in: Lux, Gábor – Horváth, Gyula (eds.): The Handbook to Regional Development in Central and Eastern Europe. Routledge, megjelenés alatt.

Chapter 1: Reintegrating Economic Space: The Metropolitan–Provincial Divide

Gábor Lux

Rescaling in the Modern Space Economy

In the last decades, even the most developed European economies had to reconsider their development strategies due to increasing competition and the rescaling of the modern space economy. The pressures of 'unlimited globalisation' have been brought about by advances in transportation and info-communication technologies (ICT); massive worldwide deregulation; the appearance of several new actors in global economic integration; and the constantly increasing permeability of national borders. Controlled mainly by transnational corporations (TNCs), Foreign Direct Investment (FDI) flows have had an increasing role in shaping the development prospects of states and regions. Except for a few key players on the world stage, countries and their regions face adaptation pressure impossible to avoid without being threatened by marginalisation.

A process of rescaling has taken place, leading to increased concentration in global centres (Faragó, 2010). The new winners of worldwide agglomeration processes are the 'ideal' locations of space: *globalised metropolitan city-regions* which serve as frameworks for agglomeration economies (Gordon and McCann, 2000) and fulfil both hub and gateway roles in the distribution of transcontinental flows (Taylor, 1997; Derudder et al., 2003; Erdősi, 2003; Sassen, 2006; Gál, 2010). Their strengths, based on a spatially limited system of location advantages, enable them to collect the most advanced functions of the post-Fordist economy: knowledge-intensive business services (KIBS), the most advanced innovative technologies, command and control functions in both the commercial and the public sectors. The highest value-added economic branches show great concentration in these 'world cities' (Audretsch, 1998). In comparison, medium-sized metropolitan areas linked to the world city network tend to specialise only in a few activities, from finance (Frankfurt, Zurich) to fashion and culture (Milano). Their examples are often presented as idealised case studies or ready-made development development recipes, without paying enough attention to their unique situation and capabilities. This problem has often lead to the failure of new regionalist policies – a problem already discussed by Lovering (1999), and later by Moulaert et al. (2007).

Benefiting from state-led development policies (Gereffi, 1995), some – primarily East Asian – emerging economies have undergone significant upgrading from peripheral to global actors through attracting TNCs and supporting their own 'national champions'. Globally established companies possess special advantages when it comes to competitive strategies: they can optimise the factor intensity, the knowledge content and the added value of their activities on a worldwide scale. This unique 'bird's eye view' enables them to pay their taxes in tax havens; locate their labour-intensive production on low-cost sites while exploiting high-skilled labour, innovative activities and management close to the global centres; and to sell their products to advanced economies as well as the broadening global middle class. Economies of scale and their bargaining power grant them a position similar to that of the

global centres with which they exist in symbiosis – while locality is increasingly on the defensive, even when reinforced by powerful economic networks such as clusters and industrial districts. In the world of global value chains, everyone stands alone against the pressure of the markets.

Non-metropolitan spaces and those outside the great global flows often experience threats of marginalisation and decline. 'Minor cities', second-tier urban centres without sufficient critical mass (Sucháček, 2010), find themselves in a precarious situation amidst losing ground to global champions and having to balance their development agendas between strong specialisation and a flexible economic structure (Lux, 2015).[1] *'For whoever has, to him more will be given; but whoever does not have, even what he has will be taken away from him'* – so Mark (4:25) describes the essence of historical accumulation processes, and these words have never been more true than in our age. Even advanced economies in Western Europe and North America feel the ensuing development challenges. Unlimited competition results in a race towards a relatively low global average, and exerts a burden on welfare states (Kilicaslan and Taymaz, 2008; Milberg and Winkler, 2010). Wage stagnation, long-term job displacements and labour market insecurity, coupled with a structural shift towards post-Fordism and the crisis of traditional industrial regions, have together led to the erosion of previously secure medium-skilled jobs in both blue- and white-collar professions. The phenomenon of the 'vanishing' or 'disappearing middle' has been noted as a severe problem by numerous authors (Goos and Manning, 2007; Acemoglu and Autor, 2010; Tüzemen and Willis, 2013), prompting a search for effective development strategies representing a 'high road' of global competitiveness, characterised by high levels of social spending, employee skills, innovation and (consequently) productivity (Milberg and Houston, 1999).

In regional policy, the spatial interpretation of high-road development has encouraged an entire set of policies, a 'new consensus' on regional development relying on the collaboration of territorially embedded public and private networks aiming to foster learning and innovation (Humphrey and Schmitz, 2002). *Endogenous development* stresses the exploitation of locally rooted, hard-to-reproduce location advantages, primarily unique skills and knowledge, in achieving competitiveness in a selected industrial or tertiary niche. The central tenets of this development approach are a combination of the following factors:

- concentrating resources, exploiting agglomeration advantages, enabling less dense regions to realise benefits similar to those in metropolitan city-regions;
- increasing the regional embeddedness of production through an upgrading process;
- empowering local small and medium-sized enterprises (SMEs) and their networks; and
- preserving social cohesion and the welfare state.

This philosophy is expressed in a variety of instruments and in concentrated development units, like regional clusters and industrial districts, growth poles, regional innovation systems, learning regions, etc. These concepts are interrelated inasmuch as they attempt to encourage local resource accumulation and the generation of spillover or multiplier effects which, starting from a concentrated location, try to integrate a broader region into a production network, whether operated by local actors or external investors. Endogenous development has become a 'go-to' development approach of EU regional policy, with mixed success.

Like regional policy in general, the strategies of endogenous development are often applied haphazardly, without regard to local capabilities, historical antecedents or institutional

development. In the last decade, even its success stories have been facing new challenges in the form of cost-based competition with post-socialist and particularly Far Eastern emerging economies. SME networks without effective niche strategies are increasingly disrupted by TNCs which have entered and captured the markets traditionally dominated by local enterprises. Furthermore, transnational private governance has introduced TNC-friendly legislation through the EU, representing Anglo-Saxon competitive philosophies in contrast to the continental model (Nölke, 2011). There has also been a cultural change characterised by weakening informal ties, less integrated firm networks and changing populations, particularly visible in Italian industrial districts (Parrilli, 2009). As a consequence, the economic environment became weaker which thus allowed endogenous development models in non-metropolitan regions to function with lower embeddedness of local companies, resulting in restructuring local company networks into more hierarchical, centrally or even externally controlled formations.

This chapter aims to present the outcomes and the limitations of this worldwide rescaling and integration process in post-socialist Central and Eastern Europe. Reconfiguring the historical legacies of CEE regions, post-industrial development has produced territorially uneven results. While national capitals and their surroundings have emerged as advanced service economies integrated into European and worldwide networks of metropolitan growth areas (MEGAs), other regions have a more even balance between industrial and tertiary sources of competitiveness, or they experience hollowing-out processes which entail the dissolution of productive specialisations and long-term socio-economic decline. It is argued that in an era of globalisation and metropolisation, non-metropolitan regions in CEE face a significant risk of falling behind, which should be counteracted by comprehensive efforts to foster territorial reintegration and endogenous growth capabilities.

Territorially Uneven Structural Changes under Post-socialism

Socialist development policies prioritised industrialisation at all costs, while neglecting or outright suppressing consumption and business services. This led to overindustrialised national and regional economies. Not only were these structures oversized, they were also unsustainable, burdened with a host of insoluble problems (see Chapter 2). Accordingly, regional restructuring in Central and Eastern Europe in the post-socialist era coincided with a rapid transition to post-Fordism, the far-reaching tertiarisation of the overindustrialised economies, and a massive decline in industrial employment (de-industrialisation). Restructuring eliminated the dominance of industry on all levels of the space economy, and the tertiary sector has *universally* become the main source of production and employment, absorbing much of the industrial labour surplus.[2] Post-traditional ruralisation, i.e. labour returning from the cities to the countryside and from industry to agriculture (Kovács, 2003), was a feature of the first decade of transition in South-Eastern Europe, where the primary sector acted as a temporary buffer for the unemployed (Büschenfeld, 1999; Petrakos and Totev, 2000; Maniu, Kallai and Popa, 2001; Molnár, 2010). However, this was much more limited in the Visegrad countries where only Poland retained a large agricultural population. By the 2000s, this labour-absorbing role of rural areas was waning, although later it was again observed in Greece during the financial crisis.

However, the ubiquity of tertiarisation conceals important disparities: for example, those in the spread of service activities at both national and regional levels. Furthermore, these activities themselves show enormous differences with respect to their added value, innovation

content, competitiveness and territorial integration. These differences are not only significant, they have also turned out to be rather persistent, and they can have a far-reaching influence on long-term regional development paths. In order to understand the socio-economic differentiation of CEE countries and regions, beyond looking at the basic structural indicators, we must assess the underlying quantitative and qualitative differences as well. As services can be found 'everywhere' and agriculture has a comparatively low share in employment and economic output[3], industry has become the main sector representing regional differences.

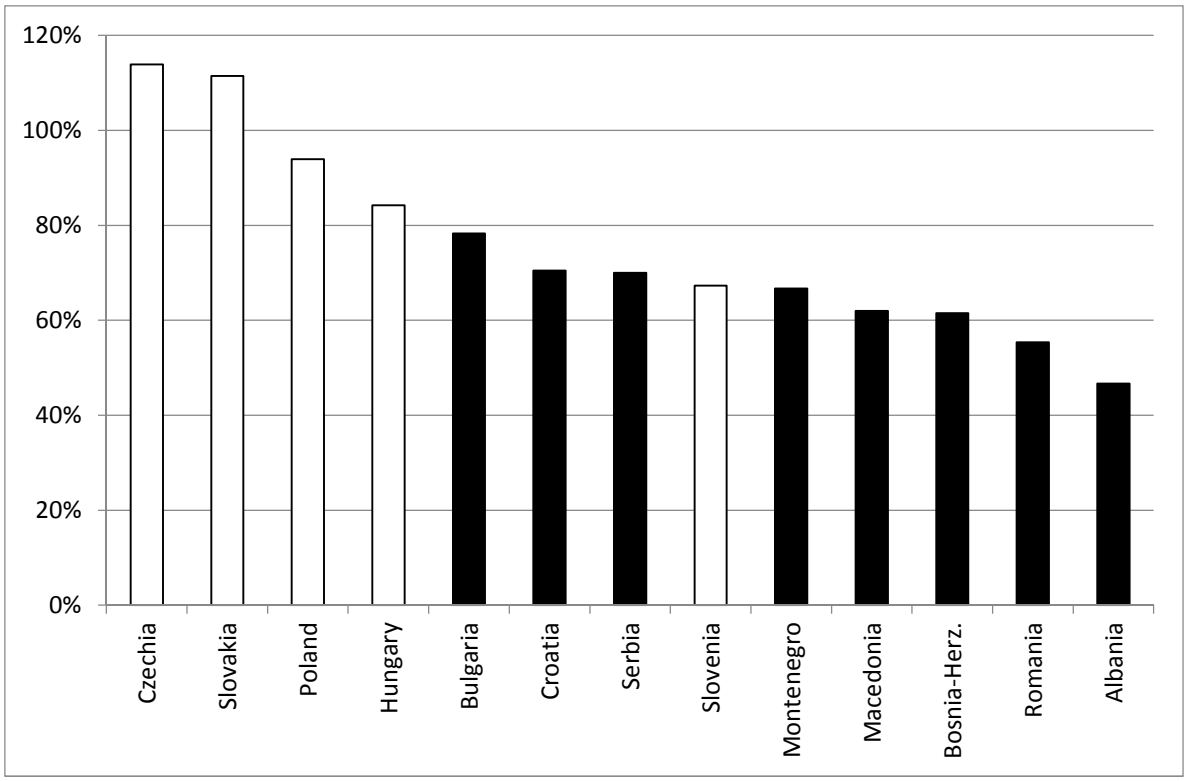

Figure 1.1 Changes in the share of industrial employment in CEE countries, 1990–2008 (1990=100%)

Source: Author's calculations based on data from national statistical yearbooks and Eurostat.

Encompassing the main period of radical structural changes, Figure 1.1 shows the national differences in de-industrialisation between the first years of transition and the global financial crisis. It is apparent that the long-term decline in industrial employment was significantly lower in the Visegrad group of countries than elsewhere. In fact, Czechia and Slovakia even experienced minor reindustrialisation. These features point beyond the common characteristics of transition, calling attention to the differences in market processes, political and institutional contexts surrounding structural transformation.

- In the Visegrad countries, tertiarisation has been partially counterbalanced by reindustrialisation, driven by high FDI inflows into the manufacturing sector. The duration of the transformation recession here was shorter than in South-Eastern Europe or the post-Soviet countries.
- In South-Eastern Europe, particularly in the successor states of Yugoslavia, deeper de-industrialisation is explained by both the slower pace of political and economic transition, and the very outdated industrial structure of state socialism. This has lead to a lower survival rate of companies, delays in the spread of FDI, and severe socio-economic

problems. Furthermore, the original degree of industrialisation was itself a statistical illusion, bolstered by the underdevelopment of the service sector.

The significance of national dissimilarities becomes even more prominent if we consider the qualitative differences behind the numbers, which prompts us to look for the internal differences of a universal phenomenon.

- First, tertiarisation is *the structural correction of overindustrialised economies*. The artificial industrialisation and the suppression of services under state socialism had produced an abnormal economic structure which was subsequently corrected by market-led restructuring in the post-socialist era. This interpretation of tertiarisation became mainstream in academia, policy and public discourse alike in the 1990s and 2000s.
- Secondly, tertiarisation represents a *modernisation process* corresponding to the global post-Fordist transformation. This interpretation highlights the increasing variety of service-based employment and business opportunities, new forms of consumption, and an improving quality of life. However, the benefits of this modernisation are territorially uneven, particularly when it comes to KIBS which are concentrated in national capitals and a few metropolitan areas, trickling down to the peripheries only through a slow hierarchical spreading process. We can also observe the problems posed by inadequate critical mass: high value-added services tend to avoid minor cities with insufficient agglomeration impact, and thus may be limited to a few regions even in the long term (Chapter 5). Finally, as Audretsch (1998) showed it on a global scale, multiple studies (e.g. Horváth, 2007, 2015; Gál, 2005) have concluded that the more innovative or 'valuable' a service is, the more likely it shows high concentration.
- The third variety of tertiarisation is less benign: it represents *peripherisation and hollowing-out* in less developed regions. Where declining industries were not replaced by high value-added services, structural change is merely a sign of economic decay and regional de-specialisation. Hollowing-out involves a loss of valuable economic functions, the 'emptying' of the space economy. In this case the new service economy is merely the dominant employer (partly due to the absence of alternatives), but not a genuine source of competitiveness.

Structural change is a layered process, and the above categories overlap in both space and time; there are important trade-offs and opportunity costs which may crop up during the restructuring process. Yet it is clear that while the structural correction effect has been universal in post-socialist CEE, the other two show a centre–periphery relationship both among countries and at subnational level. Concentrated mainly in metropolitan areas and a few well-integrated large cities, the benefits of modern service economies follow global trends, while the trends of hollowing-out mostly affect the peripheries.

Territorial Structures and Driving Forces of the Post-industrial Economy

Both services and industry in the CEE macroregion are heavily influenced by the selective location decisions of Foreign Direct Investment. Although the Visegrad countries have been the most successful in attracting FDI over the years, and they have enjoyed an early advantage, some economies in South-Eastern Europe have also been catching up since the turn of the millennium, particularly in selected 'forerunner' or 'bridgehead' regions which serve as origins of dispersal processes.[4] The sectoral breakdown of Gross Value Added follows the split within the macroregion: FDI-dominated industry plays a stronger role in the

economic performance of the Visegrad group and Slovenia, while the South-Eastern countries show a higher share of both agriculture and services (Table 1.1).

Table 1.1 Foreign Direct Investment (FDI) in post-socialist countries (1995–2011) and the sectoral breakdown of Gross Value Added (GVA) in 2013

Country	1995	2005	2011	Agriculture	Industry & construction	Services
	USD/capita			per cent		
Albania	65	319	1462	n.a.	n.a.	n.a.
Bosnia-Herzegovina	n.a.	735	1791	8.2	26.2	65.6
Bulgaria	53	1785	6400	5.6	28.6	65.8
Croatia	106	3283	7026	4.1	26.4	69.5
Czechia	711	5936	11889	2.5	38.1	59.4
Hungary	1094	6137	8473	4.5	31.0	64.5
Macedonia	44	1025	2291	10.9	26.5	62.6
Montenegro	n.a.	n.a.	9178	8.8	17.9	73.3
Poland	203	2377	5158	3.4	33.6	63.0
Romania	36	1192	3281	5.0	34.2	60.8
Serbia	n.a.	n.a.	2321	9.9	31.2	58.9
Serbia and Montenegro	n.a.	592	n.a.	–	–	–
Slovakia	242	4394	9375	3.1	38.6	57.3
Slovenia	1316	3623	7442	2.0	33.0	65.0
Visegrad-4 + Slovenia	450	4493	8467	3.1	35.1	61.8
South-Eastern Europe	270	1276	4219	7.5	27.2	65.3

Note: Data for Serbia in the second column is from 2006–2007. Population data for Bosnia-Herzegovina are official; hence, strongly debatable.

Source: Author's calculations and compilation based on investment data from UNCTAD, population and labour statistics from EUROSTAT and national statistical yearbooks.

At the subnational level, we can get a more accurate picture about the driving forces of regional development if we correlate the (percentage) data series of sectoral employment with nominal GDP per capita (expressed as a percentage of the EU average) in the CEE regions.[5] For the sake of comparison, data for national capitals and their surrounding regions were merged even if they are treated as two separate NUTS 2 units – i.e. Prague and Central Bohemia, Bratislava and Western Slovakia, or Bucharest and the South Region. These are henceforth referred to as *central regions*. The South-Eastern group of countries include here Bulgaria, Croatia and Romania. The dataset of 50 regions was subjected to correlation analysis, first for the group of all regions; then separately for non-central and central region groups. Employment figures were from 2013, and regional GDP from 2011.

Reproduced in Table 1.2, the results show evidence of both a macroregional split and a divide between the central and the non-central regions.

- While correlation between primary sector employment and per capita GDP was universally negative, showing the underdevelopment of rural regions (Chapter 6), it was the least definite in the South-Eastern European countries. The relationship was reverse for services which seemed to have a positive effect on economic development.

- The most interesting differences can be found in industry and construction. No notable correlation exists for the whole database, but the picture changes when we separate non-central and central regions. Non-central regions in the Visegrad group show medium-level positive correlation between industrial employment and nominal GDP, while the relationship is weaker and negative in South-Eastern Europe. *This difference highlights the relevance of different economic development paths in non-metropolitan CEE regions*. In the Visegrad group, industrial restructuring and FDI-based development have largely replaced the low-performing industrial branches (although there are important caveats, discussed in Chapter 2), and competitiveness is based on a mixture of industry and services – but more strongly on the former. In South-Eastern Europe, structural change has been less thorough, and low-road cost advantages still dominate: the development role of the secondary sector is more ambiguous. While the differences can be expected to diminish slowly, they will most likely remain in the coming decades.
- Finally, the group of the six central regions in our dataset is too small to draw valid conclusions. However, they seem to fit into the picture of the standard metropolitan growth path: service-based development dominates, while the positive value of industry might signify the relevance of construction, and some high value-added, knowledge-based industrial activities.

Table 1.2 Correlation between sectoral employment and nominal GDP per capita

Region	Agriculture	Industry & construction	Services
All regions	–0.47	0.05	0.50
Visegrad-4 + Slovenia	–0.50	–0.02	0.56
South-Eastern Europe	–0.22	–0.24	0.37
Non-central regions	–0.47	0.31	0.35
Visegrad-4 + Slovenia	–0.46	0.35	0.25
South-Eastern Europe	–0.26	–0.16	0.37
Central regions	–0.87	0.35	0.54

Source: Author's calculations and compilation based on data from EUROSTAT.

Based on our findings here and in further empirical work, we can speak of a *triple typology of regions*, pointing towards different, perhaps even divergent paths of regional development, and a varied economic landscape across the CEE macroregion (Figure 1.2). *Central regions*, including national capitals and their functionally linked agglomerations, are the most successful examples of economic transformation. They are integrated into global metropolitan networks and are specialised in KIBS, innovation, corporate and public command and control functions, besides having a limited number of high-innovation, high value-added manufacturing activities. However, it is a sobering fact that they still rank rather low in global city hierarchy (Csomós, 2011). The high territorial concentration of KIBS in central regions clearly shows the limits to competitive post-industrial development. Measured by employment in information and communication (NACE J) as well as in financial and insurance activities (NACE K) in 2014, these concentration values were very high in small countries with monocentric territorial structures. They reach over 60 per cent in Slovakia, Hungary, Bulgaria and Slovenia, and 76 per cent in Croatia. On the other hand, the distribution of high value-added services is more even in Poland, due to its emerging metropolitan network which can effectively counterweigh Warsaw and the Mazowieckie region (34 per cent). Romania's urban network has not yet shown a similar decentralisation process, but its large cities have the potential to emerge as competitive service hubs. Czechia

has Brno as a potentially strong secondary pole (with 16 per cent vs. the 49 per cent of Prague and Central Bohemia). Since urban networks are among the most path-dependent territorial structures and there are no great prospects for CEE's large cities to grow (Chapter 8), it must be accepted that, while advanced tertiary activities can be expected to get slightly decentralised (cf. Gál and Sass, 2009 and Chapter 5), there are natural barriers to their territorial dispersion – and the regions losing out will have to look for other forms of development.

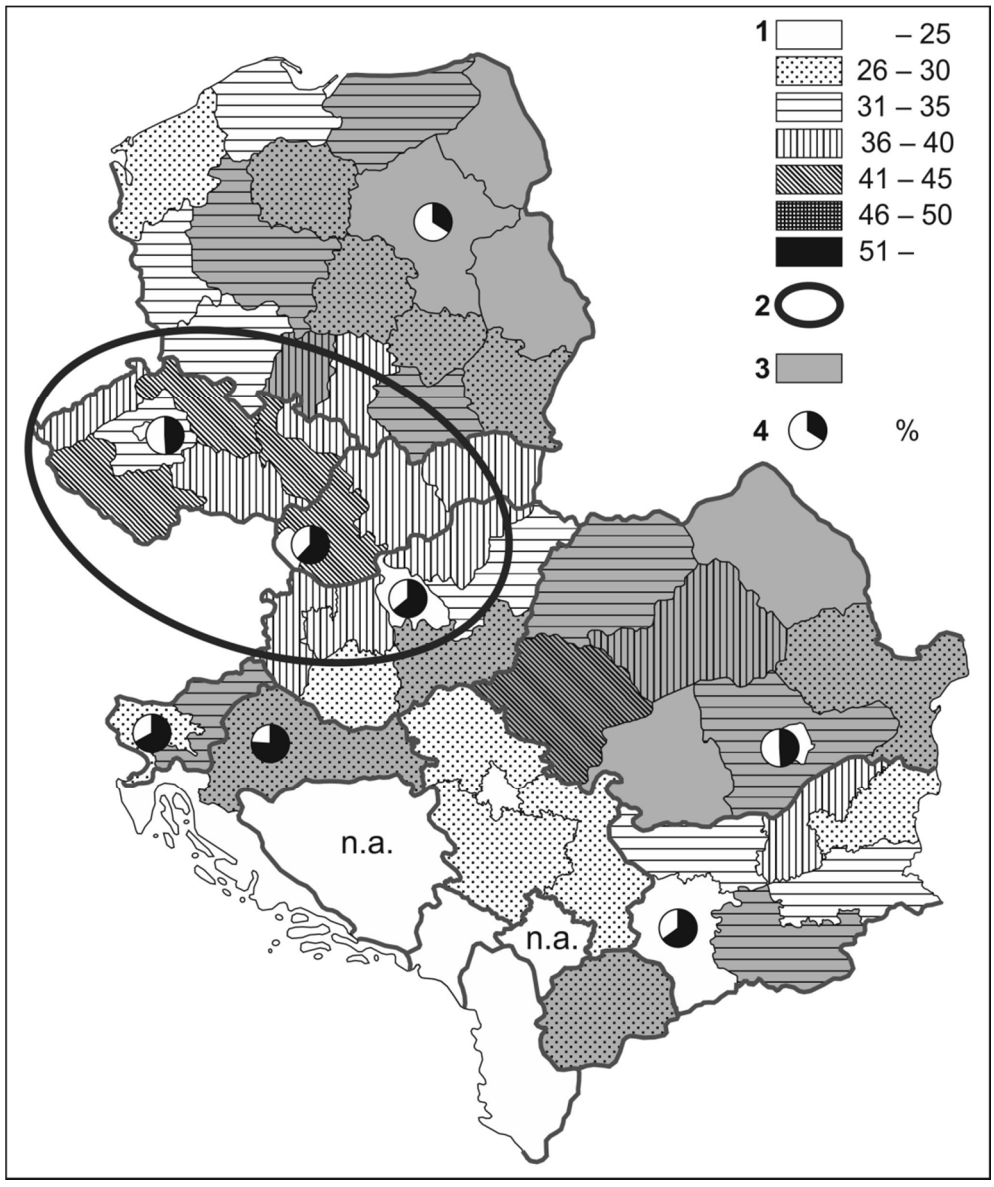

Figure 1.2 The spatial structures of the CEE macroregion in 2013

Legend: 1 – The share of industry and construction in total employment (per cent); 2 – manufacturing core area; 3 – regions with high share of agricultural employment (>10 per cent); 4 – The main concentrations of advanced business services (percentage of national employment).

Source: Author's calculations based on data from EUROSTAT.

Combining industrial and tertiary sources of competitiveness, the second group of successful regions could be described as *intermediate* regions. Most of them are located in Central Europe's manufacturing core where beneficial productive legacies and new investments have

together created favourable environment for industrial development. This area – encompassing Czechia, Western Slovakia, Southwestern Poland and Northwestern Hungary – is increasingly integrated into global production networks, particularly into the production systems established in Germany, Austria and Northern Italy (Chapter 2). There are also other manufacturing hotspots, but they are less prominent and less connected. The competitiveness of intermediate regions is mainly driven by exogenous factors (FDI), but these investments are typically built on strong historical foundations, with path-dependent development which provides relatively favourable opportunities for endogenous growth. They are starting to show some growth in business services, as well as in manufacturing activities, while the relatively high incomes in these sectors also encourage beneficial spillover effects into local consumption services. However, the lack of critical mass and sufficient network density limits the development of tertiary activities in all but a handful of regional centres. It is likely that the industry–service mix will be the main source of regional development in the coming decades, and the main challenges will arise in network integration and in switching from low- to high-road forms of competitiveness.

The strong market selection in the course of transition radically divided non-metropolitan space. Regions unable to integrate into global networks – retaining their old industrial base or initiating endogenous accumulation processes on their own due to lack of local capital, knowledge and institutions – have experienced *hollowing-out*, leading to the emergence of a 'homogenous periphery'. Their homogeneity consists in their ability to offer only the same set of resources at any of their locations: cheap, mostly unskilled labour and basic infrastructure. This is insufficient for survival in the global race, even with low wages and low labour protection. The weakening and the disappearance of industrial specialisation have been particularly severe in small and medium-sized towns which were largely avoided by FDI favouring large regional centres, and consequently they lost their role in integrating local economies, thus experiencing a 'disconnection' from their territorial context. Hollowed-out regions invariably have their competitive SMEs, FDI branch plants, or the odd successful cluster: but these isolated cases are accompanied by an underdeveloped environment and may themselves be precarious, prone to closures or delocalisation.[6] Following EU-accession, and particularly during the financial crisis, the problems of the peripheries were aggravated by severe human capital losses, by out-migration to the EU-15 (Chapter 13). This affected precisely the skilled, mobile, entrepreneurial workforce which could offer hope for future development.[7] Under the circumstances of general capital shortage, external development funding may be insufficient to create new evolutionary paths: linkage possibilities and social capital are in short supply, and re-specialisation faces strong challenges due to low network density.

Reintegrating Socio-economic Space

Apart from the European crisis, and also taking into account the lessons of global integration in the Western European economies, economic transition in the CEE macroregion poses some questions. Can we diminish the deep and persistent development differences which have emerged, particularly between a few metropolitan areas, successful regions and the rest? Are there ways for the peripheries to embark on successful development paths if they cannot benefit from the presence of strong urban centres and developed industrial networks? The current trends of regional development are heavily path-dependent and they seem to show signs of geographic determinism in some respects (Sucháček, 2010), where the advantages of the winners are insurmountable, while those falling behind have little chance to improve their

lot. As the following chapters will show, FDI-driven development in the CEE regions has produced many success stories, but its benefits have been geographically uneven, and they even seem to have come with trade-offs and clear limits. After a quarter of a century, and among the uncertainties of post-crisis Europe, the driving forces of post-socialism growth paths often seem to be exhausted. Where now for regional development?

Based on the available evidence, the author believes that it is time to rethink our development philosophies. Whereas the period of post-socialism has been characterised by attempts to attract and channel exogenous resources (from FDI to EU funds and imported know-how), now a deeper look into fostering better conditions for endogenous development should be taken. Although often invoked in discourse, very little of this paradigm has effectively entered into development practice. Concepts such as clusters, regional innovation systems or industrial districts are often used as a pretext to gain funding, but comprehensive philosophies of systematically investing into local human capital, entrepreneurship, socio-economic networks and embedded production are relatively hard to find. Human capital, in particular, has been a neglected issue of transition, while high-road development paths are unthinkable without strong human potential.

Endogenous development also has its specific importance due to the transforming sources of competitiveness, which are becoming increasingly localised, tied to a specific place or region in high-road development. While FDI can help develop its own production networks and will continue to play a crucial role in shaping regional development in CEE, endogenous development will always be the strongest and most sustainable in firms and socio-economic networks which emerge locally in an organic fashion. Domestic entrepreneurship, particularly medium-sized companies in supply networks or high-value added product niches, is indispensable in the long-term accumulation processes enriching regions. As even successful regions are starting to face the pressure of low-cost global competitors, they must formulate effective upgrading strategies to forestall the decline or loss of their current economic base, and they must do so in a sustainable way.

The long-term objective of endogenous development can be *the reintegration of socio-economic space* through building strong, resilient, locally embedded production networks. Its abstract illustration can be seen in Figure 1.3. Space was dominated by large, vertically integrated companies with strong central control under state socialism. They had few horizontal links to other local companies, although they developed their own local skill base and accumulated knowledge in their production networks. There were also smaller, isolated companies that did not engage in traditionally understood competition, although they served as conduits and foci of knowledge and capital accumulation, too. Market selection in the course of transition, followed by the uneven restructuring during and after the transformation recession, has increased territorial discrepancies. As described previously, this has resulted in regions undergoing global integration mainly through FDI inflows, while others experiencing hollowing-out through capital loss and the disintegration of their production networks. These two development paths are not the final stages of socio-economic evolution in CEE: transition from one to the other is possible, and new forms of integration can – and should – also emerge.

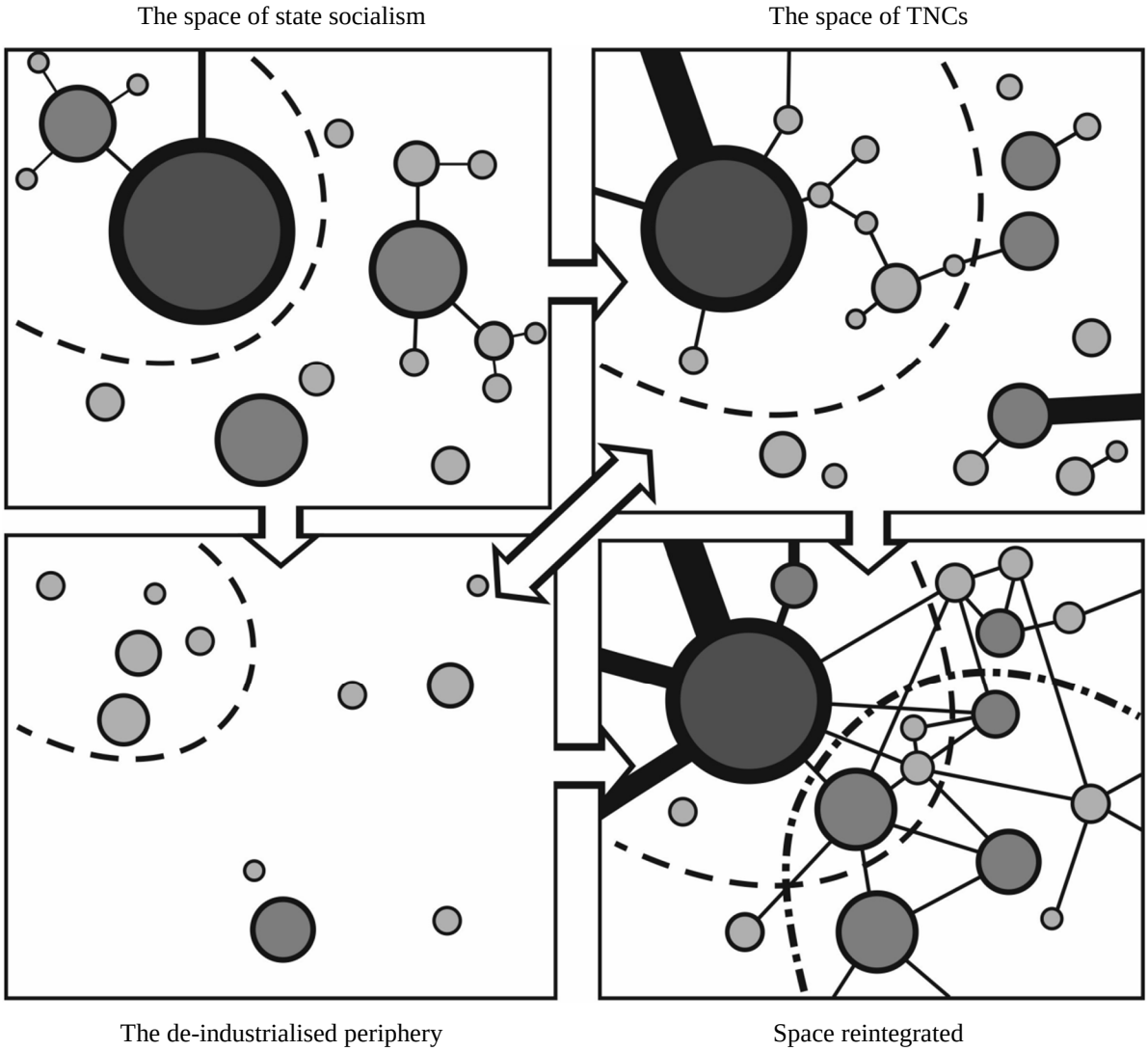

Figure 1.3: The transformation and reintegration of post-socialist space

Source: Lux, 2014, p.43.

In this sense, endogenous development can be seen as a development paradigm enabling CEE economies to move towards *a reintegrated space economy*: the building of strong local networks which can provide sufficient added value for both TNCs and domestic enterprises. The key to these networks are the density and diverse directions of their connections, which can break one-sided dependent relationships and help these regions to get established as competitive players in both European and global contexts. Altogether, endogenous development and the reintegration of space should achieve three different, but closely connected goals:

- encourage re-specialisation in regions which have lost their previous focus;
- make it possible to transcend the limitations of FDI-based competitiveness;
- and finally, open opportunities towards 'high-road' growth paths and the incremental improvement of socio-economic conditions.

There is no guarantee that endogenous development can prevent the problem of 'the disappearing middle' from emerging, or that it can offer full protection from global

competitive pressure; and the metropolitan–provincial divide will continue to shape future growth opportunities. However, refocusing development can hopefully help regions learn to adapt – that is, to learn how to learn better.

Acknowledgements
This research has been supported by project #104985 of the Hungarian National Research, Development and Innovation Office. While writing this paper, Gabor Lux was supported by the János Bolyai Research Scholarship of the Hungarian Academy of Sciences.

References

Acemoglu, D. and Autor, D., 2010. Skills, Tasks and Technologies: Implications for Employment and Earnings. Working Paper.

Audretsch, D. B., 1998. Agglomeration and the Location of Innovative Activity, *Oxford Review of Economic Policy*, 14(2), pp.18–29.

Buday-Sántha, A., 2001. *Agrárpolitika – vidékpolitika: A Magyar agrárgazdaság és az Európai Unió* [Agricultural and rural development policy: Hungarian agriculture and the European Union]. Budapest, Pécs: Dialóg Campus Kiadó.

Büschenfeld, H., 1999. Wirtschaftliche Transformationsprozesse in den Nachfolgestaaten Jugoslawiens. *Europa Regional*, 7(4), pp. 23–38.

Camagni, R., Capello, R. and Caragliu, A., 2015. The Rise of Second-rank Cities: What Role for Agglomeration Economies. *European Planning Studies*, 23(6), pp. 1069–1089.

Csomós, Gy., 2011. Analysis of Leading Cities in Central Europe: Control of Regional Economy. *Bulletin of Geography. Socio-Economic Series*, 16, pp. 21–33.

Derudder, B., Taylor, P. J., Witlox, F. and Catalano, G., 2003. Hierarchical Tendencies and Regional Patterns in the World City Network: A Global Urban Analysis of 234 Cities. *Regional Studies*, 37(9), pp.875–886.

Dijkstra, L. 2013. Why Investing More in the Capital Can Lead to Less Growth, *Cambridge Journal of Regions, Economy and Society*, 6(2), pp.251–268.

Dijkstra, L., Garcilazo, E. and McCann, P., 2013. The Economic Performance of European Cities and City Regions: Myths and Realities, *European Planning Studies*, 21(3), pp.334–354.

Erdősi, F., 2003. Globalizáció és a világvárosok által uralt tér I. [The space ruled by globalisation and metropolises I]. *Tér és Társadalom*, 17(3), pp.1–27.

Faragó, L. 2010. Területi koncentráció és a jelentőségüket vesztő perifériák [Territorial concentration and the declining significance of the peripheries]. Gy. Barta, P. Beluszky, Zs. Földi and K. Kovács, eds. *A területi kutatások csomópontjai*. Pécs: Magyar Tudományos Akadémia Regionális Kutatások Központja, pp.432–453. o.

Gál, Z. 2005. The Development and the Polarised Spatial Structure of the Hungarian Banking System in a Transforming Economy. In: Gy. Barta, É. G. Fekete, I. Kukorelli Szörényiné and J. Timár, eds. *Hungarian Spaces and Places: Patterns of Transition*. Pécs: Centre for Regional Studies, pp.197–219.

Gál, Z., 2010. *Pénzügyi piacok a globális térben: A válság szabdalta pénzügyi tér* [Financial markets in global space: The crisis-segmented financial space]. Budapest: Akadémiai Kiadó.

Gál, Z. and Sass, M., 2009. Emerging New Locations of Business Services: Offshoring in Central and Eastern Europe. *Regions*, 274(1), pp. 18–22.

Gereffi, G., 1995. State Policies and Industrial Upgrading in East Asia. *Revue D'Économie Industrielle*, 71(1), pp.79–90.

Goos, M. and Manning, A., 2007. Lousy and Lovely Jobs: The Rising Polarization of Work in Britain. *The Review of Economics and Statistics,* 89(1), pp.118–133.

Gordon, I. R. and McCann, P. 2000. Industrial Clusters: Complexes, Agglomeration and/or Social Networks. *Urban Studies,* 37(3), pp.513–532.

Horváth, Gy., 2007. A régióépítés dilemmái Kelet-Közép-Európában [The dilemmas of creating regions in Central and Eastern Europe]. In: Z. Hajdú, I. Illés and Z. Raffay, szerk., *Délkelet-Európa: Államhatárok, határon átnyúló kapcsolatok, térstruktúrák.* Pécs: MTA Regionális Kutatások Központja, pp.74–99.

Horváth, Gy., 2015. *Spaces and Places in Central and Eastern Europe*. London and New York, NY: Routledge.

Humphrey, J. and Schmitz, H., 2002. How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters. *Regional Studies,* 36(9), pp.1017–1027.

Kilicaslan, Y. and Taymaz, E., 2008. Labor Market Institutions and Industrial Performance: An Evolutionary Study. *Journal of Evolutionary Economics*. 18(3–4), pp.477–492.

Kovács, T. 2003. *Vidékfejlesztési politika* [Rural development policy]. Budapest, Pécs: Dialóg Campus Kiadó.

Kuttor, D. and Hegyi-Kéri, Á., 2012. Sectoral and Regional Dimensions of Industrialization in East Central Europe. *Advances in Economics, Risk Management, Political and Law Science* pp. 290–299.

Lovering, J., 1999. Theory Led by Policy: The Inadequacies of the 'New Regionalism' (Illustrated from the Case of Wales). *International Journal of Urban and Regional Research,* 23(2), pp. 379–395.

Lux, G., 2014. Industrial Districts: Building Blocks of the Organised Economy. In: Somlyódyné Pfeil, E., ed. *Industrial Districts and Cities in Central Europe*. Győr: Universitas-Győr Nonprofit Ltd., pp. 27–45.

Lux, G., 2015. Minor Cities in a Metropolitan World: Challenges for Development and Governance in Three Hungarian Urban Agglomerations. *International Planning Studies,* 20(1–2), pp. 21–38.

Maniu, Mircea T. – Kallai, Ella – Popa, Dana (2001): Explaining Growth. Country Report: Romania (1990–2000). *The Romanian Economy: from Communism through the Transition to a Market Economy*. Initiatives for Democracy in Eastern Europe (IDEE), Bucharest. http://www.eldis.org/static/DOC13116.htm (2007. III. 21)

Milberg, W. and Houston, E., 1999. The High Road and the Low Road to International Competitiveness. Carnegie Council.

Milberg, W. and Winkler, D., 2010. Economic Insecurity in the New Wave of Globalization: Offshoring and the Labor Share under Varieties of Capitalism. *International Review of Applied Economics,* 24(3), pp. 285–308.

Molnár, E., 2010. Közép- és Délkelet-Európa határán: Gazdasági modernizáció és szerkezetváltás Romániában [On the borders of Central and South-Eastern Europe: Economic modernisation and restructuring in Romania]. In: G. Demeter and Zs. Radics, eds., *Kompországok – ahol a part szakad... Szemelvények Köztes-Európa integrációs törekvéseiből (1990–2008).* Debrecen: Didakt Kiadó, pp. 370–411.

Moulaert, F., Martinelli, F., González, S. and Swyngedouw, E. 2007. Introduction: Social Innovation and Governance in European Cities: Urban Development between Path Dependency and Radical Innovation. *European Urban and Regional Studies,* 17(3), pp. 195–209.

Nölke, A., 2011. *Transnational Economic Order and National Economic Institutions.* Köln: Max-Planck-Institut für Gesellschaftsforschung. (MPIfG Working Paper, 11/3).

Parkinson, M., Meegan, R., Karecha, J. Evans, R., Jones, G., Sotarauta, M., Ruokolainen, O. *et al*. 2012. *Second-tier Cities and Territorial Development in Europe: Performance, Policies and Prospects* (Luxembourg: ESPON).

Parrilli, M. D., 2009. Collective Efficiency, Policy Inducement and Social Embeddedness: Drivers for the Development of Industrial Districts. *Entrepreneurship & Regional Development*, 21(1), pp. 1–24.

Petrakos, G. and Totev, S., 2000. Economic Structure and Change in the Balkan Region: Implications for Integration, Transition and Economic Cooperation. *International Journal of Urban and Regional Research* 24(1), pp. 95–113.

Sassen, S., 2006. *Cities in a World Economy.* London: Sage Publications Ltd.

Sucháček, J., 2010. On the Emergence of Minor Cities. In: J. Sucháček and J. J. Petersen, eds. *Developments in Minor Cities: Institutions Matter.* Ostrava: VŠB – Technical University of Ostrava, pp.13–28.

Taylor, P. J., 1997. Hierarchical Tendencies amongst World Cities: A Global Research Proposal, *Cities*, 14(6), pp. 323–332.

Tüzemen, D. and Willis, J., 2013. The Vanishing Middle: Job Polarization and Workers' Response to the Decline in Middle-skill Jobs. *Economic Review*, 39(1), pp. 5–32.

Notes

[1] Beyond a book outlining a research agenda (Sucháček, 2010), second-tier cities had enjoyed relatively little attention until an ESPON project (Parkinson et al., 2012), two highly relevant papers (Dijkstra, 2013; Dijkstra, Garcilazo and McCann, 2013), and more recently a special issue (Camagni, Capello and Caragliu, 2015).

[2] This is the case even if, based on manufacturing's share in Gross Value Added, Czechia, Slovenia and Hungary were still ranked as the three most industrialised economies of the enlarged EU in 2014 – followed by Germany in the fourth place.

[3] While the significance of agri-business is nationally significant even in some advanced economies, its bulk is now found in the food industry-related and retail segments of the value chain (Buday-Sántha, 2001).

[4] In Romania, the agglomeration of Bucharest concentrated 57.1 and the West region (the 'Banat') 10.7 per cent of FDI in 2001. Between 2000 and 2008, Bucharest drew a full 63 per cent of subsequent inflows (Molnár, 2010). Other South-Eastern European states show similar investment patterns.

[5] Kuttor and Hegyi-Kéri (2012) have arrived at similar results through different methods.

[6] The gradual downsizing of the electronics industry in Hungary is a typical case. This industry had little upgrading potential and so it was heavily hit by the collapse of investors like Nokia, Elcoteq, etc.

[7] In addition to the pull effect of radically higher wages, a significant push factor is also present due to non-performing housing loans which played a major role in encouraging emigration from Hungary and Poland.