The main challenges of reindustrialisation in Hungary and France

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Abstract

Reindustrialisation is a contested issue in EU economies undergoing parallel processes of deindustrialisation and servitisation. Rejected by market enthusiasts, but gaining growing momentum among policy and business stakeholders, it is a costly endeavour requiring heightened state activism. The aim of the current paper is to present the key challenges, stakeholders and institutions underpinning an innovation-based reindustrialisation in Hungary and France, with a particular emphasis on the role of intermediate-sized enterprises (ISEs). The fundamental role of ISEs in rebuilding the industrial core and breathing new economic life into lagging regions in the two countries is underlined by their superior level of embeddedness, internationalisation and innovative performance. Despite their heterogeneous level of productive performance, development opportunities, capitalisation and competitiveness, French and Hungarian businesses are facing strikingly similar challenges. Notably, lagging innovation performance, underfinancing, industry 4.0 and digitalisation, a shortage of skilled labor force and tackling the crucial issue of generational change. The study will consist of two main sections. The Hungarian situation analysis, drawing on the main findings of our research conducted between 2015-2018 focussing on three Hungarian regions (two developing and one peripheral lagging region) will be complemented with a zoom on the French approach to innovation-based reindustrialisation.

1. Deindustrialisation and its consequences in the two countries

1.1. The post-transition industrial landscape in Hungary

The post-Socialist development of the Hungarian industrial sector was dominated by three major processes (Lux, 2017): the massive closure or reorganisation of state-owned enterprises (SOEs), the inflow of foreign direct capital and the emergence of a buoyant SME base. The transformation of large manufacturing was particularly drastic in Hungary with the survival rate of privatised businesses remaining below 20–25% (*Barta* 2002).

The organisational framework of industry has also undergone substantial modification. Post-regime change, Hungary had barely any globally competitive large industrial corporations and the SME sector was still in its infancy. In the absence of capital-intensive domestic players, the void left by large SEOs was filled by foreign-owned companies. A large share of production factors – labour force, technologies, expertise, production sites, equipment – were transferred to new, international stakeholders. This process was intensified due to the pre-eminence of FDI-oriented development and a lack of alternative paths. Largely akin to other post-socialist countries in the region, despite a dramatic rise in the number and economic activity of Hungarian SMEs post-transition, the SME-sector is characterized by a persistent efficiency deficit.

Outside the territory of the capital city region, there is an almost perfect overlap between the development and the industrialization map in present-day Hungary. Successful counties and towns are privileged spaces of FDI-based development (*Lux* 2017). All this indicates that post-regime change, the inflow of foreign direct capital to the country was preceded by a non-voluntary, rapid and drastic deindustrialisation, leaving its mark on the corresponding development model. The resulting *dual economic structure* is characterized by marked disparities in the efficiency, competitiveness, factor endowments, financing opportunities and export performance of domestic and foreign-owned companies (*Barta* 2002, *Kiss* 2010, *Palócz* 2016). This has generated a specific *dependent market economy model* (*Pogátsa* 2016) where production activities are coordinated by foreign-based corporate headquarters concentrating the bulk of high value-added corporate functions (R&D, marketing, etc.) and the less profitable and lower value-added production activities outsourced to the periphery.

EU accession, in line with Western European processes, has triggered enhanced intra-sectoral competition and market induced polarisation between highly competitive, internationalised SMEs and their poorly performing competitors predominantly serving regional markets. The intensification of the above processes was discernable in the aftermath of the global economic crisis *(Kovács et al., 2019).* The efficiency gap between foreign-owned and domestic enterprises in the region underlines the existence of a dual industrial structure with a distinct sectoral and spatial manifestation. While transnational companies have fuelled industrial modernisation, their location choices (an excessive concentration along the Vienna-Budapest axis) have intensified processes of spatial differentiation. The specific problems of the dual economy are aggravated by a scarcity of large companies in domestic ownership ensuring the successful integration of domestic SMEs and competitive intermediate-sized enterprises.

Szerb (2010) links the weakness of Hungarian SMEs to the overall low competitiveness of the business sector. The critical flaws are manifest in the level of innovation, demand and network building. The Hungarian business sector is dominated by a large number of underperforming SMEs alongside some discrete islands of highly competitive firms.

Reindustrialisation, driven almost exclusively by foreign MNEs, has advanced at a slow pace following a massive deindustrialisation in the post-transition era, which makes the relevance of the notion highly questionable. Industrial policy, with its disproportionate focus on FDI attraction is insufficiently complemented by measures to boost the performance of domestic industrial firms that constitute the backbone of territorial economic development.

1.2.Deindustrialisation and reindustrialisation in France

An increase of productivity in the service sector notwithstanding, deindustrialisation hit the French economy harder than its advanced neighbours[1]. According to estimations, manufacturing lost cca. 2 million jobs between 1980 and 2007. Deindustrialisation is held accountable for the weak proportion of industry-related firms in the business sector (9%), ranking lowest among the countries of the European Union (Tavernier 2018, Cailletaud 2018). The scale and severity of deindustrialisation played a crucial role in the comeback of industrial policy, fostering a revival of France's ailing manufacturing sector notably through large innovation and industrial restructuring programmes and subsidising technological innovation and growth of SMEs (see esp. Demmou 2010, Gallois 2012, Cohen et al. 2014, Groupe BPCE 2016). Its comeback after decades of being dismissed as a relic of a bygone era[2], an inefficient and costly endeavor is symptomatic of a nascent post-liberal order requiring experimentation with novel policy solutions and measures to tackle competitiveness issues that neoliberal policy recipes are ill-equipped to address. The idea of reindustrialisation or manufacturing renaissance emerged in policy recommendations post-2010 (see esp. Levet 2012, 2014, Blachier 2017) evoked as a universal panacea to sluggish economic growth and declining industrial

[1] The share of industry in national GDP was halved between 1970 and 2016, while the share of tradable services attained 56% by 2016.

[2]The redistributive agenda pursued by industrial policy under the high period of Fordism was centered on a better incorporation of peripheral regions into domestic production chains in the key propulsive sectors (automotive etc) The redistribution of fruits of growth across the national territory rendered caduque the long-standing geography of spatial imbalance characterised as an „east-west divide". The interregional division of labor guaranteed by production circuits (…) was dismantled due to the crisis of Fordist integrated production systems triggering a downsizing or demise of entire sectors (…). The rise of the tertiary economy and the neoliberalising policy shifts of the eighties-nineties led to a general undermining and vilification of manufacturing which explains the reticence of political circles to engage in meaningful discussions on its role in ensuring national prosperity and growth.

competitiveness. According to a mid-term development scenario prepared by France Stratégie (Pisani-Ferry 2014) the role of a revived industrial policy is to reduce the innovation-based competitiveness gap of the French businesses sector stemming from a sub-optimal level of R&D investments and to contribute to attaining the number of innovative firms in the German business sector.

The proponents of reindustrialisation – backed up by powerful and industrial lobbies encourage state activism in the form of a more active technological and industrial policy to reinforce France's industrial strengths while dissenting voices from the scientific community are more skeptical towards the state's capacity to pick winning territories and sectors on which to build long-term competitive advantages. Laissez-faire minded opponents give no currency to the concept of reindustrialisation on grounds that the tertierisation of the economy is an irreversible process or even a sound indicator of national economic health. The „France without its factories" (Levet 1989) narrative gaining momentum at the peak of the anti-interventionist era has still some currency in various political circles.

Multiple arguments – underpinned by solid economic foundations – can be put forth in favor an innovation-based reindustrialisation or manufacturing renaissance capable of breathing new economic life into France's deindustrialised territories. The importance of manufacturing in foreign trade (80% of exports), capital accumulation, productivity gains, intramural business R&D (90% of BERD produced by industry-related businesses), the powerful multiplicator effects of industry on other branches or its strategic role in territorial development are among such claims. Manufacturing firms accounted for the bulk of R&D investments in the business sector (the equivalent of 23.5 bn from a total amount of 25 bn in 2015) (Bourquin 2018).

The role of manufacturing in territorial development is also underlined in economic analyses that establish a direct correspondence between the most productive and the most industrialised territories of France, pointing to the emergence of a north-south divide among regions with a primary reliance on export-based growth and regions heavily dependent on other sources of income transfer (see Davezies 2013).

The global recession sent economic and social shockwaves throughout the territory of France, revealing the increased vulnerability of non-metropolitan localities to manufacturing decline. A massive deindustrialisation of their economies notwithstanding, largest metropolises' resilience was underpinned by their dynamic tertiary sector (notably, the hyperconcentration of superior metropolitan functions) and sectoral variety. Apart from a handful of crisis-proof

metropolises, endogeneous industrial areas or territorial innovative ecosystems were the only bastions of industry showing a positive balance in manufacturing job creation.

Post-crisis the issue of a growing cleavage or „territorial fracture" (Gilly 2012) dividing „peripheral France" prone to populist blacklashes and internationalising „metropolis-citadels" increasingly inaccessible for an ever wider segment of the population penetrated public opinion and political discourses. Peripheral smaller-sized monoindustrial towns' high exposure to external corporate decisions of MNE affiliates located on their territory was demonstrated by recent appeals against plant closures in Belfort (General Electric) or Blanquefort – Gironde county (Ford plant). In general, footloose MNEs prefer a low level of engagement with their host territory, while locally embedded or owned firms are less likely to succumb to the lure of short-term profit gains and opening up their capital, which makes them important safeguards of local jobs capable of preventing massive population outmigration from slowly growing areas. In Germany this role is ensured by the Mittelstand, the much-vaunted family-owned businesses also evoked as the backbone of the German economy. Their number is significantly lower in France (a mere 5,800 compared to 12,000 in Germany), a factor largely responsible for France's lagging industrial competitiveness in comparison to its chief trading partner. However, the implantation of the Mittelstand-culture in France is problematic due, in part, to long-entrenched Republican mentalities and an overall bias towards large industrial players. The historical development of the German social market model was underpinned by a culture of socially responsible entrepreneurship relativising personal gains and well-developed linkages between regional banks and the business sector. This favorable constellation of factors can hardly be found elsewhere.

2. The problems and challenges of the „missing middle"

2.1. Hungary

The predominant role of large firms notwithstanding, intermediate-sized enterprises (IDEs) are regarded as the main protagonists of reindustrialisation for a number of reasons. There positive role is underlined by their size connected to better innovative performance than SMEs and a higher degree of flexibility than large firms. Their strong territorial embeddedness places them at the forefront of territorial economic development, while their capacity to integrate local SMEs and micro firms, join subcontractor networks of MNEs and trigger clusterization

processes within their sector is equally praised by proponents of reindustrialisation. Finally, these firms are the most likely to display the characteristics of German Mittelstand-firms.

Nonetheless, Hungarian intermediate-sized enterprises face a number of critical challenges:

- ***A shortage of skilled labour force*** is widely regarded as the main obstacle to firm growth in Hungary. Companies unaffected by this challenge are scarce, while the great majority of firms have already exhausted the full spectrum of solutions for the recruitment and retention of workers. French firms are equally impacted by this phenomenon, however, it is primarily manifest in a quantitive lack of highly qualified R&D&I-related workforce, while in Hungary, it has both quantitative and qualitative aspects.
- ***Managing generational change*** presents a significant challenge for the great majority of intermediate-sized businesses. While most entrepreneurs attribute a crucial significance to succession, only a few of them have elaborated a conscious strategy to tackle this issue. The implication of a great number of domestic firms created post-regime suggests that we are dealing with a large-scale phenomenon. To render the management of succession even more difficult, after three decades of market-based operation, this is the first time that domestic firm owners have to face related questions and dilemmas. In the case of France, the management of succession, albeit equally critical to firm survival, has constituted a long-standing challenge.
- Due to the ***weakness of internal markets,*** Hungarian firms are under growing pressure to compete on highly competitive export markets. While a weak national currency and low labor costs may guarantee short-term competitive advantages for the Hungarian economy, these factors are considered to be a serious drag on innovation, and in the case of products with a high import content, the favourable price of the currency also loses its appeal.
- ***Low level of R&D&I investments***. According to data from the Hungarian Statistical Office, Audi was responsible for every fifth forint spent on R&D among Hungarian R&D stakeholders.[3] Despite the propensity of the large share of firms to engage in R&D activities, this openness and engagement does not translate into a substantial improvement of innovative performance. Only a few companies are making serious efforts in R&D as highlighted by the 2016 corporate R&D report of Deloite.[4]

  While the suboptimal level of innovation is an equally critical issue in France, the innovation gap presents itself on different levels, for France, as compared to the main

[3] https://g7.hu/kozelet/20180807/magyarorszag-a-globalis-innovacio-segedmunkasa-ot-ceg-kolti-el-az-orszagos-kf-felet/

[4] https://www2.deloitte.com/hu/hu/pages/ado/articles/ce-corporate-rdreport.html

vanguards of innovation, and for Hungary, as compared to the EU average. Moreover, while public research and higher educational institutions produce significant innovation outputs in France, these sectors are seen as largely responsible for the innovation underperformance of the Hungarian economy.

- ***A low level of added value***. Though characterizing Hungary as an assembly plant might be a slight overstatement, there is widening consensus on the need to shift the focus to high value added production activities. However, this is rendered increasingly difficult by the low innovative performance of firms, with more modest results in product innovation and higher performance in process innovation.
- ***Digitalisation and Industry 4.0***. While the latter are not identified as specifically problematic or lagging areas, it is the absence of a clear prioritisation of tasks that poses a problem for the majority of Hungarian firms unable to decide where to focus their efforts or resources in the near future. A number of firms have already displayed significant efforts towards digitalisation, while Industry 4.0. is seen as a possible remedy to the pressing issue of labor shortage. French firms have a considerable advance in the digital transformation and automatisation of production over Hungarian firms as well as in the preparations to related labour market and social impacts.
- A ***critical shortage of skilled labor*** is largely attributed to a dysfunctional system of Hungarian vocational training (alongside outmigration and demographic factors). Despite important governmental efforts, the proportion of students choosing vocational training over grammar schools remains low, which is explained by the low prestige of vocational education and a lacking system of occupational guidance. To compound the problem, the relative underdevelopment of the Hungarian industrial sector has led to the massive absorption of unskilled workers. Target numbers are not aligned according to bottlenecks job vacancies but the interests of controlling authorities guiding entrants towards less competitive professions.

Addressing the above difficulties, problems and challenges requires conscious strategy making on behalf of Hungarian firms that are largely devoid of such practices. Therefore, the institutional environment, besides its systemic engagement with economic development, has to promote the adoption of strategic thinking by a growing portion of the business sector.

2.2. France

The recession triggered by the global financial crisis was instrumental in the revaluation of the role of French intermediate-sized enterprises (ISEs), credited with being the major (and singular) sources of job creation in the secondary sector in a period when large firms and SMEs alike were suffering heavy losses. ISEs' role in the reindustrialisation agenda was underlined by being the main exporters alongside France's 300 largest companies. According to industrial policy thinking of the day, national growth and competitiveness is severely curtailed by the problem of the „missing middle" between SMEs and the „grand comptes". The pact for industrial competitiveness launched by the government (Gallois 2012) was among the first to highlight the competitiveness lag of the French business sector attributable to the low number of ISEs and the weakness of interfirm synergies in comparison to Germany or Italy. Rejecting a one-size-fits-all approach, it called for multiple forms of state aid to promote SME growth.

SMEs, left to their own devices and hindered by a lack of own resources, insufficient drivers of internationalisation, lower profitability, difficulties of accessing external funding, etc. *are seldom able to develop into ISEs*. French SMEs are too small: an average French SME has 27 employees, 50% of SMEs have less than 20 employees, and only 14% have over 50 employees (Berger et al. 2017).

According to a survey by INSEE (2018) less than 50% of French businesses performed innovation-related activities between 2014 és 2016. The *dual structure* of the French business sector explains the persistant gap in terms of innovation performance between highly innovative large companies (*EDF, Total, Alstom, l'Oréal, Airbus, Vicat, Michelin, Sanofli*, stb.) and ambitious start-ups on one side, and an overwhelming majority comprising of non-innovative domestic market-oriented SMEs on the other. French SMEs also have a weaker foreign market presence than their more developed counterparts (Business France 2018). The resolution of the above dualism would require a segment of export-oriented ISEs with outstanding patenting activity comparable in size to the German Mittelstand-sector. Boosting the ISE sector would also help tackle the issue of unemployment. However, a more business-friendly regulatory environment is a basic prerequisite to SME growth, i.e. the reduction of prohibitatively high labour costs, taxes on capital and wealth to liberate resources for innovation and modernisation. In this respect, the German Mittelstand-model whose perennity is underpinned by business-friendly tax rules and successful generational takeover (60% in constrast to 20% rate for French firms) serves as an inspiring example.

To incentivize the growth and internationalisation of SMEs, the state launched a € 2.7 bn multiannual funding programme in 2005 combining industrial and innovation policy elements to foster the emergence of dynamic territorial innovation ecosystems. The 68 competitiveness

poles structured around large industrial players provide favorable conditions for enhanced innovation and interfirm collaboration for SMEs. Besides the massive state subsidies, they are co-financed by regional and local authorities, however, an overarching concern with global competitiveness diverts funding resources from national poles to a handful of poles with a worldwide vocation, producing a hierarchisation of the 68 competitiveness dispersed across the national territory.

A host of additional ttop-down governmental initiatives focusing on the innovation based growth of French firms were launched with an eye on narrowing the performance gap between French and German IDEs. In the framework of the € 57-bn *Industries of the Future Initiative* (PIA) launched in 2010, the *General Directorate for Industry* (DGI) selected groundbreaking projects of firms eligible for funding (in domains such as biotechnology, electronics, intelligent networks, vocational training, informatics) on the basis of criteria of excellence and job creation.

In 2013, the government launched the *New Industrial France Initiative* (NIF), also known as the French „*Industry 4.0.*" in order to reverse manufacturing decline through gaining leadership in the Fourth Industrial Revolution. The programme, due to a number of structural factors, remains less ambitious in terms of its objectives than its German counterpart. To signal its rupture with previous industrial policy measures, NIF no longer mentions an increase of employment in manufacturing as a proxy of successful strategy implementation, shifting the focus to novel sources of value creation, product amelioration, and a general usage of the most advanced robotisation technologies. An excessive bias towards advanced manufacturing activities as the new engines of national economic growth attests to a neglect of low-level manufacturing and production compromising the economic prospects of peripheral localitities. From a regional policy perspective, the general failure of the strategy to problematize the relationship between territorial imbalances and national growth objectives indicates a growing disengagement with the „rebalancing challenge" (aggravated by the absence of compensatory mechanisms such as diversion of capital and labor towards economically weaker regions). The risk of social costs of spatial economic imbalances outweighing economic benefits stemming from a non- articulation between industrial and territorial policy objectives is therefore non-negligible.

The central governments's narrowing focus of reindustrialisation is rendered visible through the centralised management of innovation and a prioritisation of disruptive innovation, also manifest in the practice of „picking winners". State-funded transfer institutions mushroomed in the 2010s promoting the development of partnerships between innovation stakeholders critical

to delivering breakthrough technologies. Highly successful state endeavors include 14 technology transfer accelerators (*SATT*) connecting academic research with the business sector managed through a € 856 M fund and the 8 Institutes for Technology Research for which the government unblocked € 2 bn to foster collaboration among public research, higher education and business stakeholders in strategic technological domains. A governmental commission („*Innovation 2030*") dedicated to disruptive innovation was charged with identifying the key sectors (energy storage, biomass-based chemical technologies, big data, silver economy, personalized medicine, etc.) capable of delivering disruptive technologies. The state's role in „picking winners" was strengthened through the creation of a €10-bn „Industrial Innovation Fund" in 2018 earmarked for financing disruptive innovation related to the main societal challenges (AI, mobility, health, cybersecurity). French Tech Seed, a € 400-M high technology fund financing laboratory and incubated spin-offs managed by the state investment bank (BPI) was created in 2018 as an alternative to lacking private risk capital financing. Additional funding for disruptive innovation was made available for SMEs and ISEs in the framework of the *Artificial Intelligence Plan* 2018–2022 and the *Deep Tech Plan* also under the management of BPI. A special *Innovation Council* established by the government in July 2018 was charged with the management of industrial and innovation funds and the designation of the main directions of innovation policy.

3. Institutional Environment

3.1. State level industrial policy

Notwithstanding the lack of clarity surrounding the scope and limitations of state-led industrial policy in France, its raison-d'étre is highlighted by numerous initiatives launched in the recent years (see Section 2.2.), while in Hungary, there is still enormous debate on its role and opportunities. With Hungarian industrial policy disproportionately focused on large multinational players and the state-level system of funding and institutions lacking or underdeveloped, under the banner of „economic patriotism", Hungarian SMEs and ISEs face a chronic shortage of public funding. The absence of decentralized funding schemes - as operated by the French regions - poses a serious handicap for the Hungarian business sector.

3.2. The growing role of spatiality and the network economy

The building of various economic cooperations and networks provides the economic rationale for boosting the efficiency of the national economy. The winners of this process are regional economies well connected to global flows. The key role of the partially supranational, but predominantly national and local institutional background of economic development is to support local/regional firms in the global economic competition.

As a result of the growing mobility of production factors (capital, labor) the quality of the local milieu weighs heavily in firms' location decisions *(Lengyel, 2006).* This is explained by a community of interests between economic and territorial stakeholders (*Hrubi 2004).* Spatiality has become a defining feature of the operation of the economy. The main directions and engines of economic development are the twofold processes of globalisation-localisation also known as the global-local paradox: while competition takes place at a global level in global industries, the competitive advantages of firms remain highly localised in nature. The role of local assets is also being fundamentally transformed. The increasingly neutral nature of a growing spectrum of production factors from a competitiveness perspective shifts the emphasis to non-imitable local assets relying on specific local knowledges and the place-specific characteristics of local institutions (Enyedi, 2001). In Hungary, the economic sphere has well-developed linkages with local governments *(Pálné, 2008)* and local governments demonstrate a growing propensity to include local firms among planning stakeholders.

Multinational companies are the fundamental stakeholders in the revitalisation of territorial economies. The benefits attached to their presence from a territorial development perspective stem from their role as main employers and coordinators of subcontractors' networks capable of integrating local SMEs and boosting their growth *(Póla, 2019).*

The growing standardisation of the quality of competing products has shifted the focus of corporate strategies to networking as a source of economies of scale in the areas of financing, marketing and production. The increasing globalisation of the economy has highlighted the role of intra-sectoral cooperative linkages of firms, business partners and local institutions, i.e. networks and clusters, underlining the significance of place in economic development and territorial organisation. The key place-based functions include promoting:

- infrastructural developments
- accessible, high-quality public services, a service-friendly environment
- emergence of a qualified labour force (operation and development of an efficient and flexible educational and training infrastructure),
- a local R&D&I base

- innovative collaborations and partnership building.

Intermediate-sized firms are the protagonists of reindustrialisation as well as the foci of local/regional economic development due to their innovativity, reliability, expertise, engagement and local embeddedness. This latter is of crucial significance for local governments, since these type of firms have a higher propensity to seek local ties and cooperation opportunities than increasingly footloose MNEs. Despite a slight increase in the cooperative propensity of firms, the low level of trust characteristic of Hungarian society is also discernible in the business sector. Whether horizontal business cooperations are motivated by the feeling of abandonment by the central government is another question. To date, governmental discourses on the need to support domestic SMEs have failed to materialise, while the massive subsidization of foreign MNEs has been relentless.

In addition to the existence of a stable economic environment, the local/regional embeddedness of firms relies on several factors, such as

- long-term cooperation based on mutual trust among competing firms, private and public stakeholders
- a local government with wide economic development competences and resources
- a fully authorised territorial system of chambers of commerce
- an institutional enviroment that enhances the speed of the embedding of firms.

In Hungary, the role and opportunities of local governments and thus their room for maneuver in regional economic development has considerably decreased due to growing centralisation in public service provision. Centralisation, however, has not decreased the adoption of the managerial approach in raising the level of preparedness of local governments as demonstrated by the outstanding level of local service provision and well-planned and managed local economic development in a small number of peripheral small towns (Bóly, Nyírbátor, etc.). Despite their limited room for maneuver, local governments, by adopting a managerial approach to economic development, may contribute to the success of domestic intermediate-sized firms in important ways and should strive to accompany these key regional/local economic stakeholders on their development paths.

The availability of regional economic development competences and resources is fundamental to supporting the regional embeddedness of intermediate-sized firms with a considerable growth potential. Hungary, however, is seriously underperfoming in this area. With no effective

regional tier of public administration and development policy (due to the hollowing out of regions with the abolition of RDAs in 2017), counties, too small to perform regional economic development functions and disposing of meagre resources and competences have remained the only subnational units. The exclusive competences of counties and cities are limited to the planning of the EU funding-based but generally underfunded TOPs (Territorial Operational Programmes). Beyond these latter, the recently launched Modern Cities Programme benefiting the core Hungarian cities is the only initiative with a significant territorial development impact, however the projects implemented under its flagship are unable to trigger regional economic growth. The role of Hungarian local governments, disposing of meagre financial resources and weak economic development competences, is largely confined to the management of territorial economic processes. Small and mid-sized towns enjoying a higher degree of autonomy are those that have managed to recruit highly qualified economic experts among their leadership.
Conversely, in France, a growing focus on economic decentralisation has conferred extensive business and economic development competences to regions. That said, the institution of supersized regions as the latest step of successive waves of territorial reforms demonstrates a prevalence of economic efficiency targets over aspects of local democracy, proximity and subsidiarity.

3.3. The role of chambers of commerce and industry as regional economic development stakeholders

The functioning of the economy is predicated on local and regional markets whose development is supervised by territorial chambers of commerce. The chambers' intervention in regional economic development is centered on providing support – through diverse non-pecuniary instruments – to local businesses within their jurisdiction.
Historically rooted French economic chambers, thanks to their organic and uninterrupted development, have become prominent regional economic institutions charged with interest mediation and the operation of important infrastructural assets (airports, ports, exposition centres and trade fairs, vocational schools). In Hungary, the disrupted development of chambers explains their weaker territorial embeddedness and influence on economic development processes. Abolished during the world war and the subsequent four decades of communist rule and reinstituted post-regime change, the professional and efficient developer/service provider role of chambers has been been undermined by a chronic level of underfunding, leading to diminished level of trust towards these institutions. What still connects French and Hungarian

chambers is their operational logic deriving from their status as public bodies with a legal mandate to implement public tasks.

According to the findings of our research, the main beneficiaries of the services provided by the system of territorial chambers are intermediate-sized enterprises. The traditional strength of chambers, i.e. their active members are constituted by locally embedded firms and those businessmen who are willing to sacrifice their personal interests to the benefit of local society. Economic chambers may play a catalyst role in the development of business networks, especially when key SMEs and large businesses feature among their members (automatic membership would enable a better fulfilment of this role). Within their organizational framework, chambers may connect local SMEs with large firms or ISEs seeking regional subcontractors. Enabling an accelerated pace of information flow and relationship building within their institutional framework, they play a fundamental role in the generation or strenghtening of territorial or sectoral clusters. However, due to the weakness of trust characterizing Hungarian society and the business sector, these type of cooperative structures are very slow to emerge.

The functions of chambers extend to engendering diverse forms of relational capital, concentrated action, and a harmonisation of interests, notably, through the provision of useful, up-to-date and readily available information. Due to the absence of alternative network-based business support organisations in the institutional landscape with a similar level of human and material infrastructural resources, chambers are likely to retain their crucial and catalyst role in regional/local economic development.

To sum up, below are the main functions of chambers:

- *Promoting innovation, catalyst role in the emergence of innovative ecosystems*. Innovation constitutes a challenge and an imperative at the same time for the Hungarian economy (due to the excessive reliance on multinational companies, unresolved labor market mismatches, and a fierce market competition). Chambers may provide assistance in the form of surveys mapping the specific difficulties of firms in the domain of industrial innovation.
- *Vocational training*: Industrial competitiveness demands a highly qualified albeit small-sized labor force, thus, reindustrialisation in itself is unable to tackle the problems related to regional labor markets! Hungarian chambers, whilst being active participants in the system of vocational training, are characterized with a limited role and influence. Conversely, chambers in France have the power to influence the development of the system of vocational training in important ways, notably, through the ownership of a number of institutions and infrastructural assets.

- *Industry 4.0 with its emphasis on a high level of automatization in production* constitutes an efficiency-oriented response to the specific flaws of the labour market. While this trend is likely to define the evolution of entrepreneurial culture, it may produce labor market redundancies with an important territorial impact. Chambers may play an active role in managing these changes.

A crucial dilemma surrounding the Hungarian system of chambers is the lack of compulsory membership which is a fundamental building block of the French system. The Hungarian „hybrid" model combines elements of the public and private law model (provision of compulsory tasks without the requirement of compulsory membership). As a result of the growing concentration trends in Hungary, chambers, no longer fulfilling their role of bottom-up mediation, may be reduced to the role of mere state agencies increasingly subordinated to the objectives of the holders of power.

4. Conclusion

Industrial development has taken a different course in Hungary and France, for multiple reasons, the most notable being the four decades of state socialism post-World War II halting the development of the Hungarian business sector. This is apparent in the huge gap between Western and Eastern Europe in terms of capital accumulation, entrepreneurial culture and the readiness level of various institutional components (such as chambers of commerce and industry).

In France, regionalism and decentralisation have had a considerable influence on the evolution of the territorial structure of industry, whilst in post-Socialist Hungary, FDI inflow has been the decisive factor shaping the territorial structure of industry. MNEs, owing to factors such as proximity to markets and accessibility (transport infrastructure and geographical location) have generated significant growth in the capital city region and the Győr-Budapest axis, that is, the Northwestern parts of the country. Another major difference is connected to the economic development role and degree of autonomy of subnational statutory administrative tiers. A significantly weaker and more underfunded system of subnational government in Hungary explains the more moderate capacities of local governments to shape the development prospects of local businesses under their jurisdiction. The same applies to the system of chambers with a key role in the support of Hungarian ISEs underlined by their strong local embeddedness.

Despite the above mentioned disparities, the challenges faced by the business sector in Hungary and France are remarkably similar. The promotion of innovative businesses, nurturing

innovation ecosystems, supplying adequately skilled labor force through the amelioration of the system of professional training, the successful management of generational change and preparations for Industry 4.0. at the micro and macro scale are among the most pressing industrial policy issues in both countries.

Acknowledgements

This paper has been supported by grant #115577 of the National Research, Development and Innovation Office (NKFIH) of Hungary.

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