lost that the bloc hardly stands a serious chance of catching up with the industrialised world, while discussions about post-industrial options of economic development may be distracting for countries that failed to build up 'solid production and technology bases to capture some of the arising technological opportunities' (Andreoni et al., 2019, p. 2), i.e. related to digitalisation, automation, etc.

As competitiveness is directly linked to industrialisation, and its only experience by the EAEU members relates to the communist past with its grandeur projects which required massive social mobilisation and sacrifices, 'big push' should be no option for a new industrialisation effort in the block. No matter how appealing it may seem for elites or older generations, it would go against the very logic of the new industrial revolution, which is not about scale but about the sophistication of production (The third industrial revolution, 2012). Emulating German's *Mittelstand* could be more appropriate, yet the EAEU's small business has neither a similar manufacturing prowess rooted in the medieval

guild system, nor an appetite for self-organisation and partnership with the state or its supranational derivatives featuring the German economic culture. The same is true for labour relations, another institutional prerequisite for success with industrialisation, as trade unions in all Eurasian members have been either marginalised or transformed into quasi-state ceremonial institutions concerned mostly with workers' recreation.

In fact, the only viable prospect of competitiveness in the EAEU, just like across the whole postcommunist world, may be related to the social sector, or its very existence in the form of organised subsystems responsible for various societal needs. Among them, education and science are of crucial importance, due to their learning functionality potentially generating innovations and new technologies which underpin competitiveness. Across the EAEU, the state has remained their principal provider, yet if in education it managed to ensure both access and quality, at least as evidenced by most recent PISA outcomes (OECD, 2019), with science trends have been less positive. The latter experienced its first major shock in the early 1990s, and since then remained both underfunded and understaffed, which affected incentives, resource distribution and the overall status of the EAEU's R&D sector as a viable partner for productive private enterprise, particularly in smaller members.

Competitiveness is ultimately about synergies between social and manufacturing sectors, notably, between their most innovative segments. It is such partnerships that could and should shape the EAEU's long-term development trajectory. One can ascertain this from the OECD experience, where they have commonly taken the form of private-public nodes. Given the persistence of institutional misalignment across the EAEU, however, a similar institutional genesis here is unlikely to be smooth and easy. To facilitate it, the block evidently lacks a clear mandate and additional resources.

Realistically these can be supplied chiefly by the biggest and most ambitious among Eurasian partners – Russia. As its EAEU membership has coincided with a geopolitical hubbub concerning Syria and Ukraine and culminating in tit-for-tat accusations and sanctions conflict with the West, authorities in Moscow might have countenanced the effective side-lining of the Eurasian track of their regional activism, preferring to focus it on bilateral relations with Belarus in the framework of the Union State. However, just as the global financial crisis seemed to be an impetus for establishing the Customs Union and the Single Economic Space, the COVID-19 pandemic may lead to conceptual reconsideration and practical reinvigoration of the Eurasian project. Recent oscillations on commodity markets and possible derailment of the global economy are likely to affect this scenario, but if it starts at all and takes place on the platform of engagement with other regional and global institutional players in the field of industrial development, the EAEU may resurface as a progressive IO no less appealing for further expansion than its akin Western neighbour used to be in the 1990s. Otherwise, one can expect further erosion of its competitiveness, already reflected in sluggish long-term output performance, vulnerability to external shocks, and continued drain of human and financial capital.

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