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ECONOMIC COMPETITIVENESS, DEVELOPMENT AND CITY BRANDING IN BUDAPEST AND BUCHAREST

Abstract:

Today world context generates continuous urban development ,accelerates economic competitiveness and intensifies city branding. Capital cities in Central and Eastern Europe must position themselves as national growth engines and as internationally recognisable brands competing within the European urban hierarchy. We analyse Budapest and Bucharest, two capitals of two very interlinked neighbour countries, former communist cities with different trajectories in competitiveness and branding after the 1990s.

The paper analyses the structural and dynamic factors which influence the performance of the two cities starting from theories of urban competitiveness. Indicators like GDP per capita, foreign direct investment, labor productivity, human capital, innovation ecosystems, infrastructure and governance draw the competitive advantages and vulnerabilities.

Budapest is a city with deep historical integration into Western markets, institutional continuity and strong branding as a Central European cultural and innovation hub. Bucharest grows after EU accession and has a cost attractiveness for investors mixed with a fast developing IT sector. Bucharest struggles with lack of cohesion of governance , infrastructure deficits and a weak city branding.

The analysis highlights that branding is not only promotion, it is a strategic component of competitiveness and it influences perceptions of the investors, residents and international institutions. The study finds out that sustainable competitiveness for these two cities requires a shift from cost advantages to innovation growth which must be supported by governance reform, human capital investment and coherent branding strategies.

Keywords:

City branding, economic competitiveness, urban development, Budapest, Bucharest

JEL Classification: F02, F63, O10

Introduction

Urban competitiveness is a key issue of world economy today. Globalisation becomes faster and deeper, in spite of latest protectionism. The European Union (EU) tries to accelerate its integration and to push all capital cities, especially in Central Eastern Europe (CEE) to be more new trends connected and to compete more for investment, work skills and branding. The cities of today function as economic engines, as international brands and compete for investment, skilled work force, innovators and visibility.

Cities use their branding in the competitiveness fight to position internationally and to mobilise internal resources for growth and underline their cultural identity, business reputation and strengthen their urban image 360 degrees. In CEE this trend has been very strong because former communist capitals seek to reposition themselves in the upper part of new democratic capitalist world.

This paper focuses on Budapest and Bucharest, which have been very intertwined in the last one thousand years, but have different economic development trajectories. These two cities inherited centrally planned structures, faced the difficulties of market transition from communism to capitalism and had the pressures of EU accession. Their strategies of competitiveness and branding resulted in distinct outcomes. Budapest has traditionally stressed its cultural heritage, institutional continuity and integration into Western Europe trying to consolidate its role as a regional hub.

Bucharest has relied, late, on rapid economic growth after EU accession, fuelled by foreign direct investment and an innovative IT sector. Bucharest continues to struggle with infrastructural and governance limitations and a weak international image.

The research addresses three central questions:

1. What explains the differences and similarities in competitiveness between Bucharest and Budapest?
2. How does a branding which is compulsory intersect with development and competitiveness?
3. What policy lessons can be learned for sustainable urban competitiveness in CEE?

The study combines comparative theoretical frameworks with empirical analysis to deepen understanding of how these two cities respond to the pressures of globalisation, EU integration and to their rivalry.

Literature Review

Competitiveness, central to economic geography and urban studies, refers to the ability of a territory to generate sustainable economic growth, attract investment and enhance the wellbeing of its inhabitants compared to other territories. Porter's (1990) Diamond Model finds four drivers of competitiveness: factor conditions, demand conditions, firm strategy and rivalry, and related industries. Put in an urban context competitiveness was polished by Camagni (2002) who emphasized the territorial dimension of competitiveness and the importance of localised assets, governance and innovation ecosystems.

For former communist cities Bucharest and Budapest competitiveness must also be understood within the context of transition economies. After 1990 both cities experienced systemic restructuring, a growing and unstable influx of foreign direct investment (FDI) and increasing exposure to global markets. Competitiveness of former communist cities is shaped by their ability to overcome institutional legacies, attract and retain skilled labor and reposition themselves in regional and global economic networks (Lux & Horváth, 2017; Begg, 1999).

Beyond promotional campaigns, City branding is considered as a strategic tool for shaping perceptions, attracting investors, tourists, residents and strengthening local identity (Kavaratzis, 2004; Dinnie, 2011). In CEE branding has often been considered as "compulsory" because the global competition among cities trying to forget their communist stamp and the need to differentiate within the EU. Budapest has positioned itself as a cultural and innovation hub. Bucharest struggles with fragmented branding despite strong IT sector performance. Branding is deeply connected with competitiveness: without coherent place branding economic advantages risk to be internationally under evaluated (Hospers, 2011).

There is a growing literature on urban competitiveness and branding but it remains a lack of direct comparative analysis between CEE capitals. Most studies examine single cases: Budapest as a success story of integration (Enyedi, 1996; Szirmai, 2016), Bucharest as a late but fast growing capital (Sandu, 2010). Comparative studies are rare and leave gaps in understanding how different development paths, governance capacities and branding strategies

shape competitiveness covering similar contexts. This paper addresses that gap by placing Bucharest and Budapest in tandem and draw insights from both competitiveness theory and branding literature to better understand their rivalry in the European urban system.

Methodology

This study generates a comparative case study approach to analyse the economic competitiveness of Bucharest and Budapest. The case study method is suitable because the shared historical links of the two cities as post communist capitals and their different development trajectories after European Union accession. Comparing them it becomes possible to isolate structural similarities and institutional or strategic differences that shape their competitiveness and branding.

The analytical framework draws on Porter Diamond Model (1990) and next urban competitiveness scholarship (Camagni, 2002; Begg, 1999). To account for the specificities of post communist cities the framework is adapted to emphasise three directions:

1. Structural competitiveness - infrastructure, institutional quality and integration into European networks.
2. Global competitiveness - innovation capacity, human capital and adaptability to global markets.
3. International city branding - the capacity to project an international image attractive to investors, tourists and international organizations.

The empirical analysis relies on secondary data sources including Eurostat, the World Bank, the OECD and the national statistical institutes of Romania and Hungary. These sources provide quantitative indicators such as GDP per capita, labor productivity, FDI inflows, innovation performance, and demographic data. Complementary data are used from European Commission reports, policy papers and academic studies on branding and competitiveness.

The methodology confronts the limitations of quantitative indicators which do not capture intangible aspects of branding and humans perception. The comparative final discussion integrates both numerical evidence and interpretive analysis of policy strategies, cultural and international visibility.

4. Empirical Analysis

4.1 Historical and Structural Background

Bucharest and Budapest share the legacy of communist urbanism but their structural paths after 1990 reveal important divergences that continue to shape competitiveness today. Under communist rule both cities functioned as centralised political and industrial hubs. Economic activities were heavily directed by the state in all large industrial plants, public housing projects and limited integration into global markets. This produced significant urban distortions in the two cities: spatial segregation, infrastructural deficits and underdeveloped service sectors (Enyedi, 1996; Szelényi, 1996).

The transition after 1990 brought a radical reconfiguration. Budapest received help from an earlier wave of privatisation and liberalisation supported by Hungary's favourable geopolitical positioning and stronger institutional frameworks. The city rapidly attracted Western investment, becoming a hub for multinational corporations and financial services (Hegedüs, 2009). By the late 1990 Budapest was already integrated into global world production networks with city brand shaped around cultural heritage, tourism and an emerging innovation ecosystem.

Bucharest trajectory was more uneven. Romania delayed reforms and because of unstable institutional environment limited competitiveness. After EU accession in 2007 Bucharest experienced accelerated growth. The city became the primary destination for FDI in Romania, especially in the IT and outsourcing sectors, using low labor costs and a young workforce (Sandu, 2010). This rapid expansion produced a mono centric Romanian economy where Bucharest accounts for a disproportionate share of national GDP-25,1% in 2021- raising concerns of over-centralisation, even if in 2023 the city -Bucharest-Ilfov- reached 190% of EU GDP/capita.

Structurally Budapest enjoys more mature integration into European markets and a diversified economic base. Bucharest shows dynamism but also fragility because it is heavily dependent on foreign capital and it has insufficient infrastructural modernisation. These historical legacies underline the current competitive rivalry between the two former communist capitals.

4.2 Economic Indicators of Competitiveness

Economic indicators provide measurable evidence of the relative competitiveness of Bucharest and Budapest. In 2021 Eurostat reported that Budapest GDP/capita (in PPS) was approximately €33,000, 148% EU average. Bucharest-Ilfov, historically lagging, reached €32,000 per capita, 145% EU average (Eurostat, 2022). This shows that Bucharest has almost closed the gap with Budapest starting from a much lower baseline in the 1990.

Foreign Direct Investment (FDI) patterns further illustrate differences. Budapest has long served as a regional headquarters location for major firms such as GE, Morgan Stanley, Ericsson, reflecting Hungary's central geography and institutional stability. In 2020, the Budapest metropolitan region attracted an estimated Euro 3.2 billion in FDI inflows, particularly in manufacturing and services (Hungarian Investment Promotion Agency, 2021). Bucharest has become a magnet for IT and outsourcing, hosting global players such as IBM, Oracle, Microsoft. In 2020, Bucharest-Ilfov accounted for over 60% of total FDI stock in Romania- approximately Euro 49 billion (National Bank of Romania, 2021).

Labor market structures reveal other contrasts. In Budapest around 30% of employment stays in industrial and manufacturing sectors, mainly automotive and electronics (OECD, 2020). Bucharest accelerates in services: the IT and communications sector alone contribute 12% regional GDP but employ less than 6% of the workforce underscoring its capital intensive, high value nature (INS Romania, 2021).

Export integration also differs. Hungarian economy centred on Budapest exports over 80% of industrial output, much of it from automotive clusters linked to Audi and Mercedes. Romanian capital plays a secondary role in goods exports with much of industrial production located in Transylvania and western regions. Bucharest anchors Romania's service exports, especially in IT outsourcing, contributing an estimated Euro 5.5 billion in IT service exports in 2020 (ANIS, 2021).

These indicators highlight Budapest's advantage in industrial diversification and export integration but Bucharest proves remarkable convergence fuelled by services and FDI concentration. The two capitals embody distinct models of competitiveness: Budapest a balanced, export driven hub and Bucharest a dynamic but service heavy economy reliant on external investment.

4.3 Innovation and Human Capital

Innovation capacity and human capital are compulsory to long term competitiveness and Bucharest and Budapest illustrate distinct models.

Budapest has traditionally positioned itself as a knowledge and research hub within Central Europe. The city has, among others, Eotvos Lorand University and Budapest University of Technology and Economics, ranked as top in the region. It also concentrates Hungary's research institutes, including several branches of the Hungarian Academy of Sciences. In 2020 Hungary's R&D expenditure reached 1,6% of GDP with a disproportionate share spent in Budapest (OECD, 2021). The city is home to innovation clusters in pharmaceuticals (e.g., Richter Gedeon), automotive engineering (linked to Audi and Mercedes plants in nearby regions) and ICT. Budapest labor market is further strengthened by a relatively high tertiary education attainment rate: 44% of 25-34 year old hold a university degree, compared to the EU average of 41% (Eurostat, 2022).

Bucharest has become a hub for applied innovation, especially in Information Communication Technology (ICT). Major global players such as IBM, Microsoft, Oracle, Amazon, alongside a thriving domestic ecosystem of startups like UiPath, first tech unicorn started in Bucharest, accelerate the economic development and the rise of city brand. Romania's R&D spending is low at 0,5% GDP and Bucharest accounts for more than half of the national total, proving its concentration of research and innovation resources (National Institute of Statistics, 2021). The city benefits from a highly skilled IT workforce: in 2021, more than 70000 software developers were employed in Bucharest, making it one of the largest tech hubs in Eastern Europe (ANIS, 2021).

Budapest is stronger in academic research and diversified clusters. Bucharest is stronger in IT and digital innovation. Both capitals face challenges of brain drain with talented graduates migrating to Western Europe but each keeps significant number of human capital critical for future competitiveness.

4.4 Governance and Institutional Quality

Governance and institutional performance play a decisive role in shaping urban competitiveness, particularly in post communist contexts where institutional capacity has often lagged economic dynamism.

Budapest has enjoyed stronger institutional continuity since the 1990. Hungary's early reforms showed a predictable business environment which helped attract foreign investment. The capital benefits from the administrative efficiency of local authorities and Hungary's ability to absorb EU structural funds. Political centralisation of the government in the last years generated more economic tensions. Centralisation has reduced local autonomy and urban development decisions were linked to national political agendas (Boros et al., 2021). But Budapest still has transparent municipal services and a professional bureaucracy compared to many CEE counterparts.

Bucharest has growing tensions generated by rapid economic growth confronted with institutional weakness. Issues of corruption and bureaucratic inefficiency have constrained competitiveness with Transparency International ranking Romania lower than Hungary in corruption indices. Reforms and EU monitoring since 2007 have led to improvements, particularly through the National Anticorruption Directorate (DNA) which has investigated high level officials. The city still fights with fragmented governance: six district administrations plus a general municipality which complicates urban planning and service delivery.

Budapest proves stability but faces risks of politicisation. Bucharest shows institutional fragmentation and uneven reform progress and do not fully capitalise on economic momentum.

4.5 Urban Infrastructure and Quality of Life

Urban infrastructure and quality of life strongly influence competitiveness and city branding.

Budapest has an advanced transport system. The 4 lines with 52 stations of Budapest Metro carries over 1.2 million passengers daily, making it one of the most extensive systems in Central Europe (BKK, 2021). The city is connected by the M0 motorway ring and has strong international accessibility through Liszt Ferenc International Airport with 16 million passengers in 2019.

Quality of life indicators are high, Budapest is ranked 75th in Mercer's 2021 Quality of Living Index.

Bucharest has a weak infrastructure in spite of rapid economic growth. The Metro has 5 lines and 63 km of tracks but daily traffic delays average 50 minutes/commuter (TomTom Traffic Index, 2021). The Coanda International Airport processed 14 million passengers in 2019 compared with 16 million in Budapest same year with similar population sizes. Quality of life indicators are weaker, there is air pollution and limited green space - 9m²/capita compared to Budapest 40m²/capita - which undermine liveability (World Bank, 2020).

Budapest has an attractive brand of accessibility and good living conditions. Bucharest brand is weakened by its infrastructure congestion, environmental problems and incoherent promotion.

5. Results Discussion

The comparative analysis of Bucharest and Budapest highlights convergence and divergence in their approach to competitiveness. The two capitals try to get rid of their communist legacy and similar difficulties of transition. Their strategies of development and branding have positioned them differently in the European urban hierarchy.

Economic convergence is the most striking finding. Bucharest, once far behind Budapest, has nearly matched it in GDP per capita: 145% vs. 148% of the EU average in 2021. Bucharest caught up because its dynamism is led by service growth model mixed with IT outsourcing and foreign investment. This convergence masks structural weaknesses: Bucharest rely on foreign owned firms and concentrate in one sector which exposes it to global outsourcing cycles. Budapest presents a more diversified economic base and integrates both high value manufacturing like automotive and electronics and knowledge intensive services.

Innovation and human capital further illustrate divergence. Budapest has strong universities, R&D institutions and integration into European research networks and promotes its reputation as a knowledge hub. Bucharest, weaker in research investment, has achieved a niche in applied IT innovation, exemplified by UiPath global success. The competition between these models reflects broader debates on whether cost driven or innovation driven competitiveness provides more sustainable growth.

Governance and infrastructure remain decisive differentiators. Budapest efficient transport networks, higher quality public services and coherent branding as a cultural and innovation hub enhance its competitiveness. Bucharest infrastructural congestions, fragmented governance and weaker international branding reduce its capacity to translate economic gains into a sustainable global image. The branding perception is different: Budapest is marketed internationally as a “gateway to Central Europe” and Bucharest struggles with a fragmented identity overshadowed by Romania’s broader challenges.

The rivalry between the two capitals can be concluded as a contest between stability and maturity of Budapest versus dynamism and catch up of Bucharest. In development terms both illustrate the pressures of EU integration and globalisation but with different trade offs. Budapest risks stagnation if over centralisation and politicisation undermine its innovation base. Bucharest risks volatility if governance and branding remain behind with its economic performance.

The competition underscores the growing importance of branding - a strategic part of competitiveness. Economic strength without a coherent global image can limit recognition and investment. Strong branding must be supported by structural competitiveness, otherwise on short term effect is negative. The future of the two capitals will depend on how effectively they keep in balance structural competitiveness with strong branding to achieve economic healthy strength and generate long term recognition, investment and finally: prosperity.

6. Conclusion and Policy Recommendations

The comparative study of Bucharest and Budapest shows how two post communist capitals have followed distinct pathways of competitiveness within the European Union. Budapest insisted on institutional stability, diversified industrial clusters, and coherent international branding and consolidated its position as a mature Central European hub. Bucharest has proved remarkable economic dynamism since EU accession and matched Budapest in GDP per capita through rapid service-led growth and IT driven innovation. Bucharest still faces structural vulnerabilities in governance, infrastructure, and branding.

Because competitiveness is multidimensional the rivalry between the two cities requires institutional quality, strong city branding, skilled workforce and all simultaneous with economic growth. Bucharest should strengthen governance efficiency, reduce infrastructural bottlenecks and develop a coherent international image that reflects its growing IT sector, improved

HoReCa sector and cultural vitality. Budapest must avoid stagnation by safeguarding institutional autonomy, investing further in R&D and modernising its branding beyond cultural heritage to emphasise innovation leadership.

Both cities must fight against excessive centralisation of their national economies and against deepening of inequalities with secondary cities from the country. Budapest and Bucharest must encourage regional diversification, improvement of transport connectivity and use better EU structural funds to develop faster innovation and technology, especially AI.

The competition between Bucharest and Budapest reflects their individual trajectories and the evolving dynamics of post communist urban competitiveness in the EU. The future of both capitals will depend on their ability to balance economic performance with strong and permanent governance reform, intelligent human capital investment and innovative strategic branding.

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