

DISCUSSION PAPERS

No. 32

The Features of the Transition of  
Hungary's Regional System

CENTRE  FOR  
REGIONAL STUDIES  
HUNGARY

**CENTRE FOR REGIONAL STUDIES  
OF HUNGARIAN ACADEMY OF SCIENCES**

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**No. 32**

**The Features of the Transition of  
Hungary's Regional System**

**by  
János RECHNITZER**

**Series editor**

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**Pécs  
2000**

Publishing of this paper is supported by the  
*Research Fund of the Centre for Regional Studies, Hungary*

ISSN 0238–2008

2000 by Centre for Regional Studies of the Hungarian Academy of Sciences  
Technical editor: Ilona Csapó, Zoltán Gál  
Typeset by Centre for Regional Studies of HAS Printed in Hungary by Sümegei  
Nyomdaipari, Kereskedelmi és Szolgáltató Ltd., Pécs

# Contents

Introduction / 7

1 The regional characteristics of the transition / 8

1.1 Participants / 11

1.2 Regional resources / 31

1.2.1 Border regions / 32

1.2.2 Location factors / 47

1.3 Regional policy / 52

2 The changes of spatial structure, the spaces of the transition / 60

3 Regional dilemmas after the transition / 65

3.1 Regional differences / 65

3.2 The place and role of Budapest in Central-Europe / 65

3.3 Co-operation in the border regions / 66

3.4 The local governmental system and the civic sphere / 67

3.5 Regionalisation / 68

3.6 Environmental thinking / 71

3.7 Preparation for the EU Membership / 71

Bibliography / 73

## LIST OF TABLES

- Table 1: The regional economy and its forming factors in different economical systems / 9
- Table 2: The number of economic organisations founded between 1988 and 1997 / 12
- Table 3: Some characteristic indexes and their changes of regional differences (between 1994 and 1998) / 19
- Table 4: The changes of income positions in the early 90s / 29
- Table 5: The weight of the border regions within Hungary / 34
- Table 6: Some economic indicators of the Hungarian border regions / 40
- Table 7: The economic performance of the border regions / 41
- Table 8: The regional development subsidies compared to the GDP / 56
- Table 9: Some characteristic data of the planning-statistical region 1998 (National average 100%) / 69

## LIST OF FIGURES

- Figure 1: Spatial expansion of the foreign direct investment (1991, 1998) / 13
- Figure 2: Regional character of Bank density / 16
- Figure 3: Unemployment-rate (1992, 199) / 17
- Figure 4: The forming of the regional GDP (between 1994–1997) / 21
- Figure 5: The regional structure of the non-profit character and its connection to the economical potential (1997) / 24
- Figure 6: Demographical characters and the migration of the population between 1990–1996 / 27
- Figure 7: The base of personal income tax per capita (1990, 1998) / 28
- Figure 8: Border subregions in Hungary (1996) / 33
- Figure 9: Typical relation possibilities between the ex-COMECON countries / 35
- Figure 10: Euro-regions with Hungarian participation / 43
- Figure 11: Settlement factors in the counties I. (1997) / 49
- Figure 12: Settlement factors in the counties II. (1997) / 50
- Figure 13: Regional Development Organisation / 54
- Figure 14: The regional and economical development and their connection with the regional GDP / 58
- Figure 15: The spatial structure and its changing (1991, 1995) / 61
- Figure 16: The counties and the planning-statistical regions in Hungary / 70

## **Introduction**

The transition process of the Hungarian economy and society began exactly ten years ago, and every part of these systems underwent fundamental change. The country's regional structure and the spatial economic societal movements followed the transition too, and precisely reflected the step by step altering of the socialist political-economic system and the fast development of the new system. The effects were very spectacular, on both regional and local levels. Workplaces disappeared in large numbers in crisis regions, due to the collapse of some sectors. Regions and settlements found themselves in a crisis. The former normal contacts (e.g.: commuting directions, attraction regions) got rearranged from one day to the next. The people, the households, the participants of the economy and the political-societal actors had to deal with the difficulties of the modernisation in their residential areas, local communities and regions. Therefore knowledge and experience can always be attached to a well-defined regional unit, which represents both the individuality and the legitimacy of the transition. The same applies to the reaction of the rearrangement. Since not only individuals, but even the areas acted differently, to strengthen the positive impacts or weaken the negative impacts of the transition.

In this study we outline the regional characteristics of the economic and societal transition in Hungary, and the restructuring of the spatial system. We will try to sum up the characteristics of this radical and profound economic and societal transition, their impact on the factors of the spatial structure, on the participants of the regional development, on the regional resources, and on regional politics represented on government level. Our target is to acquaint the foreign readers with Hungary's characteristics and with the profound changes, which began ten years ago and still, continues successfully today.

# 1 The regional characteristics of the transition

Before we start analysing of the regional processes, we have to define this popular expression. According to our definition the time interval, between the break down of the socialist planned economy and the fully developed market economy is considered to be a transitional economy and society. This societal and economic era will be finished, when all the following conditions will be fulfilled or predominant:

- The reduction of state ownership through the dynamic expansion of private ownership, partly through privatisation, partly with the help of foreign and internal capital and their fast expansion throughout the country,
- The establishment of the institutions of the market economy, the reinforcement and real functioning of all the laws and organisations, which guarantee the freedom of enterprises and the security of private ownership, and that values are equally accessible everywhere for all participants in the economy,
- After the break down of the former economic structure, and the establishment of a new economic structure, where beside modern (high-tech) industrial branches the expansion of the service industry is significant, while the number of employees in the agriculture sector falls spectacularly and then stabilises,
- The changes in the regional system of the economy and society stabilises, indeed the deliberate and organised softening of strong regional differences begins (through regional policy), in order to strengthen cohesion in the country,
- There are clear differences in society:
  - the differences in income, between different societal groups and stratum have become noticeable and their local separation within settlements is clear,
  - new, polarised elites are formed (economic, political, regional, and intellectual),
- The non-profit and NGO-s grow in number and their influence can be noticed.

In the time of the transition, regional influences grow. Unlike the former economic and political system, the spatial factors do not only take on a different complexion, but they bring new, previously unknown effects to the surface (*Rechnitzer J.* 1993, *Enyedi Gy.* 1994, 1996). We examine the features of the transition in a spatial system in such a way, that we compare the most important characters in different economic-societal systems. With the help of highlighted differences and identities, we can better understand the regional features of the transition. In *Table 1* we listed the participants in the regional processes, the dominant resources, and the creators of regional policy. We gave all of these factors for the state-controlled socialist economy, for the transition economy and for the modern and post-modern economy and tried to show the features of the transition, based on a comparative study.

Table 1

*The regional economy and its forming factors in different economical systems*

Name	Socialist plan-economy	Transition economy	Modern market economy	Post-modern market economy
<b>PARTICIPANTS</b>				
State	The controlling and decision making centre. Priority: branch development	Withdrawing state, Role searching attempts to solve regional crisis	Targeted actions for decreasing regional differences	Supporting common (EU) actions, strengthening of cohesion in the country
Economic organisations	Only a few centralised	Enterprises, foreign capital, privatisation, mixed ownership	Medium-size and large companies	Small and medium-size enterprises and multinational companies

<b>Name</b>	<b>Socialist plan-economy</b>	<b>Transition economy</b>	<b>Modern market economy</b>	<b>Post-modern market economy</b>
Local communities	Don't have function, Just transmission	Economic functions, transmission, function searching	Significant role taking on more tasks	Local economy development
Non profit organisations	Don't function	Function searching, lack of support and acknowledgement	Taking on of state tasks, participation in decision making	Increasing participation, partnership
Households	Consumer of unsophisticated supply	Weak economic power, not regional developer	Acknowledged economic participant	Regional environmental formative
<b>RESOURCES</b>				
Spatial location	Not significant, Considered when industry set up	Routes to the centres are upgraded, The border situation gives a new approach	Separation of centres and peripheries	Catching up and securing possibilities
Establishment factors	Environmental factors, mass of labour power	Mass of labour power, training infrastructure	Complex location supply	Economic milieu
Local and regional market	Not significant, no regional features	Developing markets, minimal internal co-operation	Agglomerate factors, co-operations	Synergy, endogen development
<b>REGIONAL POLICY</b>				
Targets	No clear equalisation principles from above	Regional differences, crisis management infrastructure development	Catching up, clear principals, but mostly from above	Principals from the grassroots, endogen development. cohesion
Institutions	Centralised	Decentralisation without tools and competence	Decentralisation	The principal of subsidiarity
Tools	The principals of distribution are not clear	Rules are pliable, and not clear, resources mixed	Visible and targeted, on the state level	Forming of partner co-operations, community level
Regional planning	Ideological appearance	Lack of national program, cannot be reached the affected participants	Societal-economic development, national plans and programs	International trends, local adjustment, wide participation

Source: Rechnitzer, J. 1998.

According to our study the state socialist plan (command) economy is, where state (community) ownership is predominant, the economy and the society centrally ruled and on the state level there are a mass of tasks, while on a local-regional level the tasks are just carried out. Under a modern market economy we understand the application of Keynesian and Neokeynesian economic policy, the establishment and functioning of the welfare state's institutions, the decreasing of regional differences, the establishment of catching up conditions (infrastructure, industry) for the less developed regions. We believe, the post-modern market economy is where the institutions of the welfare state are building down gradually, the integration processes are strengthening, decentralisation is resolute and therefore, the region will become a new development resource.

## 1.1 Participants

The former “one point” economy was succeeded by the “spatial” economy. The sole economic directorate and management centre has determined the prices, wages, and operating costs in the state socialist system. Therefore market influences could succeed only later and indirectly. The regional differences, regarding the terms of production were not spectacular, in contrast to living; workplaces, life-circumstances, and therefore the spatial impacts in the function of the economy become insignificant factors. But the market economy is a spatial economy. Hence, on the different points in the space, different costs and prices are developing, and the production factors are moving between these different cost conditions, which causes the devaluation of some regions, while other “economic spaces” are activating. The market economy involves new regional participants, while the function of the previous one’s is restructuring.

The role of the state is changing. In the “state socialist economy” the political centre is the sole decision-maker; the processes of the regional economy are formed only by the state. When the market economy appears, the state withdraws from the economic actions, accordingly its direct influence on the regional economy decreases. In the regional processes of the transition – because of the exploding transition of the economic system – the “removing of the ruins” has become the most important task of the state. Therefore the state is significantly present in the spatial economy of the transition. Its role is not a targeted intervention yet, it means it doesn’t form consciously the regional functioning conditions of the economy (e.g.: building of traffic infrastructure, domicile supply, common purchase, local supports and allowances) – like in the modern market economy. Its role is the decreasing of the regional differences and crisis management.

During the transition in Hungary, instead of the few thousand economical organisations, several hundred thousand new economic units developed rapidly. (*Table 2*) On the one hand, they destroyed the local-regional monopolies; on the other hand they formed local-regional markets. Moreover a mass of new interests appeared and their methods of enforcement and handling grew amongst others, at local level (e.g.: local taxes, domicile founding, labour force demand).

With the regional expansion of foreign working capital we can spectacularly characterise the features of the Hungarian spatial system (*Figure 1*). Examining the foreign capital stock per person, on the 1991 base, we can illustrate the growth of foreign investments, their spreading out and differentiating by regions (in our case counties). The most favourable investment place is the capital (Budapest). Here, the growth of foreign capital stock per person multiple exceeds the average

Table 2

*The number of economic organisations founded between 1988 and 1997*

Name	Economic units		Enterprises activity (organisations / 10000 inhabitants)		Growth (%) 1997/1988
	1988	1997	1988	1997	
Budapest	8 166	215 164	41	1 156	2 843
Pest	2 756	73 247	29	728	2 530
<i>Central Hungary</i>	<i>10 922</i>	<i>288 411</i>	<i>37</i>	<i>1 006</i>	<i>2 732</i>
Fejér	1 773	26 708	42	626	1 492
Komárom-Esztergom	1 371	20 820	44	671	1 531
Veszprém	1 824	24 881	48	661	1 372
<i>Central-Transdanubia</i>	<i>4 968</i>	<i>72 409</i>	<i>45</i>	<i>650</i>	<i>1 458</i>
Győr	2 032	30 831	48	726	1 524
Vas	1 392	15 852	51	588	1 158
Zala	1 575	23 178	52	779	1 497
<i>West-Transdanubia</i>	<i>4 999</i>	<i>69 861</i>	<i>50</i>	<i>704</i>	<i>1 414</i>
Baranya	2 196	29 083	53	719	1 365
Somogy	1 979	23 497	58	703	1 208
Tolna	1 468	15 323	58	621	1 062
<i>South-Transdanubia</i>	<i>5 643</i>	<i>67 903</i>	<i>56</i>	<i>689</i>	<i>1 231</i>

Borsod-Abaúj-Zemplén	3 581	34 280	48	464	970
Heves	1 730	17 950	52	551	1 051
Nógrád	1 217	10 260	55	468	856
North-Hungary	6 528	62 490	50	487	971
Hajdú-Bihar	2 474	31 966	45	586	1 302
Jász-Nagykun-Szolnok	3 762	21 701	89	521	582
Szabolcs-Szatmár-Bereg	1 983	29 257	35	511	1 452
<i>North-Great Hungarian Plain</i>	<i>8 219</i>	<i>82 924</i>	<i>54</i>	<i>540</i>	<i>1 008</i>
Bács-Kiskun	3 153	35 301	58	657	1 127
Békés	2 294	22 470	57	564	993
Csongrád	2 255	32 467	52	769	1 492
<i>South-Great Hungarian Plain</i>	<i>7 702</i>	<i>90 238</i>	<i>56</i>	<i>665</i>	<i>1 193</i>
<i>Total</i>	<i>48 981</i>	<i>734 236</i>	<i>48</i>	<i>724</i>	

*Remark:* In 1988 the industrial and agricultural companies, co-operatives and stores.

*Source:* Regional Statistical Year Book 1988, 1997.

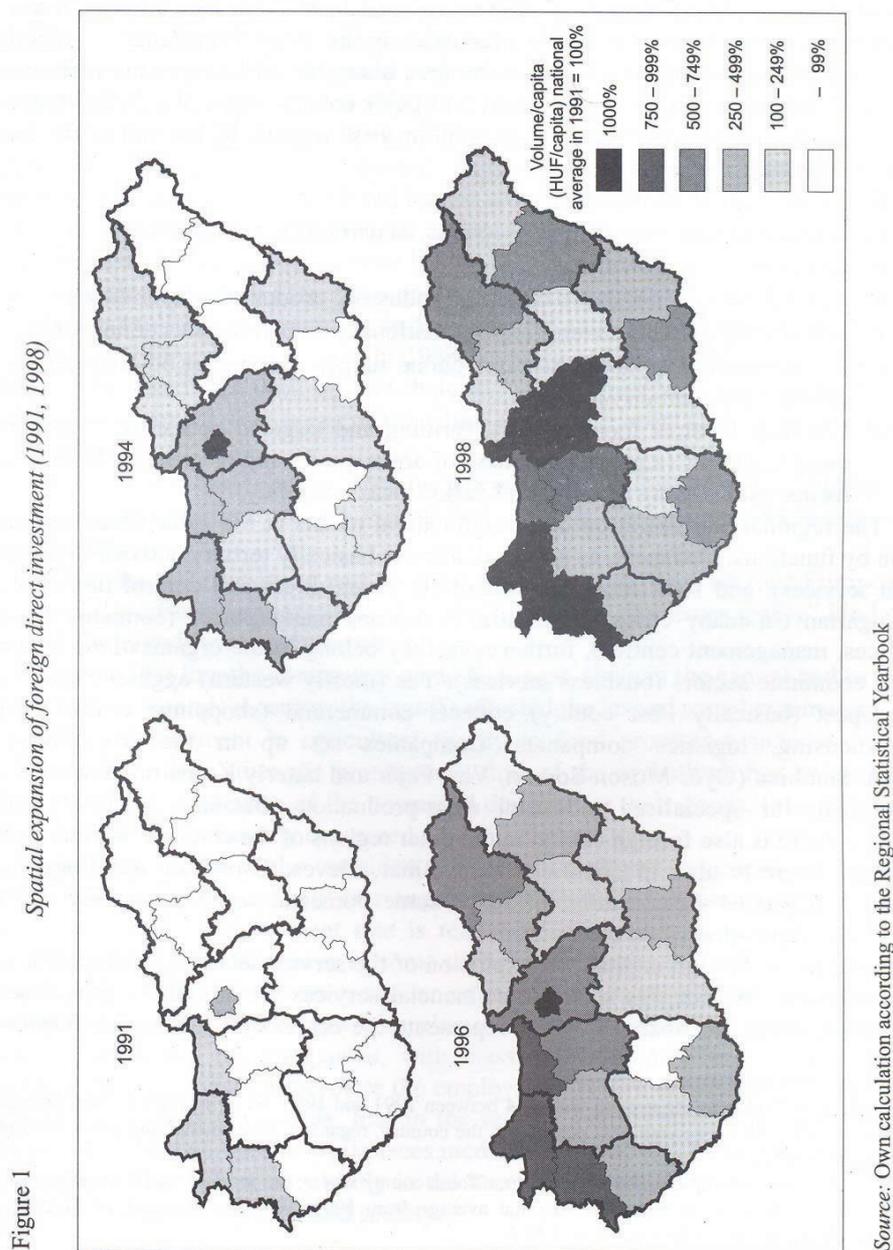


Figure 1

of the countryside and even its highest value until 1996<sup>1</sup>. The next foreign investment region, which can be clearly identified, is the West-Transdanubian region (Vas, Győr-Moson-Sopron counties), the area along the M1 motorway, therefore the western agglomeration of Budapest and Fejér county, especially Székesfehérvár. The capital stock became concentrated in these regions by the end of the examined interval.

The reasons are the following:

- Favourable transportation connections, in particular the motorway,
- Fast access to the centres,
- High labour culture, based on earlier industrial production experiences,
- The already existing diversified international production-sales connections,

<sup>1</sup> While in Budapest the growth was 18,4 between 1991 and 1995, so far in Győr-Moson-Sopron county, which is in the second best position in the country, regarding investments, the active foreign capital stock rose just 8-fold.

- The favourable infrastructure (telephone supply, transportation connections, utilities) pleasant city milieu,
- The high level of local support, forming and targeted operating of adjustment strategies (e.g.: preparedness of areas, preferring of green field investments, establishing of industrial parks, local tax policy).

The regional concentration of foreign capital means at the same time, separation by functions. Budapest, as a capital, attracts basically tertiary activities (financial services), and such economic functions, which direct and control the whole Hungarian (in many cases the Central-European) marketplaces (company head offices, management centres), furthermore they belong to the organisations of the new economic sectors (business services). The (mostly western) agglomeration of Budapest (basically Pest county) collects commercial (shopping) centres and warehousing, logistics companies. Companies set up in the North-West-Transdanubian (Győr-Moson-Sopron, Vas, Fejér and latterly Komárom-Esztergom counties), for specialised industrial mass-production (*Diczházi B. 1997*). Of course, there is also foreign capital in the other regions of the country. We can find foreign interests also in counties Hajdú-Bihar, Heves, Csongrád and Baranya. These companies significantly influence some domestic sectors, but they can't reach the above-described concentration<sup>2</sup>.

Next to the foreign capital, the explosion of the service sector's development is a new factor. Within this sector, the financial services are worthy of our closer attention, since the financial world represents the economy's life blood, furthermore its settling indicates the positive judgement of any centre, and it shows what kind of demands can satisfy the economic base of the region. The changes in the regional structure between 1995 and 1997 started the concentration process of the branch banks, what caused also a regional restructuring (*Figure 2*). On the one hand in the regions east of the River Tisza, degree of bank supply is disadvantageous. On the other hand, in the western regions degree of bank supply is increasing, therefore access to financial and business services is much easier, and it has a positive impact on economic renewal and development. (Fejér county is a good example, where within 3 years three branch banks were built, in Székesfehérvár, thus indicating a positive judgement on the city's economy).

We can register basic changes in the measure and regional system of labour power during the transition time. In 1989 Hungary had 4,247 million employees, their number has fallen until in 1998 there were 2,367 million. The unemployment rate increased in the first years of transition (*Figure 3*) spectacularly in those regions where:

The traditional heavy industry sectors (metallurgy, mining) were determining,

- The privatisation process started late, or didn't even start (*Rechnitzer J. 1999*),
- The domicile business was preponderant, since the loss of East-European market affected significantly the "one company – one municipality" kind of centres and there agglomeration,
- In the first line the commuters were dismissed, since in the capital and in the large economical centres the layoffs affected the less educated commuters,
- The employment in agriculture (partly in food processing industry) was characteristic, since the proprietor system of the agriculture has been rearranged, and because of the decreased demand for their goods, their production also significantly decreased.

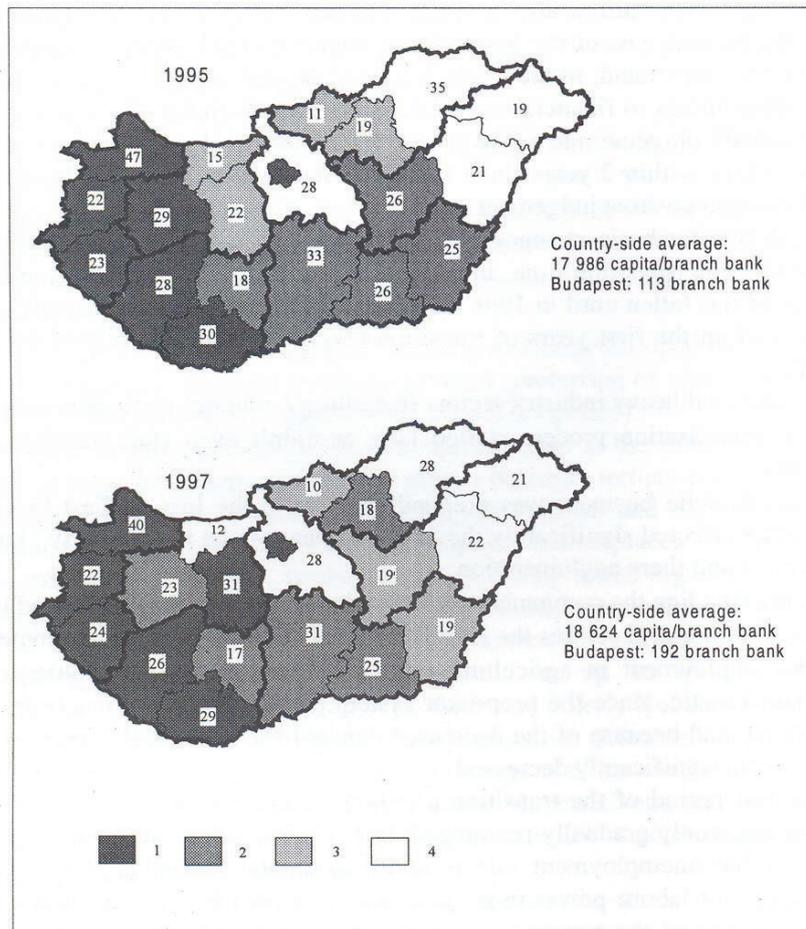
In the first period of the transition a regional employment system developed, which has been only gradually rearranged. In Budapest and in the western part of the country the unemployment rate is really moderate, indeed in these regions there is a lack of labour power in some crafts, while in the eastern, southern and north-eastern part of the country we can expect a long-term employment tension. In these regions the labour power surplus is mainly unskilled, it has a moderate labour culture and the companies, with mass employment power, didn't settle down in these regions. Furthermore the employment power of the service sector is still very low. It is observable, that in the regions with a long term high unemployment rate the number of workplaces increases very slowly, since we can reveal the regional disadvantages not only in the human resources but also in many factors of the regional economy and society.

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<sup>2</sup> As a counter example we have to mention Tolna county where, the foreign capital stock per person in 1995, didn't even reach the national average from 1991 (95%), or the case of Szabolcs-Szatmár-Bereg county, where it was just 58%.

Figure 2

*Regional character of Bank density*



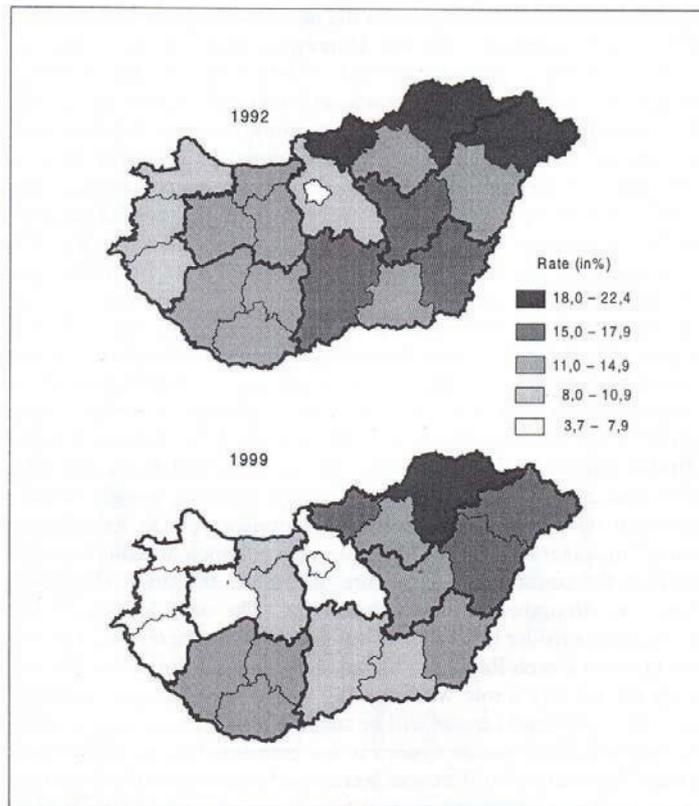
*Legend:* 1 – More over the country-side average; 2 – Over the country-side average; 3 – Under the country-side average; 4 – More under the country-side average; branch bank/county (28)

*Remarks:* We consider under the branch bank density the number of inhabitants/branch bank Without the branch banks of OTP.

*Quelle:* Hungarian Financial and Stock Exchange Almanach, 1994–95, 1996–97, CD-phonebook.

Figure 3

*Unemployment-rate (1992, 1999)*

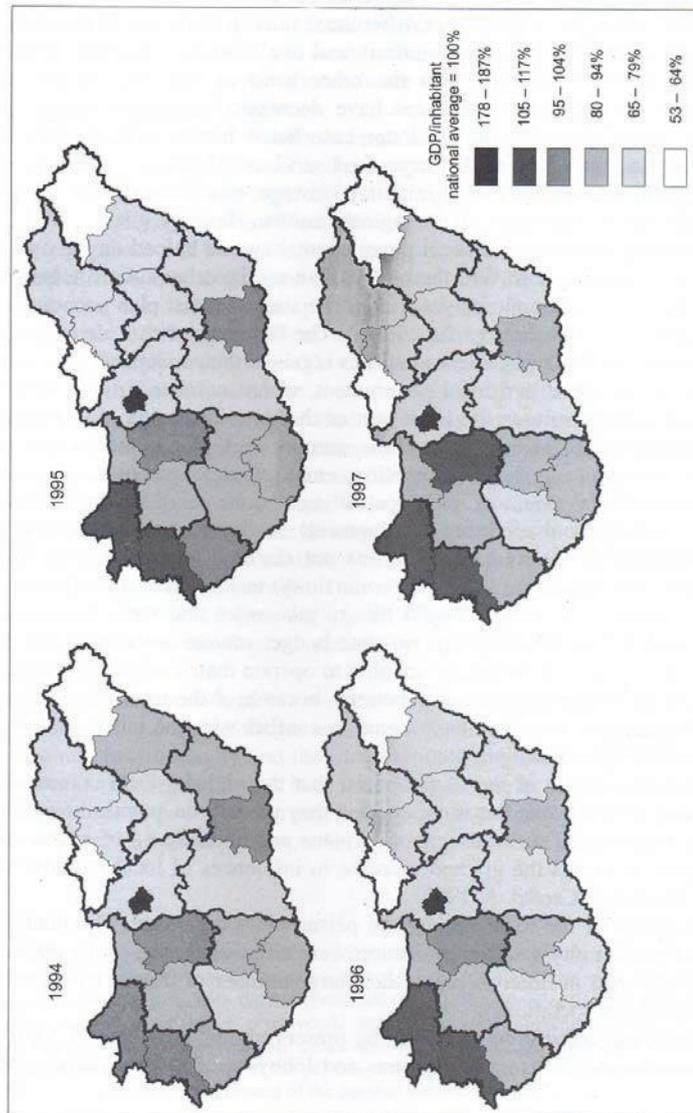


Source: Regional Statistical Yearbook, Quarter Year County Statistical Brochure

The foreign and national capital is concentrated in the capital city and in the western part of the country and the service sector grows dynamically in these regions. The movement of the population didn't start yet because of the weak housing market, thus investment conditions in the developed regions are changing (e.g.: the settlement and operation costs are decreasing, while at same time the local market is strengthening, which causes lack of labour power. All of these widen inevitable spatial expansion of the foreign and national capital. In this case, the first step was made by economic policy (e.g.: long term tax benefits, settlement assistance) and later in the mid nineties the regional policy received a role too (e.g.: promotion of founding industrial parks). We can detect a strong connection between the regional spreading of investments and the spatial expansion of motorways in the nineties. We can prove unambiguously, that the rate of foreign investors, increased in those regions and centres, which were from the capital city (centre of the Hungarian economy, management and operation) easy to reach (*Matolcsy Gy.–Dicházi B. 1998.*), while the activity of these economical centres also increased. The regions without favourable transport connections are not competitive (Great Hungarian Plain, mainly Tiszántúl, and North-East Hungary), therefore the rearrangement of their economic system is slower. A further character of the transition is, that the attractive effect of the capital city increased even in the field of human resources. For a manager, who is successful in the countryside, it would be a "real career" to work for a company, which is present in the whole country or even internationally. The move to Budapest or to its agglomeration strengthened, "manager commuting" became very common and this contributed to the vacating of the countryside. Therefore during the transition Hungary's "one centre shape" is strengthening and reorganising. The only innovation centre is Budapest. We can consider this as a Central European characteristic, since we find similar examples in Czech Republic, Slovakia and even in Bulgaria. The modernisation of the capital city's role was very fast and it remains very fast today. The transition of those regional centres will be successful, which are easy to reach from the capital and whose economic system is not connected to the traditional industrial structure. The regional differences were significant within the country and we can't reveal any change in their temporal transition either (*Table 3*). In the examined data there is no difference between the regional units, representing the highest and the lowest values, indeed Budapest has increased its advantage a little bit. The counties keep their general economic position, since Budapest and the counties at the western border reach a GDP increase, which is higher than the national average, while the eastern part of the country keep its underfulfillment, and the income production of the regional economy is still on a low level (*Figure 4*). As a consequence of this, the regional differences increased in those factors, which represent

Figure 4

*The forming of the regional GDP (between 1994–1997)*



Source: Regional Statistical Yearbook

an economic potential. We can observe a clear separation by regional units in the measure of GDP, in employment differences (unemployment), in increasing service sector (employment and institution), and in all factors representing innovation (research and development). On the other hand in the field of infrastructure equipment the regional differences have decreased (telephone supply, sewage, utilities, waste disposal). In the latter case listed factors indicate, that because partly on the ground of market organised services (telephone), and partly on the base of governmental and local initiative (sewage, providing of waste disposal), a slow cohesion started between the regional units in Hungary.

The establishment of the local governmental system helped on the one side for the local communities to find themselves, but on the other side it helped them to appear as a new economic player. Under the state socialist plan economy in Hungary 1200 local governments functioned. The first step of the “democratic state” was, that the former merged communities regained their

independence, they could establish again their own local government, whose number is today about 3200. The local government, as the local unit of the state institutions has property, has regular income, operates its institutions, secures work places, influences the local-regional market, (e.g.: local acquisition, employment, income) and takes part in local economic development, with controlling of some conditions (e.g.: local taxes, supply oriented local economy development). In the transition, the local government searches for its role, hence it was not clarified unambiguously, which are state tasks and which are the local (community) tasks. The state – because of the rearrangement of its role – would like to give more and more functions to the lower level, but in the meantime no state budget sources were provided. Furthermore, the local governments are not able to operate their institution system, which remained from state-community functions, because of the moderate state sources. In consequence of this they have come in conflict with the inhabitants regarding the restructuring of local provisions.

The characteristic of the transition is, that the regional-local communities became economic players, but in this period they are still busy with the organisation of their functions. The local economic plans and building up of action-spaces is started and it causes the gradual increase in influences of local regional markets. (*Pálné Kovács I., Csefkó, F. 1997*).

The spaces of the local society are permanently organised. The hindrances of the local community's self-organisation were eliminated, non-profit organisations were established in order to reach their large number of targets (foundations, societies, public associations).

Under their activity we can find the preserving and enriching of local values, the promotion of different institutions and lobbying of diverse associations. The revaluation of the local society and communities induces economical effects, influences the development of local regional markets (e.g.: because of the new supply factors they attract new services). At the same time it gives the chance also for the application of the local management's new techniques (e.g.: development strategies, municipality marketing).

The regional system of the country is laminate divided and strongly staggered according to the economical potential, the non-profit organisations and their support (*Figure 5*). We can divide well-separated regions, which are geographically connected.<sup>3</sup> Gradually systems evolved (the steps of the civic society), where the conditions, equipment and even the judgement of the regions is reflected in the presence and assistance of the regions (*Rechnitzer, J. 1997a*).

Budapest composes the first group. The capital was given in every aspect an elevated value, therefore its conditions are not similar to the other groups at all, they differ significantly from them. This statement is clear for everybody. Consider, that not even the values of the second group (still with favourable values) can be comparable with the values of Budapest (maybe only in the non-profit activity). It means the separation is very characteristic, insurmountable, and even the reduction is very difficult. The capital has a different development process, which is not comparable with the regions. In the countryside, we have to and can evaluate and judge, its situation in an another dimension and explanation territory. We can learn a lesson from the regional analysis, that regarding Hungary, we can't compare the capital and the countryside. This is a good message towards building strategies, it means we can't follow the "model of the capital", however we have to take into account its outside determinates (innovative factors, high concentration of organisations).

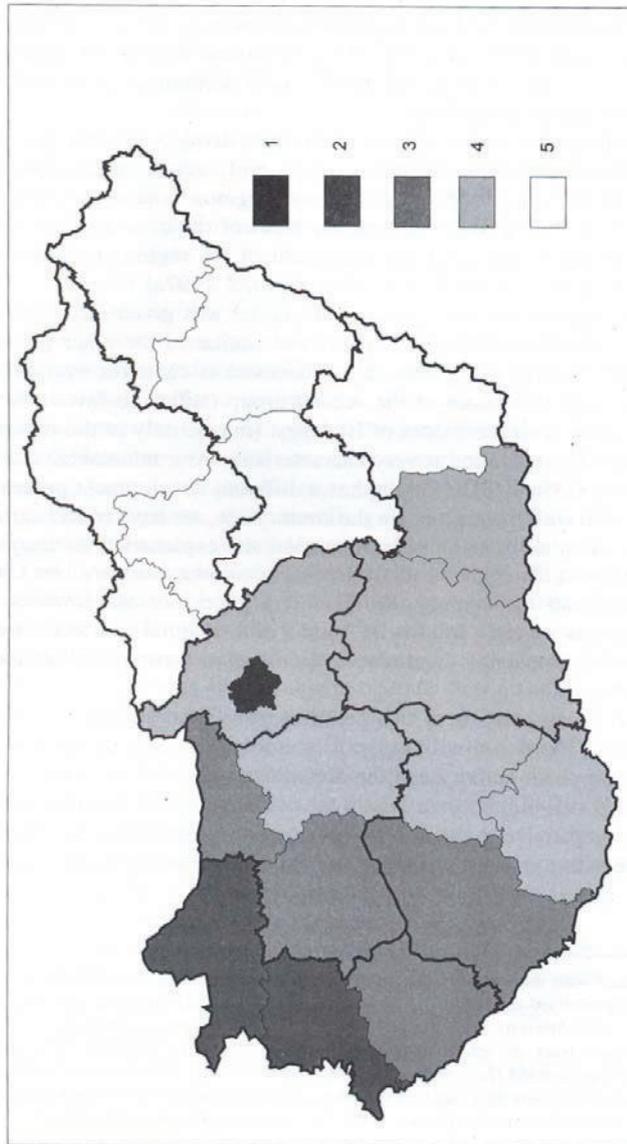
The second group consists of two counties from West-Hungary, Győr-Moson-Sopron and Vas. The donor willingness is much higher, than in the other groups, however the non profit activity and the donation potential doesn't meet the previous value, but is still higher, than it is in the other groups. In this region the population is more responsive to the non profits, they have traditions, and the organisations are more active in fund-raising, which we can see in the higher rate of dona-

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<sup>3</sup> We examined with multiple change analysis the connection of non profit sector and regional economy. We characterised the regional economy with the GDP (GDP/person), with the presence of foreign capital (capital/person), with the enterprise activity (1000 person/legal entity associations), with the employees (rate of active employees), with the income situation (individual income tax/person). We characterised the non-profit sector with its activity (1000 inhabitants/associations), with the donation willingness (the rate of the persons, who donated the 1% of personal income tax), and with the donation potential (the amount of the donated personal income tax/person).

Figure 5

*The regional structure of the non-profit character and its connection to the economical potential (1997)*



*Legend: 1 – High non-profit and donation activity, high economical potential; 2 – High donation willingness, high economical potential; 3 – High non-profit activity, favourable economical potential; 4 – Low non-profit activity, moderate economical potential; 5 – Low non-profit activity, weak economical potential*  
*Source: Own calculation*

tions, but perhaps simply their function and presence leads to their outstanding value.

The third group is composed of the counties of Central-West-Hungary (transitional counties), where the non profit activity is higher, than it is in the previous two groups, but the economical potential is more moderate, therefore the donation potential and willingness is lower. These factors are not with an order of magnitude different from the similar factors of the following groups, but they are still higher and, the non-profit activity is the factor, which ties together this group, beside the indexes of economic potential. In the counties of this group the number of non-profit organisations is increasing. They are developing their connections; the population's donation willingness is advantageous, and this together with a higher income situation could increase the donation potential.

The fourth group (which is composed of the counties from Central-Hungary, around the Danube and Csongrád county) differs from the fifth group (Tiszántúl, North-Hungary) in non-profit activity and donation indexes. In the last two groups, the non-profit sector's indexes are almost the same, indeed the fifth group is a little bit better than the fourth. On the other hand the economic factors

represent a higher value in the fourth group, therefore the regional income, foreign capital attraction, employment rate, enterprise activity and income per capita are more favourable here. The representation of the non-profit organisations and the population's donation activity, in the centre of the country is still weak, but the economical potential is stronger, than it is in the Tiszántúl region, therefore those counties are forming an isolated group.

We don't have to introduce in detail the last – fifth – group. In the case of the counties mainly from the Tiszántúl and North-Hungary the low unfavourable economical potential causes the low level of the non-profit sector and the donation activity, and this is also the main reason of the regional group composition.

The non-profit sector and its assistance is strongly connected to the regional economy and to the income of the population. The country was already divided after the transition. We can consider the expansion of the non-profit organisations intensive, indeed this process hasn't even stopped yet, but its focuses are relocating in the country. In the regions with more favourable conditions the increase in the organisation's number is gradually falling, the signs of its saturation are already recognisable. The promotion of the non-profit sector by the population, goes together with the more advantageous economic circumstances. In the regions, where the rearrangement of the economic structure is faster we can detect the expansion of this sector. However, in the regions with weak economic potential we can register a low approval, therefore the presence of this sector is still insecure.

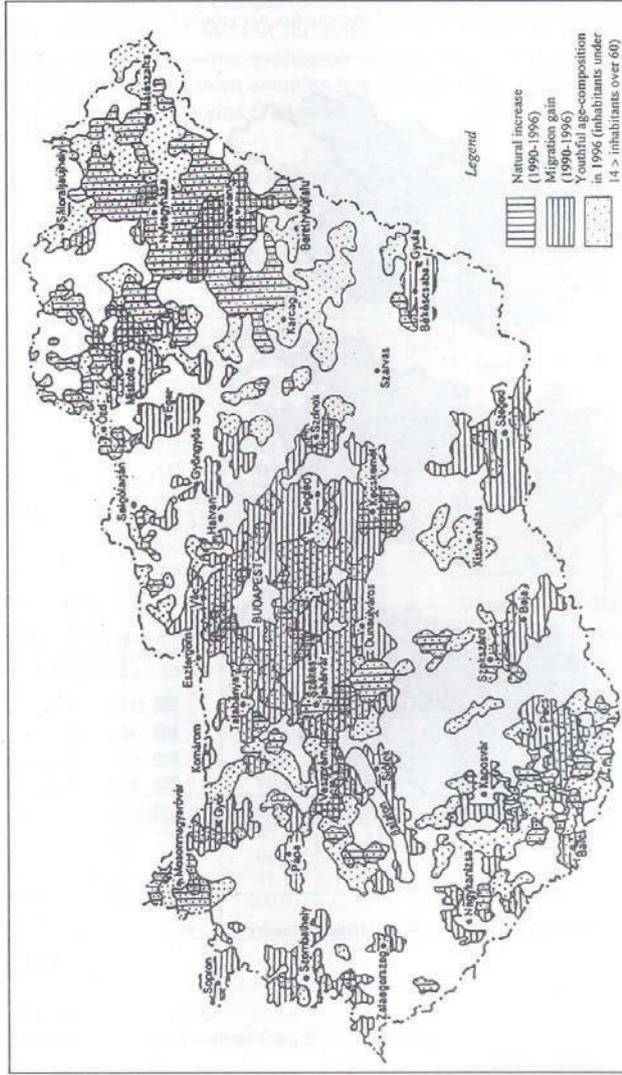
The households are very important factors in the regional economy, although they had only a minor role in the former political system, they were even then an important regional developing power (e.g.: house-building, expansion of second homes). The economic stability of the households has changed, and become upset by the rearrangement of the economic structure; jobs closed down, appearance of new activities, growing consumption, economic burden of the transition. These things are strongly connected to the transition of the given region's and municipality's economy, since any change of the local economy influences the function and the future planning of the local households.

By analysing the connections between the households and the regional structure, first of all we have to examine some characteristics of the population's mobility (*Figure 6*). The regional movement of the population between 1990–1996 basically continued the former trends, however there are some new phenomena. Although the population of the country is decreasing yearly by 30–35 thousand capita, the population's slow movement to the capital and its agglomeration to the big cities still continues. We have still population giving areas with high natural increases and young age groups (East-Hungary), and population receiving areas with high movement profit, low natural increases (Central-Hungary, big cities). The ratio of emptying areas is more and more important; they coincide of course with the peripheral regions, where the demographic and movement processes are unfavourable. A new phenomenon is a moderate population decrease in some big cities, while in the surrounding villages, there is a clear population growth, which shows the start of late suburbanisation processes. It is clear, that those regions and centres were revalued, where the transition of the economic structure was successful and spectacular and where the quality of life reached the desired level.

We can detect a basic difference in the personal income's regional structure, which increases more in the time of the transition (*Figure 7*). By the early 1990s in the regions of the bigger industrial centres, the values were above or around the country average. In the middle of this decade the country has become more divided, there are more islands than regions with higher personal income. The islands have formed regions by the late 1990s. The higher incomes are concentrated in North-Transdanubian. This structure coincides with the expansion of foreign capital, enterprises activity, more developed infrastructure and multiple functioned city systems. At the same time in the eastern part of the country the underfulfillment is constant, the counties dropped into the lower categories, they couldn't follow the dynamic of the development in the country.

Figure 6

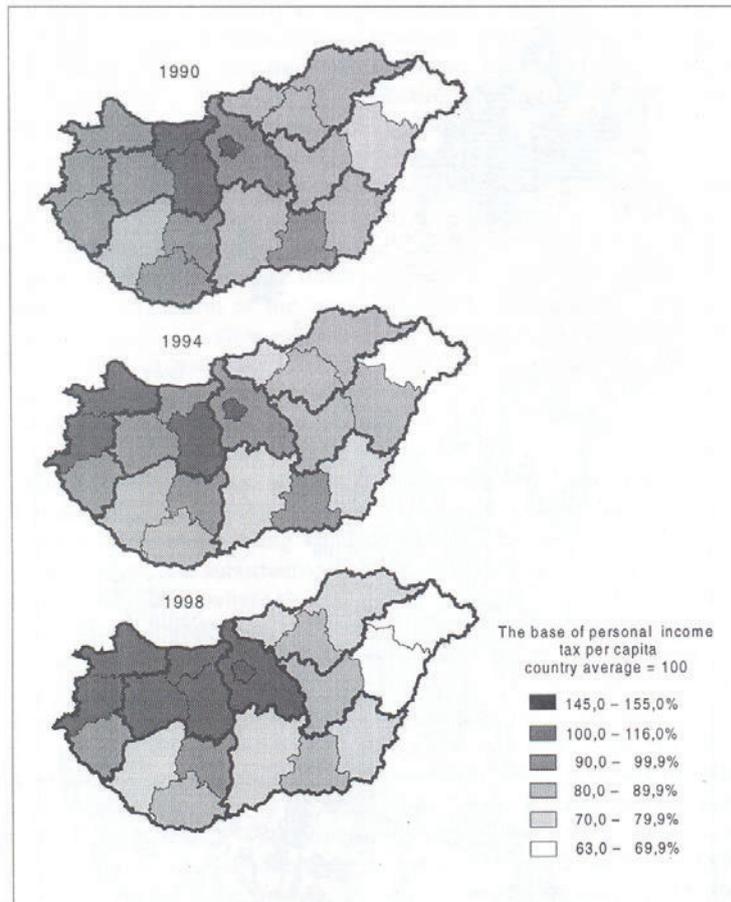
Demographical characters and the migration of the population between 1990–1996



Source: National Country Planning, 1999

Figure 7

*The base of personal income tax per capita (1990,1998)*



Source: National Statistical Office, Finance Ministry

The characteristic of the transition is<sup>4</sup>, that the real value of incomes between 1987 and 1995 in all regions decreased (according to KSH in the country by 37%, in the capital by 30%, in the cities of the countryside by 38%, in the villages by 40%). Therefore in the following evaluation the expression “increasing” in the case of the capital and the western counties is a “euphemism” since it is basically only a smaller loss of the real value (Table 4).

Table 4

*The changes of income positions in the early 90s*

Counties	Per capita					
	Total income			Taxable income		
	% in country average					
	1987	1995	change	1988	1995	change
Improved conditions in both kinds of income						
Budapest	113.8	125.6	11.8	137.7	152.1	14.4
Vas	95.3	103.8	8.5	90.4	105.4	15.0
Tolna	98.4	104.0	5.6	89.6	90.3	0.7
Zala	98.7	100.2	1.5	87.3	97.7	10.4
Somogy	92.0	93.5	1.5	81.4	82.0	0.6
Győr-Moson-Sopron	100.1	100.2	0.1	97.8	106.9	9.1
Adverse effect in both kinds of income						
Baranya	100.3	102.1	- 1.8	97.6	89.3	- 8.3
Fejér	100.7	99.9	- 0.8	102.3	104.2	1.9
Csongrád	103.1	101.7	- 1.4	88.8	94.4	5.6
Veszprém	102.2	93.0	- 9.2	96.2	98.0	1.8
Deteriorated position in both kinds of income						
Pest	98.1	97.0	- 1.1	102.5	98.4	- 4.1
Borsod-Abaúj-Zemplén	89.6	88.0	- 1.6	89.6	81.0	- 8.6
Bács-Kiskun	96.9	93.3	- 3.6	82.2	76.6	- 5.6
Hajdú-Bihar	91.2	86.3	- 4.9	8.6	80.4	- 3.2
Békés	98.4	92.8	- 5.6	82.5	80.8	- 1.7
Jász-Nagykun-Szolnok	98.8	91.6	- 7.2	84.2	81.4	- 2.8
Heves	98.0	90.8	- 7.2	91.2	86.8	- 4.4
Strong deterioration in both kinds of income						
Nógrád	93.4	87.6	- 5.8	94.0	70.8	- 16.0
Komárom-Esztergom	103.9	96.2	- 7.7	109.1	98.0	- 11.1
Szabolcs-Szatmár-Bereg	91.5	81.2	- 10.3	70.4	64.3	- 6.1
Total (%)	100.0	100.0		100.0	100.0	
Total (thousand Ft)	66	212		50	156	

Source: Nemes Nagy J. 1998

If we examine merely the relative level of income<sup>5</sup> (compared with the country average), at the two dates, it turns out, that only in Budapest are all of the four values higher than the country average. Even in the case of the regions with the best positions (Győr-Moson-Sopron and Fejér counties), there is, at least one income value, which is a little bit under the average, however these values are higher than the countryside average. In the examined period, there were altogether eight counties, where at some point, one or another income index could meet the average value. On the other hand in eleven cases the income level was in every aspect under the average. We have to consider, if we compare the county differences of economic development (GDP per capita) with the differences of the population's income, we can point out, that the differences of the population's income are significantly smaller than the economic differences.

Regarding the income position's changes, we can form four bigger groups. The group, in which in both kinds of income the relative income level improved, is composed of the capital and five western counties. Beside Budapest (like most economical indexes), the improvement of Vas county is the most spectacular. The next group consists of those four counties, where the data is changing in diverse directions. While in Baranya all the incomes are on a relatively stable level, the position of net income

<sup>4</sup> We use the determinations and analysis from the study of Nemes Nagy J. 1998.

<sup>5</sup> The total income is composed of the employment-, small enterprises-, and agricultural production incomes family allowances, unemployment benefits and other sources (e.g. capital revenue).

deteriorated. On the other hand in Fejér, Csongrád and Veszprém counties we have a reverse situation. In the other counties the position's deterioration in all kinds of income was characteristic. According to this, we can separate Nógrád, Komárom-Esztergom and Szabolcs-Szatmár-Bereg counties from the eastern and northern counties. In these three counties the data detected a radical deterioration.

According to the changes, we have to take it into consideration, that –although the county scales of the two kinds of income are very similar – the extreme values of the position changes are clear under the values of taxable incomes<sup>6</sup>. In the previous one Budapest increased its advantage by 11,8%, Szabolcs-Szatmár-Bereg had to deal with a 10,3% decrease. In the case of taxable incomes, the relative improvement and deterioration is much more spectacular: 15.0 (Vas) and -11.6 (Nógrád). Very typical to this duality is, that in the counties with the highest industrial deterioration (Nógrád, Borsod-Abaúj-Zemplén, Komárom-Esztergom and Baranya), the relatively high pensions compensate the low taxable incomes (this is a previous era's heritage, as these regions were preferred).

The income gap between the capital and the countryside clearly increased and even the countryside is strongly divided, although it is not the increasing of the differences that is really characteristic, but the regional rearrangement: first of all the rising of the western regions and the deterioration of the northern regions. Even these movements didn't cause a total "inversion" in the income spatial structure, as the Spearman-age rank correlation shows (its value is 0.61), which was counted from the total values in 1987 and 1995. It strengthens more the relation, that the former high-income regions remained typically on the top, and the traditional deteriorated regions couldn't improve their position – however there are some changes in the position of the counties.

During the transition the majority of households couldn't become a regional developing power, their aim was basically survival and stability, unfortunately rather with less than more success. The differences appear not only at a regional level, but they come into existence on site or in the municipalities and remain constantly, at the same time they cause societal tensions, reacting on the other elements of the local economy (e.g.: local communities, society, local-regional market). Furthermore, because of the income differences, new consumption demands appear, which accelerate the settlement's restructuring (moving into the green areas, appearing of city functions), influences the forming of trade structures (e.g.: shopping centres, city centre's rehabilitation), expanding services (e.g.: new personal services), basically the supply factor of the local-regional market is increasing.

The households are the determining factors of the regional structures, the analysis of their behaviour is important, not only on a national economy level, but even on a regional level. The stability of households, the appearance and direction of future forming development projects, or the income level on regional-community level and balanced employment circumstances, can serve as an indicator, they can show the regional economy's condition, the end of the transition and the presence of the developed market economy. At the working out of regional development strategies, we have to consider the economic transition of the households, at the same time we have to work out those developing elements, which will directly influence their function.

## 1.2 Regional resources

How can we determine the resources of a regional unit? All the points of an economic space are determined by their situation in it. On the one hand it depends on the distance from the points with high economic potential and on the strength of their attractions. On the other hand it depends on the innate strength of the point, and its attraction factors. These points and the local-regional market's size and its economic organising impact can be the settlement factors from an economic stand point. The regional resources are strongly exposed to the whole economy's development, to its changes, therefore they are being constantly revalued, and due to it the judgement of the spaces is changing and forming. From the regional resources the spatial situation in the transition became important, we could say basic factor. In consequence of the political and economic transition the country has been rearranged. The previously peripheral western regions adjacent to the border, suddenly became leaders of change. Thus they started a fast development, a stabilising connection system emerged, while at the same time they

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<sup>6</sup> The taxable incomes – because of the Hungarian taxation system's characteristic – consist basically of employment incomes, because the entrepreneur incomes are not important in its forming.

became the example regions of modernisation (*Rechnitzer J. 1997c.*). On the counterpart the other regions adjacent to the border have shown a classical peripheral condition. Since partly equal developed regions and economies met each other, which didn't allow significant economic (e.g.: foreign capital) and renewing (e.g.: new know-how, products and activity) energies to stream from one region to another.

### 1.2.1 Border regions

Hungary is bordered with seven countries (Austria: 356 km, Slovenia: 102 km, Croatia: 355 km, Yugoslavia: 164 km, Romania: 453 km, Ukraine: 137 km, Slovakia: 679 km), which also means that it has a relatively large number of border regions, in spite of the small size of the country. 35% of the territory of the country can be considered border region,<sup>2</sup> and 28.2% of the population (approx. 2.7 million) lives in such regions (*Figure 8*). A significant proportion of our settlements – 43 % – lies close to the border, owing partly to the fact that the majority of the tiny-village-regions are located within the border regions. When characterizing the border regions by the limitation of the commuter belt of towns we get the result that 55 of the 182 town commuter belts are located at the border regions which means that nearly 30 % of the Hungarian towns are located close to the border (*Table 5*).

The peripheral nature of the border regions (especially in the era of state socialism) was also a characteristic feature in Hungary. However the relative backwardness, compared to the inner areas, was different from border region to border region, influenced very remarkably by historic events, as well as the changes of the political and economic system.

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<sup>7</sup> Those town neighbourhood areas (KSH small regions) are considered border regions that adjoin the state boundary and are in direct contact with it (permanent, periodical or previously operating frontier stations).

Figure 8

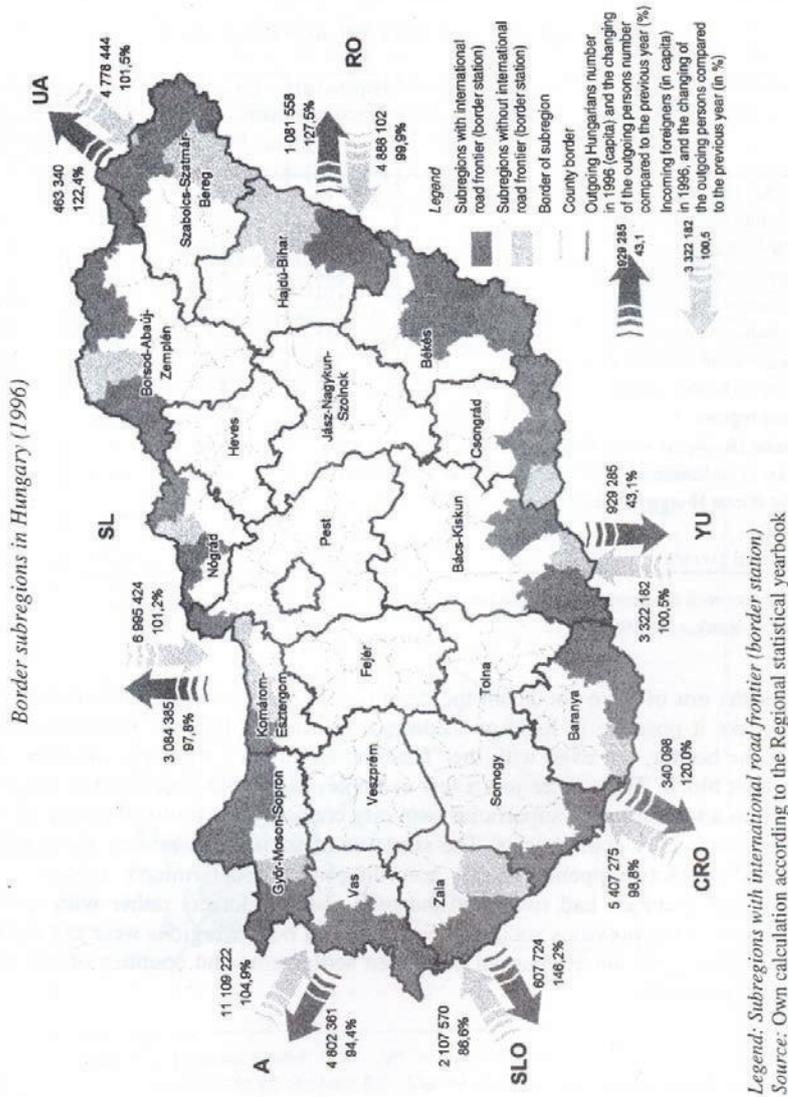


Table 5

*The weight of the border regions within Hungary*

Regions	Number of commuter belts	Population (thousand)	Rate of population (%)	Area (%)	Proportion of town population (%)
Border regions	55	2,969	28.2	32.2	
Austrian border region*	7	381	3.7	3.9	56.6
Danube border region	5	348	3.3	2.2	61.4
East-Slovak border region	11	546	5.2	6.1	45.3

Ukrainian border region	4	172	1.6	2.1	25.1
Romanian border region	14	788	7.5	7.9	58.9
Yugoslavian border region	5	385	3.6	3.8	67.1
Croatian border region	8	349	3.3	6.2	38.3
Inner regions	127	7560	71.8	67.8	
Center (Budapest + Pest County)	16	2840	7.8	6.1	79.9
West (Transdanubia)	46	2123	20.2	24.2	56.2
East (Great Hungarian Plain)	50	1753	16.6	23.1	65.1
North	16	844	8.2	7.4	53.3
National average	182	10.529	100.0	100.0	63.1

\*Together with the Austro-Slovenian border section

Source: Ruttkay, É. 1995

In the era of state socialism the centralised state economic control model did not make it possible in local or medium level to establish and maintain contacts over the border, not even with the “fraternal countries”, with the countries of the socialist block. There were just a few examples of establishing contacts on a local level, in addition to the superficial twin-city contacts of a protocol nature of some towns, especially county seats. The structure of such co-operations, the establishment of contacts happened strictly according to a pre-determined “scenario”. The towns and counties had twin-city and twin-county contacts rather with identical area units of the previous socialist countries,<sup>3</sup> but border regions were not included among them, nor the Hungarian populated settlements and counties of the neighbouring countries.

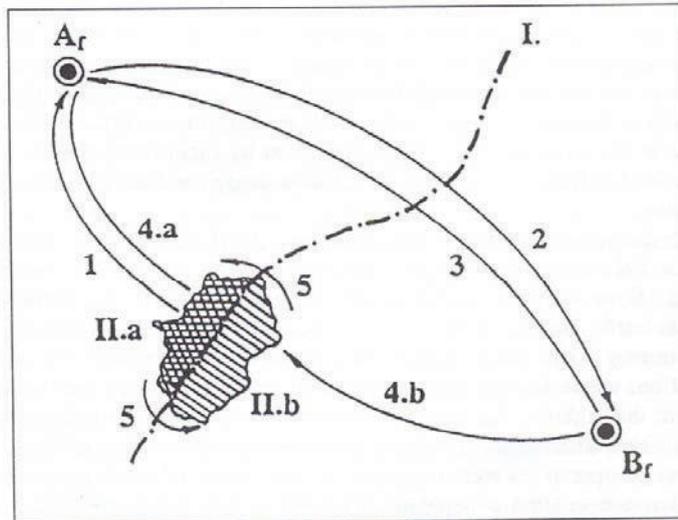
The few cross-border contacts were operating according to the following scheme (*Figure 9, Tóth, J. 1996*). The leaders of a county decided to establish cultural contacts with a county or town situated on the other side of the border. They submitted their desire to the central party and governmental bodies. If the bodies of central power considered the initiative acceptable, then they contacted the party and governmental management of the neighbouring country by way of diplomacy, with the idea of establishing contacts. If they were also of the opinion that the initiative is to be supported, then they approved the contact to their own county or town, after notifying the central governmental bodies of the neighbouring state. After the involved counties and towns have obtained the approval on both sides of the border, the establishment of twin-county or twin-city contacts might commence with procedures of high protocol. However they always depended basically on the relation of the two countries, and the contacts were suspended or terminated several times.

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<sup>8</sup> The name of the housing estates of the Hungarian towns is a good indicator of the contacts, since it was a political fashion to name the new housing estates after the twin-city or county.

Figure 9

Typical relation possibilities between the ex-COMECON countries



Legend: I. – Country border; II.a – „A” country’s border region; II.b – „B” country’s border regions;  $A_f$  – Capital of „A”;  $B_f$  – Capital of „B”; 1–4. – Steps of possible inter state relations; 5 – Normal relations

Source: Tóth, J. 1996

In the era of state socialism the situation of the individual border regions could be characterised as follows:

- Hungarian–Austrian border: it could be considered a “dead-border” until the 1960s, since human contact between the populations and economic contacts did not exist in the border regions. The détente came in the 1970s, when tourism started gradually (within that shopping tourism by the end of the decade), economic contacts became more extensive, and co-operations between institutions also started to develop. The eighties are already characterised by a lively co-operation. Human contact between the populations are becoming dynamic, ever more economic units establishing production co-operation, and the illegal labour force flow starts. The wire fence separating the two countries was abolished in 1989, and by the introduction of the world-passport a new era starts in the history of the Austro–Hungarian border region. (Rechnitzer, J. 1990).
- Hungarian–Czechoslovak border: it has been the longest border region in Hungary, it amounted to 679 km. It has changed several times since 1945: because of the deportations and enforced translocation actions following World War II. Some 40 000 Hungarians were translocated from Slovakia by the Czechoslovak authorities, while over 100,000 persons have moved over to Hungarian territory as a consequence of the actions. The remaining Hungarian society was completely limited in their citizens rights; therefore no contacts existed over the border until the end of the fifties. After this co-operation began to start slowly. Based on its capabilities the border region can be divided into two sections: Danube-region and the East-Slovak border region.
- Danube region: potential transport and development zone, industrialised area. Free labour movement is characteristic for this section of the border (e.g.: Győr textile industries, industrial zone alongside the Danube), and it was fairly unique at this time. Another important element of the co-operation is the big investment of the Gabčíkovo-Nagymaros hydroelectric station, which has become the political conflict between the two countries from the eighties, but also became one of the determining symbols of the transition in Hungary. Contacts between business units, especially agricultural co-operatives were regular (e.g.: assistance in harvest, because of the

difference in time of ripening, agricultural machinery production, mutual organised holidays), but shopping tourism (towns alongside the border) and tourism (Balaton, Tatra) also could be considered intensive in both relations.

- East-Slovak border zone: peripheral region of agrarian character, however heavy industry played predominant role in certain areas (metallurgy, engineering). It is a fact that in the past it fostered or even stimulated significantly the co-operation between factories. This area remained a potential zone for co-operation, first of all between the centres of Miskolc and Kosice. The other bilateral co-operations between other towns can be called substantial only regarding shopping tourism.

The Hungarian-Slovak cross-border contacts were institutionalised in the era of state socialism. A constant working committee (Working Committee for Regional Development) was established by the two countries in 1971 and it prepared a medium-term development concept in 1977 for the common frontier (1977–1990). Some of its contents have been realised (e.g.: co-operation on water conservation, transport management – track renewal, co-ordination of development plans, etc.). However the political and environmental objections to the hydroelectric station and dam (Gabcikovo–Nagymaros), the economic hardships and the debt crisis have prevented its execution (*Hajdú, Z. 1996*).

- Hungarian-Soviet border: in spite of the economic, political and military alliance it could be considered a closed border (especially at certain periods) as the Hungaro–Austrian border. It was mainly due to the fact, that the Sub-Carpathian area played an outstanding strategic role, the concentration of military forces was high in the region. The Soviet military presence – although it was not aimed directly against Hungary – has naturally crippled the cross-border dialogue. It was hindered by a number of factors, the most important of them being the fear of the Hungarian agitation, since 200 thousand people belonging to the Hungarian ethnic group living close to the border on the Soviet side. Only one frontier station was working at this border at Záhony, which was both railway and road crossing point. This station was destined to serve the larger regional centres, and also worked as a trans-loading centre, because trans-loading from the railways of broad gauge to that of narrow gauge took place here. It also meant that a part of the shipments destined for Western Europe (predominantly Austria and West Germany) were also trans-loaded here.
- Hungarian–Romanian border: despite official propaganda (“the Romanian-Hungarian border is the area of friendship, it serves as an example for the socialist brothers”) various attitudes – like the continuous infringement of the minorities’ rights, the permanent hostilities – hindered real co-operation. The contacts were poor also at international level, and that also applied a limit to everyday contact, despite the fact that the peripheral position would have logically needed the co-operation. Theoretically the Hungarian language territory could be the basis for the foundation of cross-border co-operation, but in fact it became its main obstacle. It was more important for the Romanian government to alter the ethnic character of the area, than to let or foster the cross-border co-operation and contacts. The civil relations were also limited by very severe administrative measures.
- Hungarian–Yugoslavian border: “dead-border” in the fifties and sixties, because of significant political opposition all forms of contacts were suspended at that time. A détente could be seen from the seventies, and economic co-operations (e.g. processing agricultural crop) have become possible. The Hungarian cities alongside the border (Nagykanizsa, Pécs, Szeged) got an ever growing role in the shopping tourism, and the Yugoslavian inhabitants were appearing also in more and more small towns alongside the border to do shopping. Similarly the Hungarian shopping tourism is more and more substantial, and it also targets the towns alongside the Yugoslavian border. The border region is not unified in the official contacts either. While a lively co-operation develops between Zala county and Slovenia, the town-to-town contacts are more dominant on the Croatian section (Osijek–Pécs), and institutional co-operations are characterising the Serbian (Vojvodinan) section (the Hungarian majority populated area).

The realised regional structure rearrangements influenced significantly the border regions, however, ever increasing differences have evolved between the border regions. The base reasons can be traced back to the centre-periphery relation, the larger and smaller spatial structural movements

(Ruttkay, É. 1995), as well as the differences of the economic and social character of the regions meeting each other on both sides of the frontiers (Rechnitzer, J. 1997). In case of the centre-periphery relation the big centres or the border regions in their commuter belt can adjust themselves to the changes more quickly (Golobics, P. 1995). The period of transition was characterised in these regions by a broader offer for employment, and by larger-smaller hiccups. Certain border regions have devalued to a large degree, in the course of the spatial structural changes (e.g. the previous Soviet, now Ukrainian border), where the modernisation processes were not experienced. The smaller centres were not able to receive the innovations, therefore the structural crisis have further deepened, and the illegal elements (black economy, crime, smuggling people through the border) became dominant. And finally those border regions became the winners of the transition, where not the periphery met the periphery, which means that the border separated not regions of lastingly disadvantageous position, but both sides could gain some kind of development energy from the other party (e.g. investments, shopping and service tourism, labour, delivery and processing of goods, cultural and institutional contacts, etc.).

Now especially such regions are considered periphery that are located “on the edge” of the backward areas and regions of the country, so they can even be called double periphery (“periphery of the peripheries”). Such areas are the regions alongside the Ukrainian, the East-Slovak and partly the Romanian border. Some of the economic indicators of the regions alongside the borders are contained in *Table 6* which shows the indicators of the individual regions compared to those of the national average, and thereby it indicates how much they can be considered periphery.

According to the border region’s general economic development, we can point out, that there are differences between the border regions, however these development differences are distinguished. The parameters of the Austrian border region are outstanding, the values are mainly over the average, it means the economic activity is higher, which is the consequence of multilateral co-operation. The other border regions are in a more depressed situation, perhaps in the Danube region, at this part of the Slovak–Hungarian border, potential industrial factors are greater, due to the character of the region’s economy. We can observe differences between the two Romanian-Hungarian border regions. The North-Eastern border region consists of more underdeveloped areas, that is why its values are far under the country average, while in the south-eastern border-region the situation is better, its economic indicators are closer to the country average. We can unambiguously detect, that the Hungarian border regions – except the Austrian–Hungarian and Danube border regions – are peripheral regions, they have moderate economical sources.

We characterise the economic activity due to the border region’s net income, and according to this, regional differences described above, are just confirmed (*Table 7*). The Danube border region is on top, since in this region there is significant industrial potential and they are constantly producing, indeed this region gives 44.4% of the border regions’ export revenue. In the two Romanian border regions we can find one-one industrial centre (North-East: Debrecen, South-East: Békéscsaba-Gyula) and they have significant economic production, but their export potential is very weak. The economical production of the Slovenian border region’s is significant, indeed its export potential is emerging ahead of the other regions this is clearly due to the GM Opel Szentgotthárd, which is producing basically only for export.

In the East-Slovak, Ukrainian, North-East-, and South-East-Romanian, Serbian, Croatian, and Slovenian border regions peripheral border regions met peripheral regions. In these peripheral border regions the connecting areas are unable to take over development resources from each other, there are no significant differences between the comparative factors of the economy, and the elements of the institutional system are not compatible. Some examples: There is ample labour on both sides, but there is no workplace; there are production resources (agricultural products on the Hungarian side and natural resources with the neighbour), but they cannot be mobilised due to the lack of capital. The bottle-neck in communication (transportation contacts, accessibility, number and distribution of the frontier stations, the bureaucratic nature of crossing the border) prevents the contacts. And finally the differing legal, institutional and – last but not least – economic position (unstable local currencies, high rates of inflation) basically curbs co-operation.

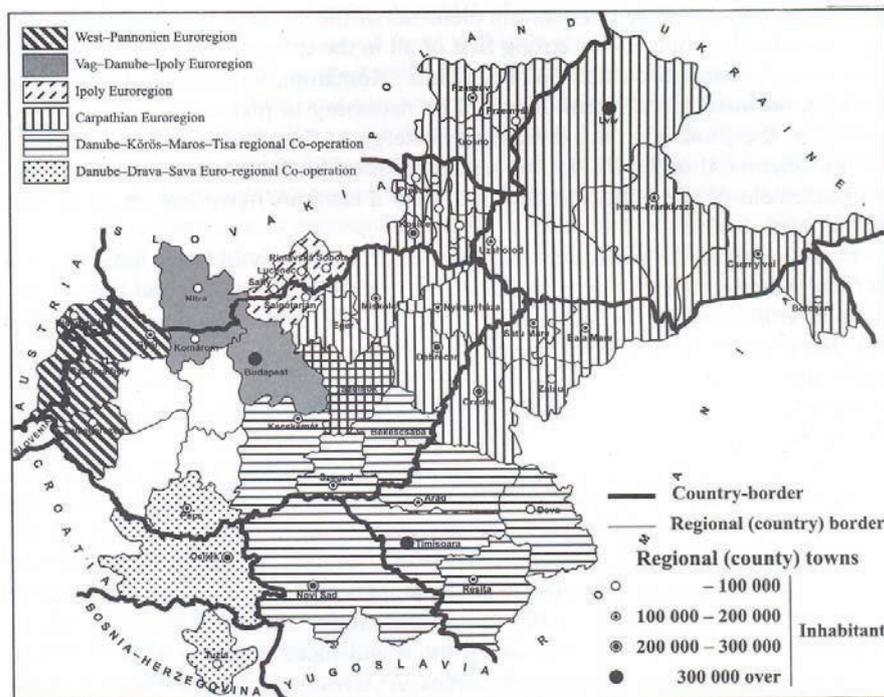
Let’s take a look at the peculiarities of transition border regions by border region, because by this we can demonstrate the significant differences, and at the same time we can refer to the directions of interventions.

Austrian–Slovenian border region: can be considered the success region of the transition and also one of its winners. The geographical situation has been re-valued, and so the transformation of the economic structure happened quickly (quick privatisation, significant foreign investments). The continuous renewal of the former large-scale industrial pattern has been realised predominantly with the participation of foreign capital. In the Ford-type mass production the dominant role is played by wage-work, and the small and medium-sized undertakings are appearing slowly. However the extension of the service sector is strong, and its structure is ever more diversified. The income positions are beneficial, and therefore the local and regional market is lively, and it is further strengthened by the regular shopping tourism which is also changing in its structure. The trans-border contacts have been institutionalised, and the West/Nyugat Pannónia Euroregion (*Figure 10*) was established in 1998. The frames and resources of the co-operation are clear, there are still a number of opportunities for the joint development of the border region (*Rechnitzer, J. 1997d*).

The institutional contacts in the Austro-Hungarian border region started in 1985 when the Austro-Hungarian Regional Development and Planning Commission was founded. This was the birth of the border co-operation and planning, still with the leadership of the central government. In 1992 the Border Regional Council was established on the initiative of two Hungarian counties (Győr-Moson-Sopron and Vas) and the Land of Burgenland and in nine sections they worked out recommendations for the forms of co-operations. The European Union subsidy commenced in 1995 (Phare CBC) gave a considerable impetus to the co-operation in the border region. (Szörényi 1999) After the expiry of the six-year-mandate of the Council (1998) the members established the West/Nyugat Pannónia Euroregion (October 1998), to which Zala county also joined in 1999. The aim of the co-operation – in addition to deepening the contacts – has been to foster the entry into the European Union, and the preparation for it. However the open organisation wishes to deal

Figure 10

*Euro-regions with Hungarian participation*



with all questions that affect the contacts alongside the border, in numerous spheres of life. Its leading body is the Council of Euroregion (with 40 members). It operates a Secretariat (with 4 members), while preparation of the programmes takes place in working groups. It is a step forward compared to the previous situation that a continuously operating institution has been established, and resources are

to be provided for that. However, the deficiency is that predominantly the ideas of the political level are achieved, the circle of those affected is too big, and therefore the new institution can only slowly become an actually functioning multi-regional co-operation.

Danube-region: The area that utilised the effects of the Vienna–Győr–Budapest innovation axis in the last third of the nineties. The demolition of one of the elements of the former basis of large-scale industries (mining) resulted in a long transition, while the renewal of the other group of elements (industrial zone alongside the Danube) had a slow start. This border region is characterised by gradual stabilisation and slow rearrangement, where the functions of the centres has not yet been extended, therefore only certain elements of the service sector can be traced. The cross-border contacts are strong first of all in the sphere of the population, and they are concentrated on the crossing points (Komárom, Esztergom), but they do not have an institutional form. It would be necessary to increase the number and quality of the joining points (bridge in Esztergom). In particular the settlements would welcome it on both sides, on a national level however – just because of the rearrangement of the political contacts – only a cautious move can be monitored (*Rechnitzer, J. 1998*).

East-Slovak border region: the previous centres of heavy industry have reached a crisis, therefore this border region is characterised by significant and lasting tensions of employment. The transformation of the economic structure is extremely low, the capabilities of the agricultural production are not beneficial, the service sector did not appear in a real sense, the erosion of the population (ageing, the ever-increasing ratio of the Romany population) are increasing (*Dankó, L.–G. Fekete, É. 1996*).

A similar situation can also be noticed in the neighbouring border regions. The distinctive signs of a uniform large region of peripheral position, embracing several East-European countries (Poland, Slovakia, Hungary, Romania) can be noticed that shows identical signs in a lasting way. As a consequence, economic and social renewal cannot be expected from the neighbouring countries. It is a positive sign that the cross-border settlement-to-settlement and small region-contacts alongside the river Ipoly are becoming more and more intensive, and they may contribute to solving the common headaches. As a result, in April 1999 the mayors and more significant non-profit organisations of the settlements of the region including the Danube–Ipoly National Park established the Ipoly Euroregion Cross-border Interregional Co-operation (*Figure 10*).

The Ipoly Euroregion Cross-border Interregional Co-operation that was established in April 1999 was signed on the Hungarian side by four towns alongside the border, two settlements and seven non-profit organisations, while on the Slovak side by an association of local-governments, four settlements and six non-profit organisations. The aim is to strengthen the regional contacts of the Ipoly-valley, to intensify economic co-operation and to harmonise the developments. That would involve 323 settlements and 450 thousand citizens. The institutional system is composed of a governing body, secretariat and nine planned working committees. The Ipoly Euroregion wishes to embrace a geographical, economic and cultural area on both sides of the border. The initiative has come from below, the players are well visible, and the action circles may positively serve the development of the border region. There are signs indicating the establishment of the Vág–Danube–Ipoly Euroregion by Komárom-Esztergom County and Pest County, as well as the Nitra Region alongside the border, to which the Ipoly Euroregion that was established on the initiative at settlement level will later join.

Ukrainian border region: practically the same problems are appearing as in the East-Slovak border region, and these phenomena characterise predominantly also the Hungarian-Ukrainian-Romanian border section. The region has always been considered a fringe region between Hungary and Transylvania, and even significant Hungarian area development subsidies were unable to change this position. The border regions – as a consequence of the various border changes made in the XX. century – are burdened with tensions in all three countries. The first East-European cross-border co-operation, the Kárpátok Euroregion Interregional Alliance (*Figure 10*). that was established in 1993 was as yet unable to dissolve these potential oppositions. A concerted multi-regional development would be needed (e.g. to increase the transfer capacity of the frontier stations, to open new crossing points). However the central and even the regional levels are unable to pay attention to and to provide resources for the co-operation, because of the differing administrative levels and competencies, as well as the basically different problems of the adjacent countries. Active movement of the population can be experienced in the region which strengthens first of all the shopping tourism and its establishments (e.g. COMECON-markets) in the big centres. Presently this is the border section that has been infected

with illegal activities (e.g. smuggling over cars and people, criminal gangs) the most. (*Süli-Zakar, I. 1997*).

The Kárpátok Euroregion Interregional Alliance was established in 1993 by four countries: Hungary, Poland, Ukraine and Romania. The multinational co-operation that embraces over 11 million people and 106 thousand km<sup>2</sup> area is the first and unique in the East-European region, since a previous historical region organised itself together again, and therefore the connecting regions that uniformly can be considered peripherals of their respective countries expect the start of their development from the common intervention. The Euroregion has a permanently acting co-ordination organisation (Chief Secretariat, and a foundation supporting the co-operation), that takes care of the execution of the planned activities (professional exchange programs, commercial contacts, cultural, educational and environmental protection programs). This region may offer in the future great opportunities for Hungary, therefore the joint development strategy must be worked out as soon as possible – in spite of the significant institutional and informational differences – and national, as well as European Union resources must be provided for its program.

Romanian border region: shows the characteristics of the three-border big region, and the peripheral position is also typical, but several big centres – on both sides – are becoming more and more active. In the north-eastern border region more significant activity can be monitored on the Romanian side, because of the large Hungarian population. It reflects itself in the more and more diversified economic contacts, while the settlement-to-settlement and regional contacts are becoming more lively, too. (*Dancs, L. 1999*). More big centres are located in the south-eastern border region (Békés, Csongrád), and they can compete with each other in the future (Szeged–Timisoara, Békéscsaba–Arad), but the economic contacts develop slowly (*Lengyel, I. 1996*). In September 1998 the Duna–Maros–Tisza Regional Co-operation was established (*Figure 10*), which could co-ordinate the common matters of the region, however the Kosovo war applied a break in the operation of the organisation. A definite intention can be observed for the settlement-to-settlement and regional contacts, but the number and load of the border crossing stations, as well as their insufficient geographic distribution does not help the creation of many-sided co-operations.

The Duna–Maros–Tisza Regional Co-operation can be considered the start of multi-regional co-operation, which embraces the area units of three countries (Hungary, Romania, Yugoslavia) – 77 500 km<sup>2</sup> – and involves nearly 6 million people. The aim is the intensification of the cross-border contacts regarding economy, transportation, telecommunication, environmental protection, tourism, sciences, culture and civil organisations. It has been decided that a uniform development concept will be worked out and permanent secretariat, as well as common financial fund will be established.

Yugoslavian (Serbian) border region: can be considered a continuously developing region, on the fringe of the Great Hungarian Plain. Szeged as a big centre and Baja as a middle-sized town have a strong effect on the border region, but there are a number of other small towns that could serve the good example of functions and renewal. The contacts are spectacular presently in the private sphere, i.e. in the population's travels, but the activity of the economic organisations that were established during the former Yugoslavian war is also considerable. Significant experience has also accumulated in the operation of the "grey-economy" of the border region (*Pál, Á. 1996*). This border region can be reached perhaps in the easiest way out of the eastern border regions. If consolidation occurs in Yugoslavia – and the gaining of autonomy in Vojvodina – there are great chances for the intensification of economic and co-operation activity, with which various activities would become legal.

Croatian border region: the southern periphery of Transdanubia, which meets on the other side a periphery practically without any centres. The geographical border (Dráva) did not have an adequate number of bridges. The permanent Croatian-Serbian tension (Baranya triangle) eliminated certain border sections of the contacts, while there is a significant and lively shopping tourism elsewhere. The institutional forms of the trans-border co-operation can only slowly be recognised, and the various initiatives do not meet the support of the other party in many instances (like the Gyurgyevác hydroelectric station on the Croatian side, and the Duna–Dráva National Park on the Hungarian one). Significant plans were born in the inter-governmental relations for the intensification of the traffic connections (Rijeka–Zagreb–Budapest motorway). (*Hajdú, Z. 1996, Vuics, T. 1996*)

It is very typical of the Hungarian transition, that those regions were able to develop successfully, which were easy to reach from the economic centres of Western Europe (Austria, Bavaria). Where this

accessibility was not secured, there the modernisation carrier economic players didn't settle down, except where they could increase their market share through privatisation.<sup>9</sup>

The new connection points to the western European regional-economical system, inevitably brought with it competition between the settlements and regions (*Enyedi Gy.* 1996). The unifying European space forces the Hungarian space structure to join it at more and more points. The accessibility of the big and multiple renewal bringing economic centres is improving, indeed with the appearance of players attached to and originating from there, new orientations and co-operations come into existence, which influence the region and settlement development. We think not only of the economical connections, but also of the settlement-regional co-operations (e.g.: border regions, partner connections, and participation in European organisations). In consequence of all of these international and domestic city, settlement and regional competition appeared, which through the constant comparing of resources forces their renewal too (*Enyedi Gy.* 1997).

### 1.2.2 Location factors

It is important for economic units, what kind of conditions they are offered in their location. The question is, whether these factors help or hinder the function and production of the economic organisations. The characters of location factors and types are changing, the demands of economic units are expanding constantly with new elements. The conditions and supply of the regions are growing, which causes the attraction of new enterprises and at the same time increasing competition for the location of economic units.

Let's take a look at those elements out of the location factors (*Figure 11–12*), which, according to our experience, the economic units take into consideration by the location and long term functioning. The factor groups can consist of a number of elements and out of them the focuses – because of the different production characters – can be different. Of course the selection of the enterprise-domiciles is a row of personal decisions, together with the evaluation of more economical and non-economical components.

In the first group of factors- population activity group- we examined the changing of population (1990–1994), the regions population hosting and keeping ability, the measure of migration differences (1980–1989), and the number of retired, which shows also the working capacity. We didn't experience large differences in the country. Fejér is the only county with favourable parameters, while in the other counties the values are moderate, it means the demographic factors are equalised, that's why there influence to the location is indirect. The country's demographic parameters are deteriorating, the population is decreasing yearly by 25–30 thousand on average and the reduction is continuing, causing a permanent depression in some regions, because the young population is migrating, and therefore the reproduction ability is very low.

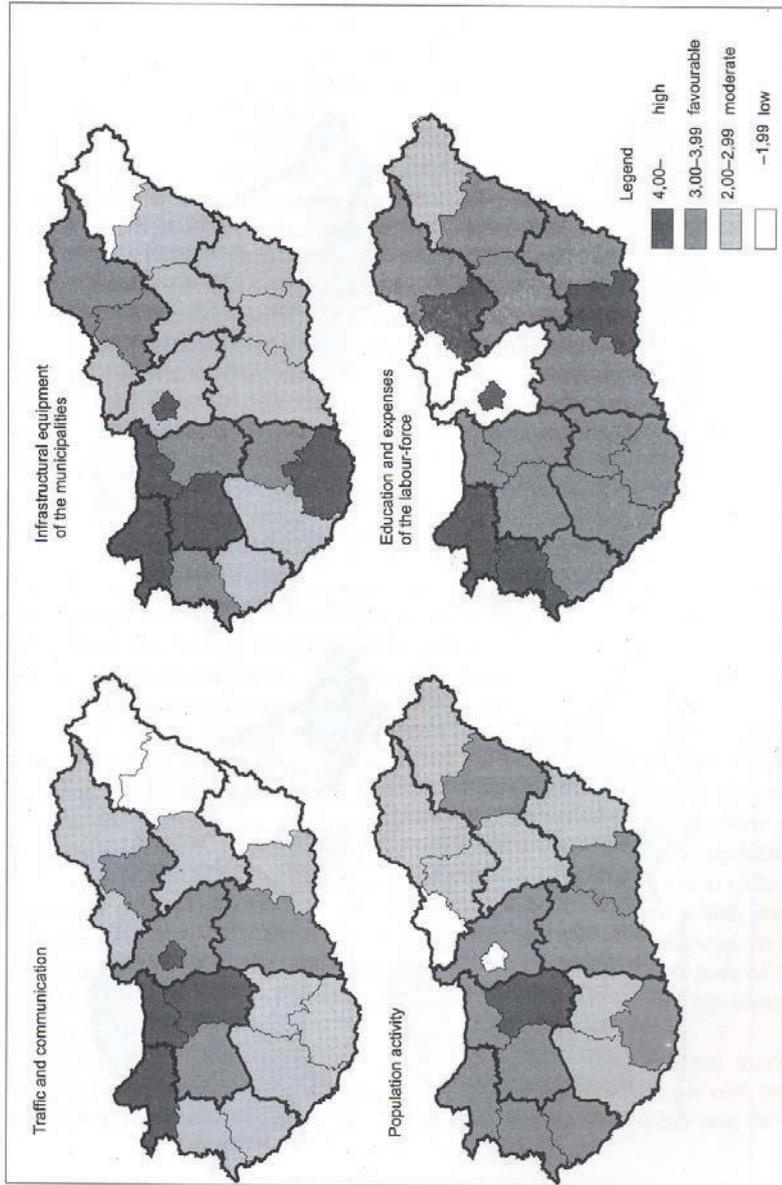
We connected the expenses of the labour-force with the monthly wages and the qualifications within the population, through the proportion with an academic degree and with the number of students participating in higher education. The first group is composed of Győr-Moson-Sopron, Vas, Csongrád and Heves counties. These regions offered advantageous conditions for qualified work, although in these centres there is no longer a significant skilled labour-force reserve. In the other regions these values are nearly on an equal level, except in Pest, Nógrád and Szabolcs-Szatmár-Bereg counties where these values are lower, which is the consequence of the low number of education places. The regional differences of the labour-force expenses are not significant yet, only in the capital-countryside relation are there measurable differences. Due to the education, labour culture, experience (these are not measured or hard to measure location factors) we can detect spatial variances, and their reproduction during the transition still continues.

We examined five elements out of the transportation and communication factors: the rate of “first class” ways, the car and telephone density and the accessibility of Budapest and Vienna. Basically those regions, adjacent to the motorway are the ones that can offer appropriate transportation and communication conditions. This explains partly the location selection of the foreign capital and it shows also the significant influence of transportation and communication.

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<sup>9</sup> The regional structure of the foreign green field investments demonstrate very well this statement (*Dicházi B.* 1997).

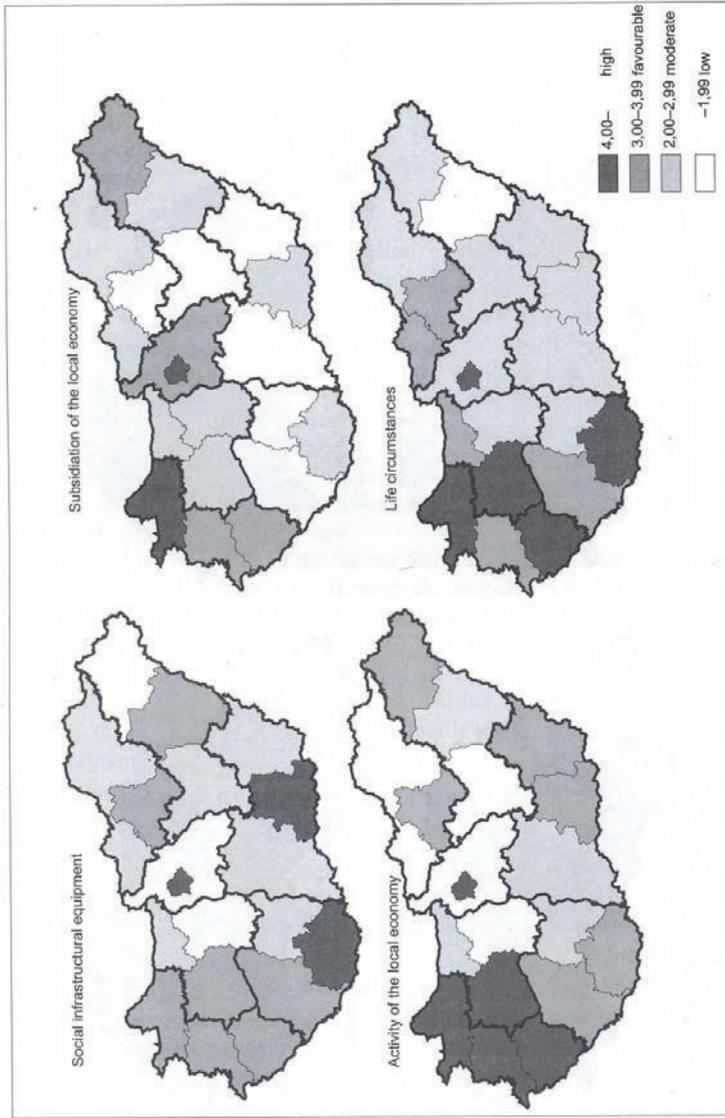
Figure 11  
*Settlement factors in the counties I. (1997)*



Source: Own calculation

Figure 12

Settlement factors in the counties II. (1997)



Source: Own calculation

We characterised the infrastructure level with a density of homes, the number of homes connected to the sewage system; electricity consumption and the number of homes with waste collection. The regional separation of the country is clear again, maybe the “banana” at the Danube region can provide a higher level factor and it can in the future be its attraction.

The indexes of social infrastructure. According to the number of doctors, hospitals and teachers in the primary schools, some counties are merging (Baranya, Csongrád), while the West-Transdanubia shows the picture of a unified well provided region, we find on the other parts of the country again differences and disparity.

The local business assistance, characterised by the numbers of duty free zones, the ratio of the settlements with industrial taxes and the amount of support from business assistance centres and state funds, is very diverse again. There are more active regions, where besides the regional economy the local governments also take their share of developing the economy. In the majority of counties – in consequence of some other factors – we can not detect a clear and conscious developing of the regional-local economy.

We characterised the local economy’s activity with the trade turnover, the households gross expenses, the prices of accommodation (country capitals), the measure of personal income tax, the number of homes built and out of the local governmental expenses with the accumulated and capital sources. According to this factor group North-West-Transdanubia shows a higher than average value. The other part of the country is still divided; we can experience a more active local economy environment maybe in the case of regional centres, regions with more important tourism and counties with strengthening border connections.

In the last group, we evaluated some indexes of the quality of life: the quality of environment with the protected natural areas, the cultural supply with the numbers of theatre and exhibition visitors, the public security with the number of crimes and the local society with the number of foundations and civil organisations and with the donation activity of the adult population. In the North-West-Transdanubia the life circumstances are above the country average, the cultural milieu is rich, the organisation of the local society is vivid, the civic traditions remain which create attractive conditions for economic possibilities to make the most of them. In the Transdanubia regions the situation is still better, than on the other part of the country. The quality of life, as an indirect influence factor to location, are unequal in the country.

Of the local resources finally we have to mention the local-regional market, since we couldn’t speak about it in the state socialist economy, in a one point economy, but in the spatial economy or market economy it is a determining factor. During the transition the local-regional market developed only slowly. Its development is dependant on the strength of the local economy, on the character of the consumption and also on some unique temporal or constant circumstances (e.g.: adjacent situation to the border). A further characteristic of the transition is the strong development of the service sector initially in the big cities and the accessibility of different goods even on the lower community level. The competition is still weak and we can detect consumer defencelessness. The organisation of local markets in the case of services is made by big centres mainly with headquarters in Budapest. The number of enterprises producing for the local or regional market is still low. Similarly moderate is the co-operation between producers and the players in the service sector. In developing regional strategies we have to decrease this character, since these are dominant factors of an endogen development.

### **1.3 Regional policy**

In Hungary regional policy is not a product of a transition. After the Second World War the forming of the regional processes was started by the state. These actions reflected the economical and political characters of the given time. The first systematic regional development conception of state socialism was introduced in 1971. The goal of the National Settlement Network Development Plan (OTK) was securing an equalised development. This conception promoted the development of a rigid settlement system, where the functions of the communities were connected to a strong hierarchy and the state wanted to direct them. In the internal political struggles in the 1970s centralisation became the winner, that is why the lower level of the community systems lost their functions and didn’t receive any subsidy. In the 1980s the regional differences had been sharpened and more and more parts of the

community system were run down and fell into an unfavourable situation. The state level politics just planned the intervention, but the transition swept out the initiatives.

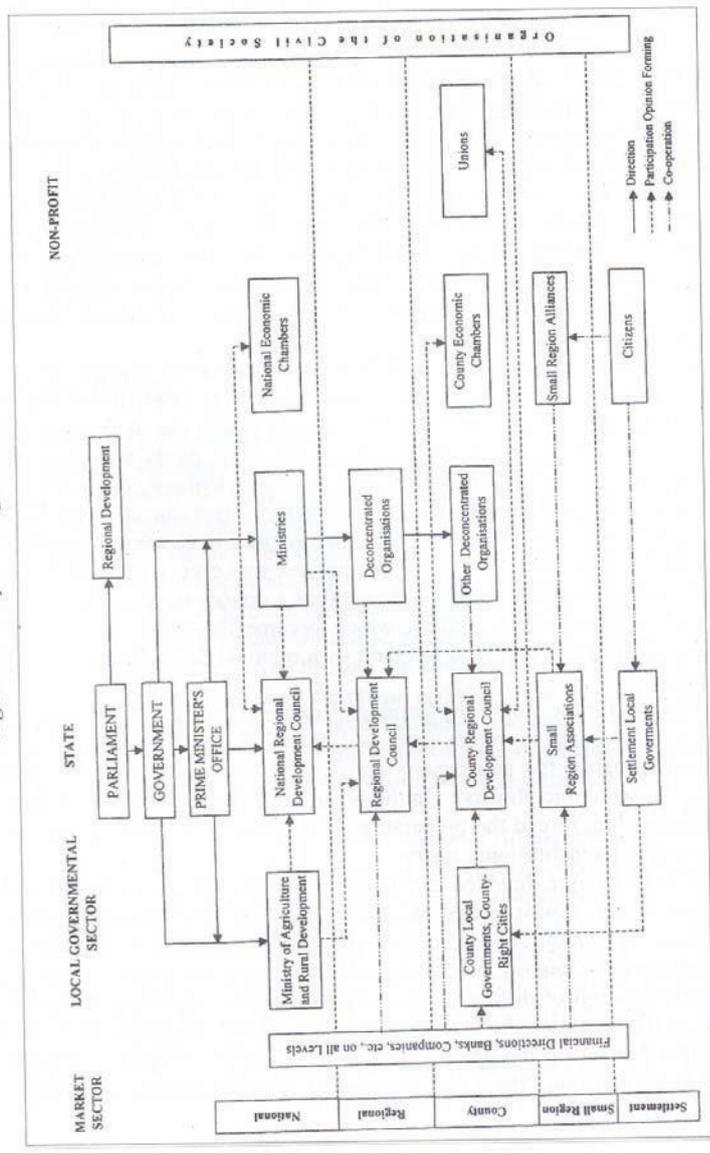
After the transition, by the early 1990s, regional differences had sharpened spectacularly in Hungary. Nearly one and half million jobs disappeared; production decreased in the former industrial centres, the rearrangement of the economic structure began. This afflicted the areas where jobs were lost too, therefore sectional crises became regional crisis. The loss of eastern markets, has shaken also in agriculture the previous institutional and production system, which was deepened by the political willingness to rearrange the former ownership relations. The western regions of the country could adjust themselves faster to the changes, since in these regions privatisation took place by the very beginning of the 1990s, the economic connections were directed towards Western Europe and the foreign capital found advantageous location conditions here. The regional policy by the early 1990s focused on crisis management. The rate and real value of the state resources, because of the high inflation was not considerable. More governmental programmes have been worked out and used for the treatment of the problems in Eastern-, (Szabolcs-Szatmár-Bereg county) and North-Eastern (Borsod-Abaúj-Zemplén, Nógrád counties) Hungary. The governmental sources supported basically the extension of infrastructure systems earth gas and drinking water systems, and the improvement of transportation connections. The establishment of workplaces in these regions was not successful, since their accessibility was poor, and the education of the labour force stands at a low level. The regional policy didn't overlap the other parts of the country, since its financial sources were pretty moderate and it didn't have any comprehensive conception, or unified institutional system.

The crisis management policy neglected two thirds of the country. In these regions the "grass roots" initiatives were significant. From 1990 all settlements had their own local governments, therefore in several places the development of the infrastructure system started partly as a local initiative, partly with state governmental help. The building of the earth gas, sewage, telephone, cable TV systems and partly the road system started at a never before experienced speed. Local activity became lively and with it 130–150 small regions have been organised in the country. The collaboration of 5–15 municipalities was even supported by international programmes (PHARE programme) and as a consequence of this new micro regional co-operations were formed, which became the new participants in regional development (they worked out their own regional development programmes and conceptions).

The situation for the conscious forming of regional policy became ripe in 1996. On the one hand, state resources increased, 0.2% of the GDP went for regional development support, the participants activity was already detectable (counties, small regions, economic players). On the other hand, the preparation for European Union Membership, forced the preparation of a conscious regional policy and the establishment of its institutional system.

The XXI./1996. Act, founded the basis of the new Hungarian regional development policy. This law specified the goal of regional development. It states: we have to secure the conditions for all the regions in this country for the building up of a social market economy, sustainable development, the expansion of innovations, the moderation of differences between the capital and the countryside, the harmonic development of the spatial structures and the conservation of the local identity. The Act set up the unified institutional system of regional development (*Figure 13*). It determines the duties on national, regional, county and small region

Figure 13  
Regional Development Organisation



Source: Regional Development in Hungary, 1998

level, outlines the institutional system and the decision makers on the different levels (local governments, small regions, representatives of state governments, economic sphere). The law outlines the tool of regional development (Regional Development Fund, later Regional Development Preliminary Estimate, from 1998 Rural Development Preliminary Estimate), indeed it determines its sources, and in a separate statute the principles of apportionment between the different regional units.

The regional development law gives authority to County Regional Development Councils – which were organised on the principle of partnership for decentralised sources. The County Regional Development Councils had to work out a development strategy and this was the basis of state sources utilisation. The first version of the law gave the counties the right to form regions. The regions would have had only a planning- statistical role.

After the Act was passed in 1996, it started the preparation of the National Regional Development Plan, which was passed by parliament in March 1998. The National Regional Development Plan determines the direction of future spatial system forming, specifies regional policy's goals and guiding principles assigns the priorities, defines the interventional regions, their types, implementations and institutional system. This conception marks out development guidelines even in case of specific sectors: environmental protection, human infrastructure, agriculture, industry, tourism, technical infrastructure and finally it comprehends the regional policy principles of the preparation for European Union membership.

The Hungarian regional development policy with the XXI./1996. Act and with the national, regional and county level regional development strategies started the preparation of a unified system, which is based on the principles of the European Union's regional policy, on its practice and institutions.

In 1999 the Regional Development Law was amended (XCII./1999.). The goal of this amendment was on one hand the strengthening of the regional level (the former regional initiatives were strengthening, therefore it separated seven planning statistical regions), on the other hand the enforcement of the legal control and the rearrangement of the regional development's representatives in the institutional system on the ground of the changed political values. We have only two years knowledge of the functioning of the new policy; therefore we don't have too much experience about it. Although, we can point out, that the County Regional Development Councils were established, they established and accepted their regional development conceptions, they founded their working committees and started the preparation of development projects. The County Regional Development Councils decides on the utilisation of the regional development's decentralised sources (*Table 8*). Even these moderate sources furthered significant local initiatives. The Regional Councils prepared their development conception and the programme period started. In the future they will have separate state sources, which will be utilised by their working committees.

Table 8

*The regional development subsidies compared to the GDP*

Region	GNP billion Ft (GDP) billion Ft			Regional development subsidies (million Ft)			Ratio of subsidies % of GDP		
	1995	1996	1997	1996	1997	1998	1996/ 1995	1996/ 1995	1997/ 1998
Central-Hungary	2240	2861	3613	685	1013	1584	0,31	0,35	0,44
Central-Transdanubia	557	683	899	912	1161	1662	1,64	1,70	1,85
West-Transdanubia	559	701	881	590	869	1503	1,06	1,24	1,71
South-Transdanubia	462	530	646	1051	1480	2351	2,27	2,79	3,64
North-Hungary	521	597	731	2273	2620	3543	4,36	4,39	4,85
North-Great Hungarian Plain	601	728	896	2519	3424	4353	4,19	4,7	4,86
South-Great Hungarian Plain	622	745	893	1671	2634	3503	2,69	3,54	3,92
<i>Country total</i>	<i>5562</i>	<i>6845</i>	<i>8556</i>	<i>9700</i>	<i>13200</i>	<i>18500</i>	<i>1,74</i>	<i>1,93</i>	<i>2,16</i>

Sources: KSH 1999.

Regional policy changed fundamentally in the last ten years in Hungary. It started as crisis management and today it has a comprehensive development conception and an institutional system on a national, regional and county level with a constant increasing state subsidy. This institutional system is more and more prepared for the professional utilisation of the subsidies from the European Union, since more regional development projects have run their course successfully, and have just started preparation for receipt of the EU prejoining funds (SAPHARD, ISPA).

The weaknesses of the Hungarian regional development policy are:

- The tasks from different levels – regional, county, small region – are not clearly established, they are built on each other, therefore in some cases we can find overlapping and parallelism.
- According to the amendments the representatives of employers (economic chambers), employees (labour councils) and small regions (grass root organisations, only to some extent) are not members in the Regional Development Councils (neither on county, nor on regional level), therefore the co-operation possibilities between the regional development players became weaker,
- The activation of the private sphere's sources wasn't successful, due to the lack of decentralisation and predetermined utilisation. Ministerial order determines in every year the utilisation of the decentralised sources (the principles and the possible measurement of the subsidies),
- Regional development is not widely known and its societal ranking is low. It is considered to be a (local) governmental task. Not even the majority of the possible participants can understand its importance and content. It is the consequence of the fact that even on a governmental level the regional development, the countryside development and agricultural development are mixed.
- On the small region level the management has not set up yet. The number of professionals is limited, therefore the co-operation, co-ordination and harmonisation of the different projects on the regional, county and small region level is weak.

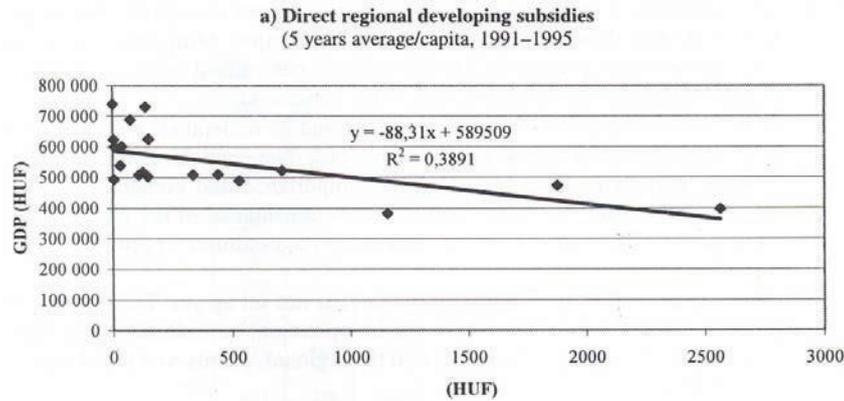
We still need to develop the Hungarian regional policy. We have to clarify the tasks of the regional level and increase the co-operation between participants. We have to activate the regional financing sources, expand the functions of the institutional system (monitoring) and of course increase the ratio of state subsidies. Beside the above a regional development system was established, which is able to follow and apply the regional policy principles of the EU. Taking account of these facts, there is no place for criticism of our preparedness for joining.

To prove the above, we have to show the regression line of the connection between the regional GDP and the state fund for regional development subsidies and between the regional GDP and the central fund for economic assistance (Economical Development Preliminary Estimate)(*Figure 14.*)

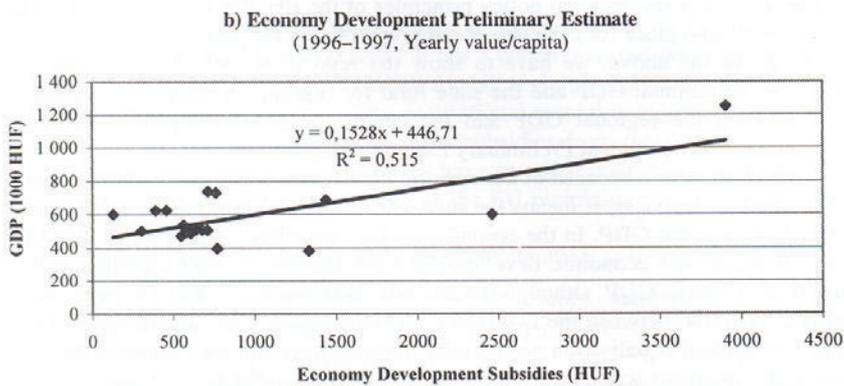
In the first case – because of the specific distribution – the curve shows a mellow negative steepness, it means the increasing subsidies don't have a detectable impact on regional GDP. In the second case the curve has a slight positive steepness, it means the economic development subsidies (in a small measure) influenced the regional GDP, although the connection is moderate. We can point out a weak connection between the two factors. This indicates, that although the subsidies for regional equalisation are initially political interventions, the definite economic development actions can have a positive impact on the active regions.

Figure 14

*The regional and economical development and their connection with the regional GDP*



Source: National Regional Development Conception, 1991–1996  
Own calculating by yearly datas



Quelle: Ministry of Economic Affairs, 1996–1997. Own calculating by yearly datas.

The analysis touches the basic question of regional policy: In which extent and form can we (do we have to) subsidise the crisis regions? The regional policy of the transition couldn't answer this question clearly, it remained with the, a modern market economies applied regional policy, based on subsidies principles. It had an unsuccessful attempt to equalise the regions. On the one hand it couldn't make any progress because of the deep and multiple factor crisis in the regional structure. On the other hand its development sources are moderate and divided, therefore it couldn't demonstrate spectacular results.

In the first part of the transition, we had to forget the planning, the preparation of projects for the regional level. We made only small region or local projects as a crisis management, to help the depressed regions catch up. In the second period of the transition, according to the regional development law, the planning at regional level is coming back. However by the late 1990s we still don't have a national development plan and directives, which could be a guiding principle for the regions and who could point out the development directions for the regions (Rechnitzer J. 1997b).

The National Regional Development Plan (OTK) was born in 1998, representing the regional policy principles of the E.U. However it looks only to the western part of Europe, that is why it

became a one-pole conception. The OTK doesn't speak about the specific situation of the country (the favourable geographical position in Central-Europe), it doesn't outline directions for the further development and possible future co-operations. The building up of the grass roots shows up only in the principles, since the regional (county) levels didn't yet articulate their development goals, therefore these are either individual or general information for the national planning. The majority of the participants – because of the regional institutional system, scopes, lack of sources and identity – didn't realise the necessity of the strategy and the programming built on it. Therefore their activity remained on the surface; they didn't have a clear vision of the future and connected system of goals.

Therefore it is characteristic, that the country planning disappeared, and later with the regional development law appeared again. At the same time the search for new methods occurred and techniques of forming regional development, which helps the participants gradually towards co-operation, furthermore to a conscious realisation of the regional conditions and possibilities and later the forming of strategic aspects.

## 2 The changes of spatial structure, the spaces of the transition

The transition rearranges the spatial structure; regional differences are forming and strengthening. At the same time they represent different development directions. According to our previous researches (*Rechnitzer J.* 1993.) we can say, that the spatial structure of the country became more divided, while the gap between the two contrary poles (capital-countryside and west-east) increased, a significant number of regions entered a transient phase, their future movement is uncertain and ambiguous.

To prove this statement, we compared regional economy (by counties) with the same indexes and methods<sup>10</sup> in 1991 at the beginning of the transition and in 1995 close to its end (*Figure 15.*)

In the first year of the transition (1991) we could notice seven clearly separated groups. The capital was a well-separated independent group, far away from the others; it had highly concentrated the regional indexes, in fact its values were not comparable even with the best county. The development distance in a regional economy of Budapest from the counties is really spectacular. We can't compare the Hungarian capital with the regions on the countryside, we have to compare its regional characters, new roles with other Central European centres, e.g.: Vienna, Prague, Warsaw, Zagreb, Belgrad, and we should prepare development strategies in connection with these.

The connection of the West-Hungarian group (Győr-Moson-Sopron, Vas, Zala) is defined by the foreign active capital, size of investments, that time still moderate unemployment, telephone supply and the similar presence of enterprises. Within this group Zala county shows a weak similarity with the other two counties, in fact in a number of indexes indicates similarity with the fourth, South group.

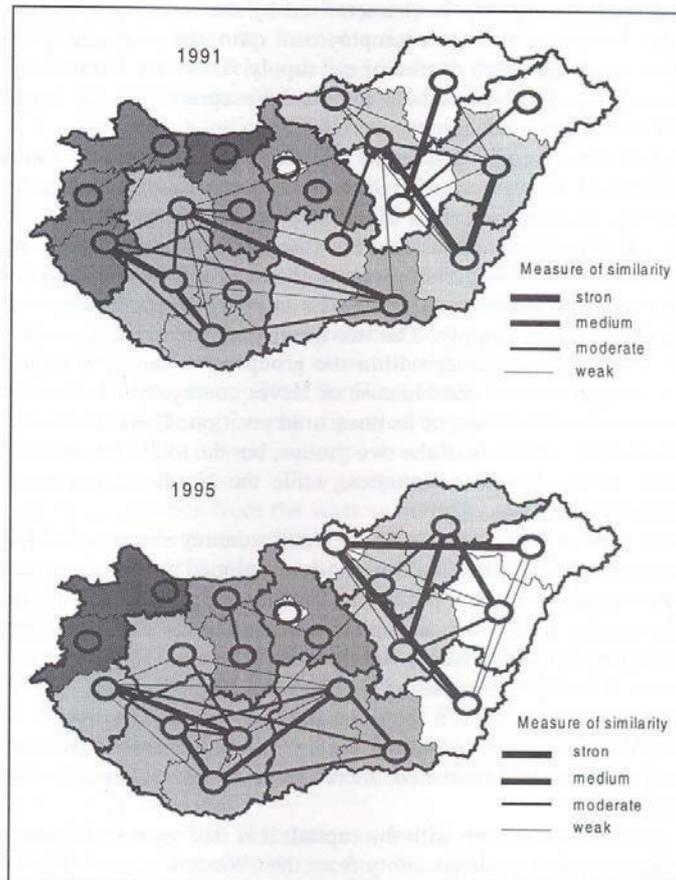
The Central-Hungarian group is organised by the investments, the ratio of personal income tax and the numbers of vehicles. Komárom-Esztergom county is an independent unit, where at this time the large-scale industry still functions, its investments indexes are favourable and also personal income tax contributed to the

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<sup>10</sup> The 11 indexes were as follows: the regional GDP, foreign active capital, measurement of investments, unemployment, legal entity and non legal entity economic companies, measurement of industrial tax, number of cars, telephone system, branch bank density. The indexes are per capita, similar in both data, we worked out the tightness of connections with multivariate analysis, which has shown in the majority a clear connection, and we formed due to unified principles, clear separation the groups in the cluster analysis.

Figure 15

*The spatial and its changing (1991, 1995)*



Source: Own calculation

forming of this independent group. Only Fejér county indicates a similarity with Veszprém county (South-Hungarian group). Their characteristic are the large-scale industry and the high unemployment.

The South-Hungarian group is characterised by the moderate presence of the foreign capital, the about average unemployment ratio, the moderate entrepreneur activity and the relatively high degree of car supply. There are interesting similarity connections here and Csongrád-Baranya and Veszprém-Somogy (counties adjacent to Balaton) -Tolna undergroups were formed.

East-Hungary was strongly divided in 1991. One group, North-East Hungary is composed of Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg and Jász-Nagykun-Szolnok counties. It is characterised by the low service sector (bank density) and the relative high, close to average local tax (this is due to the present large-scale industry). The other East-Hungarian group is characterised by the higher entrepreneur activity (non-legal entity enterprises), the more moderate unemployment rate and the high degree of car supply. The two groups are separated from each other; considerable similarities are only within the groups. We can only register three connection or similarity directions in case of Heves county, which shows the possible future economic directions, or its unsecured position. There are similarities in the spatial economic structures of the two groups, but the total value of the Eastern group is closer to the Southern counties, while the North-Eastern counties are closer to the Central-Hungarian group.

In the first years of the transition the regional economy shows a divided spatial structure, although there can be found similarly developed groups, the insecurity of the development courses are marked by the overlapping and similarities of certain elements. The spatial structure is still pliable, but there are already stable points, separable and characteristic development directions.

The regional economy has changed by 1995, the blocks became more resolute, and instead of the previous seven there are only six groups. The routes of development have differed. Compared to the previous time the individual connections between the groups have diminished, there are more characteristic undergroups within the clusters.

It is not possible to catch up with the capital; it is still separated from the other parts of the country. The leading county from the "Western group" (Győr-Moson-Sopron) could catch up a little (6%) from its previous position, while Szabolcs-Szatmár-Bereg is 2% further behind it. The constant separation of Budapest in the regional structure is a Hungarian characteristic. The strategic goal of the capital's development could be, to spread out its favourable influence into more levels and directions, basically to the regional centres and through them to the countryside.

Zala county is separated from the West-Hungarian group, and it is interesting that few areas of similarity developed, it means they are still together, but they are together separated from the other groups. Győr-Moson-Sopron started a new development course whose direction and type is probably more dynamic.

The South-Hungarian group formed a definite block. A new member is Zala county, which has fallen back, and Bács-Kiskun, which has caught up Baranya. The regional structure shows similarity in a number of ways to the groups Central-, and East-Hungary, which indicates that it is a temporal block, it can dissolve at any time, its structure is not stable yet. The expanding foreign capital and the favourable reception of services can generate this rearrangement in the future.

Komárom-Esztergom county joined to the Central-Hungarian group and we can already notice the internal similarities between the members. On a group level, compared to the previous period, investment has increased. Within this, foreign capital became more important, although entrepreneurial activity is still weak, the degree of telephone supply and the financial services are still significantly below the country average. This cluster is closest to the South-Hungarian group, and interesting in that it moved away from the West-Hungarian group.

Szabolcs-Szatmár-Bereg county separated from the North-Eastern group, but Heves county joined it, which indicates a constant rearrangement in the north-eastern regions of the country. The group moved closer to the East-Hungarian cluster, while its distance from the western counties grew, although its proximity to the southern regions remained, which could reveal a possible future rearrangement direction. (This is strengthened by the fact, that Heves county preserved its assessable similarity to one southern county albeit with weak conditions).

The Eastern Axis is composed of Hajdú-Bihar, Békés and Nógrád counties, with clear weak indexes ever further from the other groups. The inner cohesion is strong, especially at the counties adjacent to the eastern border, while Nógrád is closer to Békés and Szabolcs-Szatmár-Bereg. The

separation of Hajdú-Bihar is predictable. The danger for this eastern block can be, that their distance to the southern development course since 1991 has increased, this means the fall will be much more spectacular.

The transition's spatial structure can be characterised by clear separation, where the differences are not only present, but they rearrange themselves. In consequence of this the regions are moving closer to and further away from each other, and within the regions, blocks with similar growth courses are developing.

Therefore the reaction to the transition is different in each region, the preparation of the regional economy's players, the condition and spatial situation of their resources are the influences which decide their individual development or more precisely adjustment courses. In the spatial structure Budapest is constantly separated, its economy is not comparable with the other parts of the country, however its impact on the regional economy is significant. The transition in Budapest is probably finished; the elements of the new structure are already functioning. From the point of the country's spatial structure it is important, in which form and mechanism its expansion will occur. Two western counties are close to the end of the transition. Győr-Moson-Sopron county is slightly ahead; the separation of the regional economies from the other parts of the country became more and more marked. The economy of the Central-, and South-Hungarian regions show a flexible situation. There are signs showing stabilisation, but the structural organising elements are still weak (depending on the region either the foreign capital or the services sector), therefore we can find several uncertainties, and unpredictable future courses of development. In the eastern part of the country we could determine two transition types. The first one is closer to the Central-, and South-Hungarian group, therefore it can bring advantageous movements. In the second group the backwardness of the counties adjacent to the south-eastern border and Nógrád county still continues, we can detect strong blocks, Hajdú-Bihar is the only one which will probably be able to separate itself from this group.

### **3 Regional dilemmas after the transition**

The Hungarian spatial structure indicates permanent changes. Even the basic rearrangements didn't accomplish yet, indeed certain directions are strengthening, while new phenomena appear, we don't know yet their impact, therefore we can't react on them. Several new problems came to the surface and we have to prepare us to deal with them, while we need to do more and more in order to prepare for the EU membership. Let's take a look at the more significant regional problems and the possible reaction to them, before joining the EU.

#### **3.1 Regional differences**

The regional differences in the country didn't decrease, indeed it is clearly noticeable that in the central regions (Central-, South-Transdanubia and Between Danube and Tisza) the uncertainty of the transition prevail, while the backwardness of the eastern region became more and more spectacular. Besides the constant divergence of the traditional regional development indexes (GDP, employment, unemployment rate), we can notice a convergence in the indexes of the infrastructure systems on municipality level.

Therefore the separation of the country continues. Its dimensions are: Budapest – countryside, West (Pannonien) – East (Great Hungarian Plain), Central and South Hungary. The innovative migration to the western regions started already, which is accompanied by legal and illegal capital movements. The income differences remain constant within the municipality system, but throughout the whole spatial structure too, and that may increase the political societal tensions on regional level in the future.

Although regional lobbies in the politics have not developed yet, their forming started already. Regional interests are still under the surface, but they are stretching the institutional framework and probably after the year 2000 they will appear in consequence of the strong presence of EU subsidisation.

#### **3.2 The place and role of Budapest in Central-Europe**

The political and societal players of the Vienna region decisively intend to become the organisational, informational and financial centre of the Central-European region. The difference between Vienna and Budapest is, that the Austrian capital has significant financial resources and the support of EU to reach this goal. On the contrary Budapest has poorer resources and it is permanently in opposition with the government and its policy, therefore the infrastructure modernisation of the capital is moderate. In spite of this, the foreign investors look at Budapest as a place of possibilities, therefore the rearrangement of its commercial system, the building of administration buildings for the service sector, goes very dynamically. The city infrastructure gradually drops behind the economical sector's institutional system, which may cause constant disturbance in the city functions.

In spite of these Budapest is still not "invented". It has not been decided yet (though there is an actual development conception): which are the new roles of the Hungarian capital, how can those connect to the domestic regional development, how can it connect to the Central-European settlement system and which expansion of system roles is important in order to connect to the European city system more definitely.

Which direction will Budapest develop? Which are in the future new international, financial, economic, organisational, cultural and scientific functions, which will influence the development of its macro region, the Carpathian-basin and furthermore Central-Europe? Which of these future functions are already in Budapest and can settle down soon? What are their demands towards the city's infrastructure system? These are the questions to be answered. If Budapest can not invent itself, its future will be the result of spontaneous processes, and the countryside will not be able to find the stable sources for its renewal either. Since Budapest has always been the number one centre of

reception and expansion of innovation in Hungary, the future of Budapest can't be uninteresting considering the forming of domestic regional processes. We have to see that the long-term opposition of the capital's local government and the state government doesn't favour the expansion of the renewal processes, indeed it delays them and therefore it can slow down the transition of the domestic spatial structure.

### **3.3 Co-operation in the border regions**

Hungary is situated in the centre of the Carpathian basin and bordered with seven countries. From the neighbouring countries one (Austria) is a member of the EU and one (Slovenia) will probably be a member, so the border section with the E.U. is going to be 458 km. The chances of the other five countries are not very good to join to the European economic and political integration before the end of the first decades in the 21. century. With these countries Hungary has nearly 1800 km long border section, which is 80% of its borders. It means Hungary has become a "turntable" or "gate-country" in the unifying European economic and political space towards East-, and South-Europe.

We mustn't forget, that on the other side of this 1800 km long border section live nearly 3.6 million ethnic Hungarians, whose connections with the "mother country" must be secured in the long term. In border regions ethnic Hungarians from neighbouring countries are important transmitters of the economic and societal connections, therefore a new development and communication city-belt could be established from Komárom until Szentgotthárd. This city-belt can be the transmitter of the European and Hungarian economic, societal and cultural processes and in consequence their former peripheral situation is revaluating, basically changing fundamentally.

The cross-border co-operations can open new dimensions for the Hungarian regional development and spatial structure. These organisational and institutional cross border co-operations can contribute to improving the situation of the Hungarians in the neighbouring countries, since there is specific, multiple and all day communication in the border region. The EU does and will in the future support the co-operation in the border regions in the associated (or wanting to be associated) countries, therefore their national political factors must tolerate the tighter connections and even promote them. With the Euroregions new institutional frames can be established and they can become independent from the strong centralised state control, which is a characteristics of all our neighbouring countries, except Austria. In consequence these new regional level networks can be founded, which can open new dimensions for connections.

The importance of the cross border co-operations should increase due to the principals of the regional policy. It should become a "polarised" connection. One side is the preparing of the regional units to the European integration. The other side is promoting the establishment of the Central European regional co-operations. This can help the eastern and southern countryside to line up, to develop their centres and expand their spatial impacts.

### **3.4 The local governmental system and the civic sphere**

The local governments from the days of transition, could utilise more and more sources during the last ten years, which is true on regional and also on local level. On regional level there are sources connected to regional development, which is currently 0.2% of the GDP and the ratio of these decentralised sources should increase up to 1.5-1.8%. The regional level with the increased sources can urge the local level and the other regional development participants, to joint development and to establish the necessary partner connections. We can notice more and more function problems on local level, at the local governments. It is difficult and multiple problem, we can trace it back to governmental steps as well as to the frittered, scattered local governmental system. We can't avoid the future reforms of the administrative systems, the merge some of the currently 3200 local governments and institutions. The developing small region co-operations – currently we can detect 180–200 such organisations- were established to obtain the development sources but they can be the seed of the future organisational and institutional co-operations on regional level.

The reforms will be necessary not only on the level of local governments but even in the regional mediator systems of state functions. The direction of this can be giving the previous tasks to local levels, or the regionalisation of the institutional system and creating the conditions of political regionalisation.

According to the European experience along with the stabilisation of the economic system the interest of citizens turns gradually away from national politics towards the local regional level, which gives them more space and success. We can expect the growth of the local regional politics areas, which accompanies the expansion of the local regional civil organisations with their increasing role in community cases. Interest areas of the civil organisations demand the renewal of the former framework in the municipal and regional politics as well as a show of new directions of the regional and municipal development. In the future those municipalities and regions can be successful, which can integrate the new sources of the civil sphere.

### 3.5 Regionalisation

Regionalisation is tightly connected to administration but because of its importance we have to look at this factor from our future point of view separately. Hungarian administration was centralised during the last thousand years. By the beginning of the new millennium, the decentralisation of the administration became necessary, with the establishment of its institutional system as wide as possible.

The centralisation always represents branch like point of view while the decentralisation prefers regional level thinking and acting. From the early days a long combat started between the two points of views, where unfortunately often the centralisation and with it the branch- like point of view is the winner. Despite the failures more and more elements of decentralisation and regional point of view can be noticed. After economic stabilisation, increasing societal and civil control and the state giving up more and more functions, more and more possibilities offered by the spatial system will be available through the creation of the institutional system of decentralisation.

The creation of the seven regions is accomplished (*Table 9, Figure 16*) but they are not functioning yet, they couldn't involve the players of regional development, they are only functioning as deconcentrate institutions with moderate and limited sources. The real players of the development- the economic units- are not interested in the regional "games". Regions don't have any scope of authority, their tasks are not specified, it is not clear what kind of separated duties could be between county and the regional level authorities in regional development and how they are connected. The political factors considered to be serious confuse the regional development with the country side development and they tightly connect to the renewal of the agricultural sector, which disturbs the unfinished institutional system and also the participants of regional development.

Table 9

*Some characteristic data of the planning-statistical region 1998  
(National average 100%)*

Indexes	Central Hungary	Central Transdanubia	West Transdanubia	South Transdanubia	North Hungary	North Great Hungarian Plain	South Great Hungarian Plain
GDP 1994	145,6	86,4	100,7	84,0	69,6	73,9	83,3
GDP 1995	142,1	91,7	102,8	85,1	73,7	71,7	83,3
GDP 1996	147,5	91,2	104,6	79,5	68,6	70,2	81,1
Economic activity	106,8	102,5	108,6	96,1	92,0	90,2	98,7
Unemployment rate	53,3	93,3	71,4	120,0	158,1	157,1	102,9
Total active enterprises	136,1	90,4	98,1	95,1	68,5	75,6	93,7
Private enterprises	115,0	98,9	108,6	102,7	75,2	83,5	103,1
Foreign registered capital	217,3	60,3	88,3	39,3	71,3	35,5	37,3
Number of cars	124,9	96,2	104,2	99,0	78,9	76,3	94,9
Number of telephone lines	143,7	81,2	100,4	93,9	82,4	70,1	77,0

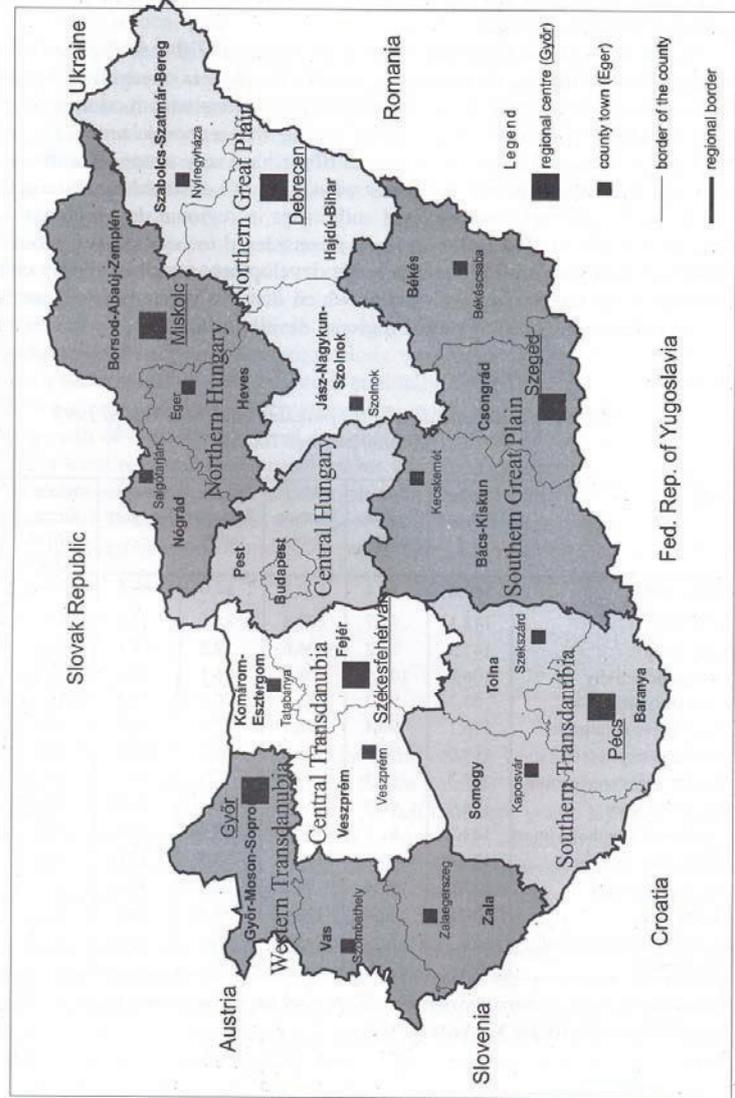
Gross average wage	137,6	107,7	102,2	98,5	97,0	93,3	96,2
Net average wage	117,6	97,4	93,7	91,1	89,8	87,3	89,4
Investment	150,3	111,4	124,6	58,8	76,7	52,7	70,7
Total resources of local governments	125,5	100,0	106,5	87,7	89,7	81,4	81,2

*Remarks:* every index is compared to the inhabitants (except: unemployment rate)

*Source:* Regional Statistical Yearbook, 1998

Figure 16

The counties and the planning-statistical regions in Hungary



The real regionalisation is slower than the country's preparation speed to the EU membership. It would be important to activate this source more and give clear political support to the regionalisation of the institutional system and resources, rather than the creeping decentralisation. Failing that distributing available subsidies after joining the EU again the branch-like participants will be the majority, which will deteriorate their utilisation and will have a negative impact on the forming of regional structure.

### **3.6 Environmental thinking**

Multiple connections of regional and ecological processes are important. One can not imagine regional development without exact and methodical environmental impact studies and at the same time there are more and more actions organised for the prevention and conservation of the municipality and landscape values and their utilisation based on sustainable development. The challenge of the environmental point of view is constant but the way of thinking has to be changed just like the regional economy management and the interest systems.

### **3.7 Preparation for the EU Membership**

Preparation for the EU membership started already. The regional policy made its first steps. During the next years the participants of regional development, must learn walking, then running, in order to become "well trained" regions, counties and municipalities in Hungary, which are able to receive the developments after joining the EU. Only the prepared regional units can use the advantages given by the EU membership, in order to help the nation.

The participants would become uncertain if the joining is being postponed, since the deadline is uncertain, The Council of the EU is floating the date of the membership, therefore one can't plan and program the future. There are no clearly defined criteria, so one doesn't know when one is "ripe" for joining the EU. There is permanent comparing with the other associated members. This compels to bring several uncertain and early measures, which can hardly build into the domestic political, societal and institutional structure. Several "nicely forced" institutional models are formed and introduced. For example the institution of regions, which isn't even functioning in several EU countries (e.g.: Ireland, Portugal, Denmark, Holland or Greece). The rules of the planning system (Comprehensive Development Plan, National Development Plan) are not clear either; their preparation method causes significant problems with the different sectors and on regional level too. The programming system is forming in an uncertain way on regional, county and small region level, since the activity of the participants is not known, we can't forecast the size of local and central sources either. We can mention the really uncertain monitoring system, since its methods and institutions are not well developed even in the countries of the EU, or the measuring of the impacts of regional subsidies. In the EU tender system the rules are not clear, the decision processes are long and complicate, clearing of accounts is difficult. Remember the constant threat, that Hungary is not able to use e.g.: PHARE sources, but in several cases because of the Committee's slow decision making and unclear conception meant that there was no feedback about the tenders, about the allowance of application. Therefore participants lost their enthusiasm, and used their own sources for other goals. Imported experts and their organisations win the important tenders; they don't have local knowledge and information. They are thinking according to the EU models and institutional structures, while they don't take into consideration several national and regional characteristics, and put them into an EU panel, which is not yet or no more used in our country.

Significant element of the preparation is that the participants of regional development gain exact knowledge about the real functioning of the EU's regional policy. Processing and working this information into the functioning of the regional-system is one of the most important tasks of the next years.

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The Hungarian regional policy before the EU membership, has several tasks. The scientific basis of the policy is excellent; it reflects the characteristics of the European regional processes, the development routes for the next century and their application techniques. The regional processes of the transition are practically accomplished. Every regional level has got a development conception; the programmes will be prepared according to those. Within a year the regional units will have the development directions and the application methods. Even the other participants of regional development started to realise that there are possibilities for their own development goals the regional dimensions. The decentralisation is going slowly, the development of the institutional system doesn't get enough support and moving the sources to the regional level is only going with a moderate speed. The Hungarian regional and institutional system, with sufficient political attention and support, could become capable to receive the EU subsidies and can be a significant element to make the entire country to catch up.

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