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The institutional conditions of reindustrialization in post-crisis Central Europe

Abstract

Outside metropolitan areas, regional differentiation under post-socialism is heavily influenced by the uneven distribution of industry. The core-periphery differences of service- and industry-based competitiveness underscore the relevance of reindustrialization policies, particularly under the economic crisis. These policies bear different implications across different time horizons, and can be understood as the development of advantageous investment locations to achieve re-specialization, as well as a strong local factor supply. With institutional weaknesses, the path-dependency of restructuring and the lack of domestic capital, there is a need for bridging institutions to articulate diffuse interests and undertake strategic intervention within the local economy.

Keywords: industry, tertiarization, restructuring, reindustrialization, centre-periphery.
JEL Classification: F21, J24, O14, O25, R58.

Introduction

Within the framework of globalization, the space economy of Europe and North America has for the last decades been characterized by processes pointing towards tertiarization, the increasing role of services and the relative marginalization of industry. The most important winners of continuous agglomeration (concentration) have been global centres: world cities with their population in the range of millions, as well as functionally linked networks of 'medium-sized metropolitan cities' amounting to 400-500 thousand in their centres and approximately 1.5-2 million in their city regions (Janssen-Jansen, Hutton 2011; McCann, Acs 2011). However, the dominant carriers of the transformation, advanced business services and certain innovative industries show incredible spatial density; and as Audretsch (1998) has shown, the more innovative or valuable the activity, the greater their concentration in selected global nodes.

In this spatial structure, even if knowledge-based and service-oriented development paths are considered ‘self-evident’, their successful exploitation is restricted to the privileged spaces of the global core – and even so, this post-industrial economy operates with an overall lower level of total employment than the preceding age of Fordist mass production. Medium-skilled workers in particular experience decreasing wages and employment opportunities in both blue- and white-collar jobs due to the role of modern technology, which moves from a *factor-augmenting* role to *factor substitution*, i.e. the displacement of labor (Freeman 2008; Acemoglu, Autor 2010; Tüzemen, Willis 2013). Peripheral urban centres and regions are even less able to provide the agglomeration economies which are to be found in metropolises, and must confront persistent disadvantages in preserving their labor force, employment role and income creation capability. Although their marginalization has been partially counter-balanced by development-oriented transfers in the name of political and social fairness, this form of redistribution has narrowed in the crisis period. All this presages that minor urban centres will have to find alternative means of maintaining their competitiveness, and industry will play a fundamentally different role in their case than in the ‘iconic’ cases studies written about the most successful central regions (Lux 2015).

This paper summarizes the findings of a broad comparative study on new territorial differentiation processes in Central Europe. Its particular focus is on how lesser urban centres on the post-socialist periphery can hold their own and succeed under strengthening external pressure, and how new reindustrialization initiatives interface with local institutional development. As the first part indicates, minor cities cannot follow the development paths of metropolitan city--regions, and their territorial differences are mainly shaped by the differentiated location patterns of industry. However, the external environment influencing their growth potential has itself changed: the 2008-2009 crisis, emerging from the financial sector but also spreading to other branches, instigates different adaptation processes in the short, medium and long terms, which are discussed in the second part of the paper. Considering this altered set of conditions, the third part draws normative policy conclusions, providing a possible outline on how the economic and social actors of a city-region can influence the local conditions of reindustrialization in the post-crisis period, building on the mobilization of both endogenous resources and external capital.

1. The spatial structure of industry in Central Europe: Persistent gaps in differentiated space

Economic restructuring re-organizes the spatial positions and development prospects of city-regions; a process playing out under different social, administrative and institutional contexts. The central direction of restructuring in post-socialist Central Europe has been the sectoral shift of production and employment from industry towards services (tertiarization). While this seems to be a manifestation of the modernization process described by the Clark–Fischer model of structural change theory (Clark 1940; Montresor, Marzetti 2011), the genuine phenomenon is more differentiated. The process of tertiarization carries three different implications:

– the natural, market-driven correction of the over-industrialized economic structure after state socialism,
– a modernization process bringing with it new forms of value creation, employment and consumption,
– peripherization, i.e. the dissolution of previous productive traditions and industrial specializations without new forms of growth – a 'hollowing-out' of the space economy characterized by stabilization at a lower equilibrium.

Socio-political and scientific discourse in the early post-transition period (and especially Hungary, consumed by its illusions of being a 'pioneer of transition') had focused on the first and second implication of tertiarization, while neglecting the significant economic and social costs (including substantial opportunity costs) of the third.

Unlike the first form of tertiarization, which had been relatively universal, the second and third are *spatially differentiated*. The economic advantages of the modern service-based economy, particularly business services, are disseminated through a hierarchical spreading process, and they are still strongly concentrated in metropolitan hubs. On lower levels of the settlement hierarchy, we find services with much less local added value, even if they make up the bulk of employment. This space of small and medium-sized towns also sees a disproportionate share of the harmful effects of de-industrialization. The consequences of this transformation have increased territorial differences, and the resulting dividing lines have become very enduring: neither market processes nor development policy have been able to shift them in the last decades, and we do not see results comparable to the rural industrialization campaigns of the 1930s and 1960s. As Nagy and Nagy (2010, p. 160) note, the "tertiarization processes of the last two decades have not improved the stability of city economies in this region"; the inequalities and dependencies of the Central European city network have been reproduced on different spatial scales.

The transformation of Central European regions results in realigned spatial positions: after capital cities, which have preserved their advantages, western border regions and gateway cities have become the most successful, becoming the main target areas of industrial Foreign Direct Investment. With the strong agglomeration of advanced service activities and their modest contribution to the development of the peripheries, it can be empirically confirmed that in the Visegrad countries and Slovenia, economic development is only service-based in central regions (capital cities and their agglomerations[1]): outside them, it is the distribution of industry which has a stronger effect on the formation of regional differences.

This relationship can be corroborated through correlation analysis between sectoral employment share and per capita nominal GDP (Table 1)[2]. It is noticeable that there is a particularly strong link between the GDP of central regions and service-based, as well as non-central regions and industrial employment: these sectors behave differently in different territorial contexts. The connection is relevant even in our time, when the borderline between industrial and service-based activities is increasingly tenuous[3]. Non-central regions in South-Eastern Europe (Romania, Bulgaria and the countries of the Western Balkans) do not share this correlation link. The reason for the difference lies in the absence or slower pace of structural transformation in industry which has taken place in the Visegrad countries; as well as the significantly lower penetration of Foreign Direct Investment.

Table 1. Correlation between the sectoral distribution of employment (2008) and per capita nominal GDP (2006) on the NUTS 2 level

Regions	Agriculture, forestry and fisheries (NACE A–B)	Industry and construction (NACE C–F)	Services (NACE G–Q)
Central regions	–0.62	–0.58	**0.76**
Non–central regions	–0.47	0.42	0.30
Visegrad group + SLO	–0.49	**0.71**	–0.10
South–eastern group	–0.10	–0.14	0.21

Source: Own calculations based on data from EUROSTAT (2015).

[1] In order to eliminate differences resulting from different regional divisions, the data of capital regions from Czechia, Slovakia and Romania have been merged with their surrounding regions in the following calculations.

[2] See (Lux 2010b) for a detailed discussion.

[3] Manufacturing is evolving towards forms of production which are more and more service-like, while some business services start to assume the characteristics of standardized goods; to be produced, consumed and even stored in a way typical of industrial products (Szalavetz 2008). Shared service centres are a good example, with a growing network in Poland and, more recently, other Central European countries (Gál and Sass 2009).

Consequently, the location patterns of industry and services point towards a threefold pattern of regional differentiation:

- Central regions (capital agglomerations and a limited number of large cities, particularly in Poland) develop a primarily service-based economy integrated into global networks in a semi-peripheral role[4]. These regions also fulfil control and service functions for industry, and play a vital role in high-tech industrial branches.
- The first group of non-central regions (intermediate regions) demonstrate relative strong industrial competitiveness; they are characterized by positive path-dependency and favorable restructuring processes, and they have successfully integrated into the Central European manufacturing zone stretching from Southern Germany to Northern Italy.
- The second group of non-central regions (traditional and new peripheries) is undergoing decline: neither their industries nor services achieve adequate competitiveness. During industrial transformation, they have either preserved their previous underdevelopment, or lost crucial industries without replacement.

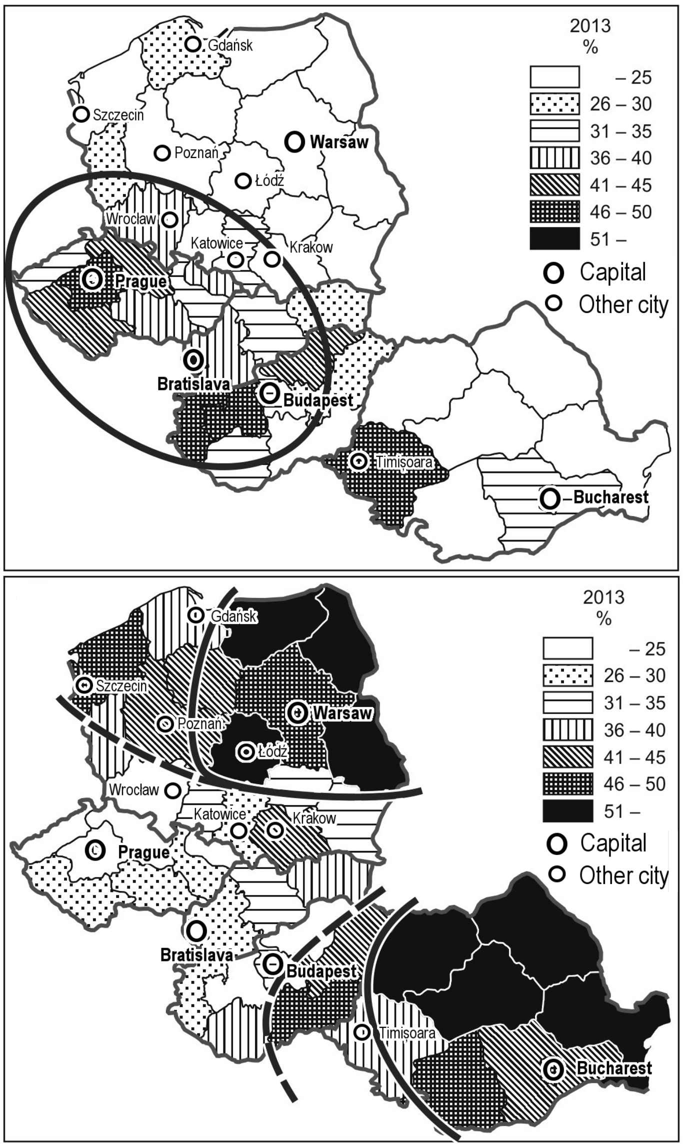
This spatial structure has also been shown with different methods by Kuttor (2011), and is further discussed in Paas, Seppane, Scannel (2010). Finer structures emerge if we examine the internal differences of industry: as Fig. 1 shows, there is a fairly clear separation between a core area concentrating much of the dominantly FDI-based machine industry, and the space of peripheries where there is a stronger specialization in food and light industries. Therefore, we must also consider industrial differentiation from this angle: specific branches which are contracting in the most successful regions, can still offer mass employment or act as key industrial sectors on the peripheries.

The differences of industrial decline and reindustrialization are essential factors in regional competitiveness: cities and regions integrating into international industrial networks can count on a substantial increase of their competitiveness through specialising in different branches of the traded sector, while services *on their own* are only able to achieve this outcome in the presence of special immobile resources (e.g. high touristic potential, attractive health services, nationally or internationally significant centres of higher education). Non--traded activities serve local demand, and are limited by local disposable income; therefore, standard regional development strategies mainly focus on traded and

[4] Using data from Eurostat, over 60% of employment in advanced business services (financial intermediation, real estate, renting and business activities) is found in capital cities and the surrounding agglomeration in Slovakia and Slovenia, over 50% in Hungary, Bulgaria and Croatia, 43% in Czechia, 39% in Romania, and only Poland, with its balanced, polycentric urban network, has a figure of 22%.

resource-based activities, even if these only represent a minor share of local employment (Lengyel 2010)[5].

Figure 1. Core and peripheral industries: the share of machine industry and electronics (NACE C26–C30), and light and food industries (NACE C10–C18) in industrial employment (2013, %). ESPON MEGAs (Metropolitan Growth Areas) are also depicted



Source: Own calculations based on data from EUROSTAT.

[5] Even in the US, "[t]raded industries account for only about one-third of employment but register much higher wages, far higher rates of innovation and influence local wages" (Porter, 2003: 549).

Naturally, tertiary development is not independent from industry: industrial companies consume services both at their operating sites and outside them; they contribute to business service development in the surrounding region. As the examples of Central European cities attempting to follow primarily service-based development paths show us (e.g. Lux 2010a; Faragó 2012), consumption-oriented services are unable to sustain the economy of even a smaller city with 100-200 thousand inhabitants. Balanced tertiary and industrial development presuppose each other, and where the productive sector shows disproportionate decline, support for reindustrialization initiatives becomes warranted.

2. Reindustrialization under the crisis: Three time horizons

The global financial and economic crisis, emerging in the financial sector, but spreading over to states and the 'real economy', has had significant consequences for the working conditions of industry and the prospects of reindustrialization, but with rather different implications in the short-, medium- and long terms. Successful adaptation must involve standing one's ground in the present, but also preparing for future challenges.

In the first phase of the crisis, particularly in 2009, demand-sensitivity and the degree of global integration in the manufacturing industry made export-oriented manufacturing, especially automotive industry one of the main bearers of the recession in Central Europe (Anwar, Szőkéné Boros 2010; Barta 2012; Kiss 2012). Multinational corporations (MNCs) played a distinguished role in this decline, since they would react to plummeting demand in a flexible way, with production cuts, redundancies (particularly by allowing temp contracts to expire) or shortened shifts. Meanwhile, companies producing goods for domestic markets had played a stabilising role with less demand-sensitive output: this was particularly visible in Poland with its large internal market and well-developed SMEs.

This effect proved transitory, and has in fact been reversed in the medium term. Continuous budgetary restrictions have dampened internal demand in crisis-affected states and worsened the prospects of industrial companies producing goods for domestic consumers, while export-oriented manufacturing has rebounded, particularly due to the strong web of linkages to the German economy, the main 'winner' of the European crisis. This rebound does not imply a return to the favorable growth conditions of the 2000s, but it shows that industry has become the relatively best-performing economic sector in multiple countries, perhaps especially so in Hungary, where the crisis had already started in 2006.

During the crisis, the model of Germany has become an example of sorts for public policy throughout Europe, and especially in its post-socialist part where the level of integration with German industry had already become very high prior to 2008 (Becker et al. 2005; Frigant, Layan 2009). This model basically hinges on a corporate structure mixing multinationals and a strong layer of specialized medium-sized companies (Mittelstand); advantageous factor supply (particularly in skilled labor); resulting in formidable export performance and a significant budget surplus. Even if not everyone can be Germany, and attempts at imitation will invariably produce different results under different (peripheral) territorial contexts, the model retains its attractiveness.

It has been particularly visible in Hungary that an almost Mercantilist philosophy of economic policy has been adopted by the present government, attempting to increase exports at all costs while seeking to diminish outwards income flows – a strategy mostly borne out of the pressing necessities of weak domestic capital and high external indebtedness. However, state-sponsored industrial policy has also shown a strong return in other countries throughout the region, while they were often barely visible or unfocused before[6]. We can see a range of industry-friendly structural reforms in vocational training, labor market regulations and investment policy; as well as increased emphasis on the development of previously less favoured domestic industries.

Long-term adaptation can be expected to take place in the context of a ‘long crisis’ in Europe, and slow, painful recovery: as austerity-based economic policies have resulted in a recession spiral, while the long-term imbalances of the European economy have not been adequately addressed. Industry can be expected to maintain its role in the development of Central Europe, although three dilemmas will require growing attention in the long term.

First, even with the temporary increase of labor supply under the first phase of the crisis, *the large reserves of highly skilled but inexpensive labor have become depleted* in the region, while this factor supply has become one of the most important preconditions of new industrial investments. Only regions which can guarantee a steady output of skilled (both blue- and white-collar) professionals with knowledge and skills tailored to the needs of industrial companies will be able to make their successes sustainable. Education systems will influence the success of reindustrialization to a previously unseen degree, although the consequences will differ for domestic producers and MNCs[7].

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[6] Hungarian politics and economic science has even adopted a strong anti-industrial bias rooted in the criticism of state socialist industrialization: this stance continues to be dominant in academia and often unquestioned in public discourse.

[7] The latter are better able to find suitable labor with higher wages, and there has been evidence of a crowding-out effect in play in boom regions undergoing large investments.

Second, *competition predominantly based on cheap labor is starting to face stiff external competition*, particularly from the Far East and Eastern Europe. In the future, the group of competitors could potentially include Europe's Southern periphery, where reindustrialization policies may be initiated within national and European programmes to combat mass unemployment[8]. Since there is no realistic opportunity to exploit further wage advantages within Central Europe without expediting brain drain towards high-income regions, current competitive positions can only be preserved through industrial upgrading, shifting towards more value-added and knowledge-intensive forms of production (Szalavetz 2012), as well as increased productivity. We can already observe this process in more successful industrial areas, while on the peripheries, and in lower value-added branches, a substantial threat of delocalization could develop even in the present decade[9]. However, improved productivity may in turn pave the way before a limited degree of 're-shoring' – gaining new manufacturing capacities 'brought home' from the Far East.

Third, while industrial restructuring in the first decades of transition has been dominated by foreign capital in all post-socialist countries except Slovenia, leading to the development of dual economies (Barta 2005; Kiss 2007), it is no longer possible today to avoid *the question of domestic industrial companies*. Overall, FDI-driven restructuring has improved the competitiveness of industry located in Central Europe, but this improvement has come with trade-offs and opportunity costs. Beyond sectoral and territorial inequalities, the new industrial landscape is also characterised by strong external capital dependency. The *varieties of capitalism debate* highlights that Central Europe's *dependent market economies* (Nölke, Vliegenthart 2009) mainly compete as assembly platforms for semi-standardised industrial goods, and are unable to capture the higher segments of global value chains, nor contribute substantially to domestic capital accumulation. Cluster development within international supplier networks provide some opportunities to improve the domestic added value of manufacturing; however, it would also be important to consider the development prospects of home-based companies – whether medium-sized enterprises creating a version

[8] Barta (2012) has pointed out that Western and Central Europe have played largely complementary roles in the competition for industrial investments, leading to specialization and functional integration; the real struggle of delocalization from the 1990s on has occurred between post-socialist countries as a new target of outsourcing, and Southern Europe undergoing deindustrialization.

[9] Labor-intensive electronics assembly is one such vulnerable area: in Hungary between 2008 and 2013, employment in computer, electronic and optical products had decreased from 84 to 76 thousand persons, and electrical equipment from 68 to 53 thousand persons, a combined loss of 23 thousand. In comparison, the full decrease of manufacturing employment in the same period was 26 thousand people (Lengyel 2014).

of the German Mittelstand and focusing on niche markets at home and abroad, or 'national champions' integrating their own SME networks.

Strengthening domestic industries has always been a goal on the periphery, going back to 19^{th} century initiatives in industrializing Germany and the Austro-Hungarian Monarchy. Today, this goal is as much motivated by a push for development as improving domestic value creation, reducing external dependency on capital movements (which may produce 'new Detroits' in a few decades across the now successful spaces of automotive industry), and the slowing pace of investment under the crisis. As Marer noted: this slow-down also puts the brakes on the pace of financial and trade integration within Europe, and makes it necessary for post-socialist states "to supply a larger share of resources needed to improve productivity and competitiveness from endogenous sources" (2010: p. 30). Under these conditions, with a stronger need of redistribution and to reduce asymmetric dependencies deepened and made alarming by globalization processes, the peripheries may eventually find solace in the attraction of the developmental state (Kőrösi 2012).

3. Organized development: The local agenda and institutions of reindustrialization

Even before the crisis, it was apparent that competitive advantages encouraging industrial growth and investment were undergoing transformation in Central European countries. Formerly dominant quantitative location factors (tax breaks, wage differentials, transport accessibility) have been supplemented, although not completely replaced by qualitative ones (the quality of local governance, the skill base and flexibility of labor, local and regional supply networks, clusters and business services). These new factors are tied less to the national scale as embedded within the locality: their emergence and quality is intrinsically tied to the *specific* processes of local and regional development (Rechnitzer 2008; Lengyel 2010; Füzi, Gombos, Tóth 2012). Also, advantages are less and less singular, and are increasingly seen as part of *complex factor supply* in a specific territory. Both phenomena point towards the increasing role of bottom-up development activity, giving both opportunities and placing heavy responsibilities in the hands of local decision-makers.

The agenda (policy goals) of reindustrialization can be interpreted as the active shaping of restructuring processes. Since many factors influencing competitiveness are heavily path-dependent (influenced by both historical events and modern rigidities), it is very hard to create new development paths, especially under conditions of peripherality and limited resources. Strategic intervention should be undertaken in areas where scarce resources can stimulate lasting and substantial positive change; and these possibilities are usually found not in radical restructuring scenarios, but incremental steps aiming at the renewal of inherited resources, mobilising current reserves, as well as finding new combinations of internal and external capital within innovative development.

The economy of a successful region tends to accommodate a competitive and resilient enterprise structure integrating a few leading, well-capitalised large companies, a wide array of innovative and competitive medium-sized enterprises, bound together by a network of linkages. A similar environment is equally desirable from the point of view of international and domestic enterprises, who can both find it useful for their operations. Reaching this desirable state brings us two potential approaches to reindustrialization.

In the direct sense, reindustrialization involves the continuous improvement of the business environment through the logic of resource concentration: by bundling and improving location advantages as well as providing strong supporting institutions, a region can achieve critical mass in attracting new investments. Industrial parks, incubation centres and development agencies are suitable instruments for this programme; and selective, industry-specific public intervention is also among the possibilities. This strategy basically represents the dominant paradigm of regional development – clusters, industrial districts and growth poles all conform to the model where spillovers are generated within industries to create localization externalities. The eventual objective of reindustrialization is re-specialization – creating or strengthening clusters in the local economy without falling into the trap of over-specialization or lock-in effects found in Old Industrial Regions. Re-specialization is more likely to be successful when building on the existing knowledge base, institutional capabilities and industrial system of the specific region. The current generation of the EU's smart specialization strategies (Foray, David, Hall 2011; McCann, Ortega-Argilés 2013) have adapted a similar focus on exploiting local knowledge content, although they are insufficiently integrated into the top-down philosophy of the EU-wide reindustrialization initiative outlined in the European Competitiveness Report (European Commision 2013) and subsequent documents.

In the indirect sense, reindustrialization involves the long-term innovative development of the local factor supply and business environment surrounding industry. Three key areas of intervention may be identified as especially significant:

- *Social capital*, extending to the skill set and work culture of employees, as well as the level of trust within business and social relationships. The transformation of the local labor market should take place through the development of vocational training and higher education; among its tools, we can mention dual training, apprenticeship contracts, adult education and retraining, rehabilitation and labor market reintegration.

- The *institutional system* supporting industry and containing crucial organizational knowledge: an efficient institutional system can mobilise resources to achieve strategic objectives, represent common business interests and assume responsibility for operating and developing the Regional Innovation System (RIS). The important nodes of this system include universities, development policy institutions and chambers of industry and commerce; moreover, business service providers and active cluster organizations which participate in development coordination and business support may also belong to this category.
- The local *knowledge base*, containing valuable (even highly specific or unique) knowledge assets, skills and productive traditions for industry; also including its transfer (Smahó 2012) and continuous renewal.

Collectively, these components make important contributions to *territorial capital*, adding to its soft and mixed (hard+soft) elements, and enabling regions to undertake non-price-based competitiveness (Camagni, Capello 2009)[10].

In most Central European city-regions, which are peripheries compared to both their Western European peers and the most important metropolitan growth areas (MEGAs), all of the mentioned fields are struggling with serious weaknesses. In declining regions (traditional and new peripheries), the main obstacles to reindustrialization are now rooted in endogenous problems: a weak social environment, underdeveloped institutions and inadequate knowledge, making it especially hard to guarantee the long-term embeddedness of manufacturing. The development of the local factor supply is a slow process and its positive outcomes are less immediately visible as developing a better investment location. However, 'soft' competitiveness factors are the pillars of long-term resilience and adaptability: they help create a regional economy which can stand its own under changing external circumstances.

Neither of the previous interpretations of reindustrialization follow a purely market-based logic; they represent a philosophy based on the concept of efficiency, but using strong incubation and catching-up elements for long-term effectiveness. As Kasabov (2011) warns, the process of innovative cluster development faces significant difficulties on the periphery, from financial hurdles to

[10] It is noteworthy that specific elements of territorial capital may be adverse to development, including low trust, rigid or corrupt institutions, over-specialized or locked-in knowledge sets. These roadblocks are neglected in the original formulation of the territorial capital approach (Bodor and Grünhut 2014), but they receive considerable attention in evolutionary economic geography.

thin networks and the associated lack of social, institutional and cognitive proximity. These threats are especially significant in the early stages of cluster development, necessitating public intervention in the interests of developing long-term competitiveness.

It is not easy to identify *the possible institutional framework* of emerging development cooperation. In post-socialist Central Europe, where state socialism has treated cities as objects instead of active partners in development policy, the practice of community-based development shows persistent weaknesses. The traditional top-down bureaucratic control of planning has produced a 'planning vacuum' on the local and regional levels in most Central European states (Poland is a potential exception), and decision-making over resource distribution can easily fall under the influence of an outside 'project class' (Lux 2005; Horváth 2010; Pálné Kovács 2010). City governments, the central actors of urban regime-based economic development in North America and parts of Western Europe, are unable to fulfil the task due to their legal status, finances and orientation on traditional city management tasks (Mezei 2006; Suvák 2010). Meanwhile, the other side of strong urban regimes, a well-developed domestic corporate sector is also missing from the equation. The potential actors of cooperation are still fragmented and inadequately capitalized. At least we can speak of a slowly strengthening network of medium-sized enterprises in the recent decade, whose managers demonstrate both a willingness and ability to participate in strategic decision-making within development cooperation.

There is a need for institutional solutions to collect and represent diverse interests by identifying common goals and overcoming individual weaknesses within the framework of the modern space economy, characterized by *coopetition* – a mixture of intense competition for markets and resources, as well as cooperation along common strategic interests. The institutions of development cooperation might take two basic forms:

- We might see a looser nexus of informal alliances within a development coalition, mobilizing regional resources towards specific ends and involving actors on a case-by case basis. This form is task-oriented, does not necessitate continuous cooperation, and may be restricted to specific industrial branches.
- We might also see the creation of a more permanent form of interest coordination based on the neo-corporativist solutions of modern Germany and Austria, bearing both sufficient knowledge and hopefully legitimacy to undertake planning on the regional scale.

It is likely that, at least in the Hungarian context, the second possibility would encounter fierce opposition in spite of its traditions going back to the 19th century, due to a lack of trust and the opposition of central interests (whose strategy of divide and conquer has been the *de facto* reality of regionalism in our country). It is possible that partial, branch-based cooperation, as we can see in innovative development projects, training schemes and mutual interest representation or even certain clusters, are presently more suited to establishing an institutional framework. However, if reindustrialization should be a broader policy, it will need stronger institutions than temporary alliances.

Within Hungary, *chambers of commerce and industry* are the organizations which may eventually become the cornerstones of reindustrialization policies. They do not have the integrative capabilities of their German counterparts in the reproduction of relational and social capital (Maenning, Ölschlager 2011), but they are the most important domestic articulators of economic interests, possessing a knowledge base and manpower to support market development and policy transfer (Póla 2007). The legitimacy of chambers had been diminished under their dysfunctional role in state socialism, but in the last decades, most have cleaned up their act and started providing valuable services for their paying membership.

In the broader sense, chambers or other representative bodies, supplemented by the local institutions of European development policy, can bridge the gap between the interests of the SME network and MNCs, providing a much-needed balance against the dominance of the most powerful economic actors. The precise institutional forms of cooperation leave much room for discussion, and should fit national, and even local needs and development traditions. However, it is clear that cooperation is not an option in the present economic environment: it is an imperative.

Conclusions

Through an empirical investigation of regional industrial development processes and a discussion of post-crisis policy dilemmas, this paper has provided a background for the ongoing reindustrialization debate within post-socialist Central Europe, with particular consideration for cities outside the leading metropolitan areas. It is argued that most minor cities and their surrounding regions are not suited to follow predominantly service-based development paths, and they should instead focus on sectorally balanced growth opportunities with a strong role of industry and associated business services. The significance of industrial development, neglected during transition, has gained a new significance over the crisis years. Industry has emerged as a powerful engine of growth in Central Europe, even if its performance is heavily dependent on Foreign Direct Investment and exogenous development decisions. However, much of the future competitiveness of industry hinges on the development of local industrial milieus, particularly local factor supply and the set of institutions which replenish it. Therefore, the paper argues for locally embedded reindustrialization policies to actively shape restructuring processes in non-metropolitan city-regions, and help provide a favorable development environment for both domestic and foreign companies.

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