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BEYOND THE 'ASSEMBLER TRAP': RECONCILING DEGROWTH AND INDUSTRIAL POLICY IN CAPITAL-DEPENDENT ECONOMIES[1]

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Abstract

Degrowth research suggests that heterogeneity of growth models shall be taken into account. To this end, the growth model of the Visegrad countries (Czechia, Hungary, Poland and Slovakia, henceforth V4s) offers a fertile ground for theorizing whether a foreign-capital dependent region differs in terms of degrowth-approach from that of the capital-rich countries of the West. This short case study outlines how industrial policy can be reconciled with degrowth in case of V4s. In particular, it asks whether industrial policy can be repurposed to facilitate a transition away from quantitative growth toward a 'wellbeing economy'.

Keywords: V4, growth model, degrowth, wellbeing, path-dependency, FDI

Introduction

The global economy is currently navigating a 'polycrisis' – a complex configuration of intertwined challenges ranging from climate change and biodiversity loss to rising inequalities and technological disruptions. While the return of industrial policy has been widely discussed as a tool for technological sovereignty and green growth (Millot – Rawdanowicz, 2024, Evenett et al. 2024, Juhász et al. 2023, Gerarden et al. 2026), a more fundamental question remains: Can industrial policy be repurposed to facilitate a transition away from quantitative growth toward a 'wellbeing economy'? This question is particularly acute for the Visegrad countries (Czechia, Hungary, Poland, and Slovakia, henceforth V4s), whose growth models have historically relied on foreign capital. In a recent paper (Kovacs – Domonkos, 2025), we have addressed these intriguing questions.

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The Illusion of Sustainable Development and the Case for Degrowth

For decades, the promise of ‘sustainable development’ has dominated the policy discourse. However, as global greenhouse gas emissions continue to rise and resource extraction exceeds sustainable levels, it is increasingly clear that the current system setup cannot achieve strong sustainability. Industrialized nations utilize material at four times the sustainable level, and the Global North is responsible for the vast majority of cumulative emissions. While green growth enthusiasts, as criticized by Vogel and Hickel (2023), believe high-income economies can decouple production from emissions, evidence suggests that absolute decoupling remains unrealistic.

In this context, the concept of ‘degrowth’ has emerged not as a call for a recession, but as a purposeful and democratic downscaling of production and consumption patterns to reduce environmental burdens while improving human wellbeing (Kallis et al. 2025). As argued in recent literature, a wellbeing economy is one where policies are geared toward qualitative rather than quantitative growth – prioritizing sustainable scale, fairer distribution, and efficient allocation.

Reconciling Industrial Policy with Post-Growth Goals

At first glance, industrial policy and degrowth appear incompatible. Traditional industrial policy, as seen in the developmental states of East Asia, was designed to maximize quantitative growth and export competitiveness. However, the new industrial policy currently experiencing a renaissance in the US and Europe (Aiginger and Rodrik 2020) is undergoing a metamorphosis. It increasingly focuses on 'good and productive jobs' and qualitative development (Rodrik 2022).

We argue that industrial policy can serve as a critical cog in the degrowth-oriented policy machine. By ‘recoding’ capital toward qualitative investments, industrial policy can:

- **Advance the Circular Economy**: Supporting business models that prioritize repair, reuse, and recycling over resource extraction.
- **Nurture Green Job Creation**: Redirecting labour toward the care sector, sustainable agriculture, and renewable energy.

- **Modify Consumer Behaviour**: Utilizing Industry 4.0 and 5.0 technologies to promote durable products and responsible consumption.

The Visegrad Experience: The 'Assembler Trap'

The challenge of a degrowth transition is not uniform, and this is the point where our research parted ways with the prevailing literature on degrowth. The V4s represent a specific Dependent Market Economy (DME) model, characterized by an intense reliance on Foreign Direct Investment (FDI) for modernization.

Historically, this capital dependency is not new. In the interwar period, foreign capital often preserved backward production structures in the region rather than inducing modernization. Since the 1990s, a similar pattern has emerged. While FDI helped the V4s become industrial powerhouses – with industrialization intensity now exceeding that of the EU-core – this has not translated into equivalent industrial competitiveness.

The V4s are caught in what we term the 'assembler trap': they act as manufacturing hubs (particularly for the automotive industry) where the high-value-added R&D remains elsewhere. This model is ecologically intensive; V4 economies have significantly higher energy intensity than the EU-nordic countries, largely due to their role as the workbench of the EU-core.

FDI as a Barrier to Degrowth?

The FDI-dependent model poses three significant challenges for a degrowth-oriented industrial policy:

1. **Limited Strategic Autonomy**: When industrial structure is dictated by multinational corporations (MNCs), national governments have less leverage to impose the radical downscaling required by degrowth.
2. **The Energy Penalty**: FDI in the V4s has often flowed into energy-intensive manufacturing. For instance, Hungary's transition toward becoming an EV battery production hub has led to relaxed environmental regulations to accommodate MNCs, a phenomenon often described as regulatory forbearance (Dewey and Di Carlo 2022).
3. **Fiscal Constraints**: While Olivier Blanchard (2023) and Barry Eichengreen (2021) have debated the limits of public debt, for the V4s, high debt servicing and squeezed

fiscal space mean that governments have limited capacity to fund the green jobs or R&D needed to compensate for the low-innovation content of FDI.

Policy Implications: The ‘Great Alignment’

A one-size-fits-all degrowth strategy is nonsensical in a heterogeneous global economy. For capital-dependent nations like the V4s, we propose a strategy of ‘The Great Alignment’. This requires a fundamental shift in how FDI and industrial policy are managed:

- **Conditional FDI**: Investment incentives should be strictly tied to environmental guardrails and social standards. Instead of competing for volume, V4s should compete for *quality* of investment that aligns with wellbeing goals.
- **Directed Technical Change**: Following Acemoglu et al. (2012), industrial policy must inject directionality into the system, favouring technologies that reduce resource use over those that simply increase productivity for its own sake.
- **Strengthening Domestic Actors**: Reducing the dependency on foreign capital by supporting domestic, non-exporting firms and grassroot innovations that are more convivial and aligned with local social needs.

Conclusion

The V4 experience is a clarion call for the degrowth literature to move beyond abstract theory and engage with the messy realities of political economy. A successful degrowth transition will not happen by accident; it requires a context-dependent industrial policy that recognizes the constraints of a country’s growth model. For the Visegrad countries, the path to a wellbeing economy lies in breaking the 'assembler trap' and aligning their industrial policy with the limits of our living world.

In addition, the wayward foreign capital-based industrialisation path of the V4s entails with the growing risk of getting into the well-known middle-development trap (overburdened and fiscally limited public sector, low dynamics of productivity, weakening innovation performance and international competitiveness etc.) which is more likely to undermine the social and political capital needed for the democratic transition to degrowth. Thus, democratic degrowth-transition paradoxically requires FDI especially from the west rather than from Asian countries of which sensitivity to the quality of democracy is way lower than their western peers.

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