

# INCREASING ROLE OF THE REGIONS WITHIN THE HUNGARIAN SPATIAL STRUCTURE

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The NUTS II level development region compatible with the system of the European Union is currently being set up in Hungary. This region will be as we believe the dominant tier of territorial economic development (the economic development-oriented regional development).

The optimal regional framework of the conscious territorial economy arrangement – and building can namely defined in the intersection of two requirements. The first requirement is set by the globalising (and regionalising) economy, as it defines the lowest possible territorial aggregation level of the existence of necessary environmental and market factors (actually the threshold of the economy of scale). The second requirement is the principle of self-governance of the democratic social system, which intermediates the largest territorial extension, which the self-governing local communities are able to handle.

In the first half of the 90's the euphoria of local-governance almost resulted in the death of regional development, and practically the act on regional development and physical planning in 21996 achieved the its awakening from this coma (yet the wasted 5–6 years of regional development is still missing). The act on regional development in 1996 did not undertake the “top-down” regionalisation of the country, not even in terms of regional development, but it set “soft regulations” the regional tier and tasks, giving green light for voluntary organisation. The majority of “bottom-up” initiatives of the regions aimed at regional development targets are bound with short-term financial interests or other external motivations.

The institutional and operational processes of regional development meant the adaptation of the mechanisms of the previous, settlement development system depending on the central tier, rather than the building of a system expressing the unique content of regional development.

The ideal of the bottom-up way – usually optimal in praxis –, the too high respect for the development and decision-making autonomy of the extremely

disperse lower (local, micro-regional) level, often without a reasonable basis (making the encouragement of processes adapted to coherent regional political targets), launched an in terms of the achievement of regional policy targets uncoordinated region building process, which can not take the spatial structural interests of macro-economy into account and is not adaptable to them. These processes together with the protection of the power status of the counties precluded the possibility of the voluntary establishment of regions equipped with relevant functions. Furthermore, the characteristically executive–distributing type of regional development institutional system obviously preferred its own exclusiveness, against the more flexible organisational–developmental diversity. As a result of this, and due to the time limits set by the political intention of EU accession finally a central decision created the EU compatible regions of regional policy – for the price of further delays – yet, maintaining the possibility of regional voluntary organisation in an occasional or permanent form.

The first half of the decade since the systemic change passed by practically without regional development and the second with an incomplete institutional–operational system.

### Region: lack and necessity

Why are regions necessary and why is the Hungarian regional development system deficient without regions? The answers can be defined based on first, the new development trends characterised by the duality of globalisation and regionalisation (in other words the nature of real processes), second, the experiences of the Hungarian regional development policy and praxis functioning practically without regions, and third the requirements set by the nearing European accession.

In the context of intensive competition globalisation requires from the majority of economic actors the application of new competitive tools, since in terms of the traditional internal company elements and advantages a significant compensation is ongoing: the capital flow without limitations evens the quality of technologies, through the standardisation and quality insurance it standardises the quality of products and therefore sets narrow frameworks for the arrangement of cost–benefit relationship within the company. The majority of new means is bound with the spatial framework of the company, is based on the utilisation of comparative territorial advantages and requires the partial or complete internalisation of the previously external elements and factors.

Similarly, the territorial community – due to the democratic system and the self-governance – is placed into a new context, and the development of the region can more and more rely on the mobilisation of endogenous resources

and therefore the given region may find itself in a competition with other regions. In order to enforce to more and more marked territorial economic interests partnership is required.

The general content of territorial interest in connection with local economy is, to develop and maintain a continuous adaptability and through that a development ability of the economy parallel to the most efficient (optimal) utilisation of local resources. As regards its content the territorial interests can be described by three factors:

- a) The development of the territorial division of labour and system of relationships, the existence of a complex and diversified economic basis, and the development of regional economic and market circumstances.
- b) The growth of communal and individual income-resources (in the interest of the improvement of living standards).
- c) Efficient employment of the population in the region.

Since conditions and features of the regions, settlements are unique, and they deviate from the characteristics of the entire macro-economy, territorial interests are separate autonomous interests. This segregated character is mainly to be found in three aspects:

- a) The establishment of a territorially defined economic space,
- b) To manage the development of a continuous adaptability to the market and the restructuring and without any crisis (the ability of a balanced territorial self-development).
- c) The economy of the region should link to the economy of the macro-region, country and world without any mediator, and should be able to join the process European globalisation and regionalisation on its own.

Within the threefold content of territorial interest employment is the instinctively and preliminarily declared element (often even omitting the attribute of efficiency), and this is to be found as the favoured objective in of almost all regional development actions.

In comparison, to the growth of community and personal incomes was devoted only secondary importance; mainly its subsequent signalling and selection criterion value was considered in all regional development tiers. The fact obviously plays a role in this treatment, that due to the central redistribution there is a seemingly indirect relationship between the territorial volume of the GDP and redistributed incomes remaining within the territory, and the target regions of regional development interventions are explicitly interested in the maintenance of this indirect relationship.

On the other hand, one of the hardly enforced interest elements is, the (relatively) compact territorial economy, which is fairly surprising, since the most

commonly used means of European regional development strategies (clustering and networking, logistical centres and zones, innovation and innovation chains, building of the informational society, restructuring and tertiarisation, transport-growth corridors, special treatment of human resources, etc.) rely exactly on the from every aspect basic perspective character of exactly this interest element and these categories have been integrated to the Hungarian practice too. The phenomenon is actually understandable, since in the case of this interest element the relationship of the sectoral and territorial management and the complete decentralisation are crucial and therefore system specific issues.

In the above order of “importance” of the interest elements besides inherited behaviours, the believe in central steering and the adherence to the sectoral ministries the reduction of regional development practice – despite of its functions set by the act – to levelling played an important role. Short-term thinking is behind this interpretation. With such attitude – even if regional development had rich resources – mainly superficial inequalities can be softened temporally (mainly those between the settlements, or in a more optimal case between the micro-regions). These indicators of inequalities regularly reproduce themselves if the income producing capacity of the territorial economy does not grow. Yet the differences in this field have increased.

We repeatedly have to relate to the fact, that the attractiveness and competitiveness of the regions (the background of territorial interest enforcement) mainly depends on the productivity, basically on the modernisation of the territorial economy, the requirements of which is set by the globalisation and regionalisation. The above mentioned circumstances require on the other such ways of regeneration within the regional economy, the organisational-potential background, conditions and resources of which my evolve in the case of Hungary within the frameworks of an at least regional scale territorial market and economy.

The regional development policy and practice was generally characterised until today by a much lower efficiency and less functions than necessary. There was a contradiction between both, the targets and the practice, and the system and its institutions.

The act on regional development set as the basic task, the moderation of inequalities and the encouragement and support of the motors and actors of regional development. However the regional development policy practice still attributed great (if not exclusive) importance to the levelling.

- The amount of the direct regional development resources is compared to the scale of tasks minimal;
- The central harmonisation of large sectoral developments – usually significantly larger than regional programmes – has been fulfilled with fairly

- low efficiency and their lower level co-ordination does not at all function (the majority of sectoral ministries maintained their privileged position, and there is no firm governmental resolution towards co-ordination.)
- A territorial consideration of the impacts of economic–social processes determining regional development is mostly absent in the decisions, the (negative) accumulation of impacts leads time to time to subsequent and campaign-like corrections;
  - The partnership of actors interested in regional development is immature and deficient, therefore the sphere of local governments is dominating (the role of the economic chambers is rather moderate due to the self-establishment, seeking for ways and means and their insecure position, the small and medium size enterprises are further on deficient in funds and unable to provide for development guarantees, and the volume of regional development resources and the market coverage of its actions is unable reach the stimulus threshold of large companies; the “ex ante” socialisation of decisions is underdeveloped, etc.), which is mainly interested in the direct settlement development;
  - The evolution of an autonomous regional development would mean the decentralisation of power. So far what has happened in this field is, the intensive “politicisation” of the system, and the clearly political type compromises occupied the theoretically professional decisions.

The establishment of the frameworks of the correction of the domestic regional development policy and the institutions of further decentralisation (which means the establishment of strong regionalisation) is an important task of the near future.

The established and partially institutionalised spatial structures (micro-regions, counties) are not sufficient for the economic development-oriented regional policy, since

- The smallest definition unit of territorial economy in the current market–economic context is the county (due to the existing institutional system and potential, the ability for and factors of capital attraction, the existence of concentrated market with an adequate size, the conditions of labour division and the development of market-economy, and finally the opportunity for the improvement of employment rates), which is currently the highest level of sub-national regional development policy;
- The competition of local–territorial economic development initiatives is under the current circumstances inevitably limited and the territorial economies of scale of the development aspirations is insufficient (developments are fragmented and local);

- No direct linkage can be established – due to scale reasons too – between the national spatial requirements and practice and the local territorial ambitions and initiatives, co-ordination is partial and accidentally;
- The crucial elements in terms of territorial economic development are mainly integrated in the system of conditions in the central steering tier (information, interests, decision-making, financing and efficiency);
- The essential regional policy principles guaranteed by the law (programming, concentration, subsidiarity, additionality, partnership, etc.) can only partially be enforced within the current frameworks.

The current institutionalised structure does not match in an adequate way and with sufficient competencies with the different territorial levels of interests, and the deficiency results in the space winning of centralisation and the sectoral logic. (The decentralised regional development institution system is able to treat only indirectly the essential elements crucial to the modern regional development, such as clusters and networks, business services, & and innovation development, environment development, territorial communication and transport systems and direct territorial “accessibility and linkages”, territorial cohesion, etc.)

The institutional framework of the established regional development system and mechanisms is still based on short-term logic and budget dependence, is fragmented and has poor interest enforcement competencies.

The possibility of further decentralisation under the current circumstances is rather moderate, since the informational, interest, decision-making, monitoring conditions of functions and competencies to be decentralised are not and can not be established on the basis of current spatial units, without the violation of the enforcement of regional policy principles (preliminarily the concentration, programming and subsidiarity).

With regard to the above the necessity of strong regions may seem a formal reason: practically the requirement of regional development compatibility due to the future EU accession. However, if we study the issue closer, we will understand that it is not true exactly for the above reasons and which differentiate the governmental (common) territorial policy from the “sectoral” territorial policy, which is reduced to a subsequent correction activity. The scale, the logic and the requirements against the actors are different as the probable results too. As a summary, the support reception ability of the decentralised Hungarian regional development system is almost minimal compared with scale of the expected support by the European Union, and this is the reason why we declared above that the first 4 to 5 years of the decade are missing similarly to the time wasted subsequently by the delays.

## Regions: function and division of functions

The establishment of institutionalised – and euro-compatible – regions, the formal perfection of the regional development institution system would enable to further improvement of regional development. The most important requirements of progress are as follows:

- The restoration of the balance between treatment of inequalities and efficiency (regional development support economic modernisation);
- The prior, mainly quantitative growth oriented regional development intervention policy (which was mainly oriented towards individual actors, trying to incubate the establishment of small enterprises and their initial operational problems, and focusing on the elimination of the limitations set by the development level of regional infrastructures – should be replaced, or actually supplemented by a new trend, which is emphasising quality improvement and focusing on the assistance of economic growth. In the forefront of the later are the improvement of the productivity of the operating and viable economic potential, the common and direct improvement of territorial economic modernisation and the competitiveness of the region through regular and systematised actions based on networks, co-operations and integration, etc. Institutionalised regional economic development (industrial parks, logistical zones and cross-border co-operations, etc.) the different economic networks, clustering, innovation chains, regional image and marketing, etc. – are the new key words of the new regional development course;
- The previous (mainly micro-regional) project financing should be replaced by the system of program financing (covering all levels);
- The regional development policy as a whole should meet the requirements of all seven principles (subsidiarity, decentralisation, partnership, programming, additionality, transparency and concentration) and its incentive system should be adapted to the functional requirements.

The basic territorial political function of the region is to explore the general regional interest (in connection with regional development), its harmonisation, representation and enforcement besides the settlement, micro-regional, county and sectoral interests. As regards the content of the function the three most important elements are regional economy organisation and development, infrastructure development and environment protection. The target of the efficient implementation of functions is: the establishment of regions able to develop autonomously and are developing towards the strengthening of internal cohesion; the respect for requirements of sustainable development; the improvement

of the regional market; the intensification of regional division of labour and the system approached development of infrastructure.

The institutionalisation of regions requires and enables the division of regional development functions, and the relatively precise definition of local-territorial competencies. The main organising principle is the parallel enforcement of the two classical targets of regional development – moderation of inequalities and efficiency – and the features of regional processes to be influenced (economies of scales threshold, motivation, volume of market, economy of operation, capital and incentive absorption ability, conditions of partnership, the geographical scale of the process or factor, etc.).

With respect to regional inequalities the essential territorial level is the micro-region: the micro-regional inequalities are the most marked, and the differences in practically all the higher levels only reflect the later in an aggregated way. The treatment of inequalities is an important but not the only regional development task and the close co-ordination relationship is required with the two most concerned spheres, with settlement development and local-regional social policy. The dominant scene of the modification of territorial inequalities may be the county.

The target of efficiency is connected with the territorial (economic) competitiveness, the main (and perspective) elements and means of which – cluster, network, & economic and monetary services, institutionalised economic development tools (industrial parks, distribution-logistical centres, business zones, etc.) – mainly require an at least region scale space economic unit in Hungary.

According to the characteristics of the processes and their natural scale infrastructure and environment protection are target areas, which also require larger regional development frameworks, than the counties.

Similarly – but for other reasons – the regions should be attributed as the essential scene of international relationships and marketing. The European spatial development, globalisation of international (economic) co-operation require as the minimal territorial unit the scale of Hungarian regions. This requirement is reinforced also by the regional trends of the institutionalisation of the European Union, the fact that regional development is “becoming a profession”, the necessity of the local-regional establishment of the steering-organising-managing organisation and its rational operation.

According to the above the basic function of the territorial tier of regional development may be as follows:

a) *Strengthening of the efficiency and competitiveness of regional economy.*

The basis, framework of the above is provided by the economic organisations with stable functioning and capable of progress (according to the

Hungarian experiences these are the economic units with more than 20 employees). The main development fields are:

- The establishment and development economic clusters,
- Establishment and improvement of economic and economic institutional networks (industrial parks, logistical centres, business zones, etc.),
- Development of & organisations, innovation development,
- Development of economic and business services, regional development financing,
- Elements supporting the strengthening of competitiveness (quality control, design, etc.), development and extension of the activities of economic sectors,
- Institutions, organisations aimed at supporting the improvement of capital attraction and territorial economy organisation;
- Development of functions supporting economy and the establishment of relationships (conference, exhibition services),
- Improvement of higher, university education,
- Gradual dissemination of the operational elements of the information society.

*b) Development of the large infrastructure systems (networks)*

- Development roads, railways and waterway tracks (improvement of international, national, interregional and regional scale network elements),
- Regional airport construction,
- Development of regional border stations,
- Development of communication and information systems,
- Development of the large establishments of communal infrastructure (regional waste deposits and recycling centres, waste water treatment).

*c) Environment protection. This function covers environmental activities requiring inter-regional co-operation. Its fields are:*

- Nature protection,
- Environmental pilot programmes,
- Air, water and soil protection requiring regional co-operation.

*International relationships*

If the regional development regions with adequate functions established, the regional development role of the county tier will be limited to the moderation of – preliminarily intra-county, i.e. inter-micro-regional, and secondary inter-

county – inequalities, which is the same activity as before. Therefore, the county tier is shall not be associated with the notions and processes of development poles, the territorial efficiency of development, dynamism of territorial economic growth and economic structure, etc. but rather the quality of integration ability, the formation of the relative regional-spatial structural position, the equalisation of economic development opportunities and the consolidation of life circumstances should be emphasised.

We also have to emphasise that the point under discussion is not the hierarchy of functions but rather the lack of division of functions. The division of functions is not a burden for the two tiers but the basis of co-operation, the dominant but not exclusive mark of their role in regional development. The county is not the deconcentrated or executive tier of regional decisions and similarly the region is not the resource provider for county decisions. This case would be true if the region would carry out the same activity in a wider framework as the county in a narrower space (which may be at present an assumption or a development, which is not without foundations). The soft and inconsistent character of the regulation is currently quite characteristic. A political break through is required. The decentralisation to be implemented by the region is namely not the concentration of county tier competencies, but the delegation of certain elements of the governmental-sectoral competencies to the adequate territorial tier.

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