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The transformation of rural areas in Central and Eastern Europe

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The rural areas of Central and Eastern Europe

Before the regime change of 1989–1990, the state of the rural areas of the communist countries belonging to the Soviet sphere of interest was fundamentally defined by agriculture. While from a distance this region appeared homogeneous, significant differences existed in agricultural performance due not only to divergent characteristics, but – especially in the case of Hungary – unique agricultural models as well. For this reason, transformation and the move to a market economy were launched from various foundations, and a number of similarities have been to this day accompanied by differences. Since EU accession in 2004 (and in 2007, 2014) similar development policies have been implemented with political–ideological differences, especially in the operations of the institutional system. Thanks to divergent levels of efficiency agrarian and rural policy actions and their effects on the state of rural areas cannot be understood by viewing the region as a whole. The goal of this study is primarily to examine which unique characteristics of CEE’s rural areas apply to most states, and what problems and paths these states have in common, alongside identifying the presence of notable country-specific problems and opportunities. One of the key issues, and one of the causes of differences, is the degree to which rural areas can successfully modernise their agrarian economies while maintaining the most important economic bases of these areas. Another key issue is the degree to which countries have been able to moderate the agricultural character of rural areas with economic differentiation.

A pronounced macro-regional distribution – related to the level of development, among other things – can be measured across rural areas in CEE. Continuous developed areas can be observed in the southern parts of Czechia and in Slovenia, yet these only exist as isolated pockets in other countries, including agglomerations around capital cities (with their varying radii effects), the Budapest–Győr–Bratislava axis, Ciechanowsko-plocki in Poland, and Istria and Dubrovnik (due to tourism). However, underdeveloped rural areas are still dominant in the macro-region, mostly prevalent in the individual regions’ central and eastern halves (Farkas and Szabó, 2014). Using the EU category system, Figure 5.1 illustrates the dominance of rural areas. Similarly, the population density figures for CEE also indicate the dominance of rural areas in the macro-region (Figure 5.2).

Ignoring for the moment atypical rural areas – such as those dynamically developing rural areas with significant labour force opportunities in the proximity of large cities, or settlements

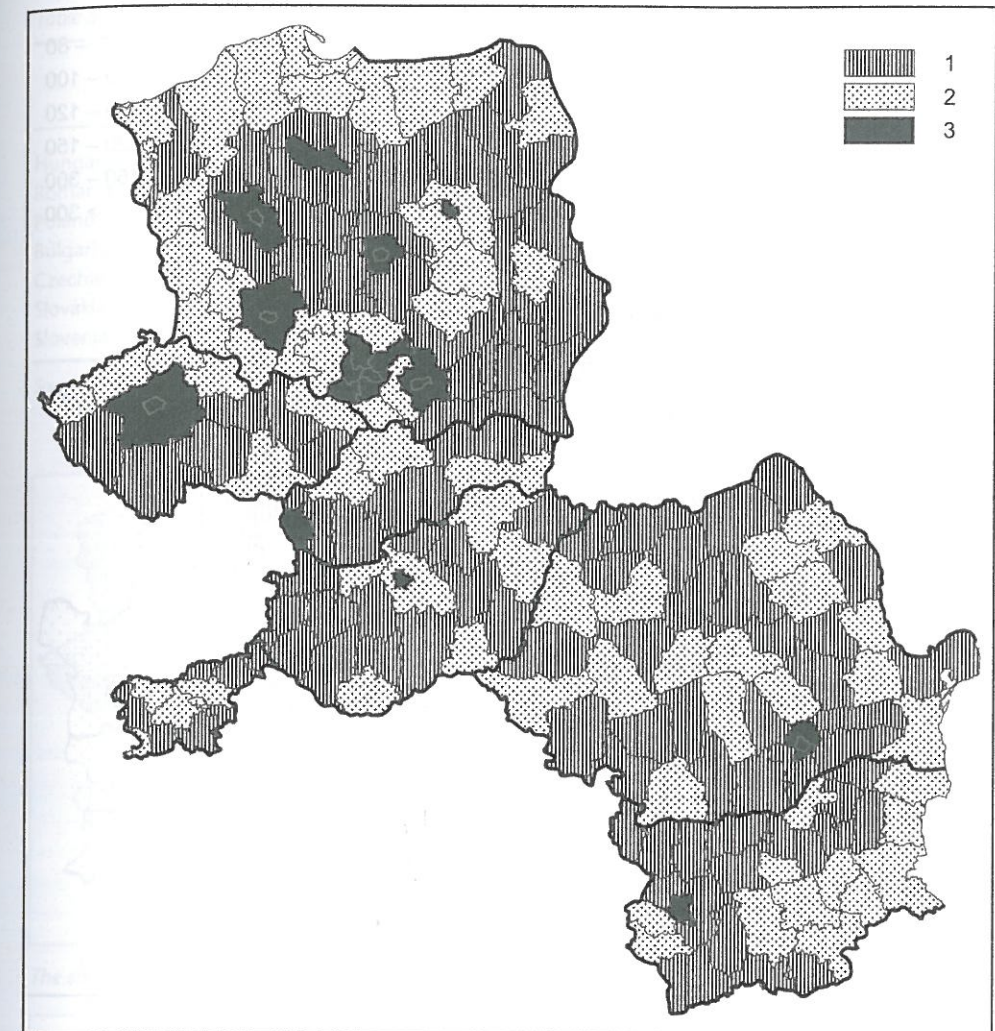


Figure 5.1 Urban–rural typology of NUTS-3 regions

Source: Compiled by the author based on Eurostat data.

Legend: 1 – Predominantly rural; 2 – Intermediate; 3 – Predominantly urban.

with tourist attractions – CEE’s *typical* rural areas are characterised by the loss of their economic base through the modernisation of agriculture, and primarily due to the crises experienced since the regime changes (Buday-Sántha, 2010), which they have not been able to reconstruct since. The difficult situation of rural areas is at the same time not the result of conscious destruction, and in a sense the process is only unfavourable from the point of view of the countryside, while it is more characteristically a progressive process for society as a whole (Beluszky, 2010) – even in the CEE macro-region.

The agricultural economy has traditionally been of definitive significance in the countries of CEE, and a large portion of the macro-region experiences a more significant agricultural weight in the entirety of the economy than in the western half of Europe. The proportion of agriculture

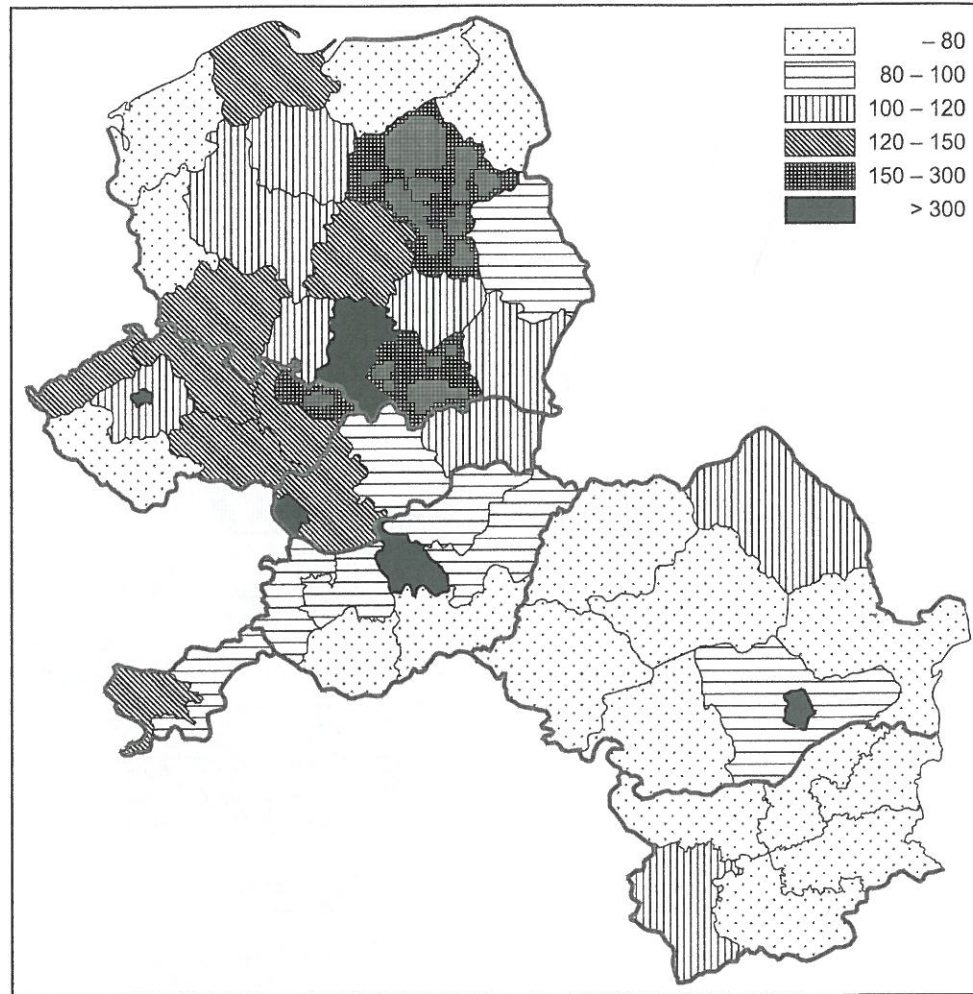


Figure 5.2 Population density in CEE regions

Source: Compiled by the author based on Horváth, 2015.

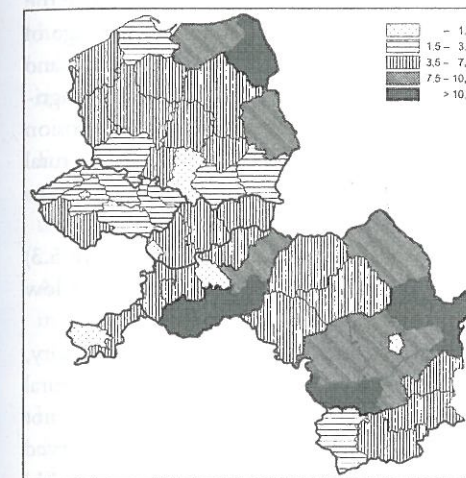
in national income production and in the employment picture exceeds the averages for developed countries – though we might add that behind the more significant role of the branch we can observe differences across countries, among which natural geographic features play a role, and variance in these terms is illustrated by the proportion of cultivated land, where significant divergences exist (Table 5.1).

The contribution of agriculture to GDP shows a declining trend in the macro-region, but years after EU accession it is still nearly twice the EU average (Figure 5.3). The proportion of agricultural workers after regime changes was over 15 per cent in the early 1990s, and 11 per cent at the time of the eastern expansion (which is close to three times the average for the EU15). Romania is particularly significant (close to 30 per cent): the 1990s here showed slight growth, which is explained by the flow of workers to agriculture as a result of the industrial

Table 5.1 The proportion of cultivated land, 2013

	Proportion of cultivated land (%)	Proportion of ploughed land within cultivated land (%)
Hungary	65.1	50.3
Romania	62.0	39.1
Poland	52.0	40.6
Bulgaria	47.8	39.1
Czechia	46.0	34.1
Slovakia	40.3	27.9
Slovenia	24.3	8.8

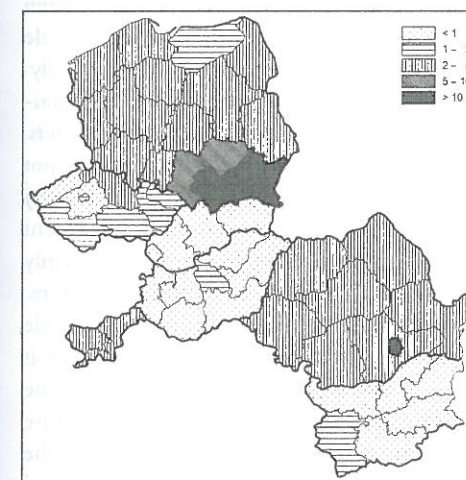
Source: Author's construction based on Eurostat.



The share of agriculture in GDP



The share of agriculture in employment



The proportion of agricultural GDP and employment

Figure 5.3 The proportion of agriculture in GDP and employment (%) in the CEE macro-region

Source: Compiled by the author based on data from Horváth, 2015.

crisis in the years after the revolution. The second most important agricultural employer is Poland. Although the indicators for Czechia, Slovakia and Hungary are closer to the EU average, the 3.5–5 per cent agricultural labour force in CEE countries is a very sensitive area in *economic, social and political* aspects. Small-scale entities that do not meet efficiency criteria, however, have remained characteristic and are often of a ‘sanctuary’ nature – especially in Romania and Poland (Darrot, 2008). At the turn of the millennium the growth of agriculture in Bulgaria and Romania is explained by the acute crisis in the labour market (Bourdeau-Lepage and Bazin, 2011). The significance of the agricultural sector is also supported by the fact that almost all the macro-region’s important agricultural products can be said to be significant contributors to world production (Csáki, 1998).

Rural areas are not equal to agriculture, but given that agriculture is the most adequate branch for rural areas (Buday-Sántha, 2011), the situation of agriculture fundamentally defines the level of development, and developmental opportunities of rural areas. The modernisation of agriculture, despite its progressiveness, in itself put dominantly agrarian areas in a difficult situation. This is especially the case when the modernisation of agriculture was unsuccessful, or where the developing structure makes the emergence of efficient management difficult. The heritage of the CEE macro-region and the political and economic difficulties, as well as the economic and agricultural policy missteps of transition all contributed to a situation whereby the state of agriculture and, by extension, rural areas have not improved meaningfully: the significant erosion of some peripheral areas under globalisation’s effects has been observed (Káposzta, 2014); rural communities have lost their service and community-building institutions, rural infrastructure has eroded, and the ability to maintain resources locally has weakened.

The role of agriculture in the labour market and its contribution to the GDP (Figure 5.3) diverge significantly in several countries in the CEE macro-region, which signifies the low productivity of management and a level of efficiency that lags behind the global average.

A significant role in this lag is played by the heritage of political and agricultural history, which led to the development of the current structure. The EU’s agricultural policy and its rural and regional policies are also factors: given the rigidity of developed structures, they have not been able to fundamentally moderate development level differences, and have instead conserved them. As Pospěch (2014) stated, before 1989 the communist regime and then from 2004 EU programmes and policies, standardised agriculture. Lieskovský et al. (2015) claimed that one of the serious problems in the Common Agricultural Policy (CAP) is that its adaptation has been significantly beneficial exclusively to large-scale concerns and, as such, the numerous small-scale concerns in the macro-region could not have expected it to improve their position meaningfully.

An integrated countryside capable of developing is a basic condition for a unified and sustainable society and economy. In the CEE macro-region, it is necessary to create such foundations. This has been successful in some states in the region, while in others it has characteristically not been the case. The recipe for success is complicated and perhaps not replicable, but essentially two paths exist: one is integration into the economy of large cities with substantial development capacity, while the other is the creative utilisation of endogenous resources. Neither, but primarily the latter, can ignore the fact that although the countryside is not synonymous with agriculture, without the modernisation of the branch and agro-business-oriented development, a liveable and developing countryside is impossible. As such, there are fundamentally two tasks. One is to understand that without developing agriculture as a branch, the countryside cannot be successful. While there are differences between CEE states in terms of the ownership structure of the branch and competitiveness indicators, nowhere can the successful development of the sector ignore that the efficiency race cannot be avoided, that the branch requires infrastructural and technological development, and that it is reasonable to make competitiveness conditions

secondary to structural and support policy issues. The second task is to fortify the multifunctional character of rural areas, with agriculture holding a primary position, but not allowing it exclusive status and thus diversifying the economy of rural areas. One of the most important conditions for such is the fortification of local communities and the enhancement of activity, for which one of the foundations is a rise in the level of training and education. Below we will use the two tasks as a starting point for the examination of the roots and direction of the diversification of agriculture and rural areas, and local development.

Agriculture and the heritage of rural areas

The presentation of hundreds of years of developmental history of CEE’s agricultural economy is beyond the scope of this chapter, and as such we will start with a consideration of the heritage of the structure developed after the Second World War, which proceeded after it entered the Soviet Union’s political and economic sphere of influence. At the same time it is expected that the previous period’s agricultural history, economic and social structures had had an effect on how the agricultural sectors of CEE states developed within the frameworks of communist regimes, as structures that were locked into place at the time influenced the process of transformation that took place after the regime change.

Significant structural differences existed in the macro-region before the state socialist period. Bulgaria essentially lacked large estates, which were present in Romania and in the other parts of the Balkans. But in these areas large estates did not possess real operational forms (lease and tilling of the landowners’ lands by peasants), which, given the lack of ample high-quality cultivable land and the large scale of the agrarian population, was a source of significant poverty. At the same time, in the Habsburg-held areas of the macro-region, large estates were significant in both ownership and operations aspects, and more than half the land in these parts of the macro-region was owned in this form (Illés, 2002).

Following the communist takeover of power the agricultural policy of state-parties was tightly bound to industrial policy considerations. Leaders hoped to execute large-scale investments through the subjection of agriculture, drawing necessary capital and labour from the agricultural sector. The path to such led through collectivisation in agriculture.

In several countries in the macro-region, this process proceeded quickly. Collectivisation was unsuccessful in Poland, where private property remained definitive in agriculture, although the effective operation of such was obstructed by numerous limitations. Similar significant limitations also characterised efficient operations in the member states of the former Yugoslavia, including *Slovenia*. Elsewhere collectivisation and the state and cooperative system became dominant. Collectivised agriculture not only lost its harmony as a production factor, but a significant value of fixed assets fell out of production. Hungary diverged from the dominant model and was the most successful country in doing so. Attempts to collectivise were undertaken twice between 1949 and 1956, but this succeeded fully only during the Kádár restoration period following the events of 1956. One of the features of the period was the divergence of the Hungarian agricultural model from the Soviet model that dominated in the macro-region, with Hungary following a unique path. One of the consequences of this was the sector’s dynamic development, with results that were noteworthy even in the global context. Hungarian success was definitively driven by the unique ownership and entrepreneurial structure (the so-called multi-sector agricultural branch). Cooperatives, which gradually broke from the Soviet model, represented the largest proportion in agricultural production and integrated significant and successful household-scale operations. Family farms that were integrated as such (not formally, but essentially as small private enterprises) by the 1980s were providing a considerable proportion of agricultural products in

Table 5.2 The proportion of cooperative and state ownership of agricultural land before 1989

	Cooperative (%)	State (%)
Czechia	61	38
Bulgaria	58	29
Hungary	80	14
Poland	4	19
Romania	59	29
Slovakia	69	26

Source: Author's construction based on data from Illés, 2002.

the country. A portion of the fixed assets mentioned above was returned into production as such. The integration of small- and large-scale plants as well as the processing industry led to the emergence of a unique but highly functional construction in Hungarian agriculture which served the development of the sector well. The Hungarian model contained private (or so-called private), cooperative and state ownership elements concurrently. This was dominant in Hungary and Lithuania (Maciulyte, 2004), although it integrated less successfully in the latter.

It is important to emphasise that in the state socialist planned economy period significant differences existed in the macro-region (Table 5.2), although from afar it might have appeared homogeneous. The explanation for the structural differences lies not only in the divergent models defined by the political sphere, but also in the fact that a variety in the product structure influenced by natural and geographic features among other things was also experienced.¹ In Bulgaria, where certain territories have outstanding soil quality, pluralistic production became possible, but early collectivisation and characteristically unsuccessful agricultural industry complexes defined the agricultural structure. Overall Poland has middling soil features. Private ownership remained dominant, but could not function efficiently given the strict framework it was forced to operate in. A similar structure existed in the member states of the former Yugoslavia, Slovenia among them.

One of the most significant economic problems collectively burdening all countries was the lack of a land market, which also had an adverse effect on rational land use. Another issue was that collectivisation in effect dissolved small peasant economies. The macro-region appears unified in terms of a large-plant structure preferring large-area agriculture becoming dominant. Alongside its numerous advantages, this approach had problems which still have an effect today.

The period, however, had three unambiguous positive characteristics which laid the foundation for the development of the macro-region's agriculture. First was the Soviet Union's enormous market, capable of absorbing almost all products – especially agricultural and food industry products. The second was cheap energy from the Soviet Union, which not only laid the foundation for industrialisation, but also was the basis of the development of agricultural technology. It was no accident that the communist regime and the Soviet Union's economic and political collapse buried with itself the macro-region's agriculture. The third feature was that even though only a small portion of cooperatives managed their operations efficiently (and not in all countries), there was still a meaningful effect on welfare in rural areas.

Transformation after the regime change

The macro-region's agricultural economy from the first half of the 1990s was characterised by a general and significant drop in production. The 1989–1990 political regime changes in the

countries of CEE were accompanied by the transformation of the economic system. The shift from socialist planned economies based on state ownership to a free market was problematic everywhere: the positive experiences of the regime changes were overshadowed by economic crises in all the countries involved. The crisis had disproportionately affected agriculture. Differences between individual development paths were already apparent in the years of transformation, and these became more visible in the agriculture policies of the countries of the macro-region.

Regarding state and cooperative lands, privatisation was the definitive policy in all affected countries. In fact, in most countries this meant full restitution, i.e. the return of lands to earlier owners. In Hungary this restitution was only partial, given that many one-time actual owners had no land to their name, and were given restitution vouchers (essentially financial compensation) instead. Land privatisation had varying effects in countries of different levels of development with different agricultural structures. In those countries where modern, industrialised agriculture based on strong cooperatives had developed – Hungary and the former Czechoslovakia are included in this group – the earlier agrarian population had left the branch and for the most part had left rural areas altogether. In these countries, after privatisation, new landowners were not in a situation where they could cultivate their own lands for lack of motivation and skills/knowledge. It seemed rational that the earlier, still functioning large concerns would continue to use the land, leasing it back from the new owners. As such, the inverse of the historical model emerged in the macro-region (Illés, 2002): whereas in the past the concentrated ownership structure was accompanied by a number of smallholders cultivating a small portion of land leased from estate owners, today typically a fragmented ownership structure is accompanied by a small number of large-scale leasers (large producers), which, from the point of view of management of large producers, is hardly an ideal state. Earlier large producers have transformed into various economic entities. Today the ban on these economic entities acquiring land ownership is at the centre of acute political debate. The solution to this problem would significantly simplify the management of large producers and make their activities more predictable. It would also increase investment incentives in areas where soil improvement programmes, inland water syphoning and irrigation are becoming increasingly necessary.

In those countries where cooperative lands were returned to the original owners, and in Poland, where despite efforts at collectivisation the proportion of cooperative land had remained low, the majority of small plots do not meet the criteria for competitiveness thanks to a lack of capital. In Romania there are a number of microenterprises that do not even produce for the market. In countries where land purchases are not banned (Croatia, Slovenia) the picture is heterogeneous, which was generated primarily by capitalist relations. Capital-rich producers have further fortified and expanded, while those that lacked resources have fallen behind and in many cases have collapsed.

As a result of heritage and privatisation processes, by the turn of the millennium significant differences emerged in holding sizes across the countries of the macro-region (Table 5.3). The concentration of holdings is exceptional in Czechia and significant in Slovakia, while ownership structures are highly fragmented elsewhere. Microholdings (plots less than 5ha) are present at a much higher proportion than in the western half of Europe. Microholdings make up close to nine-tenths of cultivated land in Hungary, Poland, Bulgaria and mostly Romania.

In the years following the regime change (between 1990 and 1995) the GDP produced by the branch decreased by close to 6 per cent per year in the macro-region, and on the whole fell to only 60 per cent of the 1989 level (Csáki, 1998). The decrease in production was characteristic of all the areas of the macro-region in this study. In most CEE countries the recession of agricultural production was more significant than drops in GDP. The low point came around 1993, although Poland and Romania² bottomed out slightly earlier (Burgerné Gimes, 2001).

The following are causes of the production decrease (Burgerné Gimes, 2001):

- the shrinking of the market: the decline of the Soviet market was more significant than the increase in exports to the West by several orders of magnitude, while the economic crisis led to a drop in demand in domestic markets;
- a drop in state support;
- decreasing income resulted in the use of less fertilisers and pesticides, which led to weaker crops;
- poor profitability and privatisation had cumulatively resulted in an increase of uncultivated land;
- chaos caused by privatisation.

Burgerné Gimes (2001) identified a number of factors that made future growth possible, with the following being key:

- existing expertise and knowledge, a significant number of well-trained agricultural intellectuals;
- the characteristics of land privatisation resulted in the expansion of the leasing system and forced an increase in the area of land available for lease and a price drop;
- from the mid-1990s support increased and the credit situation of the branch improved to a degree.

The transformation of the branch was unfolding very slowly, and there is no consensus when judging the results. The joint effect of ownership uncertainty and low profitability in many cases has resulted in a *visible* increase in the area of uncultivated lands in the first years of the transition. The use of the descriptor *visible* indicates that the decline of the state of cultivable land makes the problems of the situation of agriculture discernible to the entire society.

In the first years of the transition quite significant changes took place in the branch's weight within the national economies, its contribution rate to GDP and its role in employment in given countries. Decline was particularly significant in Hungary, Czechia and Slovakia, while in Romania and Bulgaria the sector's share continued to increase. In Poland the agricultural sector's contribution to the GDP decreased, but has maintained its significant role in employment (Table 5.4).

The rapid increase in production that many expected never occurred. The transformation of the agricultural sector and the economies of rural areas have lagged behind the scale of changes in the economy as a whole. However, the results of reforms vary across countries (Csáki, 1998).

Table 5.3 Average holding size, 2000

	Average farm size (ha)
Czechia	151.0
Bulgaria	4.4
Hungary	4.7
Poland	6.6
Romania	3.1
Slovakia	50.2

Source: Eurostat.

Increased integration has characterised agricultural commerce in the CEE macro-region, which has become a player in global agricultural commerce. As such, the execution of competitiveness and efficiency factors in the branch has become important and unavoidable. This, however, has generated a contradictory situation regarding rural employment opportunities, with serious arguments taking place between rural developers and those representing the interests of the sector. The sector with spatial and rural development are both characterised by clashing interests and values, and the divergent argumentation and value systems of these two fields are difficult to reconcile.

From the point of view of the agriculture situation, the development of the non-agriculture segment of rural economies is of key importance. The problems of rural areas are not confined to the crisis in agriculture. Non-agricultural processes have also had significant negative effects on rural areas in CEE. Foremost, the industrial crisis bore down on rural areas, given that the so-called 'marginal employees' in industry were typically those who still resided in the countryside and who were most sensitive to drops in employment (given a lack of training and the costs of commuting). The collapse of non-agricultural activities in the 'side branches' of cooperatives also affected those village dwellers who did not work in agriculture. Illés (2002) has shown that in those countries where change to the agricultural structure – preceding structural change in industry – ensued quickly (e.g. Czechia), industry was able to incorporate workers arriving from the agricultural sector. Where the agricultural structure was slow to change or did not change (characteristically Romania, Bulgaria and to a degree Poland), crisis-stricken industry was unable to take on agricultural labourers and as such the ranks of the unemployed swelled. Table 5.4 offers an explanation for what transpired in Romania: the return of industrial workers to rural areas and the agricultural sector appeared to be a conscious method of managing the industrial crisis. In the majority of countries advanced reforms and the (diversifying) rural economy's upturn were able to counterbalance the decrease in the number of agricultural workers, and at the same time improve efficiency and competitiveness. Partly thanks to more favourable features and partly to relatively weak industrial output, the weight of the agricultural sector – along with the food industry attached to it – remained significant in all the countries of the macro-region (Csáki and Jámber, 2012).

In the years following the regime change the fragmenting sector – which had been affected by unfavourable processes in the external environment and fractured by domestic economic policy mistakes – and rural areas that were facing ever graver issues arrived at EU accession in a

Table 5.4 Changes in the significance of agriculture in the first years of the transition, 1990–1995

	GDP (%)		Employment (%)	
	1990	1995	1990	1995
Czechia	6.3	3.1	9.9	4.7
Bulgaria	11.0	10.8	18.1	22.0
Hungary	15.6	6.4	17.9	8.5
Poland	11.8	6.1	26.4	25.0
Romania	13.7	21.6	28.2	35.7
Slovakia	9.3	5.3	12.1	9.4
Slovenia	4.4	4.4	11.8	10.4

Source: Author's construction based on OECD survey of agriculture in transition countries.

condition in which they did not have clear goals during negotiations and had not solved their own interest and value conflicts.

The macro-region's agricultural sector after EU accession

The accession of the macro-region's countries to the EU was accompanied by the introduction of the only true joint policy of integration in the CAP – even if these countries were temporarily unable to make use of all of CAP's advantages. The previous sections have clearly shown that the integration of the macro-region and its agricultural sectors was to take place in an environment with divergent relations, structures and levels of development, and as a result the new member states were able to utilise advantages and opportunity of membership at different levels. The dangers of membership also appeared at different degrees in given CEE countries. The success of preparatory processes for membership played a role as well. All in all it appears that divergent development paths led to the development of diversity that common policy could not moderate, and the structures, policies and features in the macro-region have further differentiated the sector and the situation of rural areas. Many are of the opinion that the countries that were able to develop more quickly after accession (e.g. Poland) were those where producer support stayed low before CAP and a significant portion of resources (under the programmes ISPA, PHARE and SPARAD) was spent on fortifying competitiveness (here enlargement had an inciting effect on production). The countries that became less successful in the mid-term (e.g. Hungary) were those where market support was characteristic. Partly independently and partly in agreement with Somai (2014) it can be stated that CAP's direct payments created unequal competition conditions between old and new member states. Another justified position holds that antecedents confirm that the form of CAP in CEE is incapable of recognising differences between producers and regional and structural disparities, and in fact does not indicate that it will be able to decrease agricultural developmental differences in Europe (Bazin, 2007).

As such, EU-accession put the macro-region's agricultural sector in a situation of intense competition while the national agricultural policy's autonomy shrunk to a significant degree (Meisel and Mohácsi, 1997). In all countries of the macro-region discussed in this study one of the most important tasks of the sector is to create the basis for competitiveness within the framework of integration and market economy conditions. The ways in which certain member states can meet this challenge is largely dependent on economic and agricultural policy, the quality of the political institutional system, and the degree to which the period of preparation for accession was successful. Divergences in the institutional background have generated significant differences and keep doing so in the developmental opportunities for agriculture and rural areas in CEE states. The causes of diverging development paces vary, including factors like historical heritage (most importantly), positions at the starting line determined by unique characteristics, the stock of tools and machinery (which was outstanding in Slovenia), infrastructural background, the labour force reserve (which was largest in Romania and Poland), ownership structure, etc. Output growth was biggest in Poland, with Polish results standing out from the significant covariance among the macro-region's countries (Table 5.5 and Figure 5.4).

Over a decade after EU-accession, it can be established that agricultural policies can change over time, and as a result so can the circles of countries that produce well or poorly. The performance indicators of various countries are differentiated not only by changes that can be measured during the preparation process, but also in differences in agricultural policy since accession. In the majority of states in the macro-region a dual structure has developed, the essence of which is a duality and coexistence of large concerns and smallholding enterprises. The operations of smallholdings can only be judged productive in Poland and Slovenia, while – as

Table 5.5 Changes in agricultural output since EU accession (2004 = 100)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Hungary	94.0	91.7	102.0	119.6	89.0	93.4	118.2	114.4	119.0	120.9
Czechia	95.2	99.4	119.3	132.3	102.0	111.8	133.2	133.9	136.0	136.8
Slovakia	90.8	95.1	108.0	126.3	99.6	101.1	123.1	128.5	129.0	128.2
Slovenia	97.4	97.5	103.0	107.7	97.1	101.5	113.5	105.0	105.9	114.3
Romania	94.1	105.2	104.7	133.2	103.5	112.1	132.2	105.5	130.1	122.8
Bulgaria	96.9	100.2	95.7	129.8	110.0	110.3	125.8	127.7	126.9	124.2
Poland	105.8	113.6	141.6	153.5	122.8	139.0	159.9	163.1	167.1	162.0

Source: Author's construction based on Eurostat data.

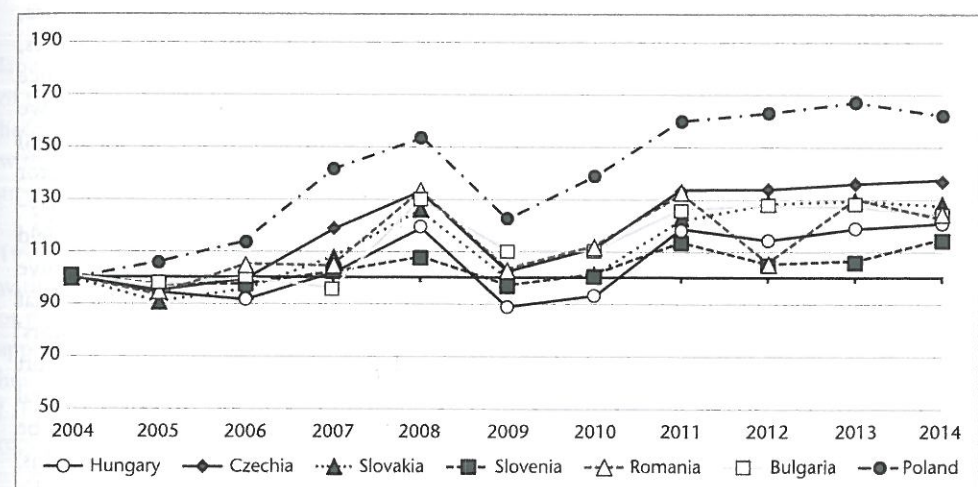


Figure 5.4 Development of agricultural output since EU accession (2004 = 100)

Source: Compiled by the author based on Eurostat data.

articulated by Csáki and Jámor (2010) – the large concerns bear some elements inherited from the collectivised system, which are disadvantageous and result in low efficiency. Political motivations were more emphatically executed in agricultural policy than economic considerations since accession. A significant portion of structural problems can be traced back to this situation. The trouble with the dual-character system is that there is a lack of cooperation between large and small concerns working alongside one another, i.e. their necessary integration has not been carried out.

A rather interesting debate has emerged concerning desired ownership scales. There are those who would integrate smallholdings into larger concerns, and then those who would break up large-scale operations into smallholdings. An example of such is the divergent set of aspirations on the two sides of the Dráva River, which forms the border between Hungary and Croatia. While in the Slavonia region the inefficient, fractured smallholding structure is seen as the source of problems, and the goal of establishing larger concerns has appeared as a policy aim, on the

Hungarian side of the river concepts on the Ormánság subregion are just the opposite, where many smallholders hope for salvation from structures designed to provide them with opportunities. The situation on both sides of the border is rife with problems.

The Common Agricultural Policy has contributed an increase in prices and incomes, and many producers have been able to take advantage of the common market, while agricultural commerce has also expanded significantly. On the other hand, in competition with capital-rich, multinational commercial and processing industry companies, several CEE players have found it impossible to keep up. This has been positive for consumption, but negative for the majority of producers. The logic of CAP does not favour animal husbandry, which survived a severe crisis after the regime change but has not been very successful since. CAP instead supports crop production. The pork and poultry industries were excluded from the support system.

Actors in the agriculture and rural policy sectors often come into conflict with one another. We frequently hear that sectoral support draws air from the tyres of rural development (agricultural support makes for almost half of the European Agricultural Fund for Rural Development (EAFRD) resources). A characteristic demand holds that instead of supporting agriculture, resources should be directed toward supporting rural settlements, maintaining ecological values, etc. Not to underestimate the strength of the agricultural lobby in this process, but it should once again be emphasised that agriculture is the most important sector in rural areas (especially if we think in terms not only of basic agricultural activity, but also of the full scale of agro-business) and supporting it (to a very significant degree) is justified for several reasons. Foremost, the sector faces serious deficiencies in its technical level, and technical-technological development (Buday-Sántha, 2010) – especially compared to competitors. The gaps and lags experienced in this field can only be closed with intense technical development, although this is a very capital-intensive process. Buday-Sántha also points out ‘the development level of agriculture determines what other activities can be developed³ ... and what landscapes and cultural landscapes greet visitors’ (p. 75); and emphasises that up-to-date agriculture can provide long-term employment. Support for the sector is thus justified from employment aspects, which, when they appear as rural development as opposed to sectoral issues, seem remarkably important. Agriculture can only be an essential employer in rural economies if it can live up to its production potential. This, however, necessitates significant reform to the production and ownership structures and the complex development of the sector (understood as agro-business). Industrialised agriculture is increasingly open: an expanding portion of its products is processed by the food industry, and it is increasingly dependent on the output of other sectors (e.g. chemicals, machinery). The term agro-business serves to describe this multifaceted system of relations. That is to say that the term agro-business is the grouping together of provision sectors, agricultural (raw material) production, food industry and food commerce. It seems obvious that from this point of view, the significance of agriculture is several times larger than is reflected in GDP production and its role in the employment structure. If we add to the above today’s modern models based on high-tech (gene technology, organic farms operating in special ecological conditions), and markets that are transforming as a result of changing consumer attitudes, we can see that the significance of agro-business will continue to increase. To enhance competitiveness within the common market, it is essential to fortify the point of view of agro-business.

Although considerable changes took place in the ownership structure, the presence of microholdings still dominates in the region. Table 5.6 shows that significant ownership concentration ensued in the early 2000s in Bulgaria and Hungary, and that the exceptionally fractured Romanian ownership structure has remained almost untouched. Should these small family holdings be able to step outside the framework of self-sustenance, their integration is characteristically weak, as is their ability to generate income.

Table 5.6 Changes in ownership structure

	Average size of farms (ha)	
	2000	2012
Bulgaria	4.4	12.1
Czechia	151.0	152.4
Hungary	4.7	8.1
Poland	6.6	9.6
Romania	3.1	3.4
Slovakia	50.2	77.5
Slovenia	5.6	6.5

Source: Eurostat.

Alongside smallholders we find truly efficient large holdings operating on sizeable plots of land. Missing, however, is the mid-sized farming stratum, which is one of the target groups of the EU’s agricultural and rural development policy. The number of mid-size (5–50 hectares) holdings is half that found in the EU15 on average. Slovenia and Poland lead in this category, with Slovakia and Hungary lagging somewhat behind, followed by Czechia, where such holdings are more rare.

The macro-region’s agricultural sector was unable to completely overcome the shock of 1989–1990, and at the time of accession the productivity of its labour force was low, which, combined with a chronic shortage of capital, served as a brake on the sector and the successful integration of rural areas. In recent years capacity development has become more regular, but results have appeared largely in wheat production (in Hungary, Czechia and Slovakia), and less so in animal husbandry. EU accession has not been able to contribute to increasing agricultural productivity. Labour needs have decreased partly due to rapidly changing production systems (capital is replacing labour, especially in large concerns) (Halamska, 2011).

Accession has hardly assisted the macro-region’s smallholdings, as EU agricultural policy has not truly offered/found solutions to their problems. One of the necessary consequences of this is that smallholders often give up the struggle and leave rural areas, where it is difficult to make a living. Smallholdings of insufficient scale continue to be characteristic in CEE rural areas.

Overall, accession has been mainly positive for the macro-region’s agricultural sector, but has had a negative effect on the macro-region’s rural areas. The latter statement is supported by the fact that the lag of rural space types has continued since accession. The success of European integration demands the redefinition of the most important tasks necessary to develop rural areas in the macro-region, and also the definition of conditions. In most countries this has not taken place or has proceeded insufficiently. In their analysis, Gorton et al. (2009) concluded that in itself CAP is incapable of solving the macro-region’s rural development problems. European support is incoherent. The countries of CEE have received the least support – in per hectare, gross national product and output proportion terms (Beke et al., 2011). The same authors have shown that the region is under-supported, even though higher support received through CAP helps make use of potential.

The situation and development of rural areas

The most widely accepted criteria system for demarcating the countryside, or rural areas, was worked out by the Organisation for Economic Co-operation and Development (OECD).

Its essence lies in the fact that the proportion of employed persons working in agriculture has fallen in developed countries to a point where its magnitude cannot be definitive when defining rural areas. As a result we can only distinguish between urban and rural areas using population density indicators. The OECD drew this dividing line at 150 persons/sq.km.⁴ There is a degree of fine tuning used when defining rural areas. The population density criterion is used at the level of settlements, and as such settlements with population density lower than 150 persons/sq.km are considered rural, while those above are urban. Only after making this distinction are the proportions of those living in settlements classified as urban or rural within specific regions calculated. These are placed in three categories:

- largely rural, if the proportion of the rural population is over 50 per cent;
- significantly rural, if this proportion lies between 15 and 50 per cent;
- largely urban, if the rural population is less than 15 per cent.

Some 90 per cent of land in CEE is rural. In certain regions, the proportion of the population living in rural areas exceeds 50 per cent. According to EU categorisation, Hungary has the highest proportion of land belonging to the rural category, along with the highest proportion of population in rural areas, whereas Poland and Czechia have the lowest numbers (Table 5.7).

Given that the level of progress and active development of rural areas cannot be separated from the agricultural sector, and considering its status as the most relevant sector, the situation of the macro-region's rural areas largely rests on the productivity of agriculture. However, although the agricultural sector has mostly recovered from the shock that followed the regime change, the same cannot be said for rural areas (or the vast majority of typical rural areas).

The rural population has declined significantly over the last decade, and there is a severe social and demographic crisis in the majority of villages. The most significant exodus from rural areas has taken place in border areas and mountainous areas (Mladenov and Ilieva, 2012).

Localisation, which is connected to globalisation, has led to an upsurge in the value of rural areas and a widening of opportunities through a new prominence of local values and the role of endogenous resources. Under the effects of the world economy, changes in the roles and functions of rural areas have been outlined mostly in countries with more developed market economies, while these processes are not stimulating localities in the countries of CEE. These changes (e.g. the depopulation of rural areas, commuting and social mobility, increasing demand

Table 5.7 Areas categorised as predominantly rural and the proportion of population living in them

	Predominantly rural	
	Area(%)	Population(%)
Bulgaria	54	37
Czechia	48	33
Hungary	66	47
Poland	51	36
Romania	60	45
Slovakia	59	50
Slovenia	59	44

Source: Author's construction based on Eurostat.

for recreational, natural preservation and environmental protection, the new spatial organisation of the economy) appeared in Western European countries in the 1970s and brought to the surface the *need for consistent rural development*. These concerns are further tied to questions of sustainable development, discussed in more detail in Chapter 17. The effects of economic and social changes pushed the emergence of new modes of utilising space (e.g. tourism, recreation, nature preservation, etc.), while rural areas became increasingly differentiated.

The creation of a multifunctional rural area requires success not only in specific functions, but also regarding the prosperity of the macro-region's rural areas. The following are agricultural functions (Gazdag, 2009):

- the safe and uniform-quality domestic provision of food;
- provision of an appropriate export goods base;
- providing means of living for rural populations;
- maintenance of the quality and quantity of agricultural land and the cultural state of landscapes.⁵

Rural areas are to a large degree affected by forces that threaten the fragile social-economic balance of such areas. Weakening economic output is strongly tied to the decline of agricultural activity, which results in the exodus of the young and the ageing, and ultimately in the shrinkage of the population. These in turn lead to the dismantling of services necessary for the provision of an appropriate standard of living. In rural areas ecological and social-cultural functions are known and recognised alongside those of agriculture. The functions of rural areas are as follows (Buday-Sántha, 2011, p. 18):

- *Economic (production) function*: provision of market-ready, income-generating agricultural production (foods, industrial raw materials), offering adequate means of income for producers, increasing productivity, technological development and innovation.
- *Ecological function*: which includes the following elements:
 - protection of natural elements (water, land, air);
 - protecting biodiversity, diversity of the living world, with an emphasis on genetic diversity and the functioning of the ecosystem;
 - maintaining the cultural state of the landscape;⁶
 - protection of wild animal and plant life through legal means and providing appropriate ecological conditions.
- *Socio-cultural function*: assistance of rural communities and populations through providing an appropriate standard of living for them in the interest of encouraging self-government, allowing locals to control their values and opportunities. Having local populations ready and able to maintain national, cultural values and traditions.

EU development policy has attempted to put a stronger emphasis on rural development. This is indicated by the fact that rural development (EAFRD) has been placed in the fund that serves agricultural development, which as an independent pillar aims to strengthen diversification in line with the functions discussed above. The increase in the emphasis on rural development came at the same time as Eastern expansion – although the two processes were independent of one another. As such, the agricultural and rural development policies of CEE countries within CAP serve sectoral, structural policy elements and territory-specific elements.

Rural development has a defined programme and regulation regime approved and supervised by the European Commission and the national governments. A targeted institutional system has been built to carry out this programme as the second pillar of agricultural policy. Despite significant resources having been put aside, rural development has access to considerably fewer resources than agricultural support to reach rural development goals. The resources for rural development actions (axes 3 and 4), unlike that of agricultural support, are not normative but competitive instead, meaning they are transferred to the final beneficiaries through a tendering system. The political goals and actions of rural development policy are articulated by the governments of member states in accordance with EU principles and directives.

Having analysed development strategies designed to access EU (rural development) resources and exclusively studying documents from various CEE countries, the macro-region's rural areas appear remarkably homogeneous, although the above have shown a significant degree of variation. For the most part there is no difference between the definitions of the most pressing problems and the demarcation of the most important goals. *Strategies following the logic of EU development policy appear one-size-fits-all. Everywhere the goal seems to be the improvement of living standards and employment opportunities of rural populations –characteristically through economic growth.* Demand for the support of 'sustainable development' is stated without defining its content (c.f. Chapter 17), and the same holds for improving the competitiveness of agriculture.

The situation, prospects, difficulties and opportunities of the macro-region's agriculture and rural areas are well summarised using SWOT – strengths, weaknesses, opportunities, threats – analysis (Table 5.8).

Jámbor (2014) evaluated ten years post-accession in a study. He weighed agricultural output and rural performance equally. His general conclusion held that everyone benefited from accession, but while Poland was a clear winner, Slovakia and Hungary were least able to profit from the opportunities at hand. Regarding rural performance, rural populations grew in Poland,

Table 5.8 The SWOT analysis of the macro-region's agriculture and rural areas

Strengths	Weaknesses
<ul style="list-style-type: none"> • Favourable, sometimes exceptional cultivation features and natural conditions in several countries • Absorbable labour force • Outstanding higher education base in some countries (esp. Hungary), high level of expertise • Low proportion of changes to the natural environment • Tourism potential • Cultural and natural values • Favourable organic farming conditions 	<ul style="list-style-type: none"> • Underdeveloped social infrastructure • Emigration • State of transportation infrastructure • Significant regional differences • Lack of capital • Low mobility • Issues in ownership structure • Weak agro-business
Opportunities	Threats
<ul style="list-style-type: none"> • Geopolitical situation • Expansion of market for organic products • Single European Market • Income increase for agricultural concerns 	<ul style="list-style-type: none"> • Increase in spatial differences • Climate change – increased production risks • Loss of position in Single Market • Cutbacks in EU development support • Dangerous impoverishment of rural areas

Source: Author's construction.

Czechia, Slovakia and Slovenia, while the largest decrease occurred in Hungary (14 per cent). According to Jámbor's figures rural employment decreased the most in Hungary, Slovenia and Czechia. To measure rural performance the author employed GDP differences between urban and rural areas, highway density and the proportion of early school leavers. Based on these measurements rural performance was best in Poland, Czechia and Slovakia, while Hungary's was poorest among the countries that joined the EU in 2004.

LEADER programmes in the countries of Central and Eastern Europe

The LEADER programme (from the French: Links between the Rural Economy and Development Actions) has been deemed successful by many. Evidence for such, for example, lies in the fact that since 2007, after three experimental programming phases, the programme was integrated into the EU's mainstream rural development policy, despite the fact that with its grass-roots construction and philosophy based on independent local decisions, it is difficult to harmonise with centralising government policies and EU programmes that try to supervise down to the finest details. Christopher Ray (2000) has called this rural development method and programme post-modern, or a kind of 'anarchist' programme, given that its philosophy does not conform to European and national administrative decisions. Instead, from planning to programme management, from tender to execution, decision-making rights are in the hands of the cooperating local communities. This approach contradicts the agricultural- and rural-development programmes' top-down, tightly regulated and supervised bureaucratic nature.⁷ Given this, it is clear that this is a programme whose successful execution and targeted, efficient use of resources depend on frameworks constructed at the member-state level and the level of preparedness and creativity of local communities.

In their study of Poland, Czechia, Lithuania and Hungary, Chevalier and Maurel (2010) examined what social-economic and political context awaits the practice of EU rural development in rural areas in CEE, and how this modifies their effective mechanisms. Within this, the authors emphasise the nature of 'policy transfer and policy reception processes', claiming that their results depend on the national and local level 'institutional opportunity structure'. The policy transfer-reception cycle has four key players:

- process manager: the initiator of the policy model;
- operators: the key decision-makers;
- facilitators: those helping to spread the model;
- recipients: those utilising the model.

In the opinion of the authors, the regulation of EU rural development policy is based on 'soft' regulations, where member states and regions enjoy a high degree of relative autonomy and are somewhat free to modify the model. At the same time, they also show that the policy transfer-reception process is significantly affected by the given country's political system, institutions and normative framework. Common characteristics include a centralised nature, a lack of transparency and the relative slowness of both the evaluation of strategies recommended by local actors and financing. This observation is connected to the dilemma that affects the essence of the programme, whereby the low level of social capital in certain rural areas is accompanied by concerns over the ability of the LEADER approach to revive the existing capacities of local actors – and whether locals can construct the programme as initiators. *This discussion leads to the conclusion that a top-down policy that attempts to support endogenous models of development is rife with internal conflicts. It is important to consider whether, amongst such conditions, general guiding principles are sufficient, or whether*

these principles will be undermined, significantly compromising the effectiveness of these endogenous models. Chevalier et al.'s (2012) CEE study⁸ led to the conclusion that although the macro-region is very enthusiastic about taking on those projects that have proven successful in old EU member states, and have high expectations of them, this spiritedness is short-lived in most of the new member states. The beneficiaries of development and local communities feel too much centralisation and bureaucracy. The tendering mechanism is slow, lags are regular and regulations are too strict. Problems exist in all the examined CEE states, but not with the same severity. This is one of the reasons why the effectiveness of utilising resources varies among states. While Czechia is largely a positive example, Hungary, Romania and Bulgaria are negative. In these countries, disappointment is characteristic in the majority of local action groups, and as such this method leads to underperformance in making the most of the potential of important rural development programmes.

Summary

Agriculture is not the only source of rural welfare, but it is one of the most important and will remain so. The further modernisation of the sector, high-level management and real and measurable performance are necessary. Lacking these, there is little chance for the satisfactory development of rural areas. There is a need for innovations, the successful adaptation of the most developed technologies, bigger risk-taking (and an institutional system that supports this), integration and the establishment of cooperatives.

Output is increasingly shifting toward crop production (with large-holding cultivations modes), which is partly a natural result of the ownership structure. Should we expect agriculture to help develop rural areas, the structure of agriculture must be diversified. Opportunities must be provided for more labour-intensive branches (vegetables, fruits), animal husbandry and related processing industries must be developed and, above all, various integration programmes must be supported. By putting the agricultural structure and performance at the centre, the sector can be made capable of having a meaningful role in improving the quality of life in rural areas.

In the interest of developing rural areas there is a need to incorporate capital, from foreign sources as well as domestic. Through modernisation, technical development and lowering self-financed costs the opportunity for the agriculture, food industry plants to become competitive vis-à-vis imports can be secured. Beke et al. (2011) have established that – with meaningful capital injection – the agricultural sectors in Poland, Romania, Slovenia and Hungary have significant developmental potential.

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Notes

- 1 There were significant differences even between the *Baltic States*, which had lost their independence and were annexed by the Soviet Union. They not only had differing agricultural product structures, but divergent heritages of ownership structure. Close to half of Estonia's land is forest, and the vast majority of its agricultural lands are arable lands. In Latvia, animal husbandry is definitive (milk products, eggs), while in Lithuania, arable land cultivation is outstanding, including wheat production. The land reform of 1920 in Latvia brought to life a viable middle landowning stratum, while the large estate structure in

- 2 Lithuania was largely unchanged. After Soviet-style collectivisation, the nationalisation of land and the establishment of *kolkhoz*, household operations were still worth mentioning.
 - 3 In the years of transition, Romania's agricultural sector managed to grow somewhat, but this was basically a rebound from the catastrophic situation in previous years, and is not an indicator of the success of Romanian agriculture.
 - 4 For example, processing of agricultural and forestry products, bioethanol and biodiesel production, biomass energy production, biogas development, etc.
 - 5 Illés (2008) recognises the merits of the definition, but points out that it can hardly be utilised in areas outside the OECD, and its viability is limited in Central and South-Eastern Europe.
 - 6 The sector can deliver all these functions when ownership relations, operations and organisational structures are appropriate and scales deliver economically efficient operations. Gazdag (2009) claims the appropriate framework for such is not small and mid-size firms, but competitive, appropriately scaled multifunctional operations capable of diversifying.
 - 7 The cultural state of the landscape has a definitive role in the formation of a country's image, and for this reason the development of the state of rural areas is an important condition.
 - 8 Naturally, to be able to experiment and for the programme to be able to diverge from main rural development programmes, it was necessary to have such decisions, institutions and regulations from European and national decision-making bodies that facilitate the operations of a decentralised programme. This also necessitates those local actors who can be addressed with such programmes. Evidently those regulations that concern the spending of public funds for development goals remain in force.
- 8 ALDETEC: Action Locale et Développement du Territoire en Europe Centrale.

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Factors influencing regional entrepreneurial activity in Central and Eastern Europe

Balázs Páger

Introduction

The importance of regional entrepreneurial activity has increased in the last few years, and many scholars have started to research different aspects of this topic. Regional-level investigation of entrepreneurial performance and the effects of entrepreneurship on regional development have quickly become popular research topics since the last decade. The shifted economic environment, global competition, new scientific results and new communication tools have all supported their growing importance. This does not mean that entrepreneurs were not important in the beginning of the last century. However, accelerated economic processes and competition among enterprises and countries now require flexible business units, which can respond to negative and positive externalities faster than large firms. Several relatively young industrial sectors have developed in the last few decades. These industries are based on new products and services, and a high number of fresh start-ups have come to life within their framework. These newcomers may also stimulate competition, the division of labour and the introduction of innovations (Glaeser et al., 1992; Ács and Armington, 2004). Hence, greater variety may have an indirect influence on regional development (Boschma, 2004; Fritsch, 2012). A new firm may inject diversity into the market and 'entrepreneurship is an important source of diversity by transforming knowledge into economic knowledge that otherwise would have remained uncommercialised' (Audretsch and Keilbach, 2004, p. 608). Therefore, new firms and enterprises may play a significant role in regional economies due to the knowledge and the novelties that they bring into the market. Audretsch and Thurik (2001) summarised the changes concerning the role of entrepreneurship in 14 trade-offs. These mark the difference between a 'managed economy' and an 'entrepreneurial economy'. The emerging concept of 'entrepreneurial economy' has been characterised by small and medium firms whose strategy is built on diversity and flexibility. The role of local policies and the focus on local and regional space became more significant than in a managed economy (Audretsch and Thurik, 2001; Audretsch, 2009).

In this chapter I investigate entrepreneurial activity in the Central and Eastern European regions. These territories were facing hard and significant challenges in the last decades while having to find their own development paths, and new firms have been instrumental in realising this development potential. Smallbone and Welter (2001) describe different courses for enterprises in transition economies, among them the Central and Eastern European countries. In the