1. Introduction

The transformation of the Central and Eastern European countries (CEECs) from centrally planned economies to market economies and their increasing economic integration with the EU have led to the creation of new spatial patterns of economic disparities in these countries. Generally, regional disparities have been increasing in the CEECs, and this paper aims at explaining why this is the case and who have been the loser regions and the winner regions. In the framework of a case study of Hungary, some light is shed on the increase of regional income disparities in this country and the way these have been caused by Hungary’s transition process and its integration into the European economy. Furthermore, the role played by regional policy during the 1990s in Hungary is briefly examined. The paper presents evidence for an increase of regional disparities in Hungary, using various analytical and graphical tools such as the Hoover index and corresponding maps. Moreover, several indicators and their development over time are carefully examined, e.g. regional GDP per capita, the geographical distribution of FDI, unemployment, internal net migration, and education data.

A particular focus of the paper’s analyses is on the two divides that characterize post-transition Hungary: the divide between Budapest and the rest of the country on the one hand, and the divide between Western Hungary and Eastern Hungary on the other. In this context, the county of Győr-Moson-Sopron and the city of Győr (both in Western Hungary) are examined as case study examples of a successful regional development. At the same time, the characteristics and major difficulties of Hungary’s “problem regions” and peripheries are scrutinized. Finally, this paper sheds light on the most recent developments with regard to regional disparities and regional policy in Hungary and presents some scenarios for the future of regional development in this country, taking into account the interventions of EU cohesion policy from 2007 onwards.

The remainder of this paper is organised as follows: Chapter 2 examines to what extent transition and European integration have induced the growth of regional disparities in the new Member States. Chapter 3 provides an overview of the increase of regional disparities in Hungary, which is the case study country examined in this paper. In Chapter 4, a closer look is taken at Hungary’s single regions and counties. Chapter 5 briefly outlines the role of Hungarian regional policy in the 1990s. Chapter 6 provides a short conclusion as well as a brief outlook.

2. Growing regional disparities within the new Member States: the role of transition and European integration via trade and FDI

In this chapter, the increase of regional disparities within the new Member States will be analysed. The chapter sheds light particularly on Hungary, which will be focused on as a “case study”. Yet, regional disparities increased not only in Hungary, but in all of the transition countries, and many regional patterns of Hungary are at the same time general regional patterns of the East-Central European transformation between 1989 and today. Hence, much of what can be said about Hungary, the dominant role of its capital city, the problems of its Eastern regions… could equally be said about other new EU members such as Poland, Slovakia or the Czech Republic.

The transformation of the CEECs from centrally planned economies to market economies and the increasing economic integration with the EU have led to the creation of new spatial patterns of economic disparities in the new EU Member States. As market economic systems have been widely introduced and the transition has been largely completed, the uneven spatial impact of intense economic reforms and integration with Western Europe is becoming more and more evident – widening disparities between and within countries characterise the overall picture (Bachtler et al., 1999, p. 8).

2.1 Growing regional disparities within the new Member States: the role of transition

What are the factors that led to the emergence of a new economic geography and to increased regional disparities in the EU’s new Member States? The CEECs went through a process of transition from a centrally planned
economy to a market economy, accompanied by tremendous economic and institutional reforms. Under the socialist system of centrally planned economies, rapid industrialisation had been associated with urbanisation in less-developed regions and an effort to spread industrial/urban growth. Generally a redistributive, egalitarian regional policy had been pursued, aiming at the reduction of regional disparities, especially through a balanced provision of public goods and the centralized decision on where to locate (heavy) industrial districts and development poles. Consequently, there had been a certain tendency towards regional economic convergence during the period from 1948 to 1989 – at least on an aggregated level, much less so however across microregions and settlements. Particularly during the 1970s, the disparities between Budapest and the countryside, but also between the Hungarian counties in general had decreased. In the “State socialist economy”, economic institutions had been centralized, with the political centre as the sole decision-maker (“one point economy”). The socialist governments had tried to equalise the regional terms of production and living conditions. Hence, spatial factors had been close to insignificant and the regional structures relatively polycentric (Bachtler et al., 1999, p. 8; Cséfalvay, 1997, pp. 53, 55-56 and 105; Ehrlich and Szigetvári, 2003, p. 7; Rudolph, Hardi, and Terpitz, 2002, pp. 155-156; Rechnitzer, 2000, p. 11).

In the transition process of the 1990s, the “one point economy” was radically transformed into a “spatial economy”. Across space, local/regional markets evolved and interregionally different costs and prices started to develop, with labour and especially capital moving away from some regions and towards others. The regions were becoming more and more heterogeneous in terms of economic development (as measured e.g. by GDP per capita). The privatisation of former socialist State property led to a very heterogeneous valuation of the single regions: the dissolution of the centrally planned system caused an intense competition between them and the economic structure started to rearrange. While some regions (in Hungary especially Budapest and the Western border regions) could benefit from this rearrangement, others became depressed areas. During the transition process, nearly one and a half million jobs were lost in Hungary. Production particularly decreased in the former centres of (heavy) industry, where sectoral crises soon became regional crises. Consequently, large-scale regional disparities evolved and many transition countries witnessed an increasingCentre-periphery dichotomy. Furthermore, the pre-socialist regional disparities became visible again, due to traditional differences in human capital endowment, innovation capabilities and economic openness (Rechnitzer, 2000, pp. 11 and 52; Cséfalvay, 1997, pp. 58-59 and 105-106).

2.2 Growing regional disparities within the new Member States: the role of European integration

The CEECs have not only undergone a transition process, but they have also been gradually integrated into the “Pan-European” economy – particularly via trade and FDI – with the EU becoming their main economic partner far before they officially joined it in May 2004. Both processes – transition and European integration – are not independent from one another, but strongly intertwined: integration into the EU economy was (and still is) a crucial pillar of the CEECs’ transition process (Resmini and Traistaru, 2003, p. 3). The EU accession process has had a strong influence on the direction and pace of reform and transition in the accession countries. It served as an anchor for reform in the transition process of these countries: shared political values, economic stability, geographical proximity, strong trade relations, the prospect of Union membership, the EU as a “hegemon”, just to mention some headwords – a veritable lock-in phenomenon. Berglöf and Roland (2001, p. 26) emphasize very clearly the anchor role the EU integration process played in the transition process of the CEECs:

“...the desire to “return to Europe” has played an important role in breaking political constraints and sustaining the momentum of reform in many countries. Perhaps never before in history has the attraction of joining an association of countries had such profound impact on the political and economic development of an entire region. In the countries where membership has been a realistic option, the past decade has witnessed perhaps the most radical reorientation of trade and structural adjustment in modern history. The impressive record of the accession countries stands out even more clearly when contrasted with the disappointing record of the transition economies left out of the accession process.”

Parallel, the transition process had its effects on EU integration: the CEECs’ trade expansion with the EU e.g. was driven by industrial restructuring, which was mainly determined by progress in transition (Resmini and Traistaru, 2003, p 9). And, clearly, a successful transition to a market economic system was the precondition for accession to the Community.

The process of economic integration between Western and Eastern Europe essentially occurred through two channels: trade and FDI. This integration via trade and FDI led to production and trade restructuring (“structural change”), new patterns of regional economic activity as well as income disparities between the different regions within the CEECs. Moreover, the international exchange of goods and services opened opportunities to
specialise and concentrate in only few locations, benefiting from economies of scale (Resmini and Traistaru, 2003, pp. 4-16; Maffioli, 2003, p. 197; Resmini, 2002, p. 2). All these processes still go on.

### 2.2.1 Increasing interregional differentiation due to European integration via trade

All the available trade statistics show the outstanding expansion of trade between the CEECs and the EU in the 1990s (the “transition decade”). As Figure 1 shows, in 1989 (at the beginning of transition and EU integration), only 28 per cent of the CEECs’ exports went to the EU. By 1999, this figure increased to 69 per cent, i.e. the EU’s share in the CEEC’s exports increased to more than two-thirds. In terms of USD or EUR, the CEECs’ exports to the EU were on average approximately six times higher in 1999 than they had been ten years before. One essential reason for this was gradual trade liberalisation, e.g. in the form of the so-called Europe Agreements, which opened the EU markets for the CEECs’ products. Export growth of this magnitude was the decisive factor that lifted the CEECs out of their transformation recession. Also during the transition decade, the EU increased its share in the CEECs’ imports from 27 per cent (1989) to 62 per cent (1999). On average, imports from the EU were seven times higher in 1999 (in terms of USD or EUR) than they had been at the beginning of transition and integration (1989). At the same time, the CEECs’ trade with the countries of the former Soviet Union sharply decreased (Resmini and Traistaru, 2003, pp. 5 and 7; Maffioli, 2003, pp. 197-200; Ehrlich and Szigetvári, 2003, p. 9).

**Figure 1. The CEECs’ exports and imports to and from the EU during the “transition decade” (shares in total CEECs’ exports and imports)**

![Graph showing CEECs' exports and imports to and from the EU during the transition decade](image)

Source: Author’s depiction, based on Resmini and Traistaru (2003, p. 7).

At the end of the transition decade, Hungary traded even more with the EU than the CEECs on average: in 1999, 76 per cent of its exports went to the EU (2002: 73.5 per cent), whereas in the same year, 64 per cent of the Hungarian imports came from there (2002: 57.5 per cent). At the same time, Hungary’s share of trade with ex-members of the (by now dissolved) Council for Mutual Economic Assistance (CMEA) decreased from 60 per cent in 1986 to 20 per cent in 1997. In all CEECs, increasing trade liberalisation and integration with the EU led to a sectoral and regional restructuring of the industry, with different specialisation and location patterns (Resmini and Traistaru, 2003, pp. 5 and 7; EBRD, 2003, p. 86; Maffioli, 2003, pp. 197-200; Kaminski, 1999, p. 5).

---

1 Hungary e.g. was granted the General System of Preference (GSP) by the EU in 1989. In December 1991, a “Europe Agreement” with the EU was signed. The Pan-European Cumulation Agreement entered into force on 1 July 1997, establishing a quasi free trade area between Hungary and the EU. Only in 2001 however, all tariffs on manufacturing products were removed (Maffioli, 2003, p. 197; Kaminski, 1999, pp. 4-5).

2 The choice to illustrate trade integration between the EU and the CEECs mainly for the period 1989-1999 in Figure 1 has the following reasons: the transition and integration process mostly took place during that very decade, and the increase of the mutual trade relations is most impressive in that period. After that (i.e. from 2000 onwards), the figures stabilise, without any further major changes.
2.2.2 Increasing interregional differentiation due to European integration via FDI

What has just been said about the CEECs’ trade realignment also applies to a large extent to the case of FDI. Capital imports/FDI played a seminal role in expanding integration with Western Europe. Various factors such as privatisation, skilled but cheap labour, expanding domestic markets, and the perspective of the CEECs’ accession to the EU attracted foreign investors (often transnational corporations from the EU). At the end of 1999, the cumulative inflows of FDI from EU companies into the CEECs amounted to EUR 46 billion (see Figure 2). 41 per cent of this amount has been received by Poland, 25 per cent by the Czech Republic and 20 per cent by Hungary, so that these three countries alone have attracted more than 80 per cent of all FDI inflows (Ehrlich and Szigetvári, 2003, p. 9; Resmini and Traistaru, 2003, pp. 11-13).

Figure 2. EU FDI flows into the CEECs during the “transition decade” (in billions of EUR)

Source: Author’s depiction, based on Resmini and Traistaru (2003, p. 13).

The number of multinationals and joint-ventures operating e.g. in Hungary increased from 1,800 in 1989 to 76,000 in 2001, when they employed about 30 per cent of the Hungarian workforce and accounted for roughly 65 per cent of Hungary’s manufacturing exports. However, in contrast to other countries, in Hungary European FDI decreased both in absolute and relative terms in the second half of the 1990s, when the privatisation process was coming to an end and naturally lost momentum. Consequently, the opportunities for brownfield investment diminished. As with trade, the massive FDI inflows induced by the transition and integration process led to sectoral and regional restructuring of the industry in all of the new EU Member States, giving rise to increasing regional differentiation. FDI played a pivotal role in shaping the CEECs’ new economic geography and contributed to the emergence of regional disparities, since it tended to flow predominantly to the CEECs’ capital cities and to regions bordering on the EU, leaving other (mostly remote/ peripheral) regions worse off (Maffioli, 2003, p. 203; Ehrlich and Szigetvári, 2003, p. 10; Dohrn, 2001; Nemes-Nagy, 2001, p. 52).4

Summing up the analysis of increasing trade and FDI as the essential determinants of East-West economic integration in Europe during the last 15 years, it has to be emphasized that the Eastern enlargement process of the EU has had (and still has) important spatial consequences, often neglected by the literature on the welfare effects of the Community’s expansion. Trade and FDI do not occur in a homogeneous space – geographical factors such as distance, accessibility and centrality play a part in determining the location of economic activities. Countries or regions that are close to core EU markets and/or well endowed with a skilled labour

3 The term “brownfield investment” is used when FDI is carried out on the basis of an already existing establishment, whereas “greenfield investment” refers to a foreign company’s “new” investment project from scratch (building up the respective infrastructure/ factory in the open countryside/on the “green field”). The reason for the similarity of the terms is that in the case of foreign acquisitions of post-socialist firms, these firms normally needed such a deep restructuring and renewal that the investments nearly resembled a greenfield investment (often, the investors almost completely replaced plant and equipment) – therefore, they are often referred to as “brownfield investment” (Meyer and Estrin, 2001, p. 576).

4 In Hungary, the first serious evidence for FDI moving beyond the Danube River came as late as 1998, when various multinationals launched some commercial business and industrial projects in Eastern and Northern towns of the country. However, up to the present, the impact of FDI in these regions is hardly noticeable in the general regional development pattern (Nemes-Nagy, 2001, p. 52).
force, a high innovation capacity and a good infrastructure are the preferred destinations of FDI and trade flows (Resmini, 2002, p. 2; Resmini and Traistaru, 2003, p. 17; Traistaru, Nijkamp, and Resmini, 2003, pp. 446-447).

2.3 Evidence for growing regional disparities within the new Member States

Many studies (e.g. European Commission, 2001; European Commission, 2004; Petrakos, 2000; Traistaru, Nijkamp, and Resmini, 2003) confirm that throughout the last decade the accession countries witnessed increasing regional income disparities. In its Third report on economic and social cohesion, the European Commission (2004, p. 10) gets to the heart of the problem:

“Growth in the accession countries has been far from regionally balanced. In all the transition countries, it has been disproportionately concentrated in a few regions, particularly in capital cities and surrounding areas. As a result, regional disparities in GDP per head have widened significantly.”

Samecki (2003, p. 2) e.g. finds that “between 1995 and 2000 the diversity between the most prosperous and the least prosperous regions in the Member States of the EU-15 increased on average by only 2%, while the average increase in this diversity in the Visegrad group’ amounted to 20%.” Table 1 shows the diversities measured as the ratio of GDP per capita at PPS between the richest and the poorest region in the Visegrad group countries as well as in some old EU Member States. Not only did regional disparities within the Visegrad countries sharply increase, but they also reached a considerable level in absolute and relative terms (in spite of having been relatively low at the beginning of the 1990s due to the reasons mentioned in Chapter 2.1): as Table 1 shows, the ratios of GDP per capita at PPS between the Visegrad countries’ richest and poorest regions are already bigger than that of Italy (a country known for its huge interregional disparities) and even approach the very special case of reunified Germany with its Western and Eastern parts.

Table 1. Income disparities between the richest and the poorest region in the Visegrad group countries and in some old EU Member States

<table>
<thead>
<tr>
<th>Country</th>
<th>Most prosperous region</th>
<th>Least prosperous region</th>
<th>Ratio (2)/(3) in GDP/head (PPS), 1995</th>
<th>Ratio (2)/(3) in GDP/head (PPS), 2000</th>
<th>Change (4)/(5) (from 1995 to 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Poland</td>
<td>Mazowieckie</td>
<td>Lubelskie</td>
<td>1.64</td>
<td>2.21</td>
<td>+35%</td>
</tr>
<tr>
<td>Hungary</td>
<td>Közep-Magyarorszag</td>
<td>Eszak-Alföld</td>
<td>2.02</td>
<td>2.40</td>
<td>+19%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Prague</td>
<td>Stredni Morava</td>
<td>2.36</td>
<td>2.69</td>
<td>+14%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Bratislava</td>
<td>Východné Slovensko</td>
<td>2.51</td>
<td>2.76</td>
<td>+10%</td>
</tr>
<tr>
<td>Ireland</td>
<td>Border, Midland &amp;</td>
<td>Southern &amp; Eastern</td>
<td>1.44</td>
<td>1.51</td>
<td>+5%</td>
</tr>
<tr>
<td></td>
<td>Western</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Trentino-Alto Adige</td>
<td>Calabria</td>
<td>2.25</td>
<td>2.19</td>
<td>-3%</td>
</tr>
<tr>
<td>Germany</td>
<td>Hamburg</td>
<td>Dessau</td>
<td>2.88</td>
<td>2.83</td>
<td>-2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>Brussels</td>
<td>Hainaut</td>
<td>3.00</td>
<td>3.07</td>
<td>+5%</td>
</tr>
</tbody>
</table>


Growing empirical evidence (e.g. Bachtler et al., 1999; European Commission, 2001; Petrakos, 2000; Resmini, 2002) points to two types of winners and to two types of losers among the accession countries' regions: in this admittedly simplified dichotomy, the metropolitan and urban areas (namely the capital city regions) as well as the regions bordering on old EU Member States such as Austria belong to the former group, the rural and old (declining) industrial areas as well as those in the Eastern peripheries belong to the latter group (Enyedi, 1996; Gorzelak, 1996, pp. 127-129; Bachtler et al., 1999, p. 8; Iara and Traistaru, 2003, p. 5). It has to be mentioned however that while the regions bordering on the old EU have developed very dynamically in Hungary and Slovakia (where the region bordering on the EU is at the same time the capital city region), they did less (uniformly) so in other transition countries (Lammers, 2003, pp. 222-224).

A very distinguishing feature of most new EU Member States is the very dominant core role of their capital city regions and the resulting income divide between the capital city and the countryside. The capital cities of the Czech Republic, Hungary, Slovakia, Estonia and Latvia (Prague, Budapest, Bratislava, Tallinn and Riga) play the most dominant core roles. In all of these countries, there is no centre that could rival the capital city. In the

5 The Visegrad group consists of Poland, Hungary, the Czech Republic and Slovakia.
Czech Republic the disparity between the region of Prague (which, in 2001, had already reached a level of 136 per cent of the average EU-15 GDP per capita in PPS, see HCSO, 2004a, p. 79) and the remainder of the country is enormous. In Hungary, the Budapest-countryside divide is still increasing. Traistaru, Nijkamp, and Resmini (2003, p. 448) find that the “capital regions are the main industrial centres in all five accession countries” (Hungary, Estonia, Slovenia, Bulgaria, and Romania) covered by their study.

3. Growing regional disparities within Hungary: an overview

The new regional pattern that has emerged in Hungary during the transition process can be briefly characterized as follows: economic growth became concentrated in a small number of metropolitan and Western areas of Hungary (mainly Budapest and the regions bordering on Austria), whereas a large number of regions (in Hungary’s Eastern, Northern and Southern parts) witnessed the erosion of their production capacity and their potential to grow and transform seemed to vanish. Consequently, spatial differentiation in post-socialist Hungary mainly led to the growing emergence of two separate (and yet connected) types of income disparities: an increasing economic divergence between Budapest and the rest of the country on the one hand (which is a rather traditional divide in Hungary), and an increasing divergence between the Eastern part of the country and its Western regions on the other (a relatively new development) (Rudolph, Hardi, and Terpitz, 2002, p. 157; Major, 2004, expert interview).

Hungary borders on seven countries (Austria, Slovakia, Ukraine, Romania, Serbia, Croatia, and Slovenia). Consequently, it has a large number of border regions – 35 per cent of the country’s territory can be considered as border regions and nearly one third of the population live in those regions. These border regions’ different development paths during the 1990s are very characteristic of the regional and economic rearrangements of that decade: In Hungary’s Western border regions, both sides of the border could benefit from dynamically growing cross-border exchanges, investments, tourism and multilateral cooperation. The Western Hungarian border regions thus became the winners of transition. Unlike Western Hungary, the North-Eastern, South-Eastern and Southern border regions have been debased to a large extent, because there, (Hungarian) peripheries met (and still meet) (foreign) peripheries, and the borders separate regions of lastingly disadvantageous position. Furthermore, the bottlenecks in transportation and communication (bad roads and accessibility, bureaucratic border controls) prevent contacts. Therefore, there was no dynamic growth of cross-border exchanges (apart from smuggling and black economy activities) and the structural crises deepened (Rechnitzer, 2000, pp. 32, 38-39 and 42).

It was argued in Chapter 2.1 that the transition process of the 1990s radically transformed the ex-socialist “one point economies” into “spatial economies”. This particularly holds for Hungary, where geographical position and location aspects explain much (but clearly not all) of the country’s new regional income patterns. Nemes-Nagy (2003, pp. 54-56) e.g. finds clear evidence for the increasing importance of the East-West divide in Hungary by regressing taxable income per capita on the geographical (East-West) position of the country’s microregions.

Manufacturing activity in Hungary relocated to regions bordering on Austria (and to a lesser extent on the new EU members Slovakia and Slovenia), at the expense of Hungary’s Eastern, Southern and Northern peripheries and of non-border regions. Maffioli (2003, p. 221) finds evidence for de-industrialisation of Hungary’s North-Eastern part to the benefit of its Western border counties. While the latter have increased their employment shares particularly in high-technology industries (e.g. machinery, equipment and motor vehicles), the other successful regions bordering on (Western) Slovakia and Slovenia have done so mainly in labour-intensive branches (e.g. textiles, clothing and leather) (Traistaru, Nijkamp, and Resmini, 2003, p. 443).

In Hungary, the new regional patterns have become evident quite soon after the transition process had set in. Clearly, there is a considerable degree of path dependency involved: Hungary’s “new” spatial patterns follow the organic, historically born pre-socialist spatial structure, in which the division line was the Danube River: in the regions west of the Danube, more industrialised areas following (Western) European trends had evolved before World War II, whereas in Eastern Hungary agriculture had always been the dominant economic factor. Whereas the Western Hungarian regions could build on their historical, market-oriented development in the 1990s, Eastern Hungary’s heritage of a large socialist monocultural company system transformed that region into a crisis zone. The re-establishment of the Danube as an economic development division line between Western Hungary and Eastern Hungary as well as the particular dominance of Budapest – which almost entirely stands out from Hungary’s spatial structure – have led to the metaphors of a “three-piece Hungary”6 and – with

6 The three pieces are Western Hungary, Budapest, and Eastern Hungary.

In Hungary, developed areas, especially Budapest, have benefited more from transition and integration than backward areas. As a result, the country is not only characterized by a striking East-West divide, but also by a core-periphery divide. The territorial inequalities as regards production are by far exceeded by the core-periphery divide with regard to income, capital accumulation, and FDI (Ehrlich and Szigetvári, 2003, p. 2).

3.1 Hungary’s territorial organization

Hungary is territorially subdivided into four spatial levels: planning-statistical regions, counties, microregions and settlements. There are seven planning-statistical regions (the NUTS 2 units): Central Hungary (Közép-Magyarország), Central Transdanubia (Közép-Dunántúl), Western Transdanubia (Nyugat-Dunántúl), Southern Transdanubia (Dél-Dunántúl), Northern Hungary (Eszak-Magyarország), Northern Great Plain (Észak-Alföld) and Southern Great Plain (Dél-Alföld): These regions are “artificial constructs” set up to create a NUTS 2 level for EU policy purposes, since the traditional regional authorities, the counties, were too small to serve as NUTS 2 regions. When Hungary was officially and legally divided into regions in the 1990s, there was a lively debate about the concept and employment of regions (Ehrlich and Szigetvári, 2003, pp. 2-6). As Ehrlich and Szigetvári (2003, p. 5) put it, “[r]egions are an old concept in geography but new in common parlance in Hungary.”

The 19 counties plus the capital city (NUTS 3 level) are the traditional regional authorities dating back a thousand years. They have historically evolved county seats. These 19 counties have an average population of 500,000 people and an average area of 5,000 sq. km. Hence, they are too small to meet the EU criteria for NUTS 2 regions. Therefore, three counties have been “merged” into one (planning-statistical) region (Ehrlich and Szigetvári, 2003, pp. 2-3 and 16-17). Furthermore, there are 150 statistical microregions, which however do not have any administrative institutions. Finally, Hungary has approximately 3,100 settlements, i.e. local authorities.

Figure 3. The seven planning-statistical regions (NUTS 2) and the 19 counties (NUTS 3) in Hungary


7 The country’s backward regions and peripheries in Northern Hungary, Eastern Hungary and Southern Hungary are referred to as the “Hungarian desert”. This metaphor borrows from the by now famous French expression of the 1960s, “Paris et le désert français”, where reference was made to the striking economic discrepancy between Paris and the mostly rural provinces (départements) in centralized France (Hrubi, 2002, p. 69).
3.2 Evidence for growing regional disparities within Hungary

3.2.1 Growing regional disparities at all levels of spatial aggregation: the Hoover index

On the basis of the so-called Hoover index\(^8\), Nemes-Nagy (2003, pp. 51-52) shows that at all the levels of spatial aggregation in Hungary (settlements, microregions, counties and planning-statistical regions), interregional (inter-county-, inter-settlement-…), income inequalities increased during the transition process. As Table 2 shows, the strongest increases in regional disparities took place between 1988 and 1994, i.e. during the first half of the transition decade. Yet, the increase in interregional income inequalities did not come to a halt in 1995 (see also Table 1). Regional income disparities continued to grow during the second half of the 1990s, albeit at smaller rates.

Table 2. Growing regional disparities at all spatial levels: Hoover indices (in %)

<table>
<thead>
<tr>
<th>Years</th>
<th>Budapest vs. countryside</th>
<th>3,100 settlements</th>
<th>150 microregions</th>
<th>20 counties</th>
<th>7 regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>7.1</td>
<td>10.8</td>
<td>9.1</td>
<td>7.7</td>
<td>7.6</td>
</tr>
<tr>
<td>1989</td>
<td>7.5</td>
<td>11.7</td>
<td>9.8</td>
<td>8.2</td>
<td>8.1</td>
</tr>
<tr>
<td>1990</td>
<td>8.3</td>
<td>12.9</td>
<td>10.7</td>
<td>8.7</td>
<td>8.6</td>
</tr>
<tr>
<td>1991</td>
<td>7.5</td>
<td>13.3</td>
<td>10.6</td>
<td>8.2</td>
<td>8.0</td>
</tr>
<tr>
<td>1992</td>
<td>9.6</td>
<td>14.8</td>
<td>12.0</td>
<td>9.8</td>
<td>9.3</td>
</tr>
<tr>
<td>1993</td>
<td>9.9</td>
<td>15.1</td>
<td>12.6</td>
<td>10.2</td>
<td>9.6</td>
</tr>
<tr>
<td>1994</td>
<td>9.9</td>
<td>15.5</td>
<td>12.9</td>
<td>10.4</td>
<td>10.0</td>
</tr>
<tr>
<td>1995</td>
<td>9.5</td>
<td>15.2</td>
<td>12.6</td>
<td>10.1</td>
<td>9.7</td>
</tr>
<tr>
<td>1996</td>
<td>9.0</td>
<td>15.2</td>
<td>12.7</td>
<td>10.3</td>
<td>10.1</td>
</tr>
<tr>
<td>1997</td>
<td>9.3</td>
<td>15.4</td>
<td>13.2</td>
<td>10.7</td>
<td>10.5</td>
</tr>
<tr>
<td>1998</td>
<td>9.4</td>
<td>15.5</td>
<td>13.2</td>
<td>11.2</td>
<td>11.0</td>
</tr>
<tr>
<td>1999</td>
<td>9.7</td>
<td>15.8</td>
<td>13.6</td>
<td>11.2</td>
<td>11.1</td>
</tr>
<tr>
<td>2000</td>
<td>9.3</td>
<td>15.6</td>
<td>13.5</td>
<td>11.5</td>
<td>11.3</td>
</tr>
<tr>
<td>2001</td>
<td>9.3</td>
<td>15.4</td>
<td>13.4</td>
<td>11.4</td>
<td>11.1</td>
</tr>
</tbody>
</table>


Hrubi (2002, p. 73) confirms that between 1995 and 2000, too, “territorial disparities … have usually grown, both in the capital city-countryside relation and within the countryside.” Szabó (2003, p. 112) finds that in 1998, regional disparities as measured by the Hoover index (on the EU cohesion policy-relevant NUTS 2 level) were bigger in Hungary than in any other Member State of the EU-27 (the enlarged EU plus Romania and Bulgaria). The same is true for the discrepancy between the capital city and the countryside (as measured by the Hoover index), which was bigger in Hungary in 1998 than anywhere else in the EU (Szabó, 2003, pp. 113-114).

Based on very recent data, the European Commission (2004, p. 10) in its Third report on economic and social cohesion finds that “[i]n Hungary, the level of GDP per head in the regions with the most prosperous 20% of population is 2.4 times the level in the least prosperous” – a gap bigger than in any of the old EU Member States. This corresponds with the results of Iara and Traistaru (2003) and HCSO (2004b) who find evidence for still increasing regional GDP differentials in Hungary. HCSO (2004b, p. 3) e.g. finds that while in 2001, the GDP per capita of Hungary’s richest region, Central Hungary, was 2.44 times higher than that of the country’s poorest region, Northern Hungary, the same quotient increased to 2.57 in 2002 (see also Table 3) – a relatively strong increase in one single year.

3.2.2 Spatial distribution of income per capita: some illustrative maps

With respect to most types of income (GDP per capita, gross/net income of households…), Hungary is characterized by an East-West divide, but also by a core-periphery disparity due to the economic dominance of Budapest and its agglomeration (Meusburger, 2001, pp. 196-201; Bachtler et al., 1999, p. 72; Cséfalvay, 1997, p. 64). Dusek (2004) vividly illustrates these two divides on the basis of maps showing the development of the spatial distribution of income per capita across Hungary between 1990 and 2000. It is important to emphasise that the reference value (=100) is the counties’ average income per capita.

---

\(^8\) The Hoover index is a measure of regional income inequalities (see Hoover, 1941). It can be calculated as follows: $H = \frac{\sum_{i=1}^{n} |x_i - f_i|}{2}$, where $x_i$ is the share of region $i$ (county, microregion, settlement…) in total GDP, and $f_i$ is the share of region $i$ (county,…) in total population (Hoover, 1941; Nemes-Nagy, 2003, p. 51; Szabó, 2003, pp. 111-113).
It can be seen from the first map (for the year 1990) in Figure 4 that – even if only to a lesser extent – this divide had already existed in pre-transition Hungary (1990) (in fact, Hungary’s “new” spatial patterns follow the organic, traditional spatial structure), but the economic development differences between the country’s Eastern and Western parts spectacularly widened during the 1990s (see map for the year 2000). The third map (change between 1990 and 2000) clearly shows that the capital city and the country’s Western and Central regions are the “winners” of the transition decade, whereas the Northern (North-Eastern) and Southern (South-Eastern) peripheries suffered from (partly drastic) losses in income per capita. This corresponds to the aforementioned East-West divide in Hungary.

Figure 4. Spatial distribution of income per capita in Hungary

---

9 Budapest is not included in the calculation of the income per capita average of the counties.
While Budapest and its agglomeration, the (North-) Western part of the country as well as some regional centres have developed very dynamically, the North-Eastern and South-Eastern regions have stagnated and fallen back. The reasons for these diverging developments are carefully examined in Chapter 4. After the graphical illustration of Hungary’s East-West duality as well as the divergence between Budapest and the countryside in
Figure 4, some very important regional data also should be scrutinized now, before moving to the analysis of the individual regions’ performances.

### 3.2.3 Regional economic indicators: growing regional disparities along all dimensions

Table 3 presents regional GDP per capita data (as percentages of the national average) from 1995 to 2002. It shows that only two out of the seven Hungarian NUTS 2 regions have a GDP per capita above the national average: Central Hungary (which is essentially tantamount to Budapest and its agglomeration, the county of Pest) and Western Transdanubia (at the Austrian border). Due to the outstanding dominance of Budapest, which in 2002 contributed more than 36 per cent to Hungary’s GDP (while it is home to approximately 17 per cent of the country’s population), the regional GDP per capita of Central Hungary is much higher than that of any other region. One of the statistical effects of this is to make nearly all the other regions’ GDPs per capita appear below the national average, which is pulled up by Central Hungary’s extraordinarily high GDP.

Yet, the economic backwardness of Hungary’s Eastern, Northern and Southern regions is not merely a statistical problem, but a real one deeply entrenched in the country’s newly shaped post-transition regional patterns: Table 3 shows that the gulf between the richer and the poorer regions in Hungary has further increased between 1995 and 2002, i.e. during the second half of the transition decade. While Budapest and Western Transdanubia extended their lead over the rest of the country, GDP per capita (in terms of the national average) decreased (sometimes drastically) in all the other regions. As mentioned before, in 2002 the GDP per capita of the richest NUTS 2 region, Central Hungary, was 2.57 times higher than that of the country’s poorest region, Northern Hungary. At NUTS 3 level, the increase of the income divide and the resulting ratios are even more striking: whereas in 1995, Budapest’s GDP per capita was “only” 3.05 times higher than that of the poorest county, Szabolcs-Szatmár-Bereg (Hungary’s Easternmost county), in 2002, it was 3.92 times higher.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Hungary</td>
<td>145.7</td>
<td>148.4</td>
<td>151.0</td>
<td>150.0</td>
<td>153.6</td>
<td>156.1</td>
<td>158.6</td>
<td>163.9</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>102.8</td>
<td>104.8</td>
<td>105.0</td>
<td>110.2</td>
<td>114.6</td>
<td>113.8</td>
<td>105.6</td>
<td>103.4</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>90.9</td>
<td>92.3</td>
<td>96.5</td>
<td>98.6</td>
<td>94.4</td>
<td>97.3</td>
<td>94.2</td>
<td>88.7</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>81.4</td>
<td>79.6</td>
<td>77.2</td>
<td>76.7</td>
<td>72.7</td>
<td>74.2</td>
<td>73.7</td>
<td>73.1</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>82.6</td>
<td>80.6</td>
<td>77.2</td>
<td>75.5</td>
<td>73.6</td>
<td>71.1</td>
<td>70.7</td>
<td>68.9</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>70.9</td>
<td>70.0</td>
<td>68.6</td>
<td>67.1</td>
<td>63.6</td>
<td>63.2</td>
<td>66.2</td>
<td>64.4</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>72.4</td>
<td>68.7</td>
<td>66.8</td>
<td>67.3</td>
<td>65.7</td>
<td>64.1</td>
<td>65.0</td>
<td>63.7</td>
</tr>
<tr>
<td>Hungary (total)</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Budapest</td>
<td>183.6</td>
<td>188.7</td>
<td>191.1</td>
<td>190.8</td>
<td>196.1</td>
<td>202.7</td>
<td>202.5</td>
<td>212.0</td>
</tr>
<tr>
<td>Szabolcs-Szatmár-Bereg</td>
<td>60.2</td>
<td>58.6</td>
<td>57.1</td>
<td>56.0</td>
<td>53.8</td>
<td>53.5</td>
<td>56.4</td>
<td>54.1</td>
</tr>
</tbody>
</table>

Source: HCSO (2004b, pp. 6-7).

Table 4 shows regional GDP per capita as a percentage of the pre-enlargement and post-enlargement EU averages. Whereas Central Hungary’s GDP per capita clearly exceeds the 75 per cent eligibility threshold for support from the EU’s Structural Funds Objective 1 policy (even with reference to the EU-15 average), all the other regions are Objective 1 regions. Yet, not all of these regions can be lumped together: whereas Western Transdanubia and Central Transdanubia have a GDP per capita clearly above 50 per cent of the EU-25 average, the other four regions (Southern Transdanubia, Southern Great Plain, Northern Great Plain and Northern Hungary) in 2001 belonged to the 21 poorest regions in the EU-25, as data from the European Commission (2004) show. Again, the East-West divide and the centre-periphery divide are even more striking when NUTS 3 level data are focused on: while Budapest’s GDP per capita is clearly higher than the EU-25 average (and even than the EU-15 average)\(^{10}\), Szabolcs-Szatmár-Bereg’s GDP per head is lower than even just one third of both averages.

---

\(^{10}\) This makes Budapest appear as one out of only three regions in all of the CEECs with a GDP per capita above the EU-25 average – in 2001 and up to the present. The other two regions in this illustrous group are those of Prague (whose GDP per capita amounted to 148.7 per cent of the EU-25 average in 2001) and Bratislava (111.7 per cent) (European Commission, 2004, pp. 200 and 202).
Table 4. Regional GDP per capita (in PPS) as a percentage of the EU-15 and EU-25 averages (2001-2002)

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP per capita in PPS, EU-15=100</th>
<th>GDP per capita in PPS, EU-25=100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>Central Hungary</td>
<td>81.6</td>
<td>87.5</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>54.3</td>
<td>55.2</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>48.4</td>
<td>47.4</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>37.9</td>
<td>39.0</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>36.4</td>
<td>36.8</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>34.1</td>
<td>34.4</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>33.4</td>
<td>34.0</td>
</tr>
<tr>
<td>Hungary (total)</td>
<td>51.5</td>
<td>53.4</td>
</tr>
<tr>
<td>Budapest</td>
<td>104.2</td>
<td>113.2</td>
</tr>
<tr>
<td>Szabolcs-Szatmár-Bereg county</td>
<td>29.0</td>
<td>28.9</td>
</tr>
</tbody>
</table>

Source: Author’s calculations; HCSO (2004b, p. 10); European Commission (2004, p. 200).

Another indicator for these East-West/core-periphery divides is the geographical distribution of FDI, one of the determinants of the new spatial patterns of income distribution in Hungary and elsewhere in Central and Eastern Europe. Table 5 shows the ratio between firms owned by foreigners (at least partly) and domestic firms in each of Hungary’s 19 counties plus Budapest, normalised by the national average:

\[ \frac{\sum_j F_j}{\sum_j D_j}, \]

where \(F\) (\(D\)) being the number of foreign (domestic) owned firms in county \(j\) at time \(t\) (Maffioli, 2003, p. 210). Again, the impact of the “transition decade” (i.e. the 1990s) is depicted. Therefore, figures for 1992 till 1999 have been chosen. Moreover, out of each of the seven regions (which are referred to in all of the other tables in this chapter), one “exemplary” county has been chosen for the purpose of illustration.

Table 5 clearly confirms Budapest’s leading role as a favourite destination for FDI. However, during the time period observed, this advantage over the rest of the country has slightly decreased. The only region with an above-average and increasing presence of FDI is Western Transdanubia (i.e. the counties of Győr-Moson-Sopron, Vas and Zala). The situations in Budapest and Western Transdanubia are intertwined: foreign-owned manufacturing companies first located in the capital city, and then spread out to build up production sites in the (mostly Western Hungarian) “countryside”. In the service sector however, the concentration of FDI in Budapest is still a lot bigger than elsewhere. Hungary’s Southern, Eastern and Northern peripheries – i.e. the rest of the country – are characterized by a below-average and declining share of FDI (Szabolcs-Szatmár-Bereg being a significant exception) (Maffioli, 2003, pp. 208 and 210).

Table 5. The geographical distribution of FDI (selected counties, one per region)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budapest (Central Hungary)</td>
<td>1.79</td>
<td>1.82</td>
<td>1.75</td>
<td>1.74</td>
<td>1.65</td>
<td>0.92</td>
</tr>
<tr>
<td>Győr-Moson-Sopron (Western Transdanubia)</td>
<td>1.14</td>
<td>1.34</td>
<td>1.42</td>
<td>1.34</td>
<td>1.26</td>
<td>1.11</td>
</tr>
<tr>
<td>Fejér (Central Transdanubia)</td>
<td>0.57</td>
<td>0.56</td>
<td>0.55</td>
<td>0.51</td>
<td>0.47</td>
<td>0.83</td>
</tr>
<tr>
<td>Tolna (Southern Transdanubia)</td>
<td>0.52</td>
<td>0.54</td>
<td>0.49</td>
<td>0.51</td>
<td>0.49</td>
<td>0.95</td>
</tr>
<tr>
<td>Bács-Kiskun (Southern Great Plain)</td>
<td>1.07</td>
<td>0.79</td>
<td>0.74</td>
<td>0.64</td>
<td>0.68</td>
<td>0.64</td>
</tr>
<tr>
<td>Szabolcs-Szatmár-Bereg (Northern Great Plain)</td>
<td>0.36</td>
<td>0.34</td>
<td>0.37</td>
<td>0.36</td>
<td>0.61</td>
<td>1.69</td>
</tr>
<tr>
<td>Borsod-Abaúj-Zemplén (Northern Hungary)</td>
<td>0.37</td>
<td>0.33</td>
<td>0.32</td>
<td>0.35</td>
<td>0.33</td>
<td>0.88</td>
</tr>
</tbody>
</table>


11 As a consequence, FDI per capita (volume) in 2001 was outstandingly high in Central Hungary (243.3 per cent of the national average), relatively high in Central Transdanubia and Western Transdanubia and very low in the four backward regions (e.g. only 17.9 per cent in Southern Transdanubia) (NDO, 2003b, p. 17). Up to the present, the three regions of Central Hungary, Central Transdanubia and Western Transdanubia have attracted 85 per cent of the total volume of foreign capital invested in Hungary (NDO, 2003a, p. 37; NORD, 2003, p. 18).
GDP per capita alone is not able to fully portray regional economic development, regional living conditions and regional problems. The difficulties of lagging regions are multidimensional and become manifest not only in lower GDP per capita figures, but also in higher unemployment rates, lower education achievements, outward migration and in a plethora of related social indicators. Hence, in order to get a comprehensive idea about disparities between regions, other indicators have to be included in the analysis, too. This is done in Tables 6 and 7, which provide an overview of unemployment rates, activity rates, household incomes, migration patterns and educational achievements in Hungary’s planning-statistical regions.

Table 6 shows that Hungary’s four “problem regions” not only suffer from lower GDP per capita, but also from higher unemployment rates and lower economic activity than the Central and Western regions, which are close to a situation of full employment and where in some areas, there is even a lack of workforce. As expected, the households’ per capita gross incomes are much higher in Central Hungary, Western Transdanubia and Central Transdanubia than in the four backward regions. In fact, even within the same profession, average earnings of employees are higher in Budapest and along Western Hungary’s economic growth axes. As Table 5 has shown, FDI inflows there have been much higher than in the remainder of the country. Consequently, these regions feature a higher proportion of employees working in joint ventures and foreign-owned firms, which usually pay considerably higher salaries than domestic firms (Meusburger, 2001, pp. 197-200).

As Table 6 also makes clear, Hungary’s leading regions are characterized by a positive migration balance, whereas the backward areas suffer from outward migration. Yet, mobility is generally low in Hungary and hence internal net migration (even if it takes the expected signs) is not high (especially if compared to other countries). The main reasons are high rents in Budapest and in Western Hungary, matching problems in terms of skills and big differences in the mentalities (e.g. agrarian Great Plain vs. manufacturing and R&D in Győr) (Balogh, 2004, expert interview).

The strongly negative migration balance of Budapest (i.e. the capital city, without the agglomeration) is quite striking. It clearly reflects suburbanisation processes and signs of congestion effects and urban problems: due to an increasingly difficult transport situation and negative environmental externalities, the quality of life is declining in the inner-city districts. Consequently, people decide to move to the surrounding areas. This explains Central Hungary’s quite strongly positive migration balance. Manufacturing companies and huge retailers move to Budapest’s surrounding area, too, which causes a spread of the capital city’s agglomeration effects (NDO, 2003b, pp. 16 and 18). This again shows that GDP per capita (which is particularly high in Budapest) is not a catch-all indicator and hardly captures developmental and quality of life aspects other than economic.

Table 6. Further economic development and living conditions indicators (2003)

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployment rate (in %)</th>
<th>Economic activity rate (in %)</th>
<th>Annual average per capita gross income of households (in thousand HUF)</th>
<th>Internal net migration (per 1000 population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Hungary</td>
<td>4.0</td>
<td>57.5</td>
<td>879.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>4.6</td>
<td>57.7</td>
<td>683.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>4.6</td>
<td>58.0</td>
<td>742.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>7.9</td>
<td>51.3</td>
<td>629.2</td>
<td>-1.2</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>6.5</td>
<td>50.3</td>
<td>625.3</td>
<td>-0.6</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>6.8</td>
<td>49.3</td>
<td>613.6</td>
<td>-2.9</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>9.7</td>
<td>49.8</td>
<td>600.4</td>
<td>-3.1</td>
</tr>
<tr>
<td>Hungary (total)</td>
<td>5.9</td>
<td>53.8</td>
<td>710.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Budapest</td>
<td>3.6</td>
<td>58.3</td>
<td>959.4</td>
<td>-6.0</td>
</tr>
<tr>
<td>Six regions (without Central Hungary)</td>
<td>6.7</td>
<td>32.4</td>
<td>644.9</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Source: HCSO (2004a, pp. 5, 9 and 52).

---

12 Maffioli (2003, p. 211) indirectly confirms the lack of mobility in Hungary by finding that the population distribution of regions and counties remained stable during the 1990s.

13 In fact, Budapest’s migration balance has been negative since the beginning of the 1990s. Whereas in the immediate aftermath of the systemic change, Budapest had been the main target of migration especially among the younger people and those with higher qualifications, the city’s districts have lost more than 280,000 inhabitants between 1992 and 2003. The main reasons are clearly suburbanisation and a better quality of life in the suburban belt (NORD, 2003, p. 17).

14 Data for annual average per capita gross income of households are for 2002.
Finally, Table 7 shortly presents an overview of the regional populations’ educational achievements. Obviously, the divergence between the Eastern and Western regions and especially the core-periphery divide (Budapest/Central Hungary vs. the six regions) are also reflected in the different educational attainments: they are much higher in Central Hungary than in the remainder of the country, and lowest in the South of the country and the Great Plain regions, which are characterized by agriculture. This is particularly problematic, since education is one of the most important factors for long-run economic growth and catching-up. The data in HCSO (2004a, p. 62) show that in 2002, Budapest alone had more higher education institutions (32) than the entire remainder of the country (only without Pest county) (31). Consequently, roughly as many full-time students in higher education studied in Budapest as in all the other regions combined (by seat of institutions). This again clearly demonstrates the outstanding core role of Budapest.

Table 7. Education indicators (2002)

<table>
<thead>
<tr>
<th>Region</th>
<th>Educational attainment of persons aged 25-64 (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>low</td>
</tr>
<tr>
<td>Central Hungary</td>
<td>20.7</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>26.9</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>28.9</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>32.7</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>32.4</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>34.3</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>32.4</td>
</tr>
<tr>
<td>Hungary (total)</td>
<td>28.4</td>
</tr>
</tbody>
</table>


Chapter 3.2 has clearly shown that regional disparities in Hungary did not only grow at all levels of spatial aggregation (settlements, microregions, counties and planning-statistical regions), but also along the dimensions of all the indicators examined. Hence, from 1990 to 2003, Hungary witnessed not only an increase in regional GDP per capita disparities, but its regions and counties also diverged with respect to FDI per capita, unemployment, economic activity, household income, education and other indicators. Moreover, with respect to all the indicators examined, there is a strikingly clear division between the performance of the leading regions of Central Hungary, Central Transdanubia and Western Transdanubia on the one hand and that of the four backward regions (Southern Transdanubia, Southern Great Plain, Northern Great Plain and Northern Hungary) on the other.

4. A closer look at Hungary’s regions and counties

Before going into the details of the different developments taken by Budapest and Hungary’s single regions in Chapters 4.1, 4.2 and 4.3, a short overview of the success factors that the “winner regions” have in common and of the major problems commonly shared by all “loser regions” is provided.

Budapest and the Western regions bordering on Austria were able to benefit from the transition process and the relocation of manufacturing activity and investment: many new companies, massive inflows of FDI and relatively low unemployment rates can be found in these areas. Budapest and Hungary’s Western parts form the country’s two most dynamic development axes: the Budapest-Győr-Mosonmagyaróvár-Sopron axis on the one hand and the Budapest-Székesfehérvár-Balaton axis on the other. They are characterized by good infrastructure links (e.g. the M1 motorway), dynamically growing private sector activity and a great number of international joint ventures which act as connections to international networks. In Budapest/Central Hungary and Western Hungary, a separation by functions and a dualistic sectoral structure are clearly visible: whereas Budapest has attracted basically tertiary activities (mainly business and financial services, but also shopping centres, warehousing, logistics companies, R&D) the counties of Győr-Moson-Sopron and Vas (in Western Hungary) have become centres of specialised export-oriented industrial mass-production (Bachtler et al., 1999, p. 74; Nemes-Nagy, 2000, p. 179; Horváth, 2002, p. 131; Rechnitzer, 2000, p. 14; Hrabu, 2002, p. 74).

Budapest and Hungary’s Western parts not only form the country’s two most dynamic development axes, but they also belong to the new EU Member States’ richest and most developed transborder macroregion: Gorzelak (1996, pp. 127-129) calls this most developed macroregion of Central and Eastern Europe the “Central European boomergang” – in analogy to the “blue banana”, which contains the most developed and richest regions of the EU-15. This “Central European boomergang” (maybe the best known regional model of the Central European transition worked out in the literature) is shown in Figure 5: it is delimited by the cities of Gdansk-Poznan-Wroclaw-Prague-Brno-Bratislava/Vienna-Győr-Budapest. Hence, apart from Warsaw and Krakow, it integrates...
two Southern regions of the “boomerang” have the best chances to become “truly European centres” of
development and innovation: Prague and its agglomeration as well as the region Vienna-Bratislava-Győr-
Budapest. Hence, the aforementioned Budapest-Győr-Mosonmagyaróvár-Sopron development and growth axis
can be extended beyond the Hungarian borders to encompass also Vienna and Bratislava.

**Figure 5. The Central and Eastern European “boomerang”**

In contrast to Western Hungary, North-Eastern and South-Eastern Hungary belong to Central Europe’s periphery
– a continuous belt of relatively underdeveloped regions extending from the North-Eastern part of Poland all the
way to Hungary’s South-Eastern regions, as illustrated by Figure 5. These regions are all characterized by a slow
transition process, insufficient integration with their countries’ respective capital city regions, relatively low
levels of education, a poor infrastructure, and a lack of foreign capital (Enyedi, 1996, pp. 134-135). In this area –
called the “Central European eastern wall” by Gorzelak (1996, p. 129) – inducement for structural transition and
economic recovery can hardly be expected from the neighbouring countries of Byelorussia, Ukraine and
Romania. In the absence of a major impetus to development and growth, Gorzelak (1996, p. 129) fears that these
Eastern peripheries will become the enlarged EU’s “dead end”.

All of this also shows that – as mentioned briefly in Chapter 2 – not only Hungary, but all the transition countries
are characterized by increased regional disparities and moreover by significant East-West divides. However, it is
important to emphasize – as Gorzelak (1996, p. 129) does – that the shape of the “boomerang” is nothing
definite, but obviously subject to change. Until today however, the shape described by Gorzelak’s model is valid
all in all.

The rural, old (declining) industrial areas in Northern Hungary as well as the Eastern and Southern peripheries
have so far been the “losers” of transition and integration: they have suffered from the closure of outdated,
iefficient firms and from the deteriorating economic situation in the neighbouring regions of Ukraine, Romania
and Ex-Yugoslavia. Along Hungary’s Eastern and Southern borders, networks of illegal businesses sprang up:
many economic activities are illegal. The number of Western European companies and joint ventures is small,
and the private sector is still very weak and vulnerable. In particular, the employment power of the service sector
is still low. As opposed to Budapest or Western Hungary, the country’s backward regions suffer from lower
qualification standards, a higher ratio of the Roma population, a higher proportion of the permanently
unemployed, long-term employment tensions, an above-average ratio of poverty-ridden residential areas, and a lower standard of community services and public utilities (Bachtl er et al., 1999, pp. 5-14 and 74; Rechnitzer, 2000, p. 15; Iara and Traistaru, 2003, pp. 2-4; NDO, 2003a, p. 39).

Among other factors, it is the lack of favourable transport connections that makes regions like North-Eastern Hungary and the Great Hungarian Plain far less competitive. In general, Hungary’s Southern, Northern and (North-) Eastern counties suffer from insufficient accessibility. Hungary’s Southern, Northern and (North-) Eastern border regions are all peripheries (not only geographically, but also economically), their economic sources and potential are still moderate and limited (Rechnitzer, 2000, pp. 18 and 39).

4.1 Budapest and Central Hungary: winners of transition and integration

Budapest is the only international metropolis in Hungary: more than 1.7 million out of Hungary’s 10 million inhabitants live in the country’s capital city. They pay roughly 40 per cent of the whole personal income tax levied in the country. In the mid-1990s already, Budapest had more joint ventures than the remainder of Hungary combined. By 2001, 67.7 per cent of all registered foreign investment was located in Budapest’s region, Central Hungary. The modernisation of the Hungarian capital city took place very fast (HCSO, 2004a, p. 4; Ehrlich and Szigetvári, 2003, p. 5; Bachtler et al., 1999, pp. 10 and 72; NORD, 2003, p. 18; Rechnitzer, 2000, p. 18).

During the 1990s, the capital city could not only retain its advantage over the rest of the country, but has further increased it. In fact, the Budapest region shows an outstanding performance with respect to income growth, the employment level and structure. Hungary’s capital city is the clear centre of the country’s service sector activity, with over 70 per cent of Budapest’s total employment being now in the tertiary sector. Cséfalvy (2001, p. 281) calls Budapest the core of the Central European “boomerang”: in fact, Budapest has become part of the European urban network as a service city and service centre. The Hungarian capital city is one of the most important centres and gateways for business and financial services as well as for innovation transfer in Central and Eastern Europe. In 2002, Budapest alone accounted for more than 50 percent of Hungary’s employees in R&D. Likewise, half of the country’s research facilities are located in Budapest and the capital city in 2002 accounted for 65 per cent of nationwide R&D expenditures (Bachtler et al., 1999, pp. 71-72; Hrubi, 2002, p. 71; NDO, 2005, p. 13; NORD, 2003, p. 17; HCSO, 2004a, pp. 48-49). All of this however includes mainly Budapest and its agglomeration. Geographically close counties such as Nógrád (Northern Hungary) were hardly able to benefit from Budapest’s dynamic development.

As a consequence of transition and integration, the Budapest agglomeration has strengthened its dominance. Hungary’s traditional “one centre shape” has become even more obvious during the transition decade (Horváth, 2002, p. 131; Rechnitzer, 2000, p. 18). Rechnitzer (2000, p. 23) argues that the capital city’s development process is not comparable to that of the regions, hence “we can’t compare the capital and the countryside.” Consequently, the regions would be ill-advised to try to largely follow the “model of the capital”, since they lack the underlying factors and preconditions for Budapest’s development pattern.

4.2 Another winner of transition and integration: Western Transdanubia – the case study examples of Győr-Moson-Sopron county and the city of Győr

Having been neglected for political-military reasons during the heavy industrial stage of socialist industrialisation, the Austrian border regions could enter the transition and EU integration period with a less obsolete and more flexible and diversified economic structure. In these Western regions, large-scale investment from EU and Hungarian companies transformed the various counties (Győr-Moson-Sopron, Vas, and Zala) into a zone of dynamic activity. The complete opening of borders served as a catalyst for changes in the spatial structure: cross border co-operation began to replace the state monopoly and centrally organised international relations, massive FDI inflows (especially greenfield investment) played a significant role in the radical transformation of the regional pattern (Nemes-Nagy, 2000, pp. 171-176; Nemes-Nagy, 2001, pp. 52-54; Maffioli, 2003, p. 211).

The large-scale FDI inflows contributed to a strong and fast modernisation process of Győr-Moson-Sopron’s economy, particularly in the car manufacturing and auto-spares industries, but also in electronics, information technology, engineering industries, logistics centres, and large retail chains. The transformation of Győr-Moson-Sopron into a county of large-scale export-oriented manufacturing entailed fast economic renewal, since the manufacturing industry (especially if driven by foreign capital) is the primary carrier of innovation and creates the market for financial and business services, thus facilitating structural change (NORD, 2003, p. 18; Hrubi, 2002, p. 71). As Rechnitzer (2000, p. 32) puts it, the Western Transdanubian counties like Győr-Moson-Sopron became the “leaders of change”, the “example regions of modernisation”.

16
But what have been the most important reasons for the huge inflows of FDI, employment growth and high GDP per capita growth rates in a county like Győr-Moson-Sopron?

- A first essential factor is the geographical location along the Western border and thus the region’s proximity to EU core markets such as Austria, Germany and Northern Italy. The most significant factors of economic growth were thus the external activating effects of the relatively close, economically powerful Southern German, Austrian, and Northern Italian regions.
- Secondly, Győr-Moson-Sopron benefits from a very good accessibility (a key factor for economic growth and competitiveness) thanks to a very favourable transportation system, with very good road and railway links to the adjacent Austrian border regions. One example is the M1 motorway Vienna-Győr-Budapest, which has been modernised in the 1990s and provides the county with a fast access to the big centres.
- A third very important factor for Győr-Moson-Sopron’s very dynamic development was its highly skilled and well-trained labour force and its high labour culture due to its pre-socialist industrial tradition\(^{15}\) – combined with low labour costs compared with the average of the EU. Moreover, Győr-Moson-Sopron has at its disposal a very competitive higher education and R&D system. All of this led to the influx of innovative and export-oriented industries (car manufacturing, electronics...).
- A fourth success factor is more of a policy-determined one: the ever increasing institutionalised transborder regional cooperation. In 1992, the counties of Győr-Moson-Sopron and Vas together with the Austrian Land of Burgenland established the Border Regional Council in order to strengthen cross-border cooperation. Three years later, the first EU subsidies under the heading of the Phare CBC programme\(^{16}\) started to give a strong impetus to Austro-Hungarian cross-border cooperation. During a seven-year period (1995-2001), the Phare CBC programme became a key element for the region’s economic development.\(^{17}\) Phare CBC funds were intelligently used and contributed to the building up of industrial parks, innovation centres (e.g. in Sopron) and business incubators (e.g. in Lenti). The trans-border contacts have been further institutionalised in 1998, when the West/Nyugat Pannónia Euroregion was established. Győr-Moson-Sopron’s county authorities currently even work together with their Slovak and Austrian counterparts to set up a common regional development strategy for the Vienna-Bratislava- Győr region (JORDES+ project). The aim is to turn the region – in the medium-term – into a “sustainable European regional growth pole” (HAS CRS West Hungarian Research Institute, 2004).\(^{18}\)
- A fifth essential factor: the county of Győr-Moson-Sopron owes a debt of gratitude to two very important industrial policy instruments adopted by the Hungarian central and local governments: the Customs-free Zones and the industrial/business parks. The former can be briefly defined as a local free trade area usually encompassing just one company which is exempted from import and export duties. A detailed example of a successful business park is given in the Box (the International Industrial Park of Győr). In Győr-Moson-Sopron, five Customs-free Zones have been located and shown to be very effective in attracting export-oriented foreign investors such as Audi or Philips and their suppliers (Nemes-Nagy, 2000, p. 179; Maffioli, 2003, pp. 211, 213 and 238-239; NDO, 2003a, pp. 36-37; NORD, 2003, p. 18; Rechnerer, 2000, pp. 14 and 42; Rudolph, Hardi, and Terpitz, 2002, pp. 157-158; Lados, 2004, expert interview; HAS CRS West-Hungarian Research Institute, 2004).

Within the county of Győr-Moson-Sopron, the economic development and per capita GDP growth of the city of Győr was (and still is) particularly dynamic. Győr is situated halfway between Vienna and Budapest along excellent rail and road links. Its geography, its very favourable transport infrastructure\(^{19}\) and its well-educated and motivated workers have been and still are Győr’s main selling points. Immediately after 1989, Győr began to benefit from the dynamic growth of cross-border activities, namely shopping and service tourism from Austria (Rudolph, Hardi, and Terpitz, 2002, p. 158; Condon, 2004). According to many studies (e.g. HAS CRS West-

---

\(^{15}\) The city of Győr e.g. has been traditionally an important industrial and commercial town since the middle of the 18th century (Balogh, 2004, expert interview).

\(^{16}\) For the eight CEECs that joined the EU in 2004, the Phare programme was one of the pre-accession instruments financed by the EU to assist their accession process. Within Phare, cross-border cooperation (CBC) was an important programme line. After accession, Phare CBC has been replaced by INTERREG in the CEECs (http://europa.eu.int/comm/enlargement/pas/phare/programmes/index.htm), 26 January 2005).

\(^{17}\) In May 2004 (when Hungary acceded to the EU), there was a closing conference in Sopron after seven years of Phare CBC (1995-2001).

\(^{18}\) Already in the 1990s, observers started to speak of the “golden triangle” Vienna-Bratislava-Győr.

\(^{19}\) Apart from the aforementioned M1 motorway, the Danube port of Győr-Gönyű has been recently modernised.
Hungarian Research Institute, 2004), thanks to its industrial capital stock and its qualified labour force, Győr has – apart from Budapest – the highest economic potential in Hungary.

In 1992 already, Hungary’s first greenfield industrial site, the local business park, was opened and soon became a major “success story” (see the Box). Two years later, a strong inflow of FDI set in in Győr. Greenfield and brownfield investments were especially targeted at the manufacturing industry. The city could attract big investors such as Audi (Hungaria Motor Kft.), Philips and Amoco Fabrics. From the beginning of the 1990s up to 2004, foreign companies have invested approximately EUR 3 billion in Győr. Audi alone has invested EUR 1.81 billion EUR in its Győr-based engine and car production between 1993 and June 2004. With its roughly 5,000 employees in Győr (and around 15,000 people working for Audi’s local suppliers), Audi Hungary Motor Kft. has become Audi’s central engine supplier, the most important foreign investor in Hungary and the country’s biggest exporter. Apart from the big multinationals, Győr also attracted a network of numerous smaller suppliers (SMEs). This way, the city’s existing comparative knowledge advantages could be translated into structural economic development advantages (Kaps, 2004; Audi Hungaria Motor Kft., 2004; Rudolph, Hardi, and Terpitz, 2002, pp. 159 and 164).

Box: The International Industrial Park of Győr – a case study example
In 1992, the International Industrial Park of Győr (referred to as “Győr Business Park” in the following) has been opened. At that time, it was the first operational business park in the CEECs and Hungary’s first greenfield industrial site. It is an Austro-Hungarian joint venture: the owners are Bank Austria and the Austrian construction company Mischek Bau AG (60 per cent share) and the city of Győr (40 per cent share). Hence, once more the re-emergence of Austro-Hungarian cooperation has paid off.

Like the city of Győr, Győr Business Park benefits from excellent infrastructure connections and accessibility: the M1 motorway Vienna-Budapest is at 3 km distance, the park directly borders on the railway Vienna-Budapest, the Danube port is at 20 km distance, and the international airports of Vienna, Budapest, and Bratislava can be reached within one or two hours by car or train. Around 50 international and domestic companies (mainly in the branches of automotive supply, mechanical engineering, electronic industry, and textile industry) have settled down in the park, employing more than 7,000 people. The most prominent investors are Philips, Amoco Fabrics, E.ON, Hydro Aluminium, and ThyssenKrupp.

The administration of Győr Business Park offers various services to its tenants: legal advice, assistance in technical matters, turn-key projects on request, leasing credits, establishment of contacts to local authorities.… Moreover, the Park management helps to integrate researchers of the local Széchenyi István University into its tenants’ R&D activities. For the Park’s tenants, the city of Győr shortens administration time in connection with the necessary licences. Furthermore, it renders local tax holidays for two years, which – depending on the size of the investment – can be extended to five years or even ten years if profits are reinvested in Győr. In addition to these advantages, many Park tenants benefit from the “Customs-free Zone” status: their imports and exports are thus exempted from customs duties. However, after EU accession and the subsequent application of the acquis communautaire (notably the EU’s competition laws), these privileges have to be gradually adapted or even be abolished.

In the framework of the EU Phare-CBC programme, the first Innovation and Technology Centre (INNONET) was opened in the centre of Győr Business Park in 2000. Its main aim is to facilitate knowledge spillovers and technology transfer between the international firms of the park and the local innovative SMEs. Furthermore, INNONET organises training courses to support locally grown companies that aim at becoming suppliers of Philips, Audi…. Currently, INNONET, Győr Business Park and Széchenyi István University work – together with an automotive cluster organisation – to establish a regional competence centre for innovation (Győr Business Park, 2004; HAS CRS West-Hungarian Research Institute, 2004; Hennermann and Rehner, 2004, pp. 14-16; Balogh, 2004, expert interview).

Even now that only very few more multinationals will come, Győr still attracts investors, this time of another kind: often home-grown companies, smaller, more diverse, requiring highly-educated people, whereas the big manufacturers have upgraded their production lines and added R&D units (Audi e.g. in June 2001). More and more, jobs are created not only in manufacturing and parts assembly, but also in R&D. There is an intense cooperation between Győr’s Széchenyi István University20 and the local companies, especially with regard to the education and employment of engineers. Audi’s and Philip’s newly added R&D units partly rely on local scientists and engineers (Condon, 2004; Audi Hungaria Motor Kft., 2004; Kaps, 2004; Rudolph, Hardi, and Terpitz, 2002, p. 164).

---

20 Until 2002, the local university had only been a technical college. It was upgraded to a full university in that year.
Győr and Western Hungary are generally trying to “move up the value chain”. Western Hungary’s perspectives to form a production- and technology-oriented cluster in the long-term are comparatively good. One essential reason for this is that while during the (especially early) 1990s, foreign companies were operating in virtually “isolated cocoons”, there are by now more knowledge spillovers and FDI-induced technology transfer thanks to local producer-supplier networks and R&D activities – but clearly not yet enough (Condon, 2004; Rudolph, Hardi, and Terpitz, 2002, p. 164; Balogh, 2004, expert interview).

However, even if the intention of this chapter is to provide an example of a successful regional development in Hungary, one should not forget about some problems that Western Hungary and Győr-Moson-Sopron in particular are (or might be) confronted with: still, the multinational investors are not sufficiently integrated into the local economy. Still, only some multinationals receive their inputs from local suppliers – others hardly interact with locally grown companies. Still, even in spite of upgrading and “moving up the value chain”, the majority of FDI-based activities are labour-intensive and only yield a moderate added value. Cséfalvay (2004, expert interview) perceives most of Győr-Moson-Sopron’s FDI stock as Western Europe’s “extended workbench”. If the region wants to catch up to EU-15 income levels, more capital- and knowledge-intensive investments are necessary. Moreover, the massive presence of export-oriented Western European FDI strongly exposes Győr-Moson-Sopron to (foreign) business cycle downturns (HAS CRS West-Hungarian Research Institute, 2004).

4.3 Northern Hungary, Eastern Hungary, and Southern Hungary: so far the losers of transition and integration

The counties of Northern Hungary have been most severely affected by the restructuring of the 1990s. In all those areas that had been dependent on heavy industry, the privatisation process started late (or didn’t start at all) and consisted essentially of investors picking out the (very few) big companies that were viable. Therefore, the transformation of the economic structure takes place only very slowly and the service sector is underdeveloped. In fact, the inflow of foreign capital targeting the huge industrial units hardly modifies the old economic organisational structure either (Enyedi, 1996, p. 133; Rechnitzer, 2000, pp. 15 and 44; Nemes-Nagy, 2000, p. 177; Hrubi, 2002, p. 69). Nemes-Nagy (2000, p. 176) gets to the heart of the problem by describing Northern Hungary as “a typical example of a once developed region suffering depression and struggling with the crisis of its obsolete heavy industrial base.” There is hence a clear path dependency dimension to Northern Hungary’s problems, since it still suffers from its inherited inefficient and outdated industrial structure. For this region, it is clearly a disadvantage that it had been privileged under the socialist regime.

Due to its economic demise, Northern Hungary’s development indicators no longer differ significantly from those of the traditionally less developed agrarian Great Plain (Northern Great Plain and Southern Great Plain regions). Again, the bad accessibility is a major problem: the proportion of bad roads is particularly high e.g. in Borsod-Abaúj-Zemplén and Heves counties. The first signs of positive economic development can be observed along the M3 motorway leading to Hungary’s Eastern border and in those areas which are close to Central Hungary/Pest county (Nemes-Nagy, 2000, p. 176; NORD, 2003, p. 29; NDO, 2003a, p. 37; NDO, 2003b, pp. 17-18).

North-Eastern Hungary combines the locational disadvantages of Northern Hungary (the dependence on heavy industry) with those of Eastern Hungary (the peripheral geographical position bordering on other poor peripheral regions in Ukraine and Romania). Here, Rechnitzer (2000, p. 44) recognizes the “distinctive signs of a uniform large region of peripheral position, embracing several East-European countries (Poland, Slovakia, Hungary, and Romania) …”. In fact, also Poland’s and Slovakia’s poorest areas are located in this macroregion, which is part of an even bigger peripheral macroregion: the “Eastern wall”, as opposed to the “Central European boomrang” (see above). Consequently, North-Eastern Hungary can hardly expect economic and societal renewal from the neighbouring countries. Quite the opposite, this is the border region mostly affected by illegal activities (people and car smuggling, criminal gangs…) and by the highest poverty-risk indices. Yet, on the Romanian side of the border, there is a considerable economic activity due to a large population of ethnic Hungarians, which might give some impetus to North-Eastern Hungary in the future (Rechnitzer, 2000, pp. 44-45; Ehrlich and Szigtérvári, 2003, pp. 15 and 29).

The Eastern periphery (e.g. the counties of Szabolcs-Szatmár-Bereg and Hajdú-Bihar) and the whole agrarian Great Plain form a traditionally less developed macroregion. They suffer from a regional crisis in the manufacturing and agricultural industries which had been producing for the Soviet market: three Eastern Hungarian industrial counties account for around 35 percent of the country’s total unqualified and unemployed workers. The employment power of the weak service sector is still far too low to absorb those who lost their jobs.
due to the systemic change and the resulting crises in the manufacturing sector and in the agricultural sector. Again, the bad accessibility is a major problem: the proportion of bad roads is particularly high e.g. in Szabolcs-
Szentmár-Bereg. Even if Hungary’s Eastern and Northern peripheries – like Western Transdanubia – also
received significant funding from the EU’s Phare CBC programme, a lot of this money went to social purposes
and social cohesion, instead of being used to build up the basis for economic development (Enyedi, 1996, p. 133;

The Southern border counties like Bács-Kiskun have been negatively affected by the Balkan crisis. After the end
of the war in Ex-Yugoslavia, many private and economic contacts have been established, and bigger cities
(especially Szeged) have developed dynamically. Not surprisingly, the black/grey economy is important in that
region. In Southern Transdanubia, the border regions meet a Croatian periphery practically without any centres
and weak economic importance. Moreover, the absence of highways and motorways reduces the accessibility of
Southern Transdanubia and thus its economic competitiveness. Furthermore, parts of Southern Transdanubia
(especially Baranya county and Pécs) were adversely hit by the collapse of coal mining and uranium mining

5. A short look at the role of Hungarian regional policy in the 1990s

With regard to regional policy interventions during the transition decade, two contrasting conceptions came up in
Hungary and in other transition countries at the beginning of the 1990s: on the one hand, efforts were being
made to revive the redistributive, egalitarian regional policy which had been pursued during the socialist era (see
Chapter 2.1). Those who supported this approach argued that far-reaching interventions were necessary in order
to counteract the widespread increase of regional disparities. On the other hand, the neoliberal economic
philosophy that was dominating in the transition countries in the aftermath of the political turnaround led many
policymakers to advocate a “laisser faire” approach to regional policy – strongly supported by the shortage of
public funds available for regional policy (Cséfalvay, 1997, p. 67).

As a result of these opposing forces, priority in regional policy was given to an “emergency strategy” or “crisis
management” aiming at containing social tensions that could potentially arise due to the breakdown of some
sectors and the high unemployment in the “problem regions”. Hence, the Hungarian Government (like other
governments, too) strongly focused its (very few) regional policy interventions on the country’s peripheries and
problem regions. This doubtful strategy led to a highly inefficient use of the anyway very limited funds, which
were spent on public infrastructure projects and the subsidisation of the rotten companies in the distressed ex-
socialist industrial districts – instead of being used to promote an entrepreneurial and innovative environment.
The Government decided to distribute handouts rather than design and implement regional development
programmes. In fact, regional development aspects were hardly considered during the privatisation process, and
up to 1996, there was no institutionalised regional development system in Hungary. Moreover, decentralization
in the early 1990s took place very slowly (due to the resistance by the central power and the Budapest-based
political elite) and without a clear assignment of economic policy tools and competencies to the sub-national
entities (Cséfalvay, 1997, p. 67; Rechnitzer, 2000, pp. 8-10; Ehrlich and Szigetvári, 2003, pp. 12 and 15; Hrubi,

As a consequence, the public sector’s retreat, the “laisser faire” approach to regional policy and its
implementation as an “emergency policy” even contributed to the increase of regional disparities instead of
reducing them. The resulting territorial inequalities have become apparent in income per capita, employment, the
provision of public goods and living conditions in general. Only in the second half of the 1990s did the
Hungarian regional policy take a different approach, this time oriented more strongly to “endogenous
development”, involving new participants such as local governments, non-profit organizations and EU experts
(Cséfalvay, 1997, p. 67; Ehrlich and Szigetvári, 2003, p. 12; Rechnitzer, 2000, pp. 8-10).

6. Concluding remarks and outlook

Summing up the general analysis of the East-West divide (and the Budapest-countryside divide) in Hungary, the
following typology in Table 8 elaborated by Gorzelak (2000, p. 135) is very useful to illustrate the country’s new
regional patterns. In fact, Hungary’s Western border regions developed very dynamically and successfully after
1989. Their locational disadvantages turned into advantages and they became a “winner” of the transition and
EU integration process, in spite of having been a “loser” during the socialist period, when they had been
neglected and discriminated. On the contrary, the heavy industry regions (the “winners” of socialist heavy
industrialisation) that had been massively supported by the socialist governments suffered from a painful sectoral
crisis in the 1990s and turned out to be the “losers” of the transition decade (Cséfalvay, 1997, pp. 75-76).
Table 8. Typology of Hungarian regions during the transition decade

<table>
<thead>
<tr>
<th>Position in the socialist economy</th>
<th>Position in the post-socialist transition and EU integration process</th>
</tr>
</thead>
<tbody>
<tr>
<td>good</td>
<td>good</td>
</tr>
<tr>
<td>positive continuity (“the leaders”), e.g. great urban agglomerations, mainly the capital city</td>
<td>negative discontinuity, e.g. (old) heavy industry regions facing massive restructuring</td>
</tr>
<tr>
<td>bad</td>
<td>positive discontinuity (“the newcomers”), e.g. Western regions, mainly those bordering on EU countries like Austria</td>
</tr>
</tbody>
</table>

Source: Gorzelak (2000, pp. 135-139).

The new regional patterns just described have been clearly a result of the transition from a centrally planned to a market economy, as well as a result of intense economic integration with the EU. Now that the transition process has been largely completed and Hungary has reached a degree of trade integration with the EU that even some “old” members haven’t reached, it is interesting to ask whether the evolved spatial pattern of economic activities in Hungary is a transitional or rather a permanent one.

According to various researchers (e.g. Dusek, 2004, expert interview), the big changes in Hungary’s economic geography and regional income patterns seem to be over. Today, relatively drastic changes happen at the level of microregions or settlements at best (e.g. when a big investor decides to leave or move to a certain city). It seems that the most dynamic Hungarian regions, i.e. Budapest and the Western counties have built by now the basis for utilising their increased indigenous potentials (the location advantage, the attraction and weight of the market, innovative capacities...), which enables them to benefit from sustainable endogenous regional development in the future. Hence, the lead of those regions over the rest of the country seems to look rather permanent and stable. Yet, parallel to the development of the early 1990s, some multinational companies might close down their plants and move further to the East (especially to other countries), in order to benefit from lower wages there. There are already first signs of FDI and economic activities moving Eastward, with some companies moving to cheaper destinations such as Slovakia, Romania, Ukraine, or even China, and to a lesser extent to Eastern Hungary (Nemes-Nagy, 2000, p. 183; Dusek, 2004, expert interview; Major, 2004, expert interview; Csik, 2004, expert interview; Condon, 2004).

Between 2000 and 2005, the Hungarian regions’ dependence on FDI has weakened, while the accumulation of Hungarian capital has been strengthening and the performance of domestic companies (mostly SMEs) has been improving. At the same time, the economic structure has increased its flexibility and adaptability to new market challenges. These factors might facilitate the creation of integrated regional-sectoral economic organisational systems (networks, clusters...) – not only in Budapest, but also in the countryside. Other signs of hope for Hungary’s backward regions include the fact that in their main cities (Northern Great Plain: Debrecen; Northern Hungary: Miskolc; Southern Great Plain: Szeged; Southern Transdanubia: Pécs), these regions have at their disposal some university centres with traditionally highly developed higher education institutions, which form a solid basis for R&D activities (Hruby, 2002, p. 75; NDO, 2003a, p. 37; NDO, 2003b, p. 18; NORD, 2003, p. 19).

In fact, some researchers (e.g. Lados, 2004, expert interview; Cséfalvay, 2004, expert interview) argue that it is surprising that Debrecen, Miskolc and Szeged with their R&D and engineering tradition could not attract more FDI. Often, the SMEs in these areas are characterised by weak R&D activities. In most cases, network structures and technology transfer centres connecting R&D institutions and companies are missing – not only technology transfer centres however are missing, but even more elementary infrastructure: one of the reasons why FDI didn’t flow to Miskolc, Debrecen, and Szeged is probably that these cities were not reachable via motorways. Even if the major part of the EU funds from 2007 onwards will go to these regions, there is a lack of an adequate industrial basis, which makes it difficult for them to absorb the Structural Funds and to use them efficiently (something that the more developed Western regions might be much more capable of). Hence, in the short run, it has not

---

21 The regions bordering on Austria were not really in a “bad” position in the socialist economy, since due to their industrial tradition, they were quite well-off also before the transition period. Hence, this quadrant in Gorzelak’s typology might be subject to criticism. However, the regions bordering on Austria were de facto neglected by the Hungarian Government, since the latter’s economic policy efforts were much more focused on the country’s heavy industry regions. Regions close to the “iron curtain” were not in a position to receive big governmental support; on the contrary, in the 1950s and 1960s, the Hungarian Government tried to limit socioeconomic cross-border exchanges and capitalist interference through turning the Western border regions into some sort of “peripheral no man’s land” (Cséfalvay, 1997, p. 75).

22 In 2002 and 2003, real wages in Western Hungary have risen by more than 20 per cent.

The development of the lagging regions’ neighbouring countries (Slovakia, Ukraine, Romania, and Serbia), too, is of crucial importance for Hungary’s less developed counties. Domestic regional policy schemes have not yet been able to improve the situation of these lagging regions. One reason for this is that so far, Hungarian regional policy has widely taken a “laisser faire” approach and regional lobbies have hardly developed (Nemes-Nagy, 2000, pp. 183-184; Cséfalvay, 1997, p. 108; Rechnitzer, 2000, p. 65).

As future EU cohesion policy interventions will be substantially directed to Hungary’s disadvantaged counties and as those interventions traditionally take on more of a redistributive approach, they might play a big part in trying to improve their situation. Yet, neither international resources nor central governmental funds alone will be able to make the lagging regions catch up. Ultimately, the disadvantaged regions, too, will have to be able to start a process of endogenous regional development, and local innovative power will be of particular importance (Cséfalvay, 1997, pp. 54-55; Nemes-Nagy, 2000, p. 184).

Horváth (2002, pp. 132-135) outlines three scenarios that could characterize future Hungarian regional development. The first one is a “polarised scenario”, in which territorial disparities are further strengthened and today’s growth poles extend their lead over the backward regions – with increasing interregional polarisation as the consequence. It can be argued that in the long-term, this scenario is not too likely, given the plethora of national and EU regional policies that will aim at interregional cohesion. The second scenario might be much more likely: a “semi-concentrated scenario”, with further polarisation contained but without radical changes towards decentralization or spatial equity. Finally, the third scenario – Horváth (2002, p. 133) calls it the “deconcentrated scenario”: in this case, substantial resources would be allocated to the regions which would strongly benefit from national regional policy efforts as well as from EU cohesion policy funding. This – together with the necessary favourable economic conditions and a catching-up process of Hungary as a country – would lead to a significant decrease of regional disparities.
References


HAS CRS West-Hungarian Research Institute (2004): Gemeinsame Regionalentwicklungsstrategie für die Wien-Bratislava-Győr Region (JORDES+ Ungarn), CD-ROM


**List of expert interviews**

Balogh, László; Managing Director, International Industrial Park of Győr, Győr, 8 December 2004

Cséfalvay, Prof. Dr. Zoltán; Professor of Economic Geography, Andrássy Gyula Deutschsprachige Universität Budapest, Budapest, 2 December 2004

Csik, Tibor, Communications Manager, Operational Programme for Regional Development, Budapest, 3 December 2004

Dusek, Dr. Tamás, Assistant Professor, Széchenyi István University, Győr, 9 December 2004

Lados, Dr. Mihály; Senior Research Fellow, West-Hungarian Research Institute (Centre for Regional Studies of the Hungarian Academy of Sciences), Győr, 10 December 2004

Major, Dr. Klara, Assistant Professor, Corvinus University of Budapest, Budapest, 2 December 2004