

## THE POSSIBILITY OF ORGANIC DEVELOPMENT IN HUNGARY

(with special regard to the changes in the functions of cities and cross-border cooperation)

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**Abstract:** Like Central Europe, Hungary has undergone quick changes in the past decades. The structure of the economy also had to follow these changes. The direction of exports and the changes in their internal structure reflect the dependence on great empires. However much the importance of the industry increased in the economic life of the country, the world market did not appreciate the achievement of the munitions industry. Cheap mass products were gradually pushed out of Western European markets. The country began to lag behind in the economic world competition.

The years after 1990 provided the opportunity of organic development but the changes are still in their infancy. *The territorial structure of economy* has changed. It was the western regions of the country that could join the economic competition rather than the regions in the eastern part. The development of the Hungarian economy was again determined by Austria, which is its neighbouring country and Germany, which is comparatively close to Hungary. *The internal structure of the economy* has changed. The growing importance of the processing industry (the increasingly strong information technology) and services help to adjust to the new opportunities. *The competition resulted in territorial differences.* The part towns played in the economy of the country began to gain importance and new management functions appeared. The success is the result of the cooperation of local mental forces, planning and implementation. *Borderlands underwent certain changes, too.* With border-crossing becoming easier, new networks of relations emerged.

**Key words:** *Hungary, regionalisation, territorial differences, network of the cities, border crossing*

### 1. INEVITABLE CHANGES, CHANGES IN ORIENTATION IN HUNGARY IN THE 20<sup>TH</sup> CENTURY

The East Central European countries between the Baltic and the Adriatic Sea can be found in one of the regions of Europe that have been subject to the greatest number of

changes. After the collapse of the Soviet Union, which had kept the area under control, the states that became independent again could start putting an end to dictatorship and ousting communist ruling classes from authority. Their accession to NATO and the European Union are signs that they have managed to break off from Central Europe, but at the expense of suffering heavy losses. The problem these countries shared in the 20<sup>th</sup> century was that they had to adjust themselves continuously to the political and economic systems of the great powers of the time. The present paper calls this involuntary kind of adjustment 'orientation change'. Let's follow this process in the case of Hungary. First the orientation change in foreign trade then the changes in the internal structure of the economy and finally the territorial differences in the economic development will be analysed.

After World War I, after the disintegration of the Austrian-Hungarian Monarchy the (new) countries had to organise and reorganise their commercial relations, since the succession states, Hungary included, emerged as a result of the disintegration of a protected, mostly self-sufficient market. Partly following the tradition of the disintegrated Austrian-Hungarian Monarchy, and partly due to the increasing dependency on Germany, Austria and Germany became Hungary's most important foreign trade partners. After World War II, however, there was a sharp change. When the foreign trade figures between the two world wars are compared to those after World War II, there is a striking phenomenon, which can be called 'orientation change'. The overweight of Germany between the two world wars was replaced by the Soviet Union and the communist countries in Europe. After the collapse of the Soviet rule, Hungary (as well as its neighbouring countries) returned to its historical roots and became a European country again. Consequently, the main direction of the conveyance of goods became the West again, i.e. Austria and mainly Germany. That was why the ex-communist neighbouring countries lost importance for a while from the point of view of foreign trade relations.

**Table 1** The percentage of imports in Hungarian foreign trade

	1928	1938	1942	1963	1970	1994	2005
Austria	16.2	11.5	–	3.7	3.9	12	6.7
Czechoslovakia/The Czech Republic	22.4	6.6	6.3	11.5	7.9		2.9
Slovakia							2.3
Yugoslavia	5	4.5	1	0.9	1.8	1	
GDR				10.2	10.4	–	
Germany	19.5	30.1	51.1	4.8	5.1	23.4	27.3
Rumania	7.9	9.8	1.5	2.7	2.4	0.8	1.7
The Soviet Union/Russia				33.1	33.1	14.1	7.4

Source: Kollega Tarsoly (1996-2000); Hungarian Central Statistical Office, Budapest

Like in economic relations there was also a sharp change in the internal structure of the economy in the course of the 20<sup>th</sup> century. Between the two world wars agricultural products and products of the food industry represented an overwhelming majority in the country's exports. Compared to all agricultural products, however, the proportion of the products requiring intensive cultivation (fruit, wine, corns, etc.) was growing rapidly. Products of the textile and clothing industries appeared in the exports of industrial end products, but it was the developed, modern branches of heavy industry (rolling stock production, electronics industry) that accounted for the highest proportion. As a result of the industrialisation that began in the 1920s, the percentage of consumption goods in

imports decreased considerably. During World War II Hungarian economy was becoming increasingly subordinated to German economy. Consequently, the territorial structure of the economy contributed to the fact that the highly-developed capital city, as well as the zone stretching as far as Vienna could gain outstanding importance, but the rest, about two-thirds of the country remained underdeveloped.

Due to the new international situation after World War II, a striking economic rearrangement was typical. As a result of the forced industrialisation policy during communist dictatorship, industrial development was in the focus of economic policy from the beginning of the 1950s to the end of the 1980s. The main problem of this change was that the development was not adjusted to the demands of the world market but rather to the military plans of the Soviet Union. The Soviet Union was preparing for the Third World War, so that its dream to achieve world power and to be able to spread communism in other countries, as well, could come true.

In the beginning only mining and iron and steel production were forced with the Soviet method of planned economy. These industries were developed in the areas with sufficient raw materials; therefore they were concentrated in certain areas. The development of heavy industry enhanced territorial inequalities, especially at the expense of agricultural areas, but besides the capital, industrial centres also emerged in the country. After the revolution and war of independence in 1956, the communist leadership carried out certain reforms. This was when the deconcentration of the industry in the capital began. Big cities in the country started to be developed so as to induce further development in their environment, too. Industrial companies in cities located production plants in the country. Their headquarters remained in the capital or in some other big cities, but soon there was a whole network of production plants in the country. Consequently, significant equalisation of industrialisation took place in the country.

After the change of regime in 1990 the economy took a new turn again. The primary purpose was to make Hungarian economy a part of the world market again. To achieve this aim the dominance of public ownership had to cease and all the factories owned by the state had to be sold, so that the power of the state should be limited to mere regulation. As a result of the process there was a decisive change in ownership in just a few years, because the number and proportion of state-owned companies decreased, whereas the number and proportion of private companies increased. The difference between the individual governments was (and still is) that the main ambition of right-wing governments was to sell the companies mainly to Hungarian owners, whereas left-wing or liberal governments preferred foreigners. The former way was a slower, the latter a quicker form of privatisation. The majority of foreign investors were German; they were followed by American, Austrian and French investors.

There was a change in the internal structure of the economy, too. The most spectacular change was the increasing importance of the role services played. After a few years industry revived again, with the former product pattern having been modernised. Products for which there was demand on the world market were placed on the market. Agriculture lost its decisive role. Industry was the most important in the counties where there were heavy industrial factories. Changes and adjustment to the world market were rather slow, especially in such areas. Mining and heavy industrial areas are 'rust belts' even today.

**Table 2** The percentage of the GDP in the main branches of economy in 2002

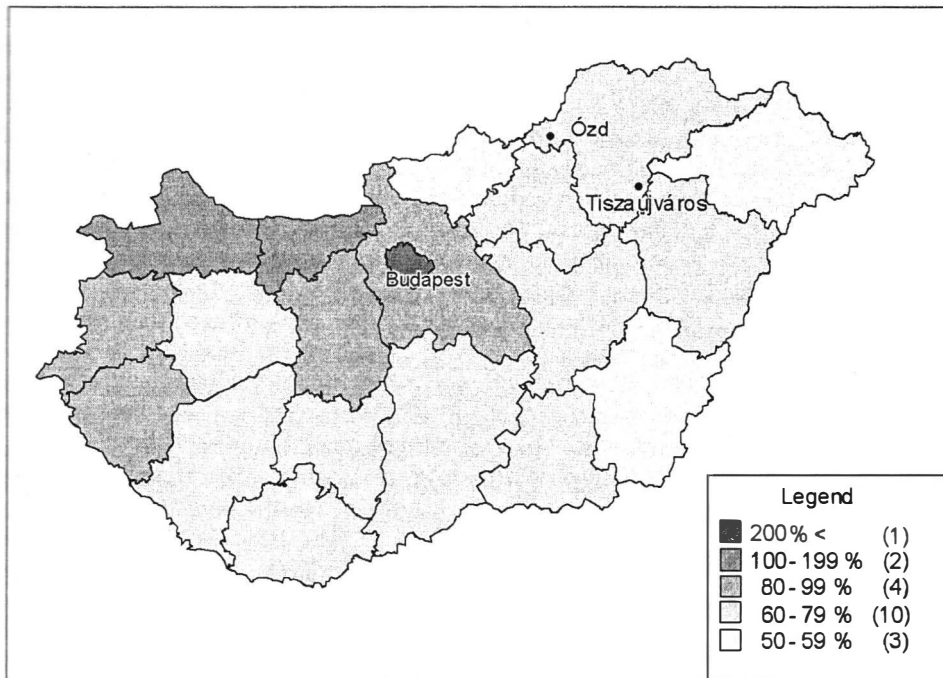
	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>
Hungary	3.68	30.22	66.11
Borsod-Abaúj-Zemplén County	3.77	38.04	58.18

Source: Hungarian Central Statistical Office, Budapest

In response to foreign products suddenly appearing in the country in large quantities, a lot of Hungarian companies lost their markets. Consequently, a lot of industrial companies went bankrupt, in this way increasing the rate of unemployment. Of all branches mining and metallurgy were in the most difficult situation. Owing to their losses, mines and companies of iron production were either closed down or sold. The new foreign owners did not always mean a solution, either, since very often they only needed the markets of the companies they took over, so they mostly closed down the company and dismissed the employees. Machine production was the first to revive, then the production of telecommunications companies began to grow rapidly and also the car manufacturing industry managed to place successful products (Opel, Audi, Suzuki) on the market. Of all branches of industry it was chemical industry that could best conform to the new conditions. In just a few years, industrial exports managed to acquire their previous importance again, in which pharmaceutical industry played a decisive role. Soon the products of electronics industry took the lead. Impressive development could be seen in telecommunications, communication, passenger and goods transportation (Romsics, 2000).

Not only in the geographical direction of foreign trade and in the pattern of economic branches was there a sharp change, but also in the spatial structure of the economy. In accordance with the policy of the ruling communist party, which supported the development of heavy industry in the first place, the industrialized eastern parts of the country were heavily subsidized, which made it possible for them to become the most highly developed areas of the time. Large factories were built there; they could employ a high number of people, who could live in flats on nearby housing estates. Such new towns, which were called 'socialist' towns at that time, and 'socialist' housing estates were built all over the country. However, after 1990, in the new, rapidly developing market conditions, the new companies, which could meet the requirements of the world market, were not set up in those areas, but mostly in the central parts of the country, i.e. in the capital city and in its environment, and in the wide geographical and communication zone stretching as far as the Austrian capital city. The indicators of development show that the conditions of market economy are favourable first of all for the capital city and the counties in the western parts of the country.

Budapest has kept, what is more, has managed to increase its central role. All the new banks, insurance companies, international financial counselling companies, all the stock exchange transactions and the overwhelming part of international transactions are concentrated in the capital. More than half of all foreign investments have been made in Budapest. This is where there is the lowest rate of inflation and where wages are the highest. The winner of the qualitative transformation of the economy is first of all the capital. The wide geographical zone between the central parts of the country and the Austrian capital is also at a much higher stage of development than the other parts of the country, though at a lower stage than the capital (Enyedi-Horváth, 2002). The favourable situation of the more developed areas can be shown by GDP-figures.



**Figure 1** GDP per capita in Hungary in 2005

As a result of market competition the spatial distribution of Hungarian economy has increased and territorial differences have grown. The companies whose products or services have not been competitive, which got used to the demands of eastern markets are lagging behind in the competition. Most of such companies were located in the eastern and southern parts of the country. In fact, a 'development slope' has formed from the western parts to the eastern parts of the country. In the underdeveloped regions there is a high degree of unused, out-of-date industrial capacity. The process of transformation is slow. The change in ownership and the loss of eastern markets affected agriculture the most. The number of the employed has decreased by half, the production has declined. For lack of subsidies production costs have increased. The overwhelming majority of insolvent agricultural organisations can be found in these areas. It can also be seen that vast areas of the country suffer from the fact that the production and profitability of both industry and agriculture have declined and led to a high rate of unemployment. Such regions are also afflicted by the fact that their working-age population is moving away, and therefore they have an ageing population and a high rate of gypsy population that are unable to enter the labour market.

The idea of reducing territorial differences first presented itself in the practice of European countries in the first half of the 20<sup>th</sup> century. A political decision was made to subsidize the regions which were backward compared to other regions. Following this pattern, Hungary has also framed an act of regional development and created an institutional system for enforcement.

## 2. THE DILEMMA OF REGIONAL DEVELOPMENT

Changes and turns, however, are typical of not only policies or macroeconomy. Also regional development is in for a dilemma. The question briefly is, whether regional development should be based on the principle of solidarity or that of efficiency. What should the strategy of a relatively underdeveloped country, like Hungary be if it wants to catch up with the old member states of the European Union? One solution could be the principle of solidarity. According to this solution the high number of unemployed people in backward regions has to be supported by creating new jobs. In the case of such investments the social aspect has a privilege, rather than adjustment to the demands of the market. Another method emphasizes efficiency, saying that it is more important to support areas that are capable of development. Supporting developed regions has the advantage that the investments made there will pay off much sooner, and the taxes paid in these regions could be used to support backward regions (Barta, 2005).

According to the Hungarian act of regional development, backward regions have to be developed. The act also deals with the regions where the structure of economy should be changed to make it possible for them to join domestic and international economic life. The act also regards the problem of borderlands, since it was because of the existence of the border that borderland settlements became backward areas.

Backward regions can be supported by direct financial aids, allowances, credits, investments and by the modification of existing taxation regulations and credit conditions. The act of regional development requires that the amount of support should be geared to the stage of development of small regions, counties or regions.

In the beginning the successive governments gave two alternatives for the solution of the situation in rust belts. On the one hand the factories were advertised to be sold. This solution, however, has not proved to be successful. The so-called reorganisation of just very few iron works has been successful. The other alternative aimed at improving the living conditions of the people working in rust belts. To achieve this aim, employment societies were established to prevent workers of factories from becoming unemployed unexpectedly and to make temporary employment possible for them. The length of transition was generally 2 years, during which they did some rehabilitation work in the territory of the factory that had been closed down and attended retraining courses. The purpose of such courses was to retrain unemployed people and make them suitable for working in other trades, taking up other kinds of jobs.

Besides granting direct support, governments have also endeavoured to encourage Hungarian and foreign investors to make their planned investments in such industrial areas. Besides tax-allowances and supporting investments they have pointed out the existing advantage of the high number of cheap and comparatively well-trained labour force in these areas. Founding companies, however, has not proved to be an efficient solution for employment problems because they are not able to offer jobs to as many people as were employed in former big factories.

When analysing the actual practice of regional development, we can see that during the years of transition so far, governments have tried to help backward regions by developing their infrastructure. This has been done by providing welfare services, such as building gas-pipe systems in the eastern part of the country, building, refurbishing and enlarging public institutions (building schools, gymnasiums, etc.). Between 2000 and 2002 the so-called Széchenyi-plan aimed at changing this method. It did not place great emphasis on welfare supports but rather tried to encourage economic development.

A lot of successful investments proved that the plan had been feasible. It was also in these years that Hungarian bathing facilities, which usually promote tourism, were improved considerably.

Besides enforcing the regional development act, every country has their own plans regarding economic development. In an ideal case the two are in accordance with each other. In reality, however, the amounts of money spent on regional development are only a fraction of the sums which are invested by actors of the market, and which are also supported by the state and local governments. These subsidies are first of all granted to foreign investors in the form of cash and tax-allowance. Local governments support such investments by offering sites either at a favourable price or free. However, the majority of the realized investments are concentrated in highly developed areas. In fact, much less money has been spent on the development of the economy in backward areas. This idea of economic development is reflected by the National Development Plan, too. The conception of the plan is based on the liberal principle that it is competitiveness that has to be increased first of all. The aim is to encourage an increasing number of companies to take part in the economic competition. This will lead to the employment of redundant manpower, ensure income, increase consumption, which will encourage further employment. According to this idea the local development of the economy should be based on local resources. The state promotes this process by developing education and the communication networks connecting the individual regions.

### **3. SIGNS OF ORGANIC DEVELOPMENT IN HUNGARY AT THE TURN OF THE MILLENNIUM**

A lot of phenomena prove that Hungary has new opportunities for the organic development of the economy. Two of them should be dealt with here. One of them is the change in the function of cities along with the emergence of an international spatial network between cities. The other new phenomenon is much better cross-border relations. Both are signs of a new opportunity for exploiting local resources. Even if Hungary as a member country of the European Union has to give up certain elements of sovereignty, the spatial networks whose number is continually increasing in economic life and open borders prove that success merely depends on the abilities of the actors in economy rather than on the benevolence of some great power.

#### **3.1. The development of networks between cities**

During the years of transition following the change of system in 1990, the dominance of private ownership, a typical feature of market economy, was implemented. Newly-established or renewed companies were still based in cities, and it was cities that attracted new investments. First of all Budapest, and further smaller towns became the centres of the new market economy. The new services, like financial development and investment services, which are typical of a highly developed market economy were also launched in cities. This however, resulted in the fact that instead of the former, large mining (in the country) and industrial areas (in cities), economic life was concentrated in cities.

Economic life concentrating in cities, however, was accompanied by another new phenomenon, namely the gradual development of networks between companies.

These two phenomena underline the fact that territorial inequalities are not typical of big geographical units, but can best be described by settlement-level networks (Enyedi, 2004). Regarding development, former areas the size of a county or a whole region are not easy to manage any more. Existing territorial inequalities are of a fine structure. Besides underdeveloped towns and villages there are also outstanding ones even in the most backward regions of the country. Examples for that could be Ózd and Tiszaújváros, two towns in Borsod-Abaúj-Zemplén County, which are just 85 km far from each other (Mezei, 1999).

Ózd looks back on a longer and more special past. Owing to the nearby iron-ore and coal mines the development of the small settlement started as early as the beginning of the 19<sup>th</sup> century. By the end of the century there had been a prosperous industrial and entrepreneurial life there. The number of its population was increasing rapidly. While in 1880 it had 5952 inhabitants, in 1941 there were 26,000 people living there. In spite of its high number of population it was still a village, which is a sign of the fact that, however numerous its population was, it was only a 'housing estate' of the factory. Most of its skilled workers and engineers were immigrants from abroad, mostly German and Czech people. After World War II the settlement, now a town, gained political significance, since metallurgy, which the communist economic policy focused on, was heavily subsidized. The number of its population increased from 30,000 in 1949 to more than 48,000 in 1980. This number has gradually decreased to 38,000 by now.

Owing to the young-age population that had settled down there, the number of births was twice as high as that of deaths in the 1960s. As a sure sign of beginning economic uncertainty, the number of births has been decreasing since the 1980s, while the death rate and the rate of migration from the town have been increasing. Meanwhile there has been a continuous and accelerating exchange of population. An increasing number of gypsy population has been taking the place of those who have died or left the town.

In the 1980s, during the international crisis of heavy industry, the metallurgy works gradually became insolvent and went bankrupt. Ten thousand workers lost their previously well-paid jobs. The above-mentioned employment society tried to ease the situation by employing about 2,000 people in the territory of the factory. However, it was impossible to set up new companies with a different kind of production in the contaminated territory of the plant. Then many different owners came: there were German, Ukrainian, and Hungarian owners that used up several billion forints from the national budget.

The 1990s saw the revival of the town. As a result of the activity of the German Max Aicher group, first textile industry, then the companies involved in maintenance, metal-processing and metal-working became stronger. Besides, two further investors involved in electronics and precision electric assembling also appeared in the town. They were the American General Electric and the Swiss Saia Burgess Electronics. However, the plants set up here have been able to take on not more than several thousand people, therefore the unemployment rate is still high in the town, more than 20%. Today it is also an obstacle to economic development that highly-qualified experts have left the town. The situation of the town was made even more difficult by the fact that after the Peace Treaties of the 20<sup>th</sup> century it became a borderland settlement. Iron-ore fields and communication roads were cut off. Consequently, it became a town on the periphery in every possible respect.



The predecessor of Tiszaújváros was a small village by the River Tisza. The chemical plant and the housing estate belonging to it, 'the new city', began to be built in the 1950s next to the village. The number of its population was 1363 in 1949, it increased to 3377 until 1960, and in 1970 there were 11,033 people living in the town named Leninváros, and in 1980 this number was 18,677.

The famous 'olephine-programme' was carried out in this small village with the purpose of industrializing the Great Hungarian Plain. Since in this branch of industry economic development has been continuous, Tiszaújváros is completely different from Ózd. First, an electricity-generating power station was set up on the bank of the River Tisza in 1953 (today: AES Tisza Erőmű Kft, in American ownership), then a chemical plant was attached to it (today: TVK Rt). While the factory was being built, workers, skilled workers, intellectuals and managers were recruited to the town. Since the development of chemical industry remained continuous after its privatisation, as well, the former social structure of the town has been preserved, with an unemployment rate of about 5%. The business part on the outskirts of the town is 4 – 5 km far from the motorway. Its spa and sports events organized on a regular basis attract tourists from all over the world.

Tiszaújváros has also joined international economic life, since MOL Rt bought a 40% share in TVK, and thus made TVK part of the international network. Besides, TVK has subsidiaries in several countries (TVK France, TVK Polska, TVK UK, TVK Italia, TVK Ukraine). This chemical centre has also attracted AKZO-Nobel, a paint and dye factory with Dutch and Swedish majority ownership. The town has developed a global spatial network stretching beyond the borders of the country. The centres of the network can be found in the town. In Ózd, however, there is no sign of such phenomena because the plants in Ózd are only the end points of large foreign companies.

The examples also show that a characteristic feature of modern economy is the development of individual spatial networks, especially because of the acceleration of information flow and widening transportation possibilities. This spatial network is organized by the town and its companies themselves, and they determine their own roles in it. The settlements traditionally called 'gravity zones' give only a segment of the whole system of relations of the town. Belonging to the network that has been developed by the town itself upgrades the town, while other towns, if they are not capable of developing such networks, will be degraded.

### **3.2. Cross-border relations**

Domestic and international networks of cities are in close connection with cross-border relations. Whether as far as the revival of traditional gravity zones or the new innovative spatial networks are concerned, it can be pointed out that a real obstacle to the development was the closure of borders. The Carpathian Basin used to be one single economic unit for centuries, now it is divided into smaller parts by the borders of eight countries. The development of cross-border relations means a new period in the life of the people living here. There is a chance of revival for the former gravity zones and widening regional cooperation. The development of cross-border relations is a real sign of organic development, a proof of regionalisation from below (Hardi, 2004). The following kinds of cooperation can be distinguished (Mezei, 2006).

## **Relations between settlements, twin-settlement relations**

There were twin-town relations in the past, as well. This was a popular form of the affected friendship between the communist parties of different countries. These representative, official and authorized relations were developed with the permission of central party organisations, and were confined first of all to cultural and sports activities. Since the change of system in 1990, these kinds of cooperation have been formed with new intentions, this time on a voluntary basis. After the introduction of the municipality system every settlement became responsible for their stage of development. It became their task to develop their settlement. They also had the opportunity to coordinate their ambitions of development with those of other settlements. This method could help them to improve their disadvantageous situation. They realized that it would promote the development of borderland settlements if they could get rid of their isolation and the settlements on the two sides of the border could find out what interests they shared and they could take steps in accordance with their common interests. Common planning and implementation could make e.g. building and use of public utilities possible. In this case it would not be the border but rationality that would determine where public utilities should be built. This is true of other settlement services, too.

## **Social (civil) relations**

It is sometimes twin-settlement relations that provide a framework for the relations of further social organisations, or sometimes the cooperation of civil organisations inspires the local government of a settlement to promote some form of cooperation. Social organisations are significant because, having a network type of structure, they can adjust to the opportunities in a flexible way.

According to the types of organisation taking part in cross-border relations there are

- ◆ civil organisations
- ◆ economic organisations (for safeguarding of interests)
- ◆ local governments
- ◆ small regional organisations, associations
- ◆ local governments of counties

These organisations are manifold. They are also different regarding their motives to deal with cross-border relations. According to the type of motive we can differentiate between:

Organisations that are set up of their members' own internal motive, as a result of their own decision, on an initiative from below. In such cases the personal demands and the world view of the members play a decisive role. Such voluntary relations can be maintained between civil organizations, local governments of towns and villages, or economic organisations.

Organisations established under an external inspiration for developing areas along the border. A typical example is the organisation of euroregions for exploiting development tenders. The majority of the organisations belonging to this category are local governments. In this case tenders play the role of a catalyst.

Initiatives can be classified according to function as well, though their most important aim is social integration. They only have different means.

- a) The cooperation of environmental organisations is the best known. They are separate types because they have very definite ideology: nature does not accept political borders, the protection of the environment can not take political borders into account,

- the conservation of nature is more important than temporary political interests. This is expressed in the well-known ideas of sustainable development.
- b) Similarly, cooperation established for economic reasons is also a special case when the interest groups of different countries want to enforce the implementation of market principles in this way. Not only business partners are involved in it, but organisations representing farmers as well.
  - c) The next group is made up of relations maintained by local governments of settlements. Such relations express significant social demands, demands of citizens.

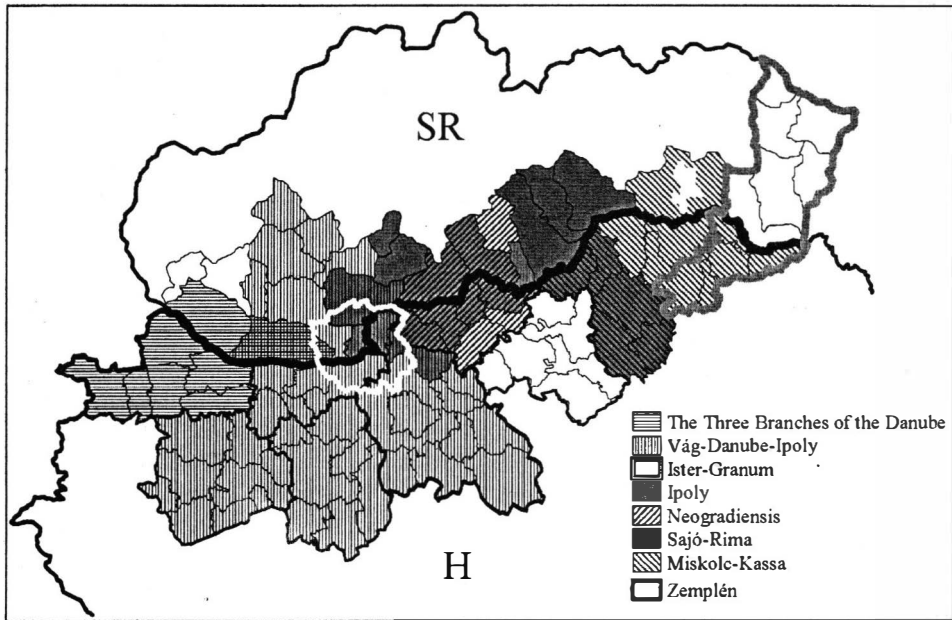
### **Relations of euroregions**

Cooperation between euroregions looks back on a fifty-year-old tradition. Their activity is also important in today's borderless Europe, because those living in the borderlands would like to improve their disadvantageous situation with the help of this organisational form, in which the representatives of local and regional authorities, and actors of social and economic life participate. Thanks to the actors of local governments they are also decision-makers, therefore they can have contact with national and European decision-making organs, they can take part in tenders. Their strength is indicated by the fact that they have set up the Association of European Border Regions (AEBR), which can influence the policy of the European Council and the European Union regarding cross-border cooperation: They have elaborated the international legal frames and the policy of financial supports. The latter involves INTERREG, PHARE CBC and TACIS CBC programmes.

Hungarian cooperation has not reached the level which would make it possible to provide common public utility services yet. Cooperation in health care, education, employment or communications is still laid down in interstate treaties and is not the result of the realisation of local interests. At present we are taking the first, however, very important steps. A choice of school on the other side of the border is still an individual decision, i.e. that of parents, but there are examples for a Hungarian university operating a branch on the other side of the border, too, or for signing a health insurance agreement, according to which Slovak insured patients can be treated in the hospital in Esztergom (Ister-Granum Euroregion). Cooperation in public transportation is not typical, the coordination of the timetables of the different means of public transport are still at the level inherited from the past (railway, coach). At the level of plans, however, there is a demand for the use of the airport on the other side of the border, and for building a double carriageway leading to it (Hungarian-Slovak, Hungarian-Rumanian borders).

When taking the initial steps it should be taken into account that cooperation is strongly hindered by the differences in administrative and taxation systems, legislation methods, markets, planning, currency and language.

Regarding the national development level of euroregions it can be stated that the first organisational steps to establish well-operating units have been taken. In order to make this organisational form complete, it is necessary to develop various networks between settlements, existing natural and cultural values, communications corridors, etc. In the background there should be a common development policy, which should be realised continuously, on the level of everyday activities, and not only if external resources are granted. Figure 2 shows the network of euroregions in the Hungarian and Slovak borderlands.



**Figure 2** Euroregions on the Hungarian-Slovak border

To sum it up, we should examine Hungary's commercial relations with its neighbouring countries, and compare them with its German relations. The table shows that, compared to the strong German relations, Hungarian relations with its neighbouring countries are rather poor, though it shows certain increase. It is probable that every country in Central and East-Central Europe have similarly unproportioned relations. One conclusion can be: the revival of regional relation systems that have been in existence for centuries will help develop backward regions. The other conclusion: The increasingly intensive relations between settlements will also promote the development of backward regions.

**Table 3** Hungary's foreign trade relations with its neighbouring countries and Germany (%)

	Imports		Exports	
	1997	2004	1997	2004
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Germany	26.96	29.16	29.16	31.43
Austria	10.55	8.32	8.32	6.81
Slovenia	0.52	0.73	0.73	0.98
Croatia	0.17	0.23	0.23	1.29
Yugoslavia	0.27	0.18	0.18	0.92
Rumania	0.73	1.53	1.53	3.2
Ukraine	1.32	1.09	1.09	1.12
Slovakia	1.89	1.98	1.98	1.91

Source: Hungarian Central Statistical Office, Budapest

Regional development in Hungary does not directly elaborate national programmes to revitalise rostr zones, but by applying stimulating regulations it aims at a modern,

competitive European system of relations, so as to make it possible for Hungarian settlements to solve their difficult situation by using their own resources.

### **Aknowledgement**

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### **The Possibility of Organic Development in Hungary (with special regard to the changes in the functions of cities and cross-border cooperation)**

#### **Summary**

After World War I, the (new) countries had to organise their commercial relations. After World War II, however, there was a sharp change. The dominance of Germany between the two world wars was taken out by the Soviet Union. After the Soviet collapse, Hungary (as well as its neighbouring countries) returned to its historical roots and became a European country again.

There was also a sharp change in the internal structure of the economy in the 20<sup>th</sup> century. Between the two world wars agricultural products and products of the food industry represented the overwhelming majority in the country's exports. As a result of the forced industrialisation policy during communist dictatorship, industrial development was in the focus of economic policy from the beginning of the 1950s to the end of the 1980s. After the change of regime in 1990 the economy took a new turn again. The primary purpose was to make Hungarian economy a part of the world market again.

Not only in the geographical direction of foreign trade and in the division of economic branches was there a sharp change, but also in the spatial structure of the economy. In accordance with the policy of the ruling communist party, the industrialized eastern parts of the country were heavily subsidized. However, after 1990, in the new, rapidly developing market conditions, the new companies were set up mostly in the central parts of the country, and in the wide geographical and communication zone stretching as far as the Austrian capital city.

A lot of phenomena prove that Hungary has new opportunities for the organic development of the economy. One of them is the change in the function of cities along with the emergence of an international spatial network between cities. The other new phenomenon is much better cross-border relations. Both are signs of a new opportunity for exploiting local resources.