

## **Reindustrialization In The Eaeu Countries: State And Prospects**

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### **Abstract**

For all countries of the world, reindustrialization means an increase in the level of industry and innovative developments in the economy. However, the ways and opportunities to achieve this goal vary depending on the level of development of countries and the effectiveness of planning and implementation of reindustrialization programs. The main factor hindering the economic development of the EAEU countries is the problem of incomplete reindustrialization and socio-economic modernization in all countries. At the same time, the EEC countries are in different socio-economic conditions, which predetermines different ways and methods of reindustrialization.

**Keywords:** Economy, industry, deindustrialization, reindustrialization, EAEU.

### **Introduction**

The processes of reindustrialization are taking place in the developed countries of the West and in many developing countries, contributing to the economic development of countries.

"Reindustrialization is especially necessary in post-Soviet states, since without it, it is impossible to develop in line with global economic trends, refusal to carry it out means refusal to modernize the socio-economic system, social degradation, global economic isolation, turning the country into a raw material appendage of developed countries, and, consequently, ultimately, loss of sovereignty, threat national security". [1]

"The EAEU member states need to get involved in the reindustrialization process to one degree or another in order to overcome the economic lag, the fall in the level of industrial production resulting from the collapse of the USSR and the global economic crises. Due to the different ways of economic development, the opportunities and ways of implementing reindustrialization in different EAEU countries differ." [1]

## Methods

The analysis of the reindustrialization process in the EEC countries will reveal the roadmap of reindustrialization in the post-Soviet space.

The collapse of the USSR and the socialist, political and economic system, the transition from a planned economy to market relations, the policy of abandoning the role of the state in economic relations, competition in the domestic market between domestic products and imported goods have become objective reasons for large-scale deindustrialization, both in Russia and in post-Soviet countries.

Experts note that the causes of the deindustrialization process are exogenous and are more political than economic in nature.

According to data indicating the depth of deindustrialization of Russia: "in 1985, 395 million tons of coal were mined on the territory of the RSFSR, 88.7 million tons of steel were smelted, 1.16 million cars were produced, 79.1 million tons of cement, 17.7 million tons of mineral fertilizers and 5.0 million tons of paper were produced."

"At the end of 2009, these indicators decreased by 1.32, 1.49, 1.95, 1.78, 1.21 and 1.28 times, respectively. In 1985-2009, the number of trucks, combine harvesters and tractors produced decreased by 5.87, 14.1 and 34.0 times, respectively. Despite Russia's modern orientation as a raw material country, Russia's share in the global volume of mineral extraction has decreased from 19.4% to 12.9% for oil, and from 35.8% to 17.6% for gas." [2]

The following figures clearly indicate the level of deindustrialization: "if in 1985 the RSFSR produced 2.14 times more electricity than China and produced only 2.1 times less cement, then by 2010 Russia lagged behind China by 3.7 and 32.4 times, respectively." [2]

Deindustrialization in Western countries and deindustrialization in Russia have a significant difference. Deindustrialization in developed countries proceeded mainly due to the withdrawal of industrial production to third countries due to the cheapness of labor and raw materials and more favorable conditions for new strategic decisions. In addition, reindustrialization in Europe was preceded by 30 years of constant growth, while deindustrialization in post-Soviet countries occurred after the collapse of the entire economic and political system, which caused difficulties in implementing reindustrialization in Russia.

Doctor of Economics, Professor G. Khanin identified three periods of development of the post-Soviet economy of Russia, defining them as destruction, restoration and creation. He defines the first period from the beginning of the collapse of the USSR and for 10 years until the financial crisis of 1998.

During this period, "the country's GDP decreased by at least 1/3 relative to the level of 1991, there was a massive impoverishment of most of the population, a significant reduction in many knowledge-intensive industries, the decline of science, education, culture, agriculture." [3]

After the financial crisis of 1998, the second period came – recovery. During this period, G. Khanin notes, many large companies in ferrous and non-ferrous metallurgy, commercial banks mastered modern management methods, large retail chains with a turnover of more than

\$ 1 billion were created. "The quantity, quality and assortment of a number of industries, including high-tech ones, have increased, new gas fields have been developed, metallurgical plants have been reconstructed, automobile plants have been built, housing construction has increased, spending on science, education, and healthcare has increased." [3]

However, according to G. Khanin's estimates, "labor productivity by 2007 had grown only to the level of 1990, the personal consumption of the majority of Russian citizens has not yet reached the level of 1990, the life expectancy of the population has decreased, there has been a huge brain drain, the backlog in knowledge-intensive and high-tech sectors of the economy has increased even more. According to G. Khanin's definition, in 2007 Russia lagged behind developed countries not by 37 years, as in the late 80s, but by 50 years." [3]

"In general, the specifics of post-Soviet deindustrialization are associated with the difficulties of implementing a policy of reforming the economy." [3]

## **Results And Discussion**

The problems of deindustrialization in the Russian Federation were actively discussed in the expert community and scientific circles. It should be noted that already in the early 90s and 2000s, a number of programs were created with the involvement of leading Russian economists. "For example, in 1998, the federal target program for restructuring and conversion of the defense industry was approved, appropriate regional programs were developed for the period up to 2000." [4] In 2006, the List of priority directions for the development of science, Technology and engineering was adopted and approved by the President of the Russian Federation. In 2008, the Concept of Long-term socio-economic Development of the Russian Federation for the period up to 2020 was approved, in 2013, the State Program of the Russian Federation "Development of industry and increasing its competitiveness for the period up to 2020" was adopted.

In order to implement the Concept 2020 in Russia in the mid-2000s, 48 federal targeted programs were implemented. However, it should be noted that the implementation of the 2020 Concept plans was prevented by the global economic crisis that broke out in 2009, as well as the coronavirus pandemic of 2019-2020.

"Russian scientists, the country's political leadership, and economic authorities have come to the conclusion that it is necessary to implement a breakthrough reindustrialization – a new industrialization based on the latest technological order, since Russia has a fairly high neo-industrial potential: a huge spatial territory, rich raw materials and labor resources, a significant level of scientific, technological, industrial, infrastructural, and entrepreneurial component." [4]

Russia, unlike other developing countries starting reindustrialization in the absence of its own industry, remained an industrial country even after the process of reducing industrial production.

One can quite agree with the periodization of the development of the post-Soviet economy of Russia proposed by G. Khanin. The first two periods of development took place: destruction and restoration.

However, Russia is still not a country producing knowledge and new technologies and is not a new industrial country, its economy is dominated by the extractive industry. But it can be noted that the planned measures of reindustrialization give certain results and the country is on the threshold of the third period of its development – creative. The modern period is characterized by Russia's entry into a period of rapid transformation of all the most important principles of economic and social life.

Russia, which is under economic sanctions from Western countries, has to rely on its own strength both in terms of borrowing new technologies and in terms of investments in Russian industry. It is necessary to restore human capital: the development of science, education, science-education-industry relations, the training of skilled workers, higher and secondary technical personnel.

It is necessary, in our opinion, to raise the role of the state in the management of the economy, which was reduced to zero in the 90s due to the hope for market freedom, since breakthrough neo-industrialization cannot be carried out without strong public administration. "The processes of reindustrialization should be given maximum acceleration to restore the role of industry in the country's economy as a basic component on the basis of a new, advanced, sixth technological order by solving a complex of related economic, organizational and other tasks within the framework of modernization of Russia." [6]

In scientific circulation there are many articles by well-known scientists, economists of Russia, which offer a variety of approaches to neoindustrialization in the country. In the 90-2000s, a discussion unfolded in the country about the ways of developing the Russian economy, economic growth, and the goals of socio-economic development, various approaches to the path of reindustrialization were called: emphasis on the institutional component (A.V. Buzgalin, A.I. Kolganov), reliance on state regulation of economic development (S.D. Bodrunov), vertical integration (S.S. Gubanov et al.), planned regulation of the economy (S.S. Gubanov), "rejection of the export-raw materials model of development and use of modern technologies of scientific achievements" [2] (A. Golubovich, V. Inozemtsev et al.).

It should be noted that each of the authors is right in his own way, there is a rational grain in each proposal.

In general, Russia needs to develop an adequate development model, both an open economy and the protection of national interests, an active industrial policy that ensures the real "reindustrialization" of the country, part of which should be large-scale import substitution. Only in this way, in our opinion, the country can use its natural competitive advantages to the greatest advantage.

For comparison, let's consider the state and processes of reindustrialization in other EAEU countries.

After the Russian Federation, the level of economic development and the processes of reindustrialization of the Republic of Belarus are of interest. It should be noted that in the CIS, only Belarus retained its industrial potential after the collapse of the Soviet Union, due to a well-thought-out privatization policy. Shock therapy in the economy was not carried out in the republic, as in other countries of the former USSR, capitalist economic relations were introduced gradually. Only unprofitable enterprises were sold into private hands, the rest remained state-owned and conducted a planned economy according to 5-year plans.

Today, "The Republic of Belarus is an export-oriented state with a developed industry, service sector and agriculture with a socially oriented market economy. Thus, in 2010-2018, the GDP of the republic increased in comparable prices by 17.5% with a significant increase in labor productivity." [6]

"According to the 2018 Human Development Report prepared by UNDP, Belarus ranked 53rd in the global annual ranking according to the consolidated Human Development Index and entered the group of countries with a high level of human development." [5]

"In the world ranking of countries on the industrial competitiveness index, Belarus occupies the 47th position, with a large margin ahead of the CIS countries, except the Russian Federation. The basis of industrial production of the republic is the manufacturing industry: food industry (25.8%), production of petroleum products (17.6%), mechanical engineering (16%), chemical production (10.8%). Its share in 2018 accounted for 88.6% of the total production volume. More than 60% of manufactured industrial products are exported, which is typical for countries with a high degree of development and an open economy." [1]

However, the Belarusian economy largely retains a command economy with strong control over business entities, many enterprises are not being modernized, technologies are becoming obsolete and fixed assets are being worn out, and wages remain low. "For some products, the production level of the USSR has not been reached to date, but is also declining (tractors, trucks, elevators, metal-cutting machines, rolling bearings). Losses in certain segments could not be compensated due to insufficient competitiveness of domestic products." [5] The coronavirus pandemic of 2019-2020 also negatively affected the country's economy, as a result of which industrial production decreased by 1.2%.

"Certain measures are being taken in Belarus to further develop industrial production. Thus, the Strategy of Technological Development of the Republic of Belarus for the period up to 2015, the Program of development of the industrial complex of the Republic of Belarus for the period up to 2020 was adopted." [6]

"In addition, state programs of innovative development, the Concept of formation and development of the nanoindustry, the Concept of formation and development of innovation and industrial clusters have been adopted. Long-term prospects and directions for the creation of an eco-efficient manufacturing sector are defined in the National Strategy for Sustainable Socio-Economic Development of the Republic of Belarus for the period up to 2030." [7] However, the tasks set out in these documents have not yet been solved, for their solution it is necessary to develop an industrial policy that takes into account the strategic goals of the country and the interests of all economic entities.

The Republic of Kazakhstan in the Soviet period had a developed machine-building industry, including more than 2000 machine-building enterprises, which accounted for about 20% of the total industrial production of the republic, Kazakh machine-building products were supplied to 32 countries, including developed countries. After the privatization, the rupture of economic ties in Kazakhstan, only 5% of industrial enterprises with worn-out equipment survived. As a result of deindustrialization, many links of mechanical engineering, light and food industries were lost, and the remaining enterprises became obsolete. Key types of production activities have lost almost 40% of their total share in Kazakhstan's GDP [8].

"The peculiarity of Kazakhstan's industry is its high provision with its own richest mineral reserves. Kazakhstan ranks 1st in the world in reserves of zinc, chromium, tungsten and vanadium ores, 2nd in reserves of uranium, 3rd in reserves of asbestos, wollastonite, rhenium, manganese, 4th in reserves of lead, 6th in reserves of phosphorite ores and gas, 7th iron ores, silver and oil, 9th coal, copper and gold. On a commercial scale, the republic has natural reserves of 3 types of ferrous, 29 types of non-ferrous, two types of precious metals." [8]

The availability of natural resources dictated the development of mainly mining industries. As a result, Kazakhstan's economy has become inefficient and has a raw material orientation. To overcome this trend, a number of programs were adopted in Kazakhstan: the Strategy of Industrial and Innovative Development of the Republic of Kazakhstan for 2003-2015, the State Program for Accelerated Industrial and Innovative Development (SPAIID) of the Republic of Kazakhstan for 2010-2014, subsequently prolonged (the so-called "second five-year AIID").

"These programs provided not only for the diversification of the industry structure, but also for the reduction of the trend of strengthening of the raw materials sector." [9] As a result of the work carried out, significant progress has been achieved in the manufacturing sector of the economy: since "2011, the manufacturing sector has been growing ahead of the mining sector. Kazakhstan has become a leader in the real growth of the manufacturing industry among the countries of the Customs Union. Labor productivity in the manufacturing industry increased 1.6 times, thanks to this, Kazakhstan entered the "top 50" countries in terms of labor productivity." [9] In 2010-2014, the main goal of the first five-year plan of industrialization was achieved - to stop the deindustrialization of the country's economy. The Government has developed a State program of accelerated industrial and innovative development for 2015-2019. The second five-year plan was implemented in the context of strategic industrial management.

To date, according to the State Program for Accelerated Industrial and Innovative Development, neither industrial modernization nor large-scale diversification of the economy as a whole is being implemented.

"Among the announced priorities of the third wave of modernization are accelerated technological modernization of the economy, cardinal improvement and expansion of the business environment, macroeconomic stability, improvement of the quality of human capital, institutional transformations, security and the fight against corruption. All these tasks were in the first two industrialization programs, but they were not solved in 25 years of independence. It should be noted that in the course of reindustrialization, the share of the manufacturing industry is gradually growing, in which less than 7% is employed and 11% of the gross value added of the country's economy is formed." [10]

At the same time, experts note that "the issues of the content, role and place of innovations, innovative breakthrough in the development of the economy, individual spheres and industries, methods for determining the measure of the impact of innovative innovations on the level of enterprises, individual links of the economy and social relations have not been worked out in the republic." [11, p.10]

Thus, it can be concluded that Kazakhstan is aimed at reorienting the economy from raw materials to an innovation-industrial type economy with a focus on knowledge-intensive technologies and services. The reindustrialization policy formulated in the programs of accelerated industrial and innovative development of Kazakhstan is the basis of the modern real economy. Its holding will allow Kazakhstan not only to take a leading position in the

relevant sectors of the world economy, but also to implement the "National Plan". [12]

In Armenia, the collapse of the USSR and the Karabakh interethnic conflict led the country's economy to a significant decline. Armenia does not have the necessary resources to carry out reindustrialization. But its participation in integration ties, especially as part of the EAIS, will allow the country to solve economic problems.

In the Kyrgyz Republic, due to the collapse of the USSR and the loss of economic relations, the mass outflow of the European population, the Kyrgyz industry, almost completely dependent on the Union budget, was dismantled, because it did not have a solid base of existence and raw materials for heavy industry. The transition to market relations, the rejection of the role of the state in the market economy also had a negative impact on the industry of Kyrgyzstan. "The volume of industrial production in 1995 amounted to 27% of the 1990 level. The country has turned from an agrarian-industrial one into an agrarian-raw material one." [13]

For this period of time, the previously dominant large branches of light industry and mechanical engineering are absent in the country. The process of deindustrialization has not been stopped so far, the economy of Kyrgyzstan currently continues to experience a period of deindustrialization. The growth and structure of the country's economy are based mainly on man-made extensive and natural development, due to the exploitation of natural resources, in particular gold mining, which creates a risk of environmental pollution.

"Today, three decades after independence, Kyrgyzstan is still one of the poorest countries in the world with a per capita GDP of about \$1,200. According to the World Bank, according to this indicator, the republic ranks 154th in the world out of 185 countries. Taking into account the fact that the global average GDP per capita exceeds \$10,000, it turns out that the economy of Kyrgyzstan is about nine times less efficient than in developed countries." [14]

Without mined gold, GDP by the end of 2019 amounted to 543 billion 322.8 million soms. If at the end of January 2019, the indicator was only 1.9 percent, then by the end of the year it rose to 3.8 percent. The growth is associated with the extraction of gold.

Production in Kyrgyzstan was declining even before the outbreak of the COVID-19 pandemic. The pandemic has dealt a heavy blow to industries and caused disruptions in value chains and product supply. The year 2020 passed in the context of a pandemic that seriously affected global economic processes, including in the field of industry. As a result, industrial production in Kyrgyzstan decreased by 3.6%, which is significantly higher than in the EAEU, where the decline was 2.8%. In other EAEU countries: in Russia -3.1%, Belarus – 1.2%, Kazakhstan – 0.6%.

## **Summary**

The government made attempts to stabilize the situation, a number of documents were adopted: "A comprehensive framework for the development of Kyrgyzstan for the period up to 2010", "The Program for the development of Kyrgyzstan's industry for the medium term (for 2002-2004) and for the period up to 2010" (2001), "New Economic Policy" (2009), "National The Strategy of Sustainable Development of the Kyrgyz Republic for the period 2013-2017" (2013), as well as the "National Development Strategy of the Kyrgyz Republic for 2018-2040" and numerous sectoral development programs. These measures have contributed to some economic recovery. "In 2014, for the first time, the Kyrgyz Republic rose to the category of

countries with an average level of domestic national product, the country's position in a number of other international rankings improved." [15] However, a specific goal of reindustrialization of the economy was not set at the government level in the country, it is necessary to implement a state economic strategically directed industrial policy related to the country's strategy.

Low R&D costs, lack of science-education-production connection leads to low innovative activity of entrepreneurship. There are no incentives in the republic, both for domestic financial institutions and for foreign investors to invest in the manufacturing industry. The experience of the development of many countries of the world, as well as taking into account the peculiarities of the Kyrgyz economy, gives us reason to believe that today the Kyrgyz Republic seems to have no alternative to the need for a reindustrialization process.

## **Conclusion**

In conclusion, we note that the main factor hindering the economic development of the EAEU countries is the problem of incomplete reindustrialization and socio-economic modernization in all countries. The EAEU countries are in different socio-economic conditions, which predetermines different ways and methods of reindustrialization. The Russian Federation has the potential of industry and the military-industrial complex, raw material rent, industrial personnel potential and, to the same extent, the slow reaction of the state and industrial circles to solving the problems of reindustrialization of the country. At the same time, Russia has set a course for advanced reindustrialization based on its own investment opportunities. "In the Republic of Belarus, which avoided large-scale deindustrialization in the 1990s and retained production facilities, personnel and collectives, the main task of reindustrialization is the technological renewal of industry to increase the overall competitiveness of the national economy. In the Republic of Kazakhstan, with huge reserves of raw materials, there are opportunities for the reindustrialization of extraction of raw rent, a well-thought-out industrial and innovative strategy has been formed (within the framework of the implemented "Strategy 2020" and the current "Strategy 2050"), but there is a need to expand the market for manufactured industrial products." [16] In Kyrgyzstan, a full-scale the task of reindustrialization remains, for which it is necessary to develop an appropriate industrial policy. Armenia also has a lot to do.

We are confident that the problems arising in the process of reindustrialization can be solved while being part of the EAEU.

The EAEU provides new opportunities in achieving economic cooperation, a single economic space and a market. To implement effective reindustrialization, it is necessary to combine the forces and resources of the EEC member states, agree on a common program for the development of reindustrialization in these countries, combining the efforts of states, business and society. For successful reindustrialization, it is necessary to raise the level of integration ties within the EAEU.



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