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**REGIONAL DEVELOPMENT IN CENTRAL AND EASTERN EUROPE:
THE ROLE OF INHERITED STRUCTURES, EXTERNAL FORCES
AND LOCAL INITIATIVES**

Abstract: This paper tries to explain regional development in Eastern and Central Europe. A simple West European bias can lead to false interpretations of current spatial processes. The spatial structuring forces in the communist period created a divergent mosaic of regions with different prospects for future development. This differentiated 'spatial outcome' of communism should be taken as point of departure for the new, post-communist era.

The interrelativeness of economical, legal and political reforms after the break-down of communism should be kept in mind. Seven influence groups, on different levels of scale, should be distinguished to understand regional development: the political context, international organisations, macroeconomic reforms, foreign investors, local initiatives, regional policy and geographical location.

Together with the inherited structures, this leads to a spatial differentiation which is different from the one prevailing in the communist era.

Key words: regional development, economic transition, Eastern/Central Europe.

1. INTRODUCTION

After decades of stagnation, the Central and East European countries are now experiencing a rapid and radical transformation which is unique in the world. A striking effect of this transformation is increasing differentiation and inequality. The days of 'shared poverty' are over: the gap between the rich and the poor is increasing, both socially and spatially. Why do some regions act much better than others? In the scarce publications on this subject explanations focus on macroeconomic changes as the main force of change. But there are more factors which influence regional development in Eastern/Central Europe.

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This article tries to distinguish these factors. Doing so, we will depart from the following four ideas. Our explanation should:

- a) be less economically biased;
- b) focus more on geographical explanations;
- c) take into consideration 'bottom-up' initiatives as well as 'top-down' forces;
- d) look at the past to understand the present.

2. INDICATORS FOR DEVELOPMENT: MISTAKES TO BE AVOIDED

2.1. Unemployment

In Western Europe unemployment rates are considered to be appropriate indicators to reflect regional differentiation of prosperity. As far as East and Central European countries are concerned, however, one should be very cautious.

National unemployment rates show a great variety. In early 1994, official rates varied from 3.5% in the Czech Republic to 15.5% in Poland. Does this one fact indicate that the Czech Republic is doing much better? And if so, does that mean that Russia, with its unemployment rate of 10.4%, has a better economy? Only a few people will subscribe to that statement.

We cannot compare the rates of real unemployment between different countries, because each country uses a different definition. Most definitions do not guarantee a reliable picture. In Poland, for example, the unemployed are considered part of the labour force, and capable of working and obtaining their money mainly from labour. In addition, persons with a partner who owns a farm are not considered to be unemployed, not even when looking for a job. This explains why the unemployment rate is lower than might be expected in the particularly rural periphery of south-eastern Poland where nearly all farms are in private hands and rather small-scale, and where the level of agricultural development is low.

We should also be very cautious when interpreting changes in the unemployment rates. This can be illustrated by means of Hungary. After a sharp increase in unemployment from approximately 50,000 in early 1990 to approximately 700,000 in early 1993, the number of officially unemployed in Hungary surprisingly dropped a bit and has been stagnant ever since (at least until spring 1994). However, this change did not indicate any economic progress, but reflected the fact that increasingly less people were given an unemployment benefit, and therefore it was no use for them to register as unemployed. Since early 1993, the number of unemployed to receive an unemployment benefit has dropped dramatically from 500,000 to 325,000 in October

1993, which means that these people were only entitled to moderate social aid. On the other hand, 10–20% of the unemployed receiving an unemployment benefit are estimated to obtain extra, illegal income from ‘black’ work (DÖVÉNYI, 1994).

Is a high rate of unemployment an indicator of bad economic performance? One can also say that unemployment is inextricably connected to economic reform: the higher the rate, the better the transformation, the earlier recovery will start. In this case, a low rate of unemployment could mean two things: (a) the economy is recovering, offering new jobs to many people, or (b) the national government has failed to set up a reform program; many state enterprises are artificially kept alive, and ‘hidden’ unemployment is extensive. Therefore, it is impossible to assess static unemployment rates without knowing their history, the definitions employed and their relation to the package of reform.

Assuming that the same definitions are used throughout the country, internal differentiations of unemployment rates could be significant.

For instance, the fact that the rates in and around capital cities are below the national average has some meaning. In December 1993, registered unemployment in Budapest was 7%, compared to a national rate of 15% (NEMES NAGY, 1994). The GAŁCZYŃSKA’s research (1992) on the transformation process in the Warsaw agglomeration confirms the results of MURPHEY (1992) and DOBOSIEWICZ (1992), who show the dynamics in the city’s outer ring where many new companies have been established. Large cities are considered to be centres of innovation with relatively few unemployed.

CSEFALVAY (1994) made a distinction between several stages and components of the increase in unemployment in Hungary and its spatial variation. The causes he describes differ: there are some external (the collapse of Comecon) as well as internal (the release of hidden unemployment) ones. The external factors are likely to have affected every East and Central European country, but the internal causes are different in each country, depending on the country’s political and economic decision-making. Each factor creating unemployment will have its own regional effect. Therefore, it is only possible to make statements about unemployment rates as the most important indicator for regional development when we have a thorough knowledge of its economic and political context.

2.2. Foreign investments

Frequently, surveys of foreign investments are used as an indicator of good economic performance, but we should be aware of the fact that the definitions of ‘foreign investments’ vary widely. If we only look at the number of joint

ventures, we will count a great deal of companies that only exist on paper. In 1992, the number of joint ventures in Romania was eight times the number of joint ventures in Bulgaria (resp. 7,200 and 900), but measured in terms of inflow of direct foreign investment Bulgaria performed better with 300 million USD, compared to Romania's 270 million USD (CSÉFALVAY, 1994, p. 355). In July 1994, the Czech government stated that "the Czech Republic does not need foreign investments any more" (RFE Daily Report, 1994). Two reasons were given: (a) sufficient domestic capital is available for new investments; (b) the government is afraid to lose control over the economy when it includes a large proportion of foreign property. Maybe these statements are insignificant, because they were given for political reasons. However, if these intentions are really put into practice, a new survey of the spatial differentiation of foreign investments in the Czech Republic would display a small proportion of foreign investments. This could lead to the false interpretation that the Czech Republic is not doing too well.

3. A HISTORIC PERSPECTIVE: WHY?

For some people, the countries of Central and Eastern Europe are now big business. In 1989/90, there was a genuine invasion of businessmen, advisors, consultancies, scientists, etc. who were attracted by the emerging markets and possibilities for expansion. Most of them hardly knew the area – only from a brief visit to Prague and a day-trip to East Berlin perhaps – and some of them only had working experience in Third World countries. In their philosophy, the countries of Eastern/Central Europe were at the beginning of a new era – which is true of course – but they falsely assumed that this era started with a clean slate. Their opinions on the communist past were very determined: central planning had been a major failure and communism had brought nothing good. The best medicine for recovery was to adapt as soon as possible to the market economy, and to integrate with the world market. Most of the inherited structures were out-of-date, and had to be 'reorganized', which is another word for 'to be closed down'. They made an inventory of the number of factories and their employees, looked at the quality of the produced goods, and drew a rapid conclusion based on static variables.

What is wrong with this procedure? Why is the past so important?

It is important to look upon the current situation as the result of a dynamic process.

An investigation into the industrial sector and the chances of the enterprises to recover, however, should take into consideration the period in which the enterprises were established. In Eastern Europe, it makes a difference whether an enterprise already existed before the Second World War (for instance in

Silesia), and was thus founded under market conditions, or was established during the communist era (RAJMAN, 1992).

As far as the post-war enterprises are concerned, it is absolutely necessary to specify the date of their establishment, because the economic and regional policies, which largely determine locational decisions, would change from time to time. It is important to understand the political and ideological context in which these decisions were made in order to find out how 'artificial' an enterprise was.

It is important to remember that large regional differences in Eastern and Central Europe are nothing new. At the outbreak of the Second World War, three-fourths of Eastern Europe's industries were found in the so-called industrial triangle Halle–Łódź–Budapest (Saxony, Bohemia-Moravia, Upper Silesia and Budapest). Outside the industrial triangle, peasants made up 50–80% of national populations. It is beyond the scope of this paper to explain this differentiation as others have done this extensively (see RUGG, 1985; RUPNIK, 1988).

In Central and Eastern Europe, a sharp cleavage in industrial development persisted between the east and the west, and between the north and the south. Figure 1 can be used as a very simple model, with a few elements that could explain regional development before the Second World War.

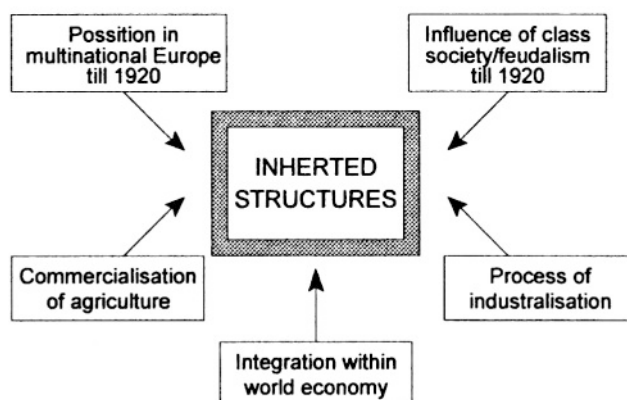


Fig. 1. Model of regional development before the Second World War

4. COMMUNIST PLANNING: NEW AND PERSISTENT DIFFERENTIATION

We can only fully understand current developments if we have a basic knowledge of the theories and practice of centralized planning after the Second World War. This will help us to understand why it is important to distinguish

several phases until 1989, and why this knowledge can help us to explain the developments which occurred after the break-down of the communist system.

It is important to remember that the regimes had to deal with an inherited regional imbalance at the beginning of this period, which was unfavourable for ideological reasons. The smaller Central and East European countries were forced to adapt the Soviet economic model which focused on developing the heavy industry in order to bring about rapid economic growth. The Marxist-Leninist ideology favoured an urban, industrialized society instead of a petty bourgeois rural society. Investments in private consumption and services were limited.

4.1. Theoretical principles

Economic, social and spatial planning had five objectives:

- a) to reduce the differences between the urban and rural areas (i.e. to urbanize the countryside);
- b) to reduce regional differentiation in socio-economic development;
- c) to avoid economic and social contact with abroad as much as possible and especially with the western countries;
- d) to organize economic development by means of strictly centralized planning and very limited room for the influence of the market;
- e) to create socialist citizens by means of education and propaganda.

After some initial success, it was hardly possible to reform the extensive growth model – with its spill of energy, resources, capital and labour – into an intensive growth model, based on rationalisation and savings. Growth figures decreased, innovations were slow (whereas the computer revolution did stimulate economic growth in the western countries), and the dependence on western imports had not reduced but even increased, causing a heavy burden of debt. One of the reasons for the limited success of the planned economy was the fact that no ‘socialist citizens’ were created in spite of mass indoctrination. On the contrary, as some kind of social contract, living standards had to be improved every year in order to keep the people quiet. In the end, however, it ruined the economy.

4.2. Practice: the existence of pressure groups

This unsatisfactory development of the state economy created ‘an economy of shortage’ as the Hungarian economist KORNAI (1980) called it. Its shortages were partly made up by the second economy or black economy. The original,

theoretic planning objectives to diminish the gap between urban and rural development, and the wish to decrease differences between regions had to be given up in practice later on, because they were economically unrealistic and it appeared to be extremely hard to achieve accelerated national economic growth. However, industrial production was to a limited extent dispersed, to locations which western investors would not always have selected. The unsatisfactory economic result gave way to an unequal struggle for scarce resources between several interest groups (HAMILTON, 1970; SHAW, 1985). Three main pressure groups must be distinguished: the state administration, the communist party organisations and the economic entities. In line with centralized planning, the central level of all three groups was more important than the regional or local level.

The disappointing economic performance reduced the possibility to realize all planning objectives. Therefore, choices had to be made between the several interest groups. The winners and the losers can be classified by means of the following guidelines:

- national economic development versus the distribution of national welfare;
- economic planning versus spatial planning;
- industry versus agriculture;
- heavy industry versus consumer good industry;
- economy versus services;
- economy versus environment;
- urban regions versus rural areas;
- ideology versus rationality;
- autarky versus external contacts;
- planning versus market;
- the military sector versus the rest (HAMILTON, 1970).

4.3. Regional policy

During the first decade after the war, regional policy was characterized by autarky and a regionally polarized development, resulting from an industrial take-off and urban explosion (ENYEDI, 1990). The second phase of regional policy, which lasted until the late sixties, resulted in a deconcentration of industrial locations which was accompanied by the formation of a modern urban network. This dispersion reduced the contribution of the pre-war industrial triangle from three-fourths to 50% of all industries. Absolutely however, the increase in industrial employment in the traditional industrial centres had been more extensive than it was in the new ones. The older regions were favoured because of their external economies.

In the third phase of regional policy, the 1970s and 1980s, economic policy was characterized by trade with the West and by attempts to reform the economy (not in every East/Central European country). The dependence on Western imports did not decline but increased, which brought about a heavy burden of debt.

The 1980s were the beginning of a post industrial era in the advanced countries of Eastern Europe. This period was marked by attempts to regionally equalize living conditions, resulting in the introduction of new concepts in urban and regional strategies. The economic crisis which had come about due to failure of the reform policy made it impossible to carry out these new concepts. However, this is only a general picture. Every country reacted to the peculiarities of socialist economic development in a different way and at different times.

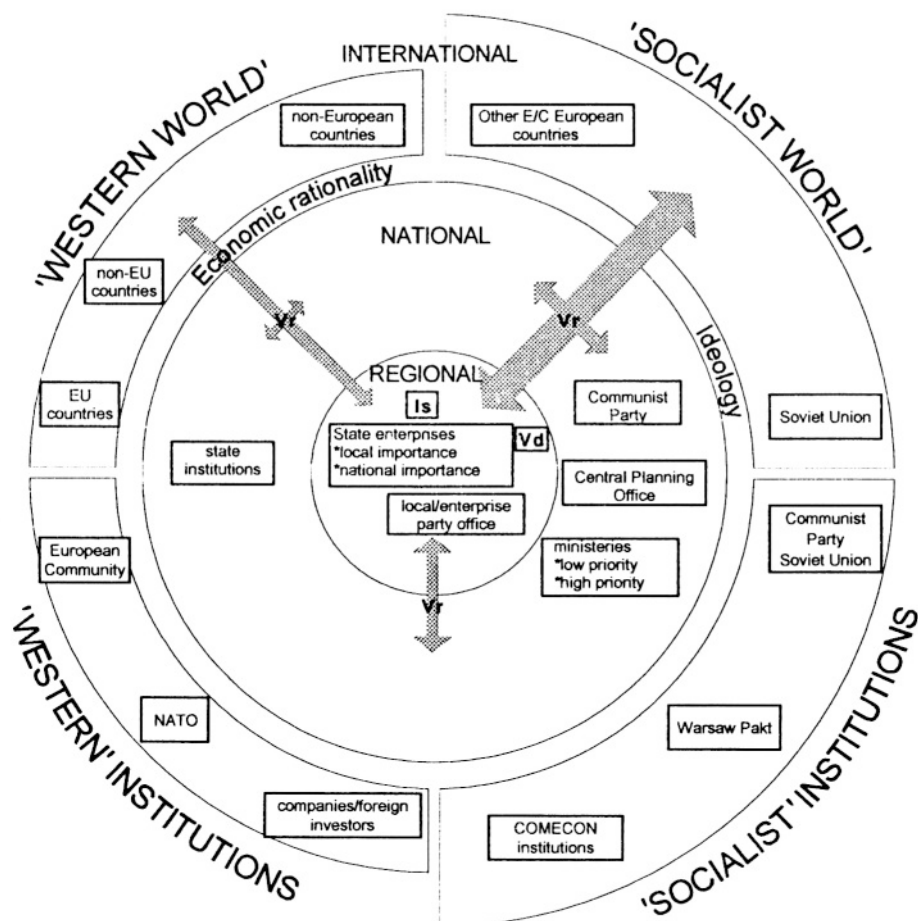
4.4. The important role of the enterprises and ministries

Enterprises and ministries were crucial factors in the system of communist planning. The organisation of the hierarchical, centrally-administrated economic system with the enterprises at the bottom and the economic ministries on the top, was characterized by strong vertical links and weak horizontal integration. The enterprises provided the local communities with all kinds of economic and social services which exceeded their primary economic mission. They had their own houses, shops, schools, medical care, they helped during the harvest, they constructed roads. The enterprises – both the industrial and the agricultural ones – had to fill the gaps in the municipal or regional economy.

The purpose of this section was to describe the main structuring elements of spatial development in communist Eastern Europe. In figure 2, they are brought together. Some of these forces hardly influenced the pre-communist spatial inequalities, others created new ones. In spite of the theoretical Marxist ideological principles, regional inequality still existed at the end of the communist era (FUCHS and DEMKO, 1979).

5. AFTER COMMUNISM

The differentiated ‘spatial outcome’ of communism is our point of departure for the new period. In what way will the inherited structures influence positive or negative development in the regions in the years to come? This section

**Vd (variables of development)**

1950/60 (emphasis on ideology)

- * number of industrial prestige objects
- * effects of collectivisation of agriculture
- * number of new cities
- * labour mentality
- * age structure
- * number of heavy industries

1970/80 (more relations with Western Countries)

- * number of joint ventures
- * percentage private agriculture
- * level of underurbanisation
- * foreign debt
- * percentage shadow economy
- * number of consumer goods industries

Vr (variables of integration/relations)

- * trade
 - hard currency
 - barter
- * outmigration to the West
- * number of tourists from other socialist countries
- * cultural contacts

Is (inherited structures)

- * number of firms existing already before the Second World War
- * social and cultural values
- * infrastructure
- * urban structures

Fig. 2. A conceptual model for regional development in communist Eastern/Central Europe

describes the main structuring forces after communism and the way they interacted with the inherited structures.

The collapse of communism did not put a stop to the influence of the national level on regional development; only the mechanism has changed. Central economic planning has been reduced considerably, and the monopolitical power of the Communist Party was replaced by democratic structures, but 'the central level' is still making the decisions which are crucial for regional development.

In the first transitional years, important decisions had to be taken regarding the foundations of new political, economic, legal and social structures. This had to be done by new institutions and unexperienced people, without there being a blueprint available for this unique transition from plan to market, and from totalitarianism to democracy.

5.1. The interrelated elements of the reform process

The current reform process in Eastern/Central Europe should be compared with building a new house on old, crumbled foundations, without a detailed plan and with only one-third of the materials available. Nevertheless, the house has to be built as quickly as possible and has to look exactly like uncle's large and beautiful house only known from pictures. A few clever countries start with the skeleton or the roof, others only built a beautiful facade with nothing behind it, or they made a comfortable bathing room with golden taps, but unfortunately the water company has stopped delivery because of unpaid bills.

Economical, legal and political reforms are interrelated, but this is often not realized. Major efforts to bring about economic reforms have only limited effect when not accompanied by legal reforms. Take, for example, a foreign company which is considering to make a large investment in one of the East/Central European countries. This country may have taken all macroeconomic measures prescribed by the IMF, but if there are no proper laws regarding property rights and the transfer of profits, the company may very well decide to cancel the proposed investment.

The interrelativeness of the elements should be kept in mind when the structuring influences in the post-communist period are described in the following sections. Seven influence groups will be described: external as well as internal ones, and on different levels of scale: the political context, international organisations, macroeconomic reforms, foreign investors, local initiatives, regional policy and geographical location. Figure 3 presents a model for regional development in Eastern/Central Europe in the post-communist phase. The next sections will serve to explain elements of this model.

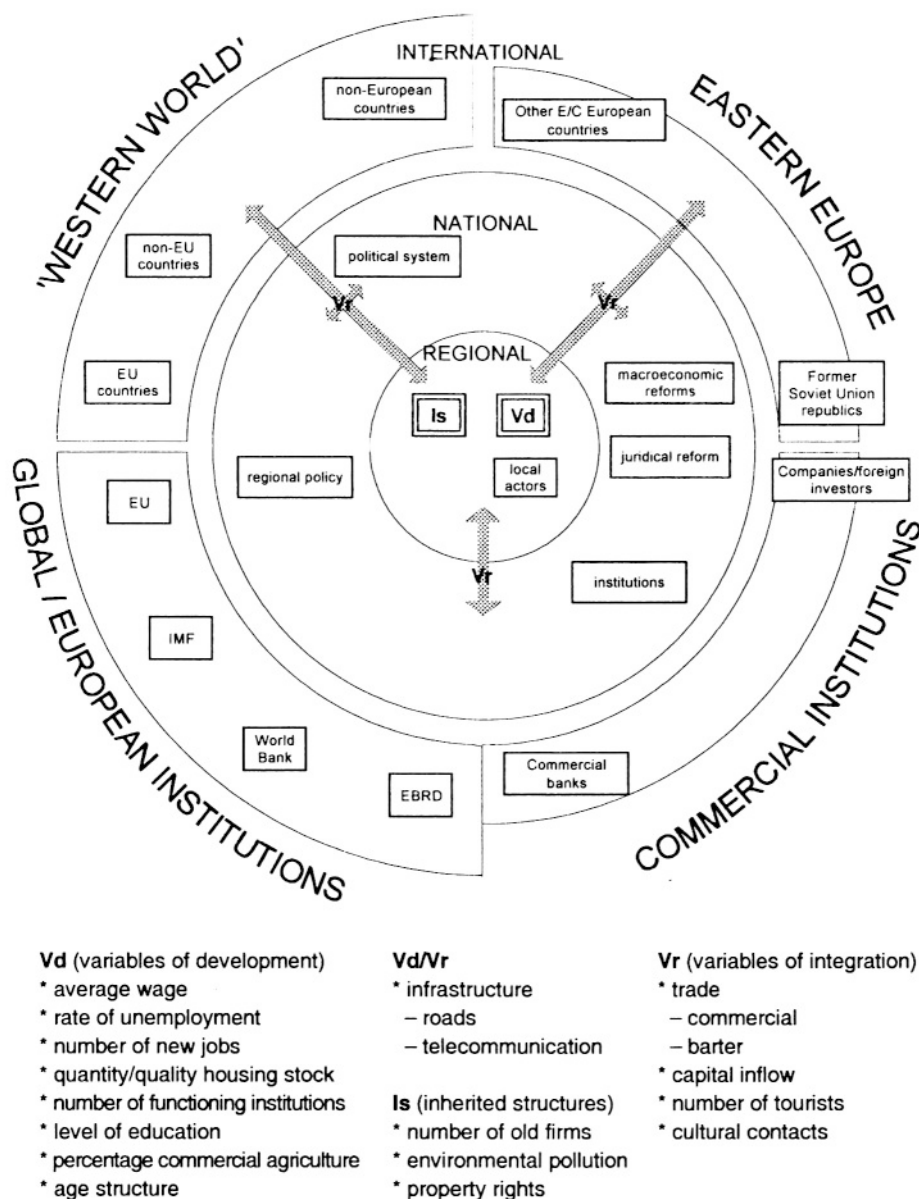


Fig. 3. A conceptual model for regional development in post-communist Eastern/Central Europe

5.2. The political context

Recent discussion pertaining to development strategies for developing countries is focused on the need for 'proper government' and the unhampered

operation of the market economy. Although one could criticize this 'paradigm' of the 1990s and argue whether Eastern/Central Europe should be treated in the same way as the Third World, 'proper government' has undisputable advantages. Stability and the existence of mature political institutions can only have a positive effect on regional development.

After the collapse of the communist system, new political structures had to be formed and new political parties had to be established based on widely supported 'people's movements'. This was not an easy process in every country, depending on its democratic traditions.

In the 'Visegrad' countries (Hungary, Poland, and the Czech Republic and Slovakia), the new democratic structures are rather strong. After the victory of the Socialist Party in Hungary in May 1994, György Konrad said that „Hungary has become a normal country, now that even a major shift of power will not lead to big changes”.

In other countries, like Romania and most of the former Soviet Republics, the political transition is still in progress. A hindrance for adequate government policy is the fact that 'the state' and its institutions are often not trusted, while the officials working for these institutions are judged by their personal position in the communist era.

For a long time to come, transition towards a market economy will bring difficult times for large groups in society. Only strong governments which are more or less trusted by the people, can execute this policy. If this political foundation is weak, the margins for effective economic policy will be small. Apart from that, effective government might also be impeded by the existence of a (potential) ethnic conflict.

5.3. Macroeconomic reform

Soon after the overthrow of communism, the introduction of a market economy started. There was no blueprint for this transition from plan to market and therefore opinions were divided as to what the best strategy is. There are now two main poles of economic thought.

The first is to be found largely among advisers from outside the area and in international organisations and it emphasizes the need for macroeconomic reforms. Due to the rapid introduction of privatisation, decentralisation, transition to world market prices, reduction of state subsidies, and expanding free trade, the standard of living among the population at large can be rapidly raised to Western European levels. This school of thought, of which Jeffrey Sachs is the leading economist, has its roots in economic theories based on the experience in the Third World. In the opinion of SACHS (1992), the developments in Poland show the positive effects of this so called 'shock therapy' (cf. BRADA, 1993).

The second pole of economic thought is more political in its conception, and it criticizes the social effects of a rapid transition. Some of the advocates of this school of thought argue that development in Eastern/Central Europe is best served by a semi-protectionist approach, allowing a longer period of transition during which citizens and companies can adjust to the new demands made upon them by integration into the world economy (KINNEAR, 1992; STEIER, 1992). Others emphasize the need for gradual change, because of the absence of the private and public institutions required by a well-functioning capitalist economy (MURELL, 1993). Furthermore, they do not believe that the 'natural working' of the economy will fill in the fine microeconomic details after a macroeconomic reform has taken place. Some of them emphasize, therefore, that local and regional initiatives should be stimulated (HORVÁTH, 1991; SZUL, 1991). This discussion resembles the ongoing international discussion among experts about development in the Third World as far as the division between 'top-down' and 'bottom-up' development strategies is concerned.

The ideas of the second group are sympathetic, but they are leaning towards the opinion that many macroeconomic reforms are 'too rigid', and perhaps not all necessary. The latter is, unfortunately, not true. Of course, the basic elements of the capitalist economy are arguable, but that would be like discussing in summer whether you want winter to come or not. The capitalist system has many advantages and disadvantages, but more important, it is the global' economic system, which has to be accepted by East/Central European countries. The alternative would be (a continuation of) autarky and isolation. To get access to the world economy, it is important to have a more or less convertible currency, a system of market prices, a moderate rate of inflation and an extensive private sector. These goals are undisputable; only the pace to reach these goals can be discussed. A rapid transition will mean that industries running at loss will soon have to close down, which entails considerable costs for government (unemployment benefits, even if they are low) and considerable 'social costs' because of unemployment (PARYSEK, 1993). In Eastern Germany, the extreme form of this 'shock therapy' had to be introduced because of Germany's specific circumstances – there was no economic alternative to accompany the reunification. In the beginning, Poland chose for some kind of shock therapy, but after some years of experience a more moderate path of reform was chosen. A more gradual transition means that industries running at loss have to be subsidized for a longer period, but this will give these factories the chance to find means to modernize the production process.

The experience of the transition period until 1994 in Eastern/Central Europe and the republics of the former Soviet Union seems to show that countries which have attempted to make a rapid transitions from socialism to capitalism have generally fared better than those which have adopted gradual transition strategies (SLAY, 1994). In other countries only a few elements of necessary

economic reforms are carried out: "actually we do not like the capitalist system, therefore we only carry out three of the necessary six elements of reform". This is no genuine quotation, but it could well be the hidden opinion of policy makers in those countries. What is the result of such a policy? The economy will remain in trouble, people will suffer as much as people in countries with a radical economic reform but they will have no prospect of improvement in the near future.

5.4. The international context

The international context has always been of crucial importance to the East/Central European countries. The 1989 revolutions put an end to the extreme domination of the Soviet Union and the enforced economic relations with the COMECON countries. Now the 'global economy' is dictating its rules, still leaving hardly any room for manoeuvre.

The 'Western' context consists of countries, international institutions, foreign firms and commercial institutions. The rules for macroeconomic reforms, creating an external monetary equilibrium, are made by the International Monetary Fund (IMF). The IMF is the scout of the capitalist economy: if this organisation gives its approval to a country's reform policy and decides to provide credits and loans, individual countries and commercial banks will soon follow.

The IMF's role is much criticized. Its 'prescription' is said to cause great suffering among the population and its 'model' to be too one-sided as it disregards the differences between countries. However, when it comes to taking the necessary hard measures in a period of transition, this criticism is not convincing, for fortunately governments can use the IMF as an excuse to take unpopular steps.

On the other hand, the international monetary and financial world has indeed only limited attention for special circumstances in groups of countries. The East European situation, which has known forty years of 'artificial' economic development during which it has been more or less isolated from the world economy, is a special case. These economies need some time to adapt to new circumstances.

There is a cynical paradox in the international 'treatment' of Eastern Europe. The international community wants Eastern/Central Europe to fully integrate into the capitalist world economy, but the western countries are not prepared to open their markets for 'Eastern' products and they also oppose a limited form of protectionism in East European countries.

A few international institutions can provide financial assistance to concrete projects, such as the modernisation of infrastructure, the energy supply and the

urban renewal. The World Bank and the European Bank for Reconstruction and Development gradually increase their activities in Eastern/Central Europe.

The ideal of most East/Central European countries is full integration with European institutions, especially the European Union (EU). Hungary and Poland have already applied for membership, and it seems that these countries, along with the Czech Republic and perhaps also the Slovak Republic, will be the first countries to become EU members. Their admission depends on the success of their economic reform and on the political will of Western Europe. Germany, which has played a historic role in Central Europe, is the most prominent advocate of extending the EU to the East (GALINOS, 1994). In the meantime, it would be wise for the East/Central European countries to reduce their strong orientation towards Western Europe and to extend their mutual relations and trade relations.

5.5. Foreign investments

In section two of this article it was stated that we should be careful using data pertaining to foreign investments. Although it is difficult to present accurate data, it is obvious that, after an initial period of hesitation, more western firms than ever relocate (part of) their production to Eastern/Central Europe. Examples are (car) assembly and consumer goods industries. A foreign investor will consider both national and regional characteristics, such as the fiscal climate, possibilities for the transfer of profits, potential markets, political stability, infrastructure, labour costs and the quality of the labour force (MICHALAK, 1993; BUCKLEY and GHURI, 1994). There are, of course, great national and regional differences within the Eastern/Central Europe.

It is a misconception that foreign investors are only interested in industrial activities. They are also active in the rapidly emerging service sector (such as the insurance and banking system), and in real estate (shopping centres, offices).

In Hungary, the inflow of foreign capital can be divided in two phases: the 1989–1991 period was the era of finding one's way to the Hungarian market; a spectacular growth occurred in joint ventures and prudential investment activity. In the second period, from early 1992 onwards, multinationals started to come – along with a continued growth in joint ventures – and the average number of investments increased. In this period, green field investments gained importance (primarily in the northwestern part of the country and in the Budapest agglomeration (CSÉFALVAY, 1994, p. 359).

Foreign investments are always a bit controversial: do they have positive or negative effects on regional and economic development? They are positive in the way that new or revitalized enterprises keep (part of) the labour force em-

ployed or provide new jobs. Apart from that, they introduce relatively clean production processes. A negative effect, however, is the fact that a considerable part of the profits is exported. Assembly activities are relatively easily relocated when national economic and political contexts are no longer favourable. The interests of foreign investors, and those of the East European companies and governments seem to be conflicting. The East European governments can hardly influence locational decisions made by foreign investors. Eastern/Central Europe is developing into Western Europe's 'backyard' of cheap labour. Is that wrong? In a way, it is a consequence of the fact that Europe is divided in rich, medium rich and poor parts, and will be for many years to come. At this moment, however, every new job should be welcomed, hoping that local enterprises will survive or emerge when some day prosperity will enter the region. According to advocates of this thesis – which could be defined as a 'modernisation thesis' – Eastern/Central Europe has to close a forty years' gap in development. Others (neo-marxists) will argue that the current division of labour will persist in Europe, because it is in the interest of the more powerful western part of the continent. In this case, it is important not to make too many statements about Eastern/Central Europe as a whole, but to differentiate between the several countries. DUNNING (1994) has suggested to use three different models for the pattern and pace of restructuring:

a) the **developing country model**, which suggests that the economies of the 'leading' countries of Eastern/Central Europe look like the industrializing developing countries, such as Brazil and Singapore;

b) the **reconstruction model**, which compares the present situation of the East European economy to that of Western Germany and Japan after the Second World War;

c) the **systemic model**, which combines ingredients of the first two models, but also takes account of the macro- and micro-organisational changes and the changes in attitude necessary for economic progress.

It is likely that each country will follow a somewhat different path to integrate itself into the world economy. The former GDR is already following the course of the reconstruction model, with Hungary, Poland and Czech Republic two or three steps behind. Albania, Romania and Bulgaria, however, are more likely to fit into the developing country model.

5.6. Local initiatives

It would be wrong to focus too much on large-scale foreign investments as the most important supplier of new jobs. Several publications prove that small, private enterprises which are based on local initiatives provide most of the new jobs (VADIC, 1992; BARTA, 1992). Data pertaining to these small-scale developments should be handled with care, just like those pertaining to foreign

investments. It is not very difficult to start a one-man (or one-woman) firm, and to get registered as such. Their number has exploded; but these data should be compared to the number of firms that have disappeared – which is also an impressive number.

Local initiatives also exist in 'remote areas', like in Békés county in Hungary (GROEN and VISSER, 1993), but the execution of these initiatives often meets with great obstacles as they clash with national legal, political and economic goals. One of the major obstacles for regional development is the lack of institutions on the 'meso-level' (counties). This meso-level could play an intermediate role between national policy and local initiatives and a co-ordinative role in spatial planning. Frequently, there are frictions between these local initiatives and the limitations imposed by the national level (PAUL et al., 1992).

Now, particularly the less favourable areas need to give local initiatives more room. Nevertheless, clear conditions have to be stipulated for new mechanisms of interplay between state-governments and local self-governments (REGULSKI, 1991). Due to a lack of financial means, local responsibilities and initiatives are a prerequisite for short-term progress (KUKLIŃSKI, 1992) as well as a vigorous attitude of the national governments towards the implementation of new laws/rules.

Unfortunately, smooth interplay is hampered by the complexity of the entire transformation process and the issuing of new rules. There is still a great deal of uncertainty about the legality and accuracy in decision-making. Besides, as long as meso-organisations do not lie within the scope of a national regional-economic development plan, the effects of the contextual changes might work reversely and cause a further divergence on the meso-scale.

5.7. Geographical position and infrastructure

The availability of well-developed networks of rail and road transport, and also of telecommunication is very important for further economic development. Western entrepreneurs are able to choose between numerous locations in Eastern/Central Europe. Of course, they prefer to penetrate a new market area by line of least resistance, and hence they settle near transport axes. It would be unfair to blame them for not investing in peripheral areas.

At relatively high speed, links between western and eastern transport networks are being improved. For example, the motorway between Vienna and Budapest will be ready in due time; in May 1994 the ringway around Budapest was finished, which meant that finally, all traffic from north-west to south-east Hungary no longer had to cross the inner city.

The development of telecommunication is a different kind of problem. In the communist era, the quality of intra-national connections was very bad. Since

the revolution, more people have access to teleconnections, but the capacity of the system is still low and the quality of the cables is poor. The entire telesystem has to be revitalized. Mobile telephone systems are now booming, the number of people using telephone in Eastern/Central Europe exceeds those elsewhere in Europe by far. However, huge investments are necessary in order to provide the masses with properly working telephones.

Especially in the current transitional period, spatial planning is very important in order to co-ordinate new development. Unfortunately, not very much has been done to set up institutions for spatial planning on every relevant level of scale. All attention is focused on economic recovery; in this respect, nothing has changed compared to the communist era. And like in former days, priority is given to industry, and agriculture receives only marginal attention. There is a profound need for spatial planning, with special attention for peripheral rural areas.

Unfortunately, Eastern Europe has an aversion to even the word 'planning'. This is a reaction to over forty years of strict central guidance. It is not well known that in so-called 'capitalist' Western Europe, the government is playing an active role in regulating and guiding 'market-forces'. This role is generally accepted, although society argues about the degree of interference.

6. EMERGING PATTERNS; INCREASING SPATIAL DIFFERENTIATION

In the previous section, various internal and external 'forces' were described which could affect regional development. In combination with inherited structures, they will bring about a spatial differentiation which is different from that in the communist era.

There are several variables to distinguish 'weak' and 'strong' regions: structural properties (in our model variables for development) and relational properties (variables expressing regional integration).

6.1. Regions in crisis, and centres of innovation

In the first section, it was stated that we should be very cautious about using unemployment rates as absolute indicators for development. They are almost useless to make an international comparison within Eastern/Central Europe. However, regional differentiations in the rates could be used as an indicator for development (provided it is used along with other variables) within countries that are well along the path of transformation.

When looking at the 'Visegrad' countries, we can divide areas with high unemployment rates into several groups (FASSMANN, 1992; NEMES NAGY, 1994):

1. Old industrial areas; for instance Borsod in Hungary, Wałbrzych and Łódź in Poland (WALKER, 1993), Middle Slovakia and northern Moravia in the Czech Republic.

2. Areas with an industrial mono-structure which suffer due to the crisis in a large industrial plant, just like in Nowa Huta (Poland).

3. Areas with an agricultural mono-structure; those are the regions with the highest percentage of huge (2,000–5,000 hectares) socialized farms. This concerns, for instance, Poland and the former German territories in the West. Before the revolution, these areas were highly specialized and quite prosperous because the giant farms received a relatively high amount of government subsidies. Now, most of these farms are in debt.

4. Areas in a marginal geographical setting, predominantly along eastern borders. Rural areas in the eastern part of Poland, Hungary (for example Szabolcs-Szatmár-Bereg County) and Slovakia are now characterized by high unemployment rates, a negative migration balance, an ageing population, and sometimes a scattered settlement system. New jobs are scarce, since most new investments take place in the western part of these countries. Tourism could create some new jobs but not enough to bring positive developments in these peripheral areas. Already, we can see that an increasing percentage of agricultural land lies fallow.

We can also distinguish centres of innovation and progress. Technically skilled workers as well as high income groups are to be found in and around capital cities and other large towns with a propelling economic structure. New (foreign) enterprises are attracted by these potentials. Small-scale investments are lucrative here as well. These areas display an uncontrolled growth of huge wholesale/retail houses and workshops.

Private part-time farmers around these cities benefit from their location, and the problem of unemployment is less grinding here than elsewhere. The full-time farmers in these neighbourhoods (for instance around Warsaw) are generally highly specialized. They produce partly for the city inhabitants and partly for export (GAŁCZYŃSKA, 1992). Although these farmers suffer the loss of the Eastern market, they enjoy the benefits of a good location and are generally well equipped to compete on the West European market, although they are hampered by the European Union's policy of protectionism.

6.2. Axes of development or isolated regions of recovery?

Recent publications indicate that a new popular game has emerged among economists and geographers: drawing axes of development in Eastern/Central

Europe. DOSTÁL and HAMPL (1992) presume the emergence of a new geo-economic axis, backing the 'Blue Banana', and interlinking the urban agglomerations of Copenhagen–Berlin–Leipzig/Dresden–Prague–Vienna and Budapest. The development of this secondary axis should present a basis for the eastward spread of the transition to modernisation and democratisation.

The idea of this 'frontier' is sympathetic, but it is questionable whether such a north-south-east axis will emerge, including Copenhagen and the northeastern economic periphery of Germany.

Other authors expect further economic development to occur along the transport axes Vienna/Budapest/Szeged and Berlin/Poznań/Warsaw (WILLIAMS, 1993; SIEBERT, 1991). It is true that many new economic activities emerge along the first 'line', but when travelling from Berlin to Warsaw you will only see some new activities in and around the big cities. In no way these cities are growing together along a line, which illustrates the weakness of the concept of 'developing axis' – but this is hardly surprising, as the famous 'Blue Banana' is a nice cartographic presentation of (past) economic developments rather than an extensive 'developing area' along the river Rhine.

Access to a proper transport network can be crucial, but to many industries it is now less important than it used to be. It is perhaps better to consider new economic activities in Eastern/Central Europe as emerging 'point' developments, which occasionally display a spatial pattern with some regularities.

Instead of searching for axes of development, is it more useful to explain why most developments in Eastern/Central Europe still occur in the old industrial triangle Halle–Łódź–Budapest. This research would likely prove the importance of persisting historic patterns.

7. CONCLUSION

In this turbulent transitional period, it is hardly possible to present empirical data, and whenever data are available, we have to interpret them very carefully. Many mistakes could be made if regions or countries are compared on the basis of static variables. The current situation in Central and Eastern Europe is special and unique. It can not be interpreted with a simple West European bias. Local circumstances are important, as well as the communist heritage. Especially the main spatial structuring forces in the communist period created a divergent mosaic of regions with different prospects for future development. Some forces reduced the pre-communist regional inequality, others created new inequalities. In theory, socialist planning was a balanced policy to distribute the benefits of economic production over society. In reality, however, this ideology was in perpetual conflict with economic rationality. Disappointing economic performances were embedded in a jungle of competing pressure groups in a totalitarian state.

The differentiated 'spatial outcome' of communism should be taken as point of departure for the new, post-communist era.

The interrelativeness of economic, legal and political reforms should be kept in mind. Seven influence groups, on different levels of scale, should be distinguished to understand regional development: the political context, international organisations, macroeconomic reforms, foreign investors, local initiatives, regional policy and geographical location.

Together with the inherited structures, this leads to a spatial differentiation which is different from the one prevailing in the communist era.

In order to distinguish 'weak' and 'strong' regions, we can use structural properties (variables for development), and relational properties (variables expressing regional integration).

Inequality is increasing rapidly in Eastern/Central Europe, both socially and spatially (ZANIEWSKI, 1992). The difficult transitional period causes great suffering to large groups of the population. This is likely to continue for a longer period, until a new equilibrium has been reached. When this happens, a new, evident pattern of 'strong' and 'weak' regions will appear in Eastern/Central Europe.

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