

## **DEVELOPMENT PROCESSES OF REGIONAL CENTRES IN CENTRAL AND SOUTHEAST EUROPE - FROM STATE SOCIALISM TO DEPENDENT MARKET ECONOMIES**

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### **Abstract**

The background of the current research is that despite the existence of a vast amount of literature devoted to the study of post-socialist transition processes, there is a relative scarcity of international comparative analyses on Central and Southeast European metropolises. The research seeks to explore FDI-driven transformation and development processes in Central and Southeast European regional centres in the post-transition period. The geographical focus of the analysis is limited to Central and Southeast European post-socialist states, while the scale of the analysis targets the metropolitan and regional level. The present study provides a brief summary of the first phase of the research constituted by literature review.

Keywords: urbanization, urban functions, global cities, FDI, Central Europe, Southeast Europe

### **INTRODUCTION - TRENDS IN URBAN DEVELOPMENT**

As a basic point of departure of the research, a review of global trends of urban development and urbanization was performed relying on the latest prognosis of the UN (2018). Currently 55% of the global population live in cities, a process which is likely to unfold on all continents and expected to rise to 68% by 2050. However, urbanization trends on the different continents reveal spectacular differences, with appr. nine-tenth of extensive urban growth occurring in the least urbanized continents of Asia and Africa. Albeit certain regions and cities show reverse tendencies with the share of urban population stagnating or decreasing, this will not affect the overall urbanization rate due to a more significant decline of the rural population (UN, 2017). According to the summary of the UN prognosis more densely populated Eastern-European countries (Poland, Romania, Russia, Ukraine) fall into this latter category, while Central and Southeastern European countries covered by the current research - including those with a significant Albanian population – are characterized by similar unfavorable demographic tendencies.

This points to significant modifications in the hierarchical ranking of the world's cities by population size as well as geographical position, increasing the relative marginalisation of Central and Southeast European cities in global terms, while conserving their relative pre-eminence in their respective states and regions due to their population retention capacity exceeding by far that of rural areas. The morphology and physiognomy of cities affected by the above-mentioned processes will also be subject to profound transformation. Urban population growth will be heterogeneous both in qualitative and quantitative terms, the only common feature being the challenge arising from the growing percentage of urban dwellers. The management of population decline in macroregions remains a significant challenge.

### **THEORETICAL BACKGROUND - GLOBALIZATION AND METROPOLIZATION**

The next step of the current research was to investigate the interaction between globalization and urban development processes. In the so-called postindustrial era, the geographically disparate elements of competitive corporate structures are organized into global networks. This not only applies to business services and the most advanced industrial sectors, but traditional productive sectors as well. This kind of internationalism is typical of almost every sector and is also manifest in interurban relationships. An unprecedented extension of various global networks (Friedman, 2005) characterises the various-level nodes of these structures constituted by cities integrating into these systems (Florida, 2005).

These cities are classified by literature as international city, global city, metropolis, global financial centre, etc. All of these titles indicate the presence of a trans-continental network and power position. At the summit of the global city hierarchy and the centre of international networks are metropolises concentrating a significant share of the population, economic activities and institutions. Not every (ten-million) megacity is a world city, and vice versa, world cities are not necessarily the largest cities. However, in the highest categories in functional and demographic terms distinctions tend to disappear. Hence, size (city, agglomeration, national economy) is a factor of outstanding significance, and as such, deserves special emphasis in the study of global network positions and future opportunities of Central and Southeastern European cities.

### **GLOBAL URBAN FUNCTIONS**

The nodal points of the global economy are constituted by world cities, in other terms, the global economy is controlled by the most significant companies and institutions via their

headquarters located in world cities (Vitali, Glattfelder, & Battiston, 2011). While the position of leading global cities (London, New York, Tokyo) is remarkably stable, the network of metropolises is subject to continuous expansion and restructuring, fluctuating in line with the shifting foci of the global economy (Beaverstock, Taylor, & Smith, 1999). A crucial change of the past three decades was the integration of BRIC countries with extensive domestic markets and foreign direct capital-driven post-socialist states into the global economy whereby capital cities and certain gateway cities were able to improve their positions on various metropolitan ranking lists.

Since the 1980s there has been a fundamental change occurring in the global economy also affecting metropolitan hierarchies. The main drivers of this transformation process (globalization) are among other factors new industries and innovations, falling transportation costs, the Internet, the explosive development of the postindustrial economy and financial markets, various free trade agreements, and supranational integrations. This change also affected world city concepts and nomenclature. The term „metropolis” in use since 1915 gained momentum with the growth of multinational companies, enabling the identification of cities commanding the global economy through a registry of multinational companies. The most seminal contribution in the field was written by Peter Hall (1966) whose quantitative grounding was attributed to John Friedmann (1986).

The term „global city” can be traced back to the high impact book of Saskia Sassen (1991) whose conscious choice of the term indicates the novelty of the approach (Derudder, 2006). Global leadership position is no longer measured in terms of the concentration of multinational companies producing tangible goods in global city regions, that is, traditional economic power. In the era of globalization, the most modern global city functions rely on a network of advanced producer services (APS), and these specialized and advanced service companies prefer locating in business districts and city centres.

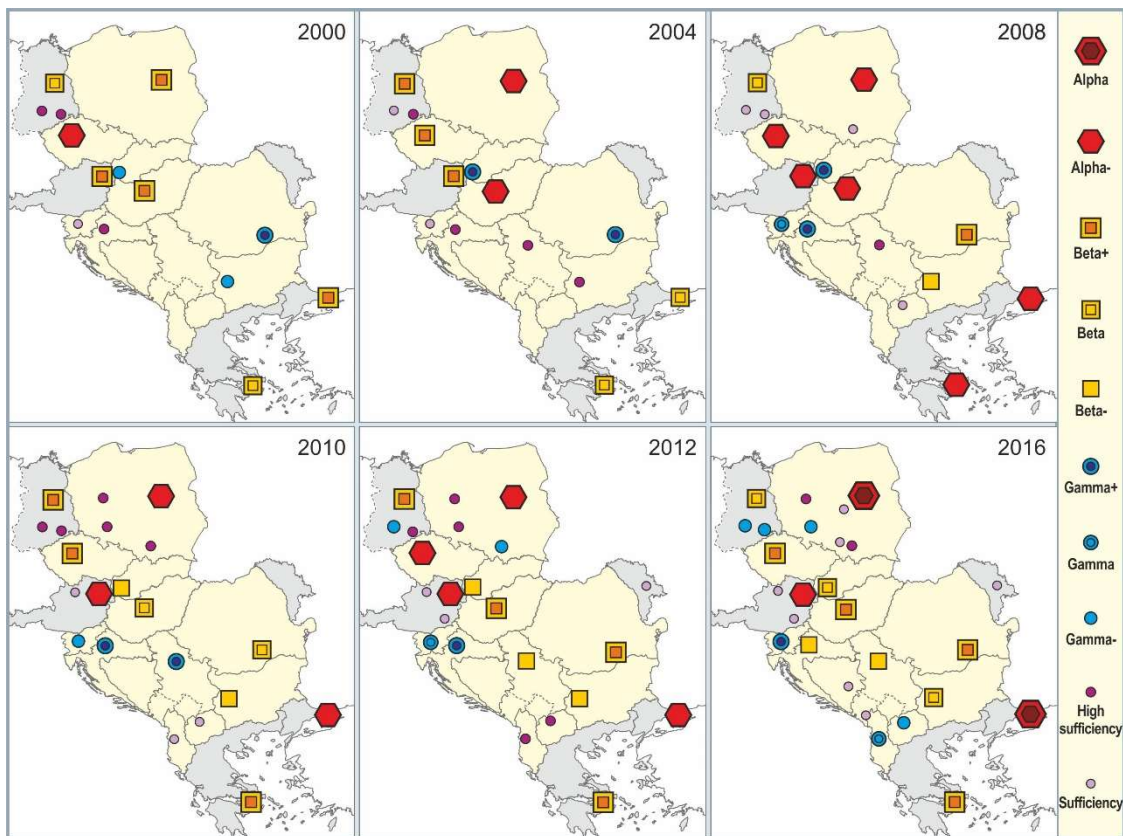
The quantitative bases of the global cities of Sassen were developed by Beaverstock et al. (1999) – through an assessment of four APS services (accounting, advertisement, banking and legal). The global city ranking list grounded on the methodological base dating back to the millennium is periodically published by the Globalization and World Cities Research Network (GaWC).

## RESULTS

From the perspective of the current research, the emergence of Central and Southeastern European capital cities on the ranking lists of world cities, more specifically, at their middle

and lower tiers, is of paramount importance. Figure 1 indicates that the development of capital cities in the region has a global impact, according even to the most recent global city approach. The figure also reveals that in post-socialist Central and Southeastern Europe only capital cities are featured on these lists, the only exception being Poland the country with the largest population. Eastern German and Austrian cities and cities on the edge of the Balkan Peninsula are presented in Figure 1 as reference points.

**Figure 1** GaWC cities in Central and Southeast Europe, 2000–2016



Source: Author's own construction based on GaWC (2018) data

Below are some summary statements also taking into account the related researches of Csomós (2017) and Döbrönte (2018). Capital-city-centricity can also be demonstrated by the extension of the geography of APS-offices to cities hosting at least one such company. Huge disparities characterise capital cities and second-tier cities in terms of the number of offices (Tab. 1).

Appr. 80-90% of the examined APS offices (TOP50 consulting, auditing, advertising, banking, legal services) are located in central regions in Bulgaria, Croatia, Hungary and Slovenia. Their spatial distribution is somewhat less concentrated (74-78%) in the Czech

Republic, Romania and Slovakia. Polycentricity is evident only in the case of Poland where 52% of APS offices operate in Warsaw.

**Table 1** Geography of the leading APS companies' office network in the CEE, 2015

	Cities with APS offices	Total number of APS offices	APS offices in					
			Capital city	%	Second-tier APS city	%	Other cities	%
Bulgaria	4	39	33	84,6	4	10,3	2	5,1
Czech Republic	7	76	56	73,7	8	10,5	12	15,8
Croatia	5	43	36	83,7	2	4,7	5	11,6
Poland	16	133	69	51,9	13	9,8	51	38,3
Hungary	6	53	47	88,7	2	3,8	4	7,5
Romania	7	62	47	75,8	6	9,7	9	14,5
Slovakia	7	46	36	78,3	5	10,9	5	10,9
Slovenia	4	26	23	88,5	1	3,8	2	7,7
Total	56	478	347	72,6	41	8,6	90	18,8

Source: Author's own calculation based on Csomós (2017) data

Second-tier cities are privileged location sites for leading business service companies (auditing, consulting, banking) with market acquisition strategies oriented at the Central and Eastern European region. APS companies are characterised by a different location strategy: companies with relatively few offices either operate a single Central European headquarter or show a unique preference for capital cities of larger countries. The construction may also differ, for instance, in the case of legal services, service provision may be contracted to a local partner replacing the need for an own office network. The size (population, market) of regional centres of Central and South-Eastern Europe may also be serious limiting factors. The global economic integration of FDI-driven medium-sized cities which provide a much too narrow market for APS companies is ensured by multinational manufacturing firms. Nevertheless, the presence of APS offices indicates a certain degree of embeddedness of the respective cities in global networks.

## DISCUSSION - POLITICAL AND URBAN GEOGRAPHY

The past three decades have brought about substantial changes across Central and Southeastern Europe. Transition to the market economic has fundamentally transformed the social, economic and political structure of each country (Enyedi, 1998; 2012). In some of the post-socialist

countries, the transformation has fostered an almost comprehensive restructuring of the state and state territory. As a crucial aspect of the changes, private initiatives have replaced a highly centralized and party based system of decision-making, internal and external capital have gained an essential role in shaping economic decisions and the employment opportunities of the population. These processes were not primarily linked to the settlement network, however, each aspect of the transformation contributed to shaping indirectly and in many respects, directly the life of settlements and the evolution of network relations. From the aspect of the post-regime change evolution of the settlement network, the emergence of new states and new capital cities is of paramount significance, akin to positive changes in the permeability of state borders and the emergence of the new neighbourhood (Hajdú, Horeczki, & Rácz, 2017). Significant disparities between cities and various groups of cities have emerged in each of the countries. Spatial processes were fundamentally defined by the urban network and the focus of EU regional policy and development policy has also shifted to metropolises. Transformation processes have primarily affected capital city and metropolitan functions. Therefore, the analysis is focused on the latter two settlement categories - despite the original plan of the author to omit capital cities, an idea which he abandoned later.

### **POLITICAL ECONOMY**

In the course of the past three decades, Central and Southeastern Europe has witnessed a particularly dynamic transformation process. Central Europe has emerged as a winner of global industrial relocation processes, industrial decline (Lux, 2017) was followed by reindustrialisation, while economic restructuring produced a multi-layered spatial structure. According to Gál and Schmidt (2017), the main specifics of the transition model include a double shift in ownership structure (from state to private, from domestic to foreign) and a double shift in the system model (from state socialism to market capitalism, from industrial capitalism to financialized capitalism). The region's externally driven and financed global economic integration was not the result of bottom-up development, which led to the proliferation of literature challenging core ideas of mainstream theories or presenting their variable geo-economic framework conditions referred to as externally-driven capitalism or the dependent market economy model (Nölke and Vliegenthart, 2009). While FDI was the dominant foreign capital type in the first phase of the transition (privatization), foreign bank capital took over the predominant role of FDI at the turn of the millennium. The unfolding of this process was spatially uneven since capital cities, port cities and western regions adjacent to EU Member States were seen to provide profitable investment opportunities by investors in

the first round. Initially, investments targeted only a small number of cities and regions, hence, economic growth was also concentrated in these areas, providing them a source of relative advantage. The global economic crisis has impacted this trend, without, however reversing long-term tendencies. The penetration of advanced services follows the urban hierarchy and in the bulk of the states this sector is concentrated in the capital city. The dominance of capital cities and city regions is a well established fact. In smaller countries, or in the case of central location, the role of capital cities cannot be overstated. In addition, there is a substantial difference in size between capital cities and second-tier cities in every respect (Hajdú et al., 2017). For supply-driven vertical investments, the main attracting factor in capital cities is the large supply of suitable workers (Hardy et al., 2011; Gál & Kovács, 2017). One-tenth of the hundred investigated cities are FDI-driven vehicle industrial cities characterised as successful (or fortunate), which underlines the importance of their individual study (Rechnitzer, 2014). In future research will be important to present the specificities of FDI in the service sector, because nearly 70% of FDI has been invested globally in the service sector since the turn of the millennium, and APS companies in Central and Eastern Europe are subsidiaries with Foreign Direct Investment.

## CONCLUSION

World cities constitute the nodal points of the global economy. While the position of leading cities is remarkably stable, the network of world cities is subject to continuous extension and geographical restructuring. The gradual global economic integration of post-socialist cities has been a dominant process characteristic of the past three decades. In each of the countries included in our research, the development paths of the capital city and the rest of the cities are highly divergent. This is a natural phenomenon considering that the „space of flows” of the global economy is constituted only by a limited number of prominent nodes. Balanced (polycentric) development in the various countries requires long-term investments in the development of national urban networks. However, the development and size of a national economy, the specificities of the urban network and regional disparities crucially impact the efficiency of these measures. The integration of FDI-driven cities into the global economy is ensured by multinational manufacturing companies. While only a limited number of APS offices are located outside capital cities, their presence clearly indicates a certain degree of embeddedness of these cities in global networks. In addition to their nodal character, these cities also play a crucial role in the creation of networks. Besides their external, intercontinental

relations, these cities also place a crucial emphasis on their internal, local networks and assets, since they regard mutually advantageous linkages with their immediate and integrated environment and agglomeration as a key factor of competitiveness. Global economic integration is realized gradually and sporadically, with spaces unaffected by the movement of FDI. An increase of spatial inequalities is a natural byproduct of the era of integration into international networks. However, the past decade has seen a revaluation of the role of the FDI due to the growing geo-economic dependence of the region on foreign capital and global value chains, which exposed systemic vulnerability and the inability of FDI to reduce the development gap between Western and Eastern Central Europe. The global economic crisis was not the main driver, but merely an aggravator of the systemic vulnerability of the dependent market economy model based essentially on foreign-owned export industries and low wages. Our general findings will also be tested in the next phase of the research focusing on the examination of individual urban development paths.

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