

TERRITORIAL DISPARITIES AND ECONOMIC PROCESSES IN HUNGARY EDITORIAL

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Abstract

The first part of the article outlines the unique development path of Central and Eastern European countries after their market economic transition, and its changing geo-economic framework conditions referred to as “externally-driven capitalism” or “dependent market economy”. The failure of regional policy to promote the settlement of new industries and sectors is explained by the fact that most regions in the countries under study belong to the most disadvantaged and lagging regions of the EU. The second part provides a brief summary of the articles included in the thematic issue that focus on the territorial disparities and economic processes of Hungary. The concluding section highlights the specific problems of peripheral regions that are lacking scale and visibility on the European level, stressing the need to construct their own non-metropolitan and non-FDI-driven development model, and to embark on a sustainable/rural alternative development path, one that represents a different perspective of the economy and competitiveness and does not set unrealistic goals.

Keywords: Hungary, regions, cities, economic transformation, regional science

INTRODUCTION

Inarguably, Central Europe has undergone a particularly dynamic transformation process over the past three decades. Having become the main beneficiary of global industrial relocation processes, industrial decline was followed by re-industrialisation, and economic restructuring has led to the emergence of a multi-layered spatial structure (Gorzela, 2019; Lux & Horváth, 2017). The main specifics of the transition model, according to Gál and Schmidt (2017), are: a twofold shift in ownership (from state to private, from domestic to foreign) and a twofold shift in the systemic model (from state socialism to market capitalism, from industrial capitalism to financial capitalism). The externally driven and financed global economic integration of the region is not the outcome of autonomous development, hence the preoccupation of growing body of literature with mainstream theories and their limitations, their changing geo-economic framework conditions referred to as “externally-driven capitalism” or “dependent market economy” (Nölke & Vliegenthart, 2009).

FDI represented the dominant type of foreign capital during the first phase of the transition (privatisation), with foreign bank capital overtaking the dominant role of FDI at the turn of the millennium. This process was spatially highly uneven, with capital cities, port cities and western regions bordering EU Member States being the first to be targeted by foreign investors offering lucrative investment opportunities. The concentration of investment in a few cities and regions during the initial period has produced a growing concentration of economic growth, securing a comparative advantage for these areas. Even though this tendency has been somewhat modified by the global economic crisis and later the pandemic, long-term trends have not been reversed. The penetration of advanced services has been shown to follow the urban hierarchy, with capital cities concentrating this sector in the majority of states. The dominance of capitals and metropolitan regions is a well-established phenomenon. Capital cities are virtually unavoidable players in the smaller countries or central locations. Furthermore, it should be stressed that capitals and second-tier cities represent different orders of magnitude in all respects (Rácz, 2019).

The countries of the region have begun their transition from the traditional to the new economy, but most of them are stuck somewhere in-between (Szakálné Kanó & Lengyel, 2021; Zsibók & Páger, 2021). FDI-based economic development has not produced substantial (knowledge-based) catching-up, prompting a cautious revision of the model (Gál & Lux, 2022). An important measure of innovation capacity is the level of R&D expenditure (necessary for achieving technological progress), whose substantial increase (to 3% of GDP at EU level) was the key objective of the Lisbon Strategy and later the Europe 2020 Strategy. However, in the peripheral regions of the EU, this is largely determined by external factors that are difficult to overcome. The Europe 2020 headline target of increasing the share of people aged 30-34 with a degree to a min. of 40% is also relevant for this study. This objective has been realised at the EU level, but Eastern EU Member States show mixed results (the Czech Republic, Poland and Slovenia have met these targets, while Croatia, Hungary and Slovakia are close to achieving them). Although the education system produces a significantly higher number of graduates than it did two decades ago, a part of these graduates have failed to meet the requirements of both the traditional and the new industries.

Regional policy must strive to attain a dual objective. First and foremost, the provision of jobs for the local, economically active population. Given the existing skills and retraining opportunities of the population, this requires mostly the preserving and strengthening of traditional industries and sectors (the tourism sector is an emblematic case in this respect). However, for a long time, regional policy has failed to meet popular expectations concerning

the settlement of new industries in the majority of regions. A major reason for this is that most regions in the countries concerned are among the most disadvantaged and least developed regions of the EU according to various statistics, such as GDP per capita, competitiveness rankings, the share of tertiary students, the number of employees in the science and technology sector or the level of R&D spending.

In most Central and Eastern European countries, the concentration of higher education and R&D in capital cities is outstandingly high relative to Western Europe. The large inequalities in the spatial distribution and sectoral structure of higher education are particularly problematic. Hungary, for instance, shows significant disparities in the disciplinary structure of higher education relative to Western Europe or the more competitive Central European countries. The gap in terms of the proportion of technical and science degrees has been persistently high for decades. Inarguably, the shortage of skilled workers is a major obstacle to reindustrialisation efforts. There is no simple or quick solution to sustained (or sustainable) regional economic growth. Its efficiency depends on the implementation of a long-term regional strategy that is based on the utilisation of local resources. However, luck is also a non-negligible factor, and it is worth noting that the competitive base in several regions has emerged as a result of the activities of the providential state over the previous decentralisation period. State-owned or monopolised industry can be a key factor of growth in many cases.

THEMATIC ISSUE

Our thematic issue gives a brief overview of the territorial disparities and economic processes of Hungary. It is a pleasure for the Guest Editors to introduce the new thematic issue of DETUROPE – The Central European Journal of Tourism and Regional Development. Our publication provides a selection of papers presented at the 19th Annual Meeting of the Hungarian Regional Science Association (HRSA) entitled New forms of territorial disparities and transforming regional policy. The conference was held at the Corvinus University of Budapest on 4-5 November 2021, with 180 participants. There were three plenary sessions, one round table discussion and a total of 23 sessions in three time slots. 140 papers were presented in 19 thematic sessions over the two days. Due to the large number of presentations HRSA offered participants four publication opportunities. In addition to the international journal DETUROPE, three others in Hungarian or English language, in the Hungarian scientific journals *Comitatus: önkormányzati szemle* (*Comitatus: local government review*, published by Comitatus Social Research Association since 1991), *Észak-magyarországi Stratégiai Füzetek* (*Strategic Issues of Northern Hungary*, published by University of Miskolc), and *Tér-Gazdaság-*

Ember (Space-Economy-Society, published by Széchenyi István University, Győr). The papers were selected in three steps. After the HRSA conference, session chairs were requested to propose the best presentations for publication. In the second round, the submitted English language abstracts were revised by anonymous reviewers. The authors of the best eight proposals were invited to submit a manuscript in the subject of the thematic issue of Deturope. The submitted manuscripts were reviewed by two anonymous reviewers. The accepted articles were revised and corrected according to the provided critical remarks. The current issue is the 8th thematic issue prepared with the cooperation of DETUROPE and HRSA. The members of the Association – as previous or potential authors – hereby express their gratitude to the journal and particularly its Editor-in-chief, Dr. Kamil Pícha. We hope that you will find inspiring ideas, research results or practical achievements in this collection. We wish you a good reading.

ARTICLES OF THE THEMATIC ISSUE

The first group of papers examines economic development in Hungary on various spatial levels (NUTS3, NUTS2, LAU2). The first original scientific paper of the thematic issue by Marianna Sávai, Gábor Bodnár, Ferenc Mozsár, Imre Lengyel and Izabella Szakálné Kanó addresses the spatial aspects of economic restructuring in Hungary between 2000 and 2019. In the early post-socialist years, Hungary faced numerous economic and political challenges. The performance of the Hungarian economy reached the pre-transition level by the turn of the millennium, while the labour market and the structure of economic sectors changed substantially. The study investigates how stable the developed sectoral structure proved to be in the following two decades and what territorial specificities the changes are characterised by. The main question is how further structural changes – besides the sector's performance (productivity) growth – contributed to the change in economic performance of territorial units. The analysis framework is provided by the counties (NUTS3 level). It can be established that the primary factor of productivity growth is the increase of performance within sector groups and not the change in the economic structure of counties. The impact of structural changes is smaller in magnitude and may even have a negative value in several cases, i.e., the economic structure of counties has shifted from higher-productivity sectors towards the ones with lower productivity. The authors recommend that the Hungarian regional policy be more attentive to the enormous investments that can change each region's economic structures. Moreover, they should encourage those developing projects which contribute to higher productivity (Sávai et al., 2022).

The paper of Zsuzsanna Zsibók and Ildikó Egyed presents the role of the foundational economy in the case of two peripheral cities in Central and Eastern Europe. This comparative research examines the changes in the economic position of two traditional regional centres, Cluj-Napoca (Transylvania, Romania) and Pécs (Transdanubia, Hungary) in the post-crisis period. The focus of interest is the sectoral structure of local economies in the light of the concept of the “foundational economy”. This empirical research covers data on the largest local firms in each of the two cities, as well as regionally aggregated data, analysed from a labour productivity perspective. The source of the data is the Orbis Europe enterprise database, supplemented by EuroStat data at regional level (NUTS2 and NUTS3). The results of the paper suggest that due to the large weight of the foundational economy in both cities, it should be considered an important driver of long-term territorial development and local well-being. There are several sectors in the local economy of the two cities where some activities of the foundational economy excel in productivity, thus the paper cannot establish a direct contradiction between the high weight of the foundational economy and lower efficiency. The regions of Cluj-Napoca and Pécs face somewhat different challenges, the former experiencing problems in integrating its rural surroundings, the latter struggling to attract external resources and to retain and generate endogenous resources (Zsibók & Egyed, 2022).

Zoltán András Dániel presents the labour market effects and changes among enterprises in free enterprise zones in Hungary. The aim of regional development and planning is to promote social and economic growth and to reduce significant economic and infrastructure disparities. Its role is to support community initiatives to this end, with a particular emphasis on helping lagging regions to catch up, reducing unemployment and supporting the regeneration of industrial and agricultural businesses. The legislation on spatial development made it possible to create in Hungary the Free Enterprise Zones in 2013. The list, having been extended twice since then, currently includes 1202 municipalities. Municipalities belonging to the zones create a favourable environment for investment, and businesses that invest and create jobs in the area can benefit from corporate tax relief and contributions payable by employers and are eligible for EU funding. The research examines the labour market processes taking place in the Free Enterprise Zones as a result of the inclusion of these municipalities in the zones. Drawing on official labour market and business-related regional statistics, the analysis takes a regional perspective and seeks to focus on temporality. The database contains data at the level of municipalities (LAU2 level) for the period under study (2012-2020). The study has found that the positive impact on labour market processes cannot be clearly justified, whereas for the operating enterprises, inclusion in the zone induced positive effects. A positive effect in terms

of average staff numbers is also visible. The results show that the use of development aid is more effective for enterprises within the zones than in other parts of Hungary. A stronger than medium positive correlation can be detected in terms of the amount of aid received by the enterprises, i.e., the objective of calls for proposals to attract more resources to the areas concerned has been achieved (Dániel, 2022).

The second group of papers examines socio-economic development in Hungary focusing on individuals. Tamás Sikos T., Tamás Kozák, Vanda Papp, Csaba József Kovács and András Kovács present the pandemic crisis challenges for customers and retailers. The paper undertakes an analytical evaluation of customer and retail responses to today's market- and non-market-related challenges in Hungary. The introduction provides a classification of crises and reviews the literature on the relationship between crises and consumption, then focuses on analyzing the effects of the COVID-19 pandemic and the Russia-Ukraine war on trade and consumption. Finally, the authors review the effects of the already mentioned crises on domestic trade and shopping behaviours, and examine the effects and new challenges of today's crises on retail strategies, identifying the main areas that, with proper management, can make commercial companies "crisis-resistant". The novel findings can be categorized into consumption-related challenges and retailer-related responses. As a conclusion of the study the authors note that in the turbulent decades of the 21st century, the overall approach, methodology and tools of retail trade are constantly changing, and business success depends on the extent and speed with which retailers manage to adapt to these market and non-market changes. In the third decade of the 21st century, commercial companies need to be able to face challenges not only of market origin but also non-market ones such as pandemics, wars, and climate change. This means that challenges and responses are different, as hitherto "unusual" phenomena such as the introduction of active state restrictive measures, oversupply markets, stock shortages, etc. need to be addressed. All of this makes it essential for retailers accustomed to operating in a very competitive market and oversupply to develop radically different conceptual and operational practices (Sikos et al., 2022).

The paper of György Málovics, Judit Juhász and Zoltán Bajmócy presents the potential role of university community engagement (UCE) in social justice and sustainability transformation through the case of the University of Szeged (Hungary). The aim of the paper is to reflect on the role of social justice orientated UCE in contributing to social justice and environmental sustainability transformations. The authors build on the social justice perspective on UCE; the transformative approaches to social justice and sustainability; and UCE models that deal with the transformative potential of UCE partnerships as theoretical frameworks. The researchers

use the UCE initiatives of the Research Centre of the Faculty of Economics and Business Administration at the University of Szeged as a case study to reflect on UCE in a Hungarian urban context in the city of Szeged. They analyse how power relations (partnerships) work and change within UCE; how UCE is able to change existing power relations within a specific urban social context; and how these changes in the social power of the marginalized might contribute to transformative changes in relation to social justice and sustainability. The paper shows that UCE initiatives carried out in the spirit of the social justice perspective on UCE might be in line with transformative social justice and sustainability theories, by emphasizing the need to support grassroots initiatives and work with communities and NGOs/CSOs outside power centres. However, even though the social justice perspective on UCE might be promising in supporting significant positive changes in the life of marginalized communities, there are still numerous factors that challenge its transformative potential (Málovics et al., 2022).

One of today's biggest challenges is digitalisation and automatisisation. In previous issues of the journal, this has been analysed mainly from the perspective of industry and transport. Socio-economic studies on self-driving vehicles are the newest in this area. The paper of Brigitta Gábor addresses the issue of self-driving vehicles awareness in a Hungarian context, in order to facilitate a better understanding of the Hungarian population's attitude towards autonomous vehicles. To this end, the paper presents popular attitudes towards autonomous vehicles by performing a series of analyses focusing on „rejection groups”, i.e. certain groups that are more critical about the technology. Autonomous vehicles can be seen as a radical innovation, which introduces innovative aspects in the mobility system that affect every part of people's lives. However, the empirical investigation of the social aspects of the use of self-driving cars is rendered difficult by the lack of direct experience in Hungary. The results obtained draw attention to the impact of social processes on innovation. The research demonstrates that the attitudes of rejection groups towards self-driving vehicles can be improved by providing them with newer and more detailed information (Gábor, 2022).

From a professional and scientific point of view, it is interesting to review who shapes and represents regional research in Hungary. The last original scientific paper in the special issue is a retrospect on the 20th anniversary of the founding of the Hungarian Regional Science Association. The aim of Judit Berkes and Zsuzsanna Zsibók is to provide a brief but comprehensive overview of these two decades in the light of quantifiable facts and results. HRSA is the professional forum of Hungarian regional science, an independent non-governmental organisation, which brings together professionals involved in regional research, development and governance. In the 20 years since its foundation, HRSA has achieved most of

its basic objectives that have remained unchanged over this period. This retrospective overview suggests that the HRSA has had a successful two decades since its foundation, it has already entered the mature stage of its development, as demonstrated by the stable and increasing number of its members and a sustained interest in the events organized by the Association. In the face of many years of external uncertainties in the domestic regional science arena, HRSA has been able to provide stability for the academic community (Berkes & Zsibók, 2022).

The last paper in the current issue presents a thorough report on notable Hungarian regional science conferences of 2022, prepared by Ildikó Egyed, Réka Horeczki and Szilárd Rácz. The 61st ERSa Congress in Pécs took place in person and online from 22 to 26 August 2022 entitled „Disparities in a Digitalising (Post-Covid) world - Networks, Entrepreneurship and Regional Development”. The 20th jubilee conference of the Hungarian Regional Science Association entitled „Space and state” took place in person in Budapest from 6 to 7 October 2022.

The thematic issue is concluded with a book review by Zoltán Nagy on the *Thirty Years of Retail Transformation in V4 Countries* (Published by De Gruyter). The socio-economic and cultural changes that have taken place in the Visegrad countries over the last 3 decades have led to significant transformations in all areas of trade. The main contributions of the joint work of the authors (Josef Kunc, František Křižan, Markéta Novotná, Kristina Bilková, Tamás Sikos T., Dariusz Ilnicki and Ryan Wyeth) from the four Visegrad countries provide a detailed description of the characteristics and features of each country, and facilitating a better understanding of the local context and the processes in the Visegrad region. The authors are professors, researchers and lecturers at Masaryk University, Comenius University in Bratislava, the Slovak Academy of Sciences, the University of Miskolc and the University of Wrocław. The theme is very Central European, which is linked to the fact that the special issues in recent years (Rácz & Egyed, 2020, 2021) have also typically focused on this macroregion.

CONCLUSIONS

In most countries, a multi-layered spatial structure has emerged after the change of regime. Capital cities have pursued a unique development path (metropolitan development model) in each country, similarly to advanced regions attracting industrial FDI. However, the majority of the territory of Central and Eastern Europe does not belong to this category, being dominated by peripheral rural (transition) regions that have accumulated multiple disadvantages, already present during their market economic transition. Incoming foreign capital has brought about spectacular changes, while further aggravating existing disparities. The newly settled foreign-

owned enterprises (sectors) are also characterized by heterogeneous performance in terms of productivity and knowledge utilisation.

An important feature of regional neighbourhood is the co-existence of peripheral regions along the majority of state borders, and the demand to mitigate this situation (from a bilateral perspective) is rather low. Infrastructure connectivity is a case in point, i.e. the construction of a motorway connection between the regions. Its timeliness and integration into trans-European systems is a clear illustration of European (industrial relocation) and national (foreign economic and cohesion) interests.

These peripheral regions need to construct their own (non-metropolitan and non-FDI-driven) development model, and embark on a sustainable/rural alternative development path, one that represents a different perspective of the economy and competitiveness and does not set unrealistic goals. The model of the new economy can define the character of regional re-industrialisation and structural transformation, but by itself it does not offer a universal or exclusive development path that could guarantee a sufficient growth potential for these regions. The spatial distribution and volume of these resources – most of all the intellectual base and (new) knowledge – is highly concentrated, and due to their limited availability, this exclusive growth occurs only in discrete points, typically at the highest level of the urban hierarchy (in a functional perspective, the spatial dispersion of new knowledge is also a function of absorption capacity). The nature of the settlement structure of a given region/country is therefore quintessential. The urban network underpinning all future aspirations is a stable system whose evolution is a lengthy process. Research and innovation are key to national and regional economic performance. Innovation is a main driver of long-term productivity growth and thus a key factor of competitiveness. Large cities typically host innovative milieus that foster the emergence of new ideas, products and processes.

In regions that are lacking a developed metropolis of a European scale, the stock of small and medium-sized cities fulfils a completely different type of intermediary role. The regime change has brought about a significant hollowing-out of the classical economic and employment functions of small and medium-sized cities located far from the core areas, European-scale metropolises and capital cities. Due to the highly concentrated nature of economic and employment functions, and the new economy in particular, the dependence of this category of cities on state and EU funding has significantly increased. This is particularly visible in the case of higher education institutions and research centres located in such cities. The outmigration of skilled labour has serious implications on cities located in peripheral areas

with a sparser spatial structure. This problem is a common characteristic of the region under study.

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