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The Effects of Foreign Direct Investment in Urban Development: The Case of Budapest

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LIST OF ABBREVIATIONS

CBD	Central Business District
CEC	Central and Eastern European Countries
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HR	Human Resources
HUF	Hungarian Forint
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
R&D	Research & Development
TCC	Transnational Capitalist Class
TNC	Transnational Corporation
UN	United Nations
USD	United States Dollar
UNCTAD	United Nations Conference on Trade and Development

CHAPTER 1: INTRODUCTION

1.1. FDI: global scale and importance

Foreign direct investment (FDI) and its executing executive, the transnational corporations (TNCs), are an inherent part of global capitalism. In 2007, an estimated FDI volume of US$ 1.5 trillion was reached with the expectations of further growth after a short decline due to the economic crisis. The World Bank considers this growth to be demand driven with the emerging economies being a major source for this demand (MIGA 2008). Although most of FDI is flowing between developed countries, the share of inward FDI to developing countries is increasing with a faster pace. In particular, the countries of South, East and South-East Asia are steadily enhancing their position as FDI receivers with China and Hong Kong being the prime receivers in the region (UNCTAD 2008).

Highly discussed in the field of development are the impacts of FDI on developing countries. On the one side, the Washington Consensus - represented by the powerful D.C. based institutions, World Bank, IMF and the U.S. Treasury Department - emphasise the importance of FDI as a major engine of economic growth and development for a number of reasons: the TNCs are supposed to provide income and employment, to transfer technological know-how and business skills, and to include the developing economies into the global economy (Berkoz and Sece Turk 2006). However, they especially oblige the TNCs with their policy, because, as one Chief Economist of a transnational mining and smelting company states: "(…) Economists know that capital should be allowed to flow to wheresoever in the world it can be most productively employed" (Humphreys 2008: 175). On the other hand, critique concerning the impacts of FDI and TNCs on developing countries is increasing, with the United Nations Conference on Trade and Development (UNCTAD) an important but reserved representative of this view (UNCTAD 2008) host country. For example, in the case of early 1990s Latin America, under the roof of the New Economic Model, national governments began to favour FDI as a development tool and implemented a number of policies to facilitate its inflow. Yet, the subsequent surge in FDI has not had the expected effects and did not convert into an engine of growth. In contrast, "while the objectives of corporate strategies were for the most part met, the growth and development goals of the host countries were not" (Mortimore 2000: 1611). Eventually, the UNCTAD (2008) notes in its World Investment Report that there is a growing concern over the possible negative effects FDI can have, but also that the majority of the developing countries is still tending to more openness towards foreign investors.

1.2. FDI in transition economies: the case of Hungary

Not only developing countries but also the transition countries of Central and Eastern Europe (CEC)[1] saw FDI as possibly the best means to reintegrate their economies into the capitalist system and to catch up with their Western neighbouring countries. FDI was favoured for mostly three reasons: it would provide the devastated economies with capital stock, Western technology and entrepreneurship (Mihalyi 2000). Although even the UN doubted the willingness of TNCs to engage in the transition process[2], most of the CEC could attract tremendous inflows of FDI shortly after the collapse of the socialist system in 1989/1990. Hungary, which had been more open towards foreign influences since the 1970s, was the prime target for inward FDI in the region until it was outnumbered by Poland and the Czech Republic in 1995. Regardless, FDI penetration into the Hungarian industry is still unprecedented (Table 1).

Table 1: Foreign direct investment flows in CEC as recorded in the balance of payment, 1992-1997 (in US$ million) Source: Hunya 2001.

	1992	1993	1994	1995	1996	1997	1998	1999
Czech Republic	1 004	654	869	2 562	1 428	1 300	2 720	5 108
Estonia	82	162	215	202	151	267	581	305
Hungary	1 471	2 339	1 147	4 453	2 275	2 173	2 036	1 944
Poland		1 715	1 875	3 659	4 498	4 908	6 365	7 270
Slovenia	111	113	128	176	186	321	165	181
Total		4 983	4 234	11 052	8 538	8 969	11 867	14 808

The responsible authorities acknowledged the potential role FDI could have for the development of the country relatively early and implemented the privatisation process and a number of investor friendly policies in a short period of time, e.g. tax concessions (Kiss 2007). The foreign investors reacted with constructing some major greenfield projects in Hungary and with the acquisition of some of the biggest Hungarian firms during the privatisation period. FDI was particularly relevant in the first transition years when it amounted between 5 % and 10 % of the country's GDP, but although the inward levels are currently rather stagnating (Appendix 1), the Hungarian economy is through and through affected by the amount of FDI it has received over the past twenty years[3]. Budapest, the capital, has always been the main recipient of FDI with constantly over 50 % of the inward FDI coming to the city.

Capital cities, in general, are the favoured locations for FDI. They are the key nodes in the global system as they function as a bridge between the national and the global economy.[4] These cities accumulate a huge amount of global capital as transnational corporations and institutions, finance and management activities and the producer services locate here – all of which are decisive for the city to generate the specialised economic capabilities that it needs to be part of the global network (Firman 1998; Sassen 2008). However, case studies on the effects of FDI on urban development are limited - and particularly scarce for CEC – as most of the work stays on the macro level. Consequently, the analysis of a city that is so steeped in foreign influence like Budapest is a particularly interesting and relevant case study. The case of Budapest is even more unique as the city has been deeply isolated from most of the world until 1990 when FDI came upon grounds barely touched by global capitalism.

The main questions that will be asked are therefore how FDI and the presence of TNCs have influenced the urban development of Budapest since the political change in 1989/1990. What do these changes look like in terms of economic, social and urbanistic effects?[5] What role did these forces play during the transition period, and to what extent have they influenced the city's reintegration into the global capitalist system? And finally, did Budapest benefit from the inflow and presence of foreign capital?

The analysis has the following structure: The second paragraph will provide a review of the main theoretical approaches and relevant empirical material to depict the relation between FDI and urban development. The methodology section will describe the applied method, the triangulation research method, and consider advantages as well as constraints that resulted from this. The fourth part will analyse the impact FDI had on the economic, social and urbanistic development in Budapest since 1990. It will further illustrate to what extent the implications depicted in the literature review also apply to the development in Budapest. The conclusion will then assess the impact FDI had and make recommendations for future urban policies in this field.

CHAPTER 2 - THE EFFECTS OF FDI ON URBAN DEVELOPMENT

2.1. Economic Effects

2.1.1. FDI and Economic Growth

Economic theory offers various approaches that try to depict the relationship between FDI and economic growth in a (macro) economy. Likewise the models present ambiguous findings which result from the different assumptions they have.

In neoclassical growth models - pioneered by Solow in 1956 - economic growth depends on technological progress. Exogenous investments, either domestic or foreign, will only temporarily increase the amount of capital per capita. Due to the assumptions of the model diminishing returns will eventually put a limit to that growth. Hence, FDI is only able to evoke long-term economic growth if it also has a positive impact on the technological development in the respective economy (Knell and Radosevic 2000: 29). In endogenous growth theory investment and hence FDI have the potential to affect economic growth through externalities. Thereby, different kinds of externalities exist, for example, the technological or organisational knowledge foreign firms induce into the host economy, or the contacts between foreign and domestic firms that can lead to technological transfers or links, and to a more intense competition on the market. The productivity of both, foreign and domestic firms will finally increase as these external factors are stronger than the declining returns on investment. According to the model, they are in fact able to facilitate the growth rates that are caused by endogenous factors (Ministry of Finance 2003: 5).

Leaving these theoretical approaches behind and drawing more on the findings of empirical work, also here the relationship between FDI and economic growth turns out to be rather complex. In fact, a substantial part of the empirical evidence cannot establish a positive correlation which disagrees with the theoretical models.[6] However, there are also a number of counterexamples of which particularly the analysis of Borensztein, De Gregorio and Lee (1998) is important. It revealed that FDI can have a positive impact on economic growth in countries where the quality of the human capital exceeds a certain threshold. However, in countries with very low levels of human capital, FDI can have a negative effect. Campos and Kinoshita (2002) referred to this study in their analysis of the transitional countries in Eastern Europe and found out that the required threshold is achieved there – making the positive impact of FDI possible.

In general, the available information regarding the relation of FDI and economic growth can be summarised by De Mello (1999: 148): "Whether FDI can be deemed to be a catalyst for output growth, capital accumulation, and technological progress seems to be a less controversial hypothesis in theory than in practice".

2.1.2. Employment and Wage Levels

A further effect that particularly developing countries expect from FDI is its employment generating function. Linked to this is the hope that poorer population groups would benefit from the created job opportunities and eventually also the poverty and social disparities in the respective country would be diminished. This importance of FDI was also highlighted by the UN Conference on Financing for Development (2002): "It is especially important for its potential to […] ultimately eradicate poverty through economic growth and development" (United Nations 2003: 9). These aspirations rely on traditional trade theory which assumes that FDI draws on unskilled labour in developing economies. In labour abundant host countries it would raise the relative demand for these kinds of workers and hence decrease the wage inequality between skilled and unskilled workers. However, other approaches reveal that these relations turn out to be more ambiguous if one considers the fact that "trade and factor flows may be driven by productivity differences between countries" (Nunnenkamp, Schweigert and Wiebelt 2007: 432). The empirical findings here are again inconsistent. Accordingly, cross section analyses do not come to a definite conclusion regarding the effect of FDI on wage inequality whereas country studies almost always find increasing wages for all worker groups. Yet, it has been noted that transnational corporations predominantly concentrate in technology and human capital-intensive sectors of the host economy which provokes a demand for skilled labour. On the contrary, unskilled workers may be forced out of the labour market as the technological progress makes some of their production steps redundant (Nunnenkamp 2006: 15).

To summarise, the skilled labour force in an economy will benefit from the higher wages the TNCs offer whereas the outcome for the unskilled workers is more uncertain. The investment in education and training schemes will certainly enhance the employment opportunities and wage level for a broader group of workers.

2.1.3. Technological Spill-Over Effects

The transfer of modern technology and know-how is another potential benefit associated with the inflow of FDI into an economy (Pavlinek 2004: 48). FDI is incorporated by the large transnational corporations which are some of the most technologically advanced firms and carry out most of the research and development activity globally (Borensztein, De Gregorio and Lee 1998). The immediate benefit is ascertainable on the level of individual enterprises but the existence of spill-over effects "suggests that FDI affects growth endogenously through increasing returns generated in interaction between local firms and foreign affiliates" (Knell and Radosevic 2000: 44). More precisely, the benefits can comprise improved productivity, the transformation of the industry structure, the change of the export and import structure, or the upgrading of the human capital base (Ministry of Finance 2003: 5). In general, this perspective is based upon the view that developing countries need to open up their economies to have the opportunity to trade, interact and learn from the advanced economies as these "are the rich reservoirs of industrial technology, information and experiences which the followers can tap" (Ozawa 1992: 33).

The straightforward relation between FDI, technological spill-over and economic growth is, however, questioned by a significant number of authors. There are several points that challenge this proposition. Firstly, the evidence of spill-over effects is hard to capture empirically. A number of analyses have tried to

do so but found that the spill-over effects are either insignificant or even negative: “To say the least, the empirical research does not support the overly optimistic view of FDI effects on domestic industry” (Pavlinek 2004: 58). In addition, generalisations are only possible to a limited extent as spillovers are context specific and depend on several factors like the features of firms or industries (Lipsey 2002). This has also implications for the policy level as general incentives may not necessarily work for all sectors or industries. Simultaneously, spillovers are not mandatory but they are more likely to occur in sectors where the productivity gap between local and foreign firms is not too high. The benefits of spill-over effects are then dependent on the capacity of the host country to absorb the technological and management innovation – only then the desired productivity increase is possible (Nunnenkamp 2006: 16). As Sandberg (cited in Knell and Radosevic 2000: 45) states: “Access to imported technology is far from sufficient for catching-up [in case of the developing countries] and the import of technology does not of itself generate technological dynamism unless it is accompanied by an active building up of domestic technology capability”.

2.1.4. A Dual Economy?

The presence of FDI in a particular host country implies the formation of foreign enterprises. Of specific importance is their effect on domestic enterprises as well as on the development of the whole economy. The often observed unequal performance of the two groups of enterprises may be explained with Dunning’s eclectic theory (1993); thusly, TNCs dispose of firm-specific advantages allowing them to produce and compete successfully in the host economy. These advantages are caused by common governance and relate to a number of factors that emerge with multi-nationality, e.g. economies of scale on the firm level, market power, and worldwide accumulated technology. Moreover, they comprise physical and intangible assets which can be managerial capacities, expertise in international marketing or technological skills, and possibly access to large amounts of capital (Szekeres 2001; Gwynne 2002). On the other hand, domestic enterprises benefit from their familiarity with the local legal or business culture. In general, the coexistence of foreign and domestic enterprises in an economy is said to stimulate competition and push all firms into an innovative mode (Turnock 1997: 462).

The different performance of foreign and domestic enterprises can be captured by a number of indicators. For example, several empirical studies found out that the capital intensity of foreign firms is relatively higher than that of domestic ones. This might reflect that TNCs use production methods of a higher technical level or indicate that these firms concentrate in sectors with a higher intensity of capital in production. As mentioned above, foreign firms also pay higher wages per labour than domestic ones. However, this coincides with the fact that TNCs tend to employ higher skilled workers. In terms of export orientation, the expected higher engagement of TNCs in export activity could not unanimously be proven by empirical evidence on country level (Szekeres 2001: 376). Also concerning the profitability of foreign and domestic firms, the studies do not find a superior performance of TNCs. In part, this might be explained “by their ability to manipulate prices among subsidiaries, which makes it possible to have a profit of a required amount” (Szekeres 2001: 378).

Besides the inequalities between domestic and foreign firms – which, in extreme cases, can be referred to as the emergence of a dual economy – the more general characteristics of the last-mentioned group are subject to discussion. TNCs are only embedded into the host economy to a limited extent as they depend on local labour and infrastructure. Besides, their links to the locality may be rather tenuous; TNC strategy is most commonly aimed towards the ability to relocate as quickly as possible, in line with the enterprise’s needs (Turnock 1997: 463). As Pavlinek (2004: 63) states “the investment by foreign TNCs is driven by their profit seeking strategies that do not necessarily coincide with the long-term economic well-being of host regions and localities”. Therefore FDI is sometimes accused to create `cathedrals in the desert` that due to their limited bond to the host economy are not able to create substantial benefits.

2.2. Social Effects

2.2.1. Income Inequality And The Strengthening Of Social Classes

Structural changes that are boosted by a new order of global capital flows and so the influx of FDI (see above) do not only have major economic but also social impacts. These changes that lead from a rampant deindustrialisation to the emergence of a business and financial services economy are

likewise transforming the existing social pattern. Big cities are the centres of these transformations as they provide the necessary space and facilities that the new service industries require – this particularly includes a sufficient number of labours who in often insecure or part-time jobs allow the system to work. Of specific relevance is the formation of a new middle class that is occupied in white-collar jobs and characterised by a shared education, lifestyle, consumption patterns and occupations. The French sociologist Bourdieu (1984) has depicted the characteristics of social classes - in France - and their respective *habitus*. According to Bourdieu, the new middle class attempts to free itself from any class consciousness and is supported to do so by the newly created professions it occupies. Hence, it is not limited by class memories that could constrain it from the market but stands rather in an unmediated relationship to it; eventually this makes the new middle class to "perfect consumers" (Bodnár 2001: 100). In a later phase of globalisation, the high levels of economic and social capital make this class even more influential:

> The high-level professional workforce in global cities is characterised by work and lifestyles that distinguish it from earlier forms of a small elite of urban rich or the broader middle class. Their numbers are large enough in many of these cities and their preference for urban living is high enough that they have, as a stratum, re-inscribed a good part of the urban landscape (Sassen 2001: 244).

At the same time, social polarisation - referring to the changes in the absolute and relative size of different income groups over time - is an imminent characteristic of globalising societies. Sassen (2001) has analysed this "dualness" for global cities although her critics showed that this assumption is true for all major cities and even national economies (Robinson 2009). On an urban level, however, Sassen (2001: 286) described that the new service economy, and here predominantly the producer services, are generating low-wage jobs: directly, through the structure of the work process, and indirectly, through the structure of the high-income lifestyles of those employed in this sector (e.g. high income residential and commercial gentrification), and through the consumption needs of the low-wage workers.

In conclusion, it can be summarised that economic restructuring processes and the increasing globalisation of societies are also linked to a transformation of the social classes and an increased income polarisation. But Sassen (2008: 6) also reveals that for the competitiveness of the cities themselves the governing classes here should counter the latter process as "the global economic functions will grow better in a context of a strong and prosperous middle class rather than a sharp inequality" between a growing share of households.

2.2.2. Globalising Lifestyles And The Presence Of The Transnational Capitalist Class

The entry of FDI into a country brings with it the inflow of international human capital: the transnational capitalist class (TCC). Sklair (2005: 485) defined the TCC as people

> who typically have globalizing as well as (rather in opposition to) localizing agendas. These are people from many countries who operate transnationally as a normal part of their working lives and who more often than not have more than one place that they can call home.

The TCC is directly linked to the transnational corporations as it consists of those who own or control these businesses. Sklair also added globalising politicians and bureaucrats, and globalising professionals to the TCC. The latter group are normally engaged in the service sector and range from rather technical to educational occupations. A major part of them are highly-skilled labour migrants who work in cities around the world. Their movement is closely linked to the TNCs which require their employees to work abroad for a certain amount of time in order to advance their careers.

The mission of the TCC is described as "organizing the conditions under which its interests and the interests of the capitalist system can be furthered in the global and local context" (Sklair 2005: 486). Swyngedouw (2005: 15) refers to the TCC as the economic élites who simultaneously exert their power on a global as well as a local scale – all under the leitmotif of globalisation and global competitiveness: they demand high productivity, low direct and indirect wages, and an absentee state (ibid). The transnational aspect of the TCC becomes manifest in its

globally linked interests, its "economic control in the workplace and culture-ideology control in everyday life through specific forms of global competitive and consumerist rhetoric and practice" (ibid) and shared lifestyles that particularly comprise higher education and the consumption of luxury goods and services. Integral parts of this lifestyle are particular places of consumption like exclusive clubs and restaurants as well as luxury shops and hotels. Likewise this affluent class of people increasingly prefers residential segregation as opposed to the mass forms of housing. A special emphasis is put on the 'culture-ideology of consumerism' that characterises global capitalism and the TCC. According to Sklair (1997: 531), an essential part of the TCC are consumerist élites who through their every day consumerism lifestyle - projected by television and mass media in general - create the image of this being the reality for most of the people globally. Shopping and consumption in general have thusly become one of the most important leisure activities in the contemporary Western world, with the global spreading of shopping malls showing that the rest of the world is gradually following this path.

A particular society may be included into the global system through the inflow of international labour. Their presence also has consequences for the host city as, for example, the migrants generate cultural flows which are affecting the socio-cultural reality of the locality (Ewers 2007). According to Földi and van Weesep (2006: 39), these flows can be manifested in the changing lifestyles of the people and particularly the emergence of middle-class norms in housing, leisure activities, and daily life. Besides, this influx becomes visible in the cultural products the immigrants bring with them. These mainly refer to commodities that can be summarised as the commercialised form of popular Western mass culture. Földi and van Weesep (2006) then conclude that all the named factors together could possibly form and transform the urban areas.

However, there are different views on the way in which globalisation invades and is affecting a specific local context: Robinson (1996) focuses on the unconstrained flow of transnational capital that would eventually suppress local identities and autonomies. On the other hand, Giddens sees the national and regional identities to be stronger and being able to cope with the influences of globalisation. Hence, "globalisation invades local contexts of action but does not destroy them; on the contrary, new forms of local cultural identity and self-expression are causally bound up with globalising processes" (Giddens 1995: 3). A more recent perspective considers globalisation to be overrated and restricts it to "an international flow of trade and capital confined to self-contained regional groupings like America and Europe" (Turnock 1997: 460). However, the always increasing importance and influence of TNCs in the world economy are undisputable as are the international labour flows they are generating. Global cities will proceed in attracting members of the TCC and being subject to social transformations. It is, on the other hand, clear that cities need these highest-skilled migrants in order to compete in the global market. Their presence does not only link the city with global flows of capital and trade but can also fill possible gaps in the city's knowledge-base (Ewers 2007). It is therefore necessary for the political stakeholders to react to these conditions and balance the outcomes. The ultimate goal should be that the city benefits to the greatest possible extent.

2.3. Spatial Restructuring of the Built Environment

2.3.1. Transformation of Inner City Areas

The economic and social transformation described above also includes a spatial dimension. The major cities play a key role in the global world economy as they are "platforms for a rapidly growing range of global activities and flows, from economic to cultural and political" (Sassen 2008: 6). Deep urban restructuring processes take therefore place that especially upgrade the function of the inner city areas. This is based on their "revaluation and revalorization (…) by the communications-intensive branches of the service sector" (Bódnar 2001: 89) which eventually make them to containers of all sorts of capital. According to Sassen, (2008) two main consequences result out of this: urban architecture, design and planning gain importance and become more visible, and the competition for central space in these cities rises. Particularly in liberalised economies the thusly created office demand in central districts is further fuelled by the influx of foreign capital. Usually, international investors dispose of more financial capital than local businesses which creates a certain pressure on the central office and retail space market. If the existing tenants do not manage to react to these processes, e.g. due to lack of capital or business skills, they may be crowded out by foreign competitors. Especially in former

socialist cities like those of Eastern and Central Europe, the local business community was mostly unprepared and overwhelmed by the changes that the transition period brought about. Like in the majority of Western influenced cities the newly created central business districts (CBD) "have re- or displaced traditional urban economic activities and have begun to act as pivotal relay centres in organising and capitalising on the flows of increasingly stateless global capital" (Swyngedouw 2005: 16). Synonymous with the newly gleaming CBDs and its office towers is a certain post-modern architectural style that gives cities around the Western world an identical look. These considerations then again take on the concept of the TCC and its dominant effects on urban development: The structure and design of globalising cities has to be shaped according to the interests and needs of this class. For example, Sklair (2005) argues that European cities revert to a certain type of architectural style - iconic architecture - in order to regenerate and revitalise formerly deprived or neglected central urban quarters. These processes lead Gospodini (2002: 60) to the assumption that in a post-modern world the traditional relation between urban economic development and urban design is reversed: "While for centuries the quality of the urban environment has been an outcome of economic growth of cities, nowadays the quality of urban space has become a prerequisite for the economic development of cities; and urban design has undertaken an enhanced new role as a means of economic development".

2.3.2. Globalisation of Urban Spaces

FDI does not only restructure the central areas of a global city but transforms a number of urban spaces. In fact, FDI creates transnational spaces that form a direct and continuous link between the global and the local in a particular city. Normally, this refers to office and retail developments but in cities that are deeply integrated into global capital flows it also includes the housing market and residential areas. Examples of such spaces are hence the offices of TNCs and other transnational organisations, shopping malls as well as luxury hotels and restaurants. Their transnational character is made up by the foreign designers and developers that conceived them and the likewise transnational companies and banks that maintain them. These spaces can expand to whole urban areas like in the case of shopping malls, export-processing zones or banking centres. Yet, transnational spaces implicate that their regulation and formation is no longer solely determined by the local, city authorities but also by the various multinational actors that hold a stake here, e.g. via construction approaches developed by foreign designers (Melcher 2004).

In the case of commercial developments this means that the foreign initiators of shopping malls or office developments do not necessarily care about the effects on the respective surrounding area as their prime objective is short-term profitability. The developments can hence either cause the up-grading or the down-grading of their neighbourhood. Empirical evidence shows that in a number of cases, the investment could create trust in the area and cause further investments. Eventually it was possible to upgrade and revitalise the whole neighbourhood with results - at best - being the rise of house prices and land values, or the increase in spending power (Földi and van Weesep 2006; Turok 1992). If investments are, however, located in deprived areas with the intention to contribute to their regeneration it is essential to establish a holistic concept. A single project will not be able to regenerate a whole neighbourhood but needs an additional effort, for example, in the field of employment programmes (Imrie and Thomas 1993).

To summarise, the needs of FDI together with the transnational actors are restructuring and shaping the globalising cities in an unprecedented way. At the same time the state and public authorities are gradually losing their influence in terns of urban planning to the named actors.

CHAPTER 3 - METHODOLOGY

3.1. Research Methodology

The following analysis of the impact of FDI on the urban development in Budapest will be conducted on three different levels: economic effects, social implications and urbanistic transformation. Consequentially, each level requires a different methodological approach to meet the particular characteristics. In general, this analysis is based on the triangulation research method that combines both quantitative and qualitative research and evaluation methods.

- Economic effects: The study of the economic effects is based on desk research. I used secondary literature as well as secondary quantitative data that had been collected by researchers and Hungarian institutions (e.g. the National

Statistical Office; the Ministry of Finance; the Hungarian National Bank). The used literature consists of academic papers, government and other official Hungarian reports, and studies by international organisations (e.g. OECD; UNCTAD).

- Social implications: The analysis of the social implications required a different approach and was therefore conducted in two steps. At first, I used secondary research (mainly academic papers) to work out the primary aspects here. Having this theoretical knowledge in mind, I conducted primary research in the form of interviews during a short stay in Budapest in July 2009. I used the guided interview technique when talking to two young Hungarians who work for TNCs in Budapest.[7] The main intention was explorative to fill gaps that had been arisen from the desk research; hence I do not explicitly mention the results in the analysis but included them in the general text. A second social implication that resulted from the secondary research was the presence of the so called transnational capitalist class (TCC) in Budapest. To get to know and understand the life of this group in a former socialist city, and to explore any impact they may have on the host society I conducted structured interviews with ten foreigners who work for TNCs in Budapest.[8] Through personal contacts I managed to interview a variety of members of the TCC, ranging from interns in international consultancies, self-employed businessmen to the HR-heads in multinational companies. Due to time constraints only half of these interviews took place in Budapest, the remaining were conducted via phone or email. The interview language was English with no language barriers arising due to the international background of all interviewees.

- Urbanistic transformation: The transformation of a former socialist city into a playground for the capitalist market forces has attracted a lot of interest on both, the Hungarian and international academic sides. Therefore it was possible to refer to a vast amount of secondary research and data concerning the development of the built environment in Budapest since 1990. Since much of these aspects are visible in the cityscape I also used the method of photographic documentation during my stay in Budapest. Many of the aspects described in IV.3. were hence photographically documented.

3.2. Research Constraints

One major constraint is the lack of suitable and recent data about the economic effects in Budapest. The National Statistics Office only collects a limited set of data concerning FDI and, in addition, the data mostly stays on a macroeconomic level with little information about the actual implications for Budapest. Also the data of the international organisations (World Bank, UNCTAD, OECD) is rather incomplete. However, as over almost 60 % of the FDI in Budapest have been going to the capital I applied the existent findings for the economic impact on the national economy to the city economy. I worked out the specific characteristics of the development in Budapest to a large extent, but indicated the parts where I had to revert to macroeconomic findings.

In terms of the social analysis, the existing literature about the interrelation between the domestic society and the TCC is rather small. Primary research has been conducted to fill some of the hence evolving gaps and to get a better insight into the matter. Yet, it must be noted that the time constraint only allowed structured interviews with an unrepresentative number of people, and also a limited flexibility when conducting the interviews. A general overview is therefore not possible, although the statements certainly add to the knowledge about the TCC in Budapest.

CHAPTER 4 - FDI AND URBAN DEVELOPMENT: THE CASE OF BUDAPEST

4.1 Economic Effects

4.1.1. Engine of Transition and Economic Restructuring

The inflow of FDI since the early 1990s is commonly considered to have been the major force for restructuring and modernising the manufacturing sector and for guiding the whole Hungarian economy through the transition years (Szanyi 2003; Dövenyi and Kovacs; World Bank 2000). The Hungarian government acknowledged the potential role FDI could have for the economic development quite early and subsequently implemented a number of policies to support and fuel its inflow. Hence, the Hungarian model has been described as a “FDI-driven process of industrial restructuring” (World Bank 2000: 16) and economic development. Economic reforms were implemented relatively fast after 1990, with privatisation being one of the cornerstones. In Budapest, foreign investors were dominantly

buying or investing in large-scale enterprises which were well established and profitable. On the contrary, Hungarian investors now mostly own smaller enterprises due to their lack of capital in the main years of privatisation (Kiss 2007).

The industrial structure of Budapest offered foreign investors two different modes for restructuring the manufacturing sector: they could either rationalise existing enterprises or build new ones to serve deficit markets or export competitive products to foreign markets. However, through much of the 1990s Brownfield developments were the dominant type of investment and `re-industrialisation` a limited phenomenon due to the lack of undeveloped land and the high prices for properties in the urban periphery. Only in a later stage, when the large-scale privatisation was mostly completed and FDI concentrated on export-oriented industries greenfield developments became more important (Hunya 2001). The strategies of the foreign investors meant the decline of whole industrial sectors (e.g. metal, textile, clothing) that were seen as unprofitable and outdated (Hamilton and Carter 2005). This crisis of the traditional Budapest industries meant the loss of 219 000 industrial jobs alone between 1983 and 1993 (Tosiscs 2005: 255). And the decline of the city's "industrial zones, once salient pieces in the fabric of the socialist period, has become one of the most recognizable signs of the transition period" (Kiss 2007: 147). On the other hand, some selected branches (e.g. machinery, food, chemical and pharmaceutical industries) and enterprises that were highly efficient and had low territorial demand received enormous amounts of capital as well as the transfer of modern technology. Eventually, that helped to modernise the manufacturing sector and make it competitive on a global level (Tosics 2005). For example, by 1999 over US$ 10 billion of FDI had come to Budapest of which substantial amounts came as machinery. The influx of foreign investment is now rated as a decisive intervention to attenuate the economic recession of the first years after the socialist system had collapsed. The investors brought in the urgently needed capital to keep the Hungarian economy going (McMillan and Hakogi 1998: 104).

The comparatively high education levels of the local labour force as well as the existence of the necessary infrastructure prompted the locating of knowledge- and technology-intensive branches in Budapest (e.g. the regional headquarters of Sony Central and Southeast Europe and the Nokia Siemens Networks' R&D Centre have been located here). By the end of the 1990s, when the unit labour cost in Budapest had already reached relatively high levels and therefore threatened the competitiveness of the produced goods, the labour intensive industries moved on further east to low-cost countries like Romania and China (Szanyi 2003). Nonetheless, Budapest could sharpen its image as a hub for technology intensive industries and was able to attract the R&D units of further foreign enterprises (e.g. Knorr-Bremse, a German manufacturer of brake systems for trucks and buses opened its R&D centre in 1999). Partly, this has been an achievement of the Municipal Government which wants to establish Budapest as a European centre in R&D development (Kiss 2007; Pavlinek 2004). Appendix 2 shows that Budapest is by far the leading R&D location within Hungary. One major cornerstone is also the 2008 decision of the European Union to locate its European Institute of Innovation and Technology in Budapest, although it remains to be seen to what extent other technological activities will be attracted to the city.

The more important target for FDI was, however, the deficient Hungarian service sector. Here, the growth rates of FDI were constantly higher than that of the manufacturing sector (Viszt and Borsi 2001). Budapest has experienced a tremendous inflow of foreign capital that is said to be the main engine behind the growth, modernisation and diversification of the consumer and producer services (Hamilton and Carter 2005: 133). The newly established foreign-owned businesses here engage mostly in financial services, commercial activities, and real estate (13 %-15 % per each). A special case is the banking sector where privatisation was implemented quickly and by 1997, over 50 % of Hungarian banks were foreign owned. Eventually, this helped to establish a modern banking system and banking technologies that were absent before and are now ranked as the most developed and stable ones in the CEC (Tosics 2005; McMillan and Hakogi 1998). At the end of the 1990s, the service sector had taken over the main role in the city's economic performance and produced 77 % of the total economic output (Pallai 2003).

In conclusion, the majority of the studies on the transition period in Hungary and Budapest agree in giving FDI the decisive role in restructuring and modernising its industrial

sector, and fuelling the tertiarisation of the economy (Enyedi 1999: 546). Thusly, also Hunya (2001: 154) concludes when comparing the development paths the different CEC took: "The deeper the FDI penetration, the faster the speed of structural change".

4.1.2. Contribution to Economic Growth

Hungary and so Budapest experienced an immense economic growth since the early 1990s (Appendix 3). At the same time, the share of FDI in both the country and the capital was steadily increasing and embraced all of the sectors (Appendix 4, 5, 6). Throughout all of the period, Budapest received the highest amount of FDI among all Hungarian regions (Appendix 5). For example, in 2004 over € 24 billion of FDI came to Budapest which generated 35.1 % of the country's GDP (Tosics 2006). An analysis of the relevant data reveals that foreign-owned enterprises were to a large extent responsible for the good performance regarding factor productivity, export activity, labour productivity, and profitability. It is also widely assumed that spill-over effects have taken place, alone due to the sheer size of the FDI stock, but also as the technological level in Budapest was high enough to absorb the spillovers (Pavlinek 2004; Enyedi 1999). However, the sometimes big difference between foreign and domestic owned enterprises here has provoked the fear of a dual economy as well as that of a high dependency on the foreign investors. These suppositions will be analysed in the next chapter.

Looking first at the performance of the individual enterprises, the data shows that foreign-owned enterprises outperformed both, Hungarian private-owned and state-owned firms (Appendix 7). Between 1992 and 1997, fully and partly foreign-owned enterprises could double their sales and thusly improve their financial results. They also outperformed their domestic counterparts with regards to the factors cash flow to assets, cash flow to sales, assets and sales per firm (World Bank 2000: 12).

Labour productivity, which is measured in value added per employee, also increased immensely in the 1990s. For example, in the manufacturing sector, the productivity increased by 68 % in foreign-owned firms and by 104 % in those with at least 10 % foreign ownership. The productivity for all foreign-owned enterprises increased by 126 % whereas for the same period it declined for state-owned and Hungarian private ones (Table 2) (World Bank 2000).

In general, this underlines the importance of the foreign enterprises for the well-being of the Hungarian economy. But the big differential in terms of productivity should not be overestimated as its growth slowed down by the end of the 1990s. And on the other hand, the different performance has its main reason in the different sectoral distribution of the foreign and domestic enterprises; in some sectors the share of domestic enterprises is so low that comparisons are hardly possible (Hunya 2001).

The foreign investors also created important employment opportunities for the domestic labour force, although these were often limited for highly-skilled labour. For example, foreign enterprises created 75 % of all new jobs in the transition years and are steadily increasing their employment numbers (Viszt and Borsi 2001). By 1998, foreign companies employed 45 % of the labour force in the manufacturing sector and 90 % of the labour force in the chemical industries (Appendix 8). Their impact was especially important in the difficult period after the end of the socialist system: between

Table 2: Real value added per employee in manufacturing by types of firm ownership, Hungary, 1992 and 1997

Ownership type	*Distribution of employment*		*Percent change in labour productivity 1992-1997*
	1992	*1997*	
FDI 100 %	4	21	+68.2
FDI 10% or more	17	34	+104.3
State owned	66	7	-44.1
Domestic private	7	32	-19.9
Unknown	6	6	+104.4
Total	100	100	+121.3

Source: World Bank 2000.

1992 and 1998 the state owned enterprises released 800 000 mostly unskilled workers whereas the foreign companies were creating 260 000 new jobs in the same period (World Bank 2000; Fazekas 2000) (Appendix 9).

The foreign firms also pay remarkably higher wages than the domestic ones: on average the differential accounts for 30 %, it increases for highly-skilled professions and falls for low-skilled occupations (Appendix 10, 11) (World Bank 2000; Szekeres 2001). This mostly reflects the fact that foreign enterprises tend to employ higher skilled labour and are, after all, able to pay the higher wages. A consequence of this is that also the income inequality (difference between the lowest and highest deciles) increased and has now reached that of West European countries.

The export activity of the Hungarian economy expanded heavily since the transition period. Foreign owned firms are largely responsible for these export figures and have thusly driven the steady growth of the GDP of Hungary as well as that of Budapest (Appendix 12, 13). Appendix 14 shows that the export activity improves with the increase in the share of foreign ownership at firm groups. For example, the export intensity for domestic enterprises was 22 % in both, 1994 and 1998, whereas that of foreign-owned ones increased from 37 % to 56 % (Hunya 2001). Another interesting aspect is that, at the same time, the technological level of the Hungarian exports increased steadily (Appendix 15). It lies, on the one hand, in the nature of TNCs to engage heavily in export but also relates to the foreign investors buying mostly Hungarian enterprises that already had well established export markets (Szekeres 2001). As table 3 reveals, the biggest Hungarian exporters were, however, foreign companies that had invested in greenfield developments.

While all the described factors contributed to the revitalisation and competitiveness of the domestic and national economy, the state also loses income due to the offered tax allowances and tax exemptions. Also the current balance of the country may not improve. Analysts hope, however, that these downsides only apply to the first phase of FDI inflow. In a later period, when the foreign firms are more established and the concession policy of the government towards them weakens, this deficit might become less relevant (Szekeres 2001).

4.1.3. A dual economy?

The described high performance differential between domestic and foreign enterprises has often provoked the conclusion of a dual economy in Hungary: on the one side, modern, technological innovative and well connected with foreign markets; on the other side backward, with outdated technology and inward-oriented (e.g. Hamar 2001; Ministry of Finance 2003; Pavlinek 2004). A number of factors are indicating a so called duality: For example, in comparative studies on the development in the CEC, Hungary has the leading role in both, FDI penetration and performance differential (Hunya 2001; World Bank 2001; Pavlinek 2004). This situation was already reached by the end of the 1990s when the foreign sector employed 15 % of the workforce, but produced 40 % of the output and 89 % of the total export[9] having its main reason in the low efficiency of the domestic owned enterprises. Within the manufacturing sector, the duality is expressed in two respects: firstly, between foreign dominated industries and traditional industries (although with some foreign participation), and secondly,

Table 3: Top 5 Hungarian exporters (based on data for 1998)

	Company	Technique of ownership change	Year established in Hungary	Nationality of majority owner	Controlled by a TNC	Nationality top local executive
1	Audi	Greenfield	1993	German	Yes	German
2	IBM	Greenfield	1995	USA	Yes	USA
3	Philips	Greenfield	1989	Dutch	Yes	Dutch
4	Opel	Greenfield	1990	USA	Yes	German
5	MOL	Privatisation through IPO	Existed before	Foreign institutional	No	Hungarian

Source: Mihályi 2001.

with a foreign-domestic gap in industries with foreign and domestic involvement. Hunya (2001: 154) finally concludes that although the domestic businesses are slowly catching up, in the long term the gap will keep on growing due to the fast increase of fully foreign owned enterprises. Another indicator is the missing rootedness of especially the large-scale foreign enterprises within the host economy and their "failure to put down local supplier roots" (Szanyi 2003: 14).

Despite all these factors, it can also be argued that the divide in foreign and domestic enterprises is too simplistic and does not really reflect the overall picture of the Hungarian economy. Instead, several points are influencing this divergence. As pictured above, the foreign investors have predominantly been engaging in businesses and industries that are modern, efficient and highly productive. Domestic enterprises, on the other hand, are still overrepresented in inefficient and uncompetitive branches. However, as an analysis of the World Bank (2000) argues, the proposition of a dual economy is wrong as FDI has penetrated all sectors of the Hungarian economy with one of five firms having had some sort of foreign involvement by the end of the 1990s. Comparisons within branches are also hard to make as in most of the cases the domestic sector plays only a minor role against an overwhelming foreign sector (Hunya 2001). Pavlinek (2004) adds that the assumption of a duality in Hungary misses the fact that the domestic sector is still in a phase of restructuring, and has only been acting in the global capitalist system for twenty years now.

Concerning the critique that many of the foreign companies did not really form links with the domestic economy, the Hungarian side itself does not rate this as a complete failure. In this case, the short-term profit seeking strategy of the TNCs does not really oppose the long-term intentions of the public authorities as the relationship was mutually beneficial. In the recession period after 1990 the TNCs acted as significant employment generators for a large number of Hungarian workers who, in return, gained some important skills and technological know-how in the foreign enterprises (Szanyi 2003). The economic upturn and finally the EU accession steadily increased the unit labour cost in Hungary which finally pushed the labour-intensive industries further east. This can generally be regarded as a positive economic development but the responsible authorities now have to invest even more in good infrastructure and education to attract compensatory FDI in high technology industries and in the fields of R&D.

4.2. SOCIAL EFFECTS

4.2.1. The new middle class in Budapest: identity and lifestyle

The inflow of FDI and the described economic effects have also brought some social restructuring with it. This was not caused by FDI alone but its presence certainly had a major part to play, or rather fuelled the process. The economic transformation of the 1990s was directly connected with the formation of a new middle class in Budapest as well as the emergence of the `nouveaux riches` - the main winners of the system change. In general, the social gap widened with especially non-educated or former industrial workers lagging behind. Another phenomenon that occurred was that of old-age poverty (Födi and Van Weesep 2006; Enyedi 1999).

The most obvious link to FDI in Budapest is certainly the new middle class. On the one hand, this group is mainly employed in the new service sector and white-collar jobs that are born by international investments. They mainly work in the field of economic services and non-profit foundations which need qualified professionals (e.g. legal consultants, economists, architects, managers). On the other hand, its members are also the main consumers of the products and the lifestyle the international investors have been bringing to Budapest. After the end of socialism in Hungary – a period when consumption was discouraged but demand was not satisfied – the influx of the market with all its offers hit the unprepared post-socialist society fiercely. Yet, their appetite for consumer goods is unrestrained whereas the well-doing new middle class forms the best buyers. The members of this class also embody the international corporate culture that the TNCs are spreading globally. It has been brought to them as young university students or graduates and soon managed to shape their working life. They are rather untouched by the dogma of socialism and developed an "undisturbed belief in career and professionalism" (Bódnar 2001: 99). In contrast to previous generations they are able to decide on their lives and careers in freedom, often accumulate more capital in young years than their parents own, and their lifestyle is more and more matching with that of their Western counterparts: the new middle class eats healthy, likes to dine out, goes to the

theatre and the opera, joins a gym, drives a Western-made car and goes overseas for holiday. At the same time, they lack time for leisure and other private activities that was never scarce in the socialist society. Eventually, they depend on the commodities they are able to afford with their income to sustain their new lifestyle (Bódnar 2001).
On the other hand, the new middle class is still rather small and therefore fragile, for example, through the current economic crisis.[10] Their lifestyle and *habitus* is still so immensely new to the former socialist society that it attracted more attention then the actual size of the class would implicate.

4.2.2. Presence of the TCC
The first members of the TCC - mostly Western Europeans and US-Americans - came to Budapest shortly after the socialist system collapsed in 1990. Also the group of foreign employees I interviewed was dominated by Western Europeans whereas other nationalities were outnumbered.[11] The majority of them were sent to Budapest by the TNCs but there was also a small number of `fortune-hunters' among them who wanted to profit from the possibilities the new market offered. Seven out of the ten interviewees work on the top management level of their respective firm – three of them as head of Human Resources – and five of them work for a company of their home country. The share of foreign to domestic employees varies with no clear dominance, however, there is some correlation between technological and skill level and a majority of foreign employees. The collaboration of the two groups seems to run without major difficulties and only the language being a not unimportant barrier: Only four of the interviewees speak Hungarian, whereas especially the Hungarian employees on lower levels only speak their first language. The missing language skills are then also seen as the main deficit of the Hungarian labour force although, in general, they receive a relatively commendatory assessment by their foreign colleagues.

The cultural integration of the international class proves to happen rather smoothly. This is due to the actual relatedness between the international migrants and the Hungarian population, e.g. in terms of religion, culture and standard of living. They share the same transport mode (public transport), leisure activities (sports and going out for a drink/ clubbing), and all of the interviewees who had lived in Budapest for more than one year stated that they had a lot of contact with locals in their free time. Therefore the members of the TCC did not need to form separated residential communities but could intermix with the upper-middle and upper class in Budapest. Seven of the interviewees live in the fashionable central Pest districts VI., VII., and IX. that are characterised by major gentrification processes, two live in the wealthy XI. district in Buda, and only one lives in an outer district on the Buda side. Hence, although their number is relatively small, due to their economic power they have quite an influence, e.g. on the residential market where foreigners are fuelling the market for luxury rentals and housing. Besides, they share the demand for certain consumer goods and services with the affluent domestic classes and are also influencing the supply here (Földi and Van Weesep 2006). The majority of the interviewees prefer the shopping possibilities they already know from their home countries, e.g. hypermarkets and supermarkets, although often not content with the quality and the price relationship. Only those who have lived in Budapest for a longer time are also exploring the city as one of the interviewees stated: "I hardly ever go to supermarkets. There are a lot of fine shops in this city, but you got to know them." This is also true for the general attitude the foreigners have towards their new home city: the longer they have lived there, the more comfortable they feel and the better their opinion on Budapest is: "The cities of Central Europe are closely related, so they have common looks. But Budapest is surprising and wild compared to Vienna or Prague".

However, all of the interviewees see the socialist past as still too present in the architecture, transport and attitude of the people, especially that of elder generations. They also think that big parts of the city need more regeneration activity on side of the public authorities to make Budapest more competitive and attractive: "I think with Krakow and Prague it is the nicest central European capital. Compared to Western capitals it needs a bit more maintenance, then it could be as beautiful as Paris."

In general, the international class seems to have had a rather limited impact on the Budapest society. This is due to the relative small size of this group which is hardly comparable to that of Western European cities, and the cultural relatedness between the domestic population and the migrants. The future impact will depend on the economic

development in Budapest, and to what extent the activity here can still attract the international capitalist class.

4.3. Spatial Restructuring

4.3.1. Emergence of a CBD and the transformation of the inner city districts

Several processes were ongoing and worked together in the first half of the 1990s that had a tremendous impact on the transformation of the central districts to a classic central business district (CBD); these included post-industrial restructuring, globalisation as well as the rapidly implemented privatisation of state-owned enterprises. In the subsequent time, more and more international companies opened or relocated their new headquarters for Central and Eastern Europe in Budapest. The city was seen as a suitable gateway to the new markets of the East that could eventually also challenge the dominant position of Vienna here. Besides, Budapest was the only city in the region that disposed of the necessary infrastructure and business services like banking and insurance (Enyedi 1994).[12] However, like other post-socialist cities Budapest was still characterised by a severe shortage of services provision which formed a major scope for foreign investors coming to the country. Together with the endogenous private business growth the office demand in the V. and parts of the I. district[13] was fuelled whereas the residential function of these districts was transferred to outer or suburban zones (Földi and Van Weesep 2006; Kovács 1994). The high-end office demand of the TNCs in central locations could only be satisfied to a certain extent. Although a large amount of new office space was hastily constructed in the early 1990s, due to the economic boom of this time the demand was unbroken. Suitable sites for new constructions in the older and densely populated areas of central Budapest were, however, only available to a limited extent and also the modernisation of the existing office stock proved to be a complex process. Hence, the scarcity in suitable office supply together with the ongoing influx of TNCs resulted in relatively high rent levels for prime offices in Budapest already after a short time. At the same time it generated an office construction boom during the 1990s that by the end of the decade, the city was already saturated with office space.[14] The new occupiers of the central office buildings were mainly made up by foreign companies which selected Budapest as the location for their regional headquarters (Appendix 20.1, 20.3).[15] Here the city benefited from its advantageous location and its relatively well-educated labour force. The presence of the TNCs also caused the inflow of the attendant management and consultancy firms that should facilitate their exploitation of the new markets. In a later phase of privatisation when the regulations for financial services were liberalised a substantial number of foreign banks and insurance companies located in the city's CBD (Appendix 20.2). Not only they kept up the demand for central office space but with them the vast number of smaller service companies that accompanied their inflow. Developers reacted by refurbishing the big amount of 19th and 20th Century housing stock but also by gradually expanding their scope to the neighbouring districts or even more decentralised areas.[16] Here, a differentiation of the inner city emerged. Whereas the good-quality offices in prime locations were constructed or converted for the TNCs and hence, necessitated the prevalent style of international architecture, the more outwards and second-class developments were targeted at smaller or local businesses. In contrast to the first group, they were designed and constructed by local companies. Examples for the international post-modern architectural look that reshaped the original skyline of central Budapest are the Budapest Congress and World Trade Center (XII. district) and the East-West-Trade-Center (V. district). The latter one, for example, is a nine-storey dark glass and steel building located on Rákoczi utca and developed by a joint venture of which 54 % is owned by the Swedish company Skanska, the fifth-biggest construction company in Europe (Kovács 1994: 1092). The new buildings evoked, however, also critique as they were accused to stick out and not communicate with their environment (Appendix 20.4) (Bódnar 2001: 93). This is also criticised in the case of a new bank centre in the VI. district:

> Inserted on a narrow street where half of the buildings are listed landmarks, it sticks out like a sore thumb. Not only has the project failed to contribute to the renewal of the neighbourhood, but its forward-leaning glossy façade makes the street seem even narrower" (Földi and Van Weesep 2006: 42).

After all, the described processes meant the transformation of the inner city into a CBD which was not only characterised by a functional conversion of apartments into offices but also the crowding out of local, often low-end businesses and shops by international

chains. This ground-floor reconstruction phenomenon occurred throughout the 1990s in Budapest when foreign investors were renovating and refurbishing their acquired assets (e.g. shops, restaurants) which were mostly situated on the ground level but did not renew the deteriorated upper floors (Kovács 1994: 1093). There are countless examples: the Center for East German Studies and a neighbouring self-service restaurant were upgraded into an all-German car showroom; a downtown bookstore was closed to make space for a Citibank branch; a small grocery store was incorporated into the empire of the Austrian grocery store chain Julius Meinl. Upgrading the central retail space did thusly also mean the acquisition of Hungarian businesses by foreign investors like in the case of the renowned fin de siècle restaurant Gundel in central Budapest. The slightly run-down site was already taken over in 1992 by US-American investors that restored its former exclusive look (Bódnar 2001). With menu prices between € 20 and € 30 it is rather directed at tourists and the international business clientele than at the ordinary Hungarian. A similar example is that of the traditional coffeehouse Gerbeaud which was taken over by a German investor in 1995. He refurbished the Gründerzeit style of the building and extended the original café with an outdoor beer garden and a pub (Appendix 20.5) (New York Times, 03.08.2009).

Generally spoken, the most important central boulevards (e.g. Andrássy út) and central shopping avenues (e.g. Vaci út) of Budapest converted into showcases of international brands and soon took over the omnipresent look of `globalised` downtown areas elsewhere in the (Western) world. A special retail development is the so called Fashion Street in the V. district in which the Facility Management agency Immobilia has invested about € 50 million. The concept of the developers is to promote “an urban lifestyle instead of a mass shopping experience” (CIJ Journal, 03.08.2009) that should resemble the flair of Regent Street in London or Via Montenapoleone in Milan and likewise attract international and Hungarian customers. Thereby the investors acknowledged the impact the immediate surrounding could have on the success of their project and did not only upgrade the actual buildings but also the surrounding public space. Therefore, the façades of all buildings and the pavement have been renewed, but also constant cleaning and security supervision of the street are part of the concept.

The refurbished shopping areas of Budapest have attracted a number of leading brand names in clothing, leather goods, footwear, cosmetic and luxury goods (Appendix 20.6, 20.7). Their appearance in the cityscape fuelled the rents for retail space in prime locations: while levels in the mid 1990s were about € 40, and between € 52 and € 56 per sqm per month in 2000, some locations along Andrássy út reached between € 80 and € 140 in 2008 (Hamilton and Carter 2005; CIJ Journal, 03.08.2009). A not unremarkable part of the offered goods is, however, rather directed at members of the TCC – be it either the local or the foreign upper middle or upper class – than at the common Budapest habitant. This focus also becomes apparent in the internationalisation of signs in the central areas of Budapest. To clearly address foreign customers and possible investors but also to underline the growing internationalisation of the city these are often written in English, the lingua franca of the globalised world (Appendix 20.8) (Bódnar 2001).

All the named processes depict the transformation that the inner districts of Budapest have undergone since the early 1990s. Due to its central location and the liberal policy regulations the city followed the path its Western counterparts had already taken in a relatively short period of time. Current activities are backing up this development and will, for example, include the enforced gentrification of the central Pest districts (VI., VII., XIII.) in the future.

4.3.2. Retail And Other Commercial Developments

A further case study that exemplifies the influence of FDI on the cityscape is the development of the retail sector in Budapest. It is particularly relevant as the city has been classified “as an example of the uncontrolled invasion of retail chains” (Tosics 2005: 260) which created a retail landscape that is more international than those of mature markets like the UK or France. Retail companies were among the first investors coming to Hungary and Budapest in the early 1990s. In a rather short period of time they managed to restructure the retail market and change the shopping habits of the socialist period when commerce was mainly concentrated in the centres of new housing estates that only offered very basic consumer services (ibid). The new modes that were introduced to Budapest comprised two very different types of commerce that had not existed before: the first includes supermarkets, petrol stations and

mini-markets, and former state shops converted into new specialised retail outlets (e.g. the US-video chain Blockbuster). Simultaneously, either international retailers were coming to Budapest or foreign investors were acquiring Hungarian state or cooperative retails during the privatisation.[17] The second, more striking novelty was the construction of mega-shops, leisure centres and spacious shopping malls along avenues and nearby transport intersections that were well-connected to public transport and highways. All the named commercial developments were financed by foreign capital and are predominantly occupied by foreign owned chains and shops, bringing with them the Western style of consume. The international investors were attracted by a number of factors as the CEO of the Westend City Center development agency TrizecHahn Corporation states:

> We predict that the growth for consumer and entertainment spending is much greater here in Europe. The market is relatively saturated in North America, and here it is totally unexplored. […] This development (the Westend City Center) was very fast. In North America, this sort of thing would take you two years to do (CIJ Journal, 03.08.2009).

Thanks to the lax regulations of the municipality the outcome of these processes was, however, that by 2000 the share of shopping malls within overall retail activity was 16 % and thereby higher than that of, for example, Germany or Greece. In Budapest, 30 shopping malls with a total floor space of 615 000 m², and 25 hypermarkets with an additional floor space of 200 000 m² have been constructed since 1996.[18] The investor-friendly policies of the local government as well as the lack of a coherent vision for the future development of the city had thusly caused a chaotic development and an oversupply here (Kok 2007: 107).

The shopping malls typically include a variety of international clothing and footwear chains (e.g. H&M, Office Shoes), consumer electronics and mobile shops (e.g. T Mobile, Vodafone), drug stores (e.g. dm), book shops and fast-food restaurants (e.g. Subway, Star Kebab). Investors mainly chose between two different options for locating their mall: either in central and exclusive areas or in the urban fringes to benefit from the still available open land as well as the cheaper rents there (Appendix 20).

The first real shopping mall that opened in Budapest is the central, 35 000 m² Duna Plaza which was built on a derelict, former industrial site north-east of the CBD in 1996 (Hamilton and Carter 2005). Two factors contributed to the economic feasibility of the Israeli-Hungarian joint venture: it was easily accessible by public transport (Metro), and with its Multiplex cinema and high-end food court it could attract affluent young customers – the new urban middle class. The success of the development was after all responsible for the revitalisation of the whole neighbourhood: within a period of only five to six years the Vaci út quarter, a former derelict industrial and warehouse area, was upgraded into a prime location for office developments (Kok 2007: 121).

A similar project is the downtown located Westend City Center. Opened in 1999, it was planned as a mixed-use development, including shopping urban entertainment, office space and a hotel, and is now the prime shopping mall in Budapest. Its success could draw some further investment into the area and, for example, caused a number of office developments there (Kok 2007: 122). On the other hand, the nearby residential area was excluded from the benefits. Földi and Van Weesep (2006: 41) found out that due to a wide road that was separating the centre from the residential area it did not have any significant or positive impact on its neighbourhood. The increased traffic volume and pollution rather meant some decrease of its value.

The second, now dominating type of commercial development comprises projects in the outskirts of the city. Some of them were located in the proximity of suburban residential areas to benefit from the growing middle-class moving there. Examples of these greenfield developments are the French supermarket chains Auchan and Cora that constructed their first hypermarkets in the east of Budapest, beside the ring road and in proximity to new exclusive housing estates (Hamilton and Carter 2005: 138). A number of shopping centres were, however, built in working-class neighbourhoods mainly on the Pest side of the city. By locating retail activity outside of the city centre, FDI was forcing the decentralisation and suburbanisation trend in Budapest. But also in this second case it was often criticised

that the investments failed to contribute to the regeneration or upgrading of the neighbourhood. Their run for short-term returns made the investors disregard the influence the local environment could have on the new development. In most cases, promoting improvement or investing in the regeneration of the surrounding area was not part of the development plan. Sometimes this approach could turn out to have the opposite of the expected results when the negative image of the neighbourhood was also transferred to the shopping mall (Földi and Van Weesep 2006: 41).

In general, the influx of shopping and entertainment centres to Budapest meant not only a sometimes drastic change of the cityscape but also brought the specific life-style these centres projected with it. In the first years of their appearance they were anticipated with such excitement that, for example, in the case of the Polus Center (opened November 1996) even the cultural scene of Budapest was among the greeting committee:

> The traditional New Year's Eve cabaret of Kossuth Rádió, Hungary's public service national radio station – a show listened to by a very large audience throughout the country – was broadcast from the new mall (Bódnar 2001: 129).

Or, as in the case of the Westend City Center, the opening ceremony was attended by the Hungarian Prime Minister.[19]

To conclude, foreign retailer and chains have been transforming the retail market in Budapest at a great speed. On side of the costumers the shopping habits changed, from an errand done by foot or public transport, to a car-based leisure activity (Kok 2007: 124). The mostly large-scale developments also had a profound urban restructuring effect although the outcomes for the respective neighbourhoods are only mixed. Finally, the spreading of the shopping malls in Budapest could simply be interpreted as the reintegration of the city into the international capitalist world and so the globalisation of the retail sector. For some critics, however, they mainly express "the imported culture of multinational firms" (Siklaky, cited in Földi and Van Weesep 2006: 42) or simply a certain, often dominant, US-American-style of consumption.

CHAPTER 5 - CONCLUSION

After almost twenty years of massive FDI inflows, an assessment of its effects on Budapest seems to be justified. While there is an overall consensus that the impact on the urban development was tremendous it is not fully clear how to rate this. On one side are international organisations like the World Bank and the OECD who, according to their inherent nature, emphasise the importance of FDI and its function as an engine of transformation and growth. In addition, there is the Hungarian government and the responsible authorities, who implemented investor friendly policies since the political change in 1990, which make it almost impossible for them to criticise their own development strategy. On the other side there are some tentative voices of academics in the field who regard the unregulated dominance of the market as too strong and point out the deficits it has caused.

The analysis has tried to show a holistic picture of the effects FDI had by not only focusing on the economic impact but also including social and urbanistic aspects. Based on these findings the assessment of the respective outcomes is summarised here:

- The economic effects of FDI can generally be rated as positive. The foreign capital and knowledge were important drivers of structural change and helped to accelerate the transition period. Know-how spillovers are hard to capture but most of the academic research assumes that there has been some transfer. There are a number of indicators to back this, for example, the enforced domestic private business formations since the mid 1990s, the improved productivity, as well as the growing share of high-tech products in the Hungarian export structure. The city economy is now reintegrated into the global system although the performance gap between foreign and domestic enterprises is still too high. It must also be noted that the city economy as well as the national economy are highly dependent on the foreign investors and their good will. This became obvious in the past when big foreign companies firstly invested in new plants but moved further east when the labour cost increased too much (e.g. IBM). Yet, it would be wrong to see these processes as successful strategies of the TNCs but as failures of the FDI-led development policy. The transition period was an economically very specific and difficult time wherefore these investments

were essential instruments for achieving stability and confidence in the new system. As the transition is now completed the government has to find new ways to keep the economy growing and to decrease the dependencies on foreign investors. The EU joining as well as the harmonisation of living standards are actually prohibiting any further low-cost labour intensive investment in Budapest. The local government must therefore enforce its strategy to establish the city as a prime location for R&D and other high-technology investments. Much effort is needed to prevent a limited trend that is reliant on subsidies and to guarantee a long-term process that will lead to a sustainable economic development with raising incomes for larger parts of the population. However, in order to achieve this much more investment in infrastructure and education, also for weaker and low-income groups, has to be raised to counter the current social polarisation processes.

- Budapest has also experienced a major social transformation from a socialist to a capitalist society. The former `classless` society saw the emergence of a new middle class as well as that of a new upper class, the `nouveaux riches`. At the same time the decline of most of the traditional industries, the loss of social security and the liberal policy of the national government were particularly severe for weaker population groups, mainly pensioners and non-educated workers. Social polarisation increased immensely during the 1990s and although it `only` reached West European levels this cannot be used to justify this problem. Rather the city has to create better education opportunities for disadvantaged groups and absorb the most pressing social deficits by more investments in its social infrastructure, e.g. in social housing schemes. It is not fully clear to what extent the presence of FDI influenced and fuelled the social transformation in Budapest. However, many of the newly created white-collar jobs in the service sector are created or closely connected to FDI, and through their preference for highly-skilled labour the foreign investors may have contributed but not caused the social disparity. With the inflow of FDI, also members of the TCC and other Western influences have been coming to Budapest. The former enclosed society was so confronted with the search for its own new identity and so in the need of a social redefinition. On the other hand, the size of the TCC is still rather small and the number of Western immigrants in most of the districts is too low to have a decisive influence on the particular locality. Overall, the society in Budapest is still affected by the over 40 years of state socialism and it will certainly take one more generation until also the majority of the people will `arrive` in the capitalist world.

- The most visible effect FDI had on Budapest is certainly the transformation of the built environment and the cityscape. Due to the limited format of this analysis not all effects could be discussed in detail, e.g. the impact on the property and, in particular, the housing market. Though, it has been demonstrated that a major `McDonaldisation`, the invasion of the international chains and brands, and `globalisation`, the appearance of a global urban design style, have been taken place in Budapest. It should, however, not be forgotten that so far only certain parts of Budapest are concerned with these changes and that the socialist past of the city has not fully disappeared. The new office and mixed-use developments were, at first, concentrated in the inner districts and moved to the outer, almost suburban ring, when adequate central sites were diminishing. Their glass-façade style makes them incontestably stand out of their environment, but if this is a loss of historicity and locality, or rather a forward-looking urban architecture that is part of the post-modern reality, can not be judged in an objective way. On the other hand, if a newly constructed development does not connect with its surrounding area and is therefore not contributing to its prosperity, future proposals should be treated with more sensitivity and better match with the life and needs of the locality. In the case of the mass of hastily erected shopping malls and hyper markets Budapest is an exemplar for an overrun with foreign investors. They managed to transform the shopping habits of the population in a short period of time and added to the expulsion of smaller neighbourhood shops. Also here the public authorities hardly curbed the requests of the international developers but foremost saw the profits that could thusly be generated. However, it is to be questioned how durable this policy is and whether for the

future not more sustainable solutions should be found.

In conclusion, Budapest is a formidable and instructive example of how foreign investment has shaped and transformed a Central European capital. Foreign influences are, however, not new to the city but have a long tradition due to its location in the centre of Europe. Budapest was already a capital of the multi-ethnic Austro-Hungarian Empire and has always been a meeting point for East and West, North and South. The necessity of an outward-orientation will certainly not diminish in a more and more globalising world, especially for a small country like Hungary. Foreign forces will continue to challenge the development of the city, but it is the responsibility and duty of the city government and its subordinated authorities to assure that failings of the past are not repeated and that the leading growth model is sustainable and for all Budapest citizens.

Appendices

Appendix 1: Foreign direct investment inflow to Hungary, 2004-2008 (in million USD)

Year	2004	2005	2006	2007	2008
Hungary	4 506	7 709	6 790	5 571	4 405

Source: Hungarian Central Statistical Office.

Appendix 2: Data of R&D units for selected Hungarian regions, 2007

Region	Number of R&D units	Calculated stuff number	Total R&D expenditure (in million HUF)	Change in number of R&D units 2005-2007	Change in percent of R&D units 2005-2007
Budapest	1 199	15 018	148 079.9	133	12,48
Hajdú-Bihar	224	1 676	15 054.3	12	5,36
Csongrád	207	1 651	11 409.3	0	0
Baranya	180	802	4 747.0	19	10,56

Source: Hungarian Central Statistical Office.

Appendix 3: GDP for Budapest and Hungary, 1990-2007 (in million HUF)

Regions	1991	1993	1995	1997	2000	2005	2006	2007
Budapest					4,70	7,89	8,84	9,36
Hungary	2,49	3,54	5,61	8,54	13,51	21,99	23,78	25,48

Source: Hungarian Central Statistical Office.

Appendix 4: Number and registered capital of companies with foreign participation in Budapest (1995-2002)

	1995	1996	1997	1998	1999	2000
Number of companies in exclusive foreign ownership or with foreign majority	7 420	8 187	8 895	10 939	11 535	11 325
Registered capital of companies in exclusive foreign ownership or with foreign majority, in million HUF	588,407	672,975	844,597	1,378,398	1,569,816	1,704,789

Source: Budapest Portal.

Appendix 5: Enterprises with foreign direct investment in selected Hungarian regions, 2000-2007

Regions	2000	2001	2002	2003	2004	2005	2006	2007
Budapest	14 317	14 440	14 117	14 143	14 137	14 926	15 389	16 396
Pest Region	2 003	2 009	2 152	2 149	2 228	2 220	2 196	2 431
Györ-Moson-Sopron	1 215	1 142	1 158	1 136	1 139	1 166	1 159	1 241
Hungary	26 634	26 809	26 796	26 793	26 475	26 019	25 800	27 180

Source: Hungarian Central Statistical Office.

Appendix 6: FDI by Sectors and the share of foreign firms in total number of firms by sectors in Hungary, 1992 and 1996

	FDI stock (in million USD)		Number firms to foreign all firms (in %)	
	1992	1996	1992	1996
Agriculture	33	122	5	12
Fishing	0	1	5	15
Mining	81	121	33	32
Manufacturing	2,500	4,244	22	21
Electricity, gas, steam, water supply	32	1,490	9	11
Construction	199	381	13	11
Wholesale and retail trade	686	1,248	28	25
Hotels, restaurants	159	261	24	21
Transport, storage, communication	85	926	23	17
Financial intermediaries	484	952	18	61

Source: Szekeres 2001.

Appendix 7: Performance of firms in Hungary, 1992 and 1997

	100 % foreign controlled		Minimum 10 % of foreign equity		State owned		Private domestic	
Year	1992	1997	1992	1997	1992	1997	1992	1997
Number of firms	781	542	1,789	1,340	1,360	543	7,721	4,866
Value added per employee	1.9	2.97	1.27	2.6	1.8	2.1	2.3	4.37
Sales per firm (in million HUF)	297.7	470.3	612.8	490.4	336.3	378.4	61.4	53.2
Assets per firm (in million HUF)	378.2	736.9	835.6	957.0	493.5	661.0	52.1	74.0
Cash flow to assets (in %)	10.6	30.6	16.6	23.4	2.2	-0.4	12.8	17.9
Cash flow to sales (in %)	13.5	20.5	22.7	19.6	3.2	-0.3	10.9	10.7

Notes: The same firms were followed over time; ownership category corresponds to that in 1992.

Source: World Bank 2000.

Appendix 8: Share of foreign investment enterprises in main indicators of manufacturing companies in Hungary, 1998 (in %)

	Equity capital	Employment	Investments	Sales	Export sales
Czech Republic	27.9	19.6	41.6	25.0	47.0
Estonia	40.1	20.8	32.9	28.2	35.2
Hungary	72.7	44.9	78.7	70.0	85.9
Poland	43.2	26.0	51.0	32.0	52.4
Slovenia	21.6	13.1	24.3	24.4	32.9

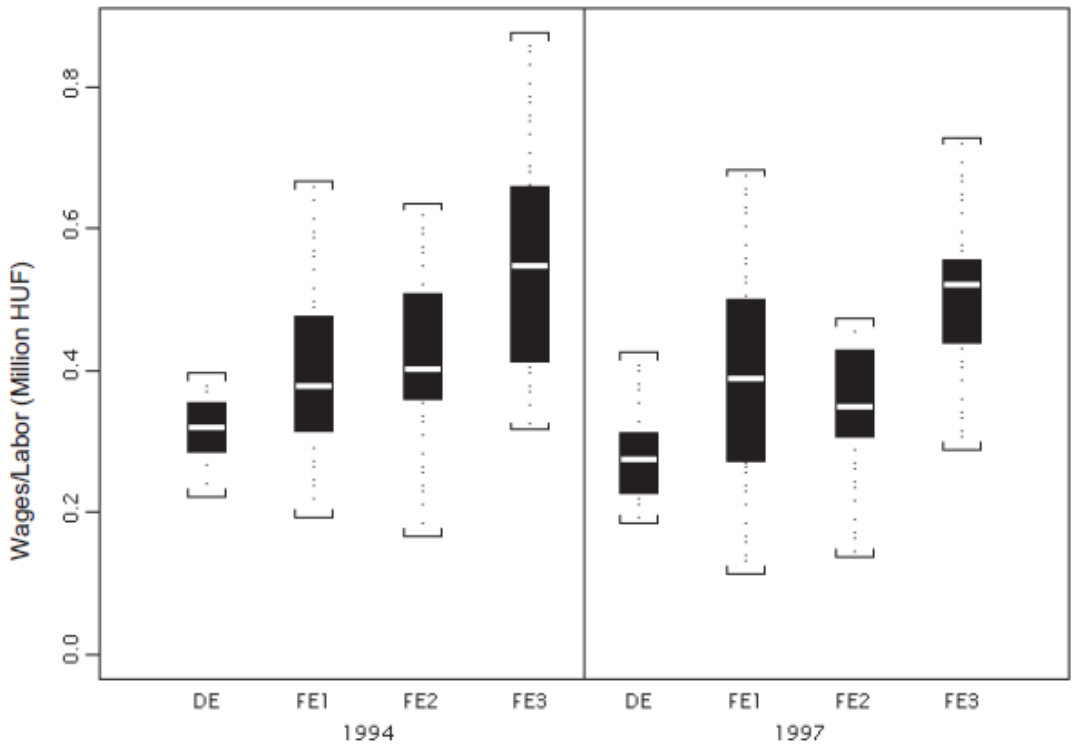
Source: Hunya 2001.

Appendix 9: Job losses and job gains in the manufacturing sector in Hungary, 1992-1997 (in thousands)

Sector	Employment in 1992 (in thousand)	Change in employment 1992-1997	Job losses due to merger, liquidation or downsizing	Job gains due to establishment of new enterprises
Total Manufacturing	577	-213	-344	+131
Foreign owned enterprises (more than 10 % equity)	119	+80	-18	+98

Source: World Bank 2000.

Appendix 10: Wages/ labour for different enterprises in Hungary, 1994 and 1997



DE: Domestic enterprises
FE1: Firms with foreign share in nominal capital below 25% but more than 0%
FE2: Firms with foreign share in nominal capital between 25% and 50%
FE3: Firms with foreign share in nominal capital above 50%

Source: Szekeres 2001.

Appendix 11: Wage advantages of employees at foreign firms (over employees at domestic firms) in major occupational groups in Hungary, 1995 (in %)

Occupational group	Wage differential, %
Non manual	
Managers (without Top-managers)	166
Technicians	135
Executives	139
Office clerks	150
Manual	
Trade and catering occupations	126
Textile, clothing workers	120
Engineering and metal workers	126
Machine operators	126
Other	
Porters, cleaners, guards	131
Total	134

Source: Kertesi and Köllö 1999.

Appendix 12: Share of companies with foreign participation in exports by selected industries in Hungary, 1993-1996 (in %)

Sector	Export of foreign companies / export total of the sector			
	1993	1994	1995	1996
Food	57	59	59	64
Textile	52	55	62	65
Wood	44	43	64	70
Paper	80	80	82	76
Machinery	48	65	63	71
Motor vehicles	67	78	89	90
Electric machinery	92	93	95	96
Chemical products	34	51	90	95

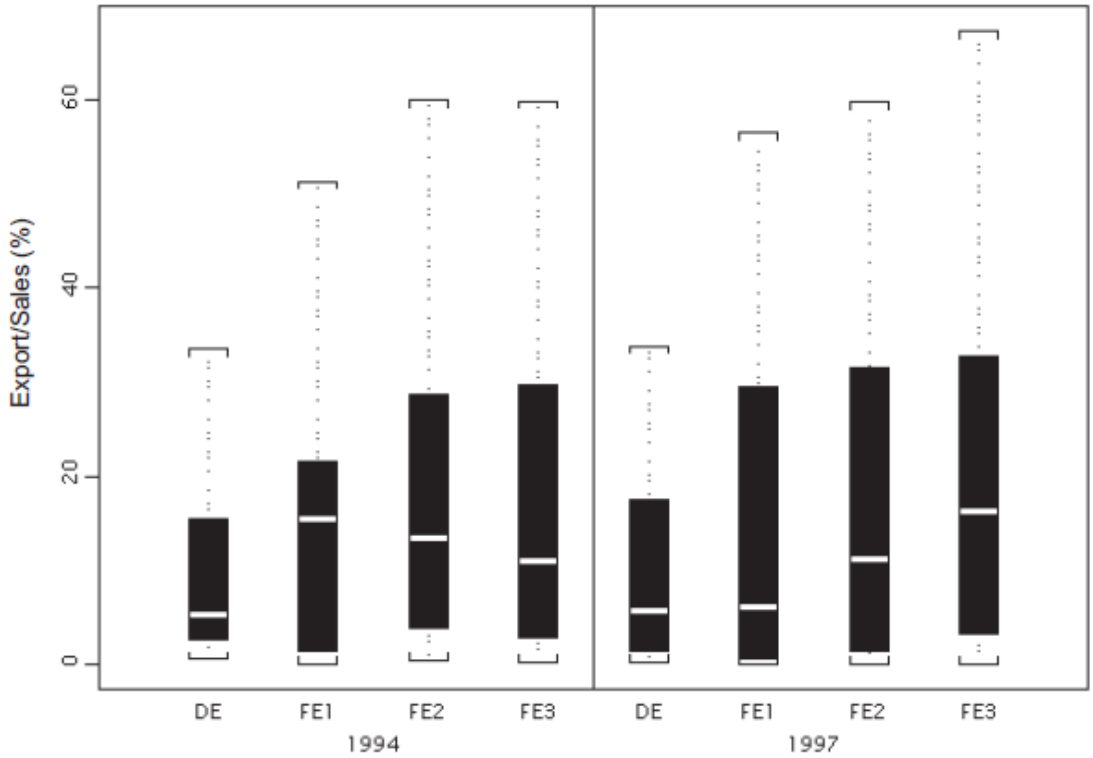
Source: Viszt and Borsi 2001.

Appendix 13: Export growth of firms with foreign participation in Hungary, 1989-1997

	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Total exports (in billion USD)	9.6	9.6	10.2	10.7	8.9	10.7	12.9	13.1	15.9
Exports of firms with foreign participation (in billion USD)	1.0	1.6	2.9	4.0	4.5	6.5	8.5	9.3	11.8
Annual percent change in total exports		0	6	5	-17	20	21	2	21
Annual percent change in exports of foreign firms		70	75	39	12	47	30	9	27

Source: World Bank 2000.

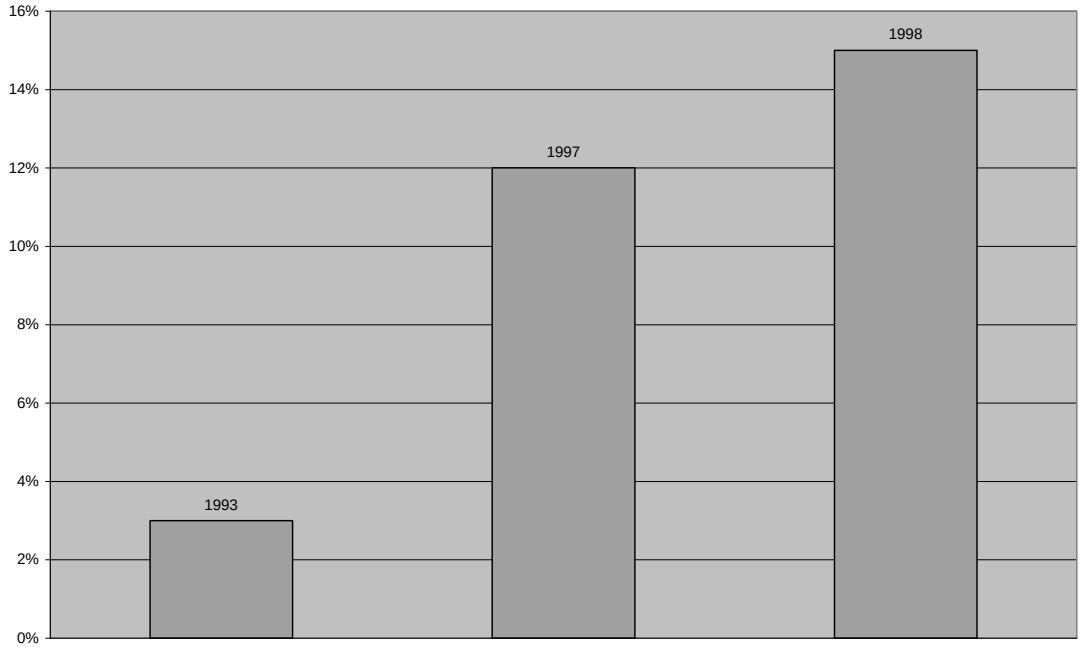
Appendix 14: Export/ sales for enterprises in Hungary, 1994 and 1997



DE: Domestic enterprises
FE1: Firms with foreign share in nominal capital below 25% but more than 0%
FE2: Firms with foreign share in nominal capital between 25% and 50%
FE3: Firms with foreign share in nominal capital above 50%

Source: Szekeres 2001.

Appendix 15: Share of high-tech products in Hungarian exports



Source: OECD.

Appendix 16: Employees by economic sector, Budapest, and earnings per month in Hungary, 2000

Sector	Employees by economic sector, Budapest		Earnings per month, Hungary (in HUF)
	absolute	%	
Agriculture, Hunting and Forestry	2 131	0,3	59 587
Manufacturing	158 158	20,8	88 551
Construction	18 639	2,5	65 164
Wholesale and retail; repair of vehicles and goods	55 141	7,3	76 122
Hotels, restaurants	20 331	2,7	54 807
Transport, storage, communications	102 520	13,5	98 806
Financial intermediation	49 602	6,5	190 346
Real estate, renting and business activities	49 024	6,5	98 737
Public administration, compulsory social security	154 435	20,4	103 460
Education	49 658	6,5	81 485
Health and social work	68 662	9,1	68 065
Other community, social or personal service activity	30 332	4,0	79 860
Total	758 633	100,0	87 556

Notes: In 2000, the average monthly gross earnings of employees in Budapest were HUF 118 663 (approximately EUR 443,40, 25.08.2009). The table reveals that only 6,5 % of total employees in Budapest belonged to the high income group (financial intermediation).

Source: Hungarian Central Statistical Office, International Labour Organisation and Enyedi 1999.

Appendix 17: Guideline for the guided interviews

Education

- school
- university (subjects; interests)
- international experiences and languages

Family

- parents and grandparents (professions; comparison with own life)
- relation to family

Working situation

- employer and kind of work
- relation to foreign colleagues
- prospects for the future

Living situation and free time activities

- living situation and location of flat
- shopping habits
- free time activities; work-life-balance
- contact with foreigners in free time

Appendix 18: Structured interviews with foreign employees of TNCs in Budapest

- How long have you been living for in Budapest?
- What kind of firm are you working in? Do you know why they came to Budapest?
- Does your firm have any links with domestic enterprises?
- What is approximately the share of foreign employees in your firm?
- Do you speak English or Hungarian at work?
- How would you describe the contact and working together (between/of) Hungarian and foreign employees?
- Are the employment opportunities in your firm only for highly skilled workers? Do you think there is enough suitable labour force available in Budapest?
- Do you think your firm pays higher wages than comparable domestic businesses?
- In which district is your work, in which do you live? Do you like this area?
- Which transport mode do you use to go to work?
- What do you like to do in your free time? Dou you have much contact with locals in your free time?
- Where do you buy groceries? Are you satisfied with the shopping opportunities in Budapest?
- Is there something that reminds you of the socialist period?
- Do you think Hungarians are open towards foreigners (from the West)? Are they happy with the political system?
- Do you think the cityscape of Budapest looks different from other Central/ Western European cities?
- Is there anything in the cityscape that changed in the last years?

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ENDNOTES

[1] The CECs are mostly considered to comprise the so called Visegrad group, the Czech Republic, Hungary, Poland and Slovakia; sometimes also the Baltic states and Slovenia are included.
[2] "Private investors do not normally get heavily involved in transition processes of the type under way in Eastern Europe until the outcome is virtually assured" (UNECE 1994: 5).
[3] In 2008, the inward FDI stock Hungary had received since 1990 amounted to € 62.7 billion. In per-capita terms (€ 6 253) this is the second highest stock behind the Czech Republic (€ 7 849) but before Poland (€ 3 004).
[4] Globalisation will thereby be defined as the process of expansion and deepening of the global market for goods and commodities, services, and finance that was made possible by the development of communication and transportation technology and later by trade liberalisation. These processes have resulted in the rapidly growing integration of various parts of the world into a global financial system and the global economy in general (Firman 1998).
[5] Hence, unlike in most of the studies in this field, a holistic overview of the three dimensions of urban development will be given.
[6] See the studies of Lipsey (2002) or De Mello (1999).
[7] For the single points of the guided interview see Appendix 17.
[8] See Appendix 18.
[9] Data for Hungary, 1999.
[10] Due to the lack of detailed income statistics for Budapest, only indicators for the situation here can be used. Appendix 16 combines the income statistics for Hungary with the statistic on employees by economic sector in Budapest. The table reveals that only 6,5 % of total number of employees in Budapest belonged to the high-income group (financial intermediation professions).
[11] In detail, the group of Western Europeans was made up of two Germans, one Italian, one Danish, and one French. The remaining interviewees were two Brasilians, one US-American, one Russian, and one Indian.
[12] For example, in 1991 ten international insurance companies were located in Budapest, four in Warsaw and none in Prague (Enyedi 1994: 400).
[13] For the location of all named districts see the map in Appendix 19.
[14] At present, approximately 40 % of the office space is vacant (Földi and Van Weesep 2006: 40).
[15] Notable names include PepsiCo, Opel and Royal Dutch Shell all of which relocated or opened their regional headquarters in Budapest.
[16] For example, in 2001 the office space constructed outside the CBD (500 000 m²) already exceeded that inside the CBD (430 000 m²) (Hamilton and Carter 2005).
[17] The leading names here are Tesco (UK), Makro (Germany), Louis Delhaize (Belgium), Spar (Austria), Auchan (France), Tengelmann (Germany) and Rewe (Germany). Together with three Hungarian chains they are the Top 10 retailers in Hungary. They are all highly visible throughout Budapest due to their aggressive advertising.
[18] This extreme development can further be illustrated with data for Hungary: the number of hypermarkets rose from 2 in 1996 to 76 in 2006, and the shopping centre supply increased from 270 000 m² in 1997 to 1 012 000 m² in 2007 (Kok 2007).
[19] Here, the link between political and economic objectives can be noticed: Shortly before this event, the Hungarian government had signed contracts with the Canadian developer, TrizecHahn, commissioning it with the realisation of two major infrastructure projects: a high speed train, connecting Westend City Center with the Budapest Airport, and the new National Theatre.

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