



# Innovation for Development

Teresa de Noronha Vaz (Ed.)

Centro de Investigação sobre o Espaço e as Organizações  
Centro Regional de Inovação do Algarve  
Universidade do Algarve

# On the concept of endogenous development: Diversity of interpretation or conceptual complexity?

*António Vázquez-Barquero*

## Introduction

Since the early eighties the use of the term endogenous development has spread successfully, and has been widely accepted in the academic and professional world. What is perhaps most attractive about the term is its usefulness for interpreting the development processes of territories and countries, at a time when as a result of increased economic integration, great transformations in the economy and society in general are taking place.

On the other hand, it should be recognized as a term that is used by authors that work in different fields of the social sciences as well as by public actors, all coming from different schools of thought, and so, endogenous development is a term with a widely different significance. Many of these authors and actors probably share in their criticism of the traditional neoclassical growth theory, the approach that provided the arguments for the actions of international organizations devoted to development since WW II, and the following forty years. Yet, their conceptual differences are not to be ignored, since the policy proposals are conditioned by the conceptual view of development.

The purpose of this paper is to show that although different meanings are associated with the term endogenous development, in fact, it is a concept that interprets the complex reality of development, and so it can be argued in terms of the unity of the concept of endogenous development. The paper concludes that local development policy that appeared as a spontaneous response to increased competition and globalization, obeys to the logic of endogenous development.

## Emergence of Endogenous Development Paradigm

A new scenario for development begins with the new phase of economic integration since the late 1980s; when the growth models inspired by the fundamentalism of capital are no longer explaining the new facts. This is so, not only because the breakdown of the Soviet Union and the fall of the Berlin wall proved the superiority of the market economy over a planned economy, but also because the policies carried out in many developing countries and implemented by international aid programs from the developed countries and international organizations failed, as Easterly (2001) points out.

Since the eighties, Schumpeter's ideas (1934, 1939) as well as those of others who contributed in the post-war years to what Krugman called "The High Theory of Development" return. Among

the different approaches that have emerged during the last twenty years is the reintroduction of Solow's growth model on behalf of the new generation of growth theorists like Romer (1986) and Lucas (1988). At the same time, as pointed out by Garofoli (1991, 1992), since the early eighties, a new approach appears, that can be called endogenous development. It considers development as a territorial process (not a functional process) that is methodologically based on case studies (not on cross-section analysis) and that considers that development policies are more efficient when carried out by local actors (not by the central administrations).

Giorgio Fua (1994), intellectually linked to Abramovitz, maintains that the development capacity of an economy depends on the immediate sources of growth, such as the size of the working population, the number of hours worked and the availability of equipment goods and social capital. Yet, what is really decisive for sustainable development are the factors that Fua defined as structural, such as entrepreneurial and organizational capability, labour training and skills, environmental resources and the functioning of institutions.

Philippe Aydalot (1985), a follower of Perroux and Schumpeter, adds that the development processes have three main characteristics: First, he refers to the fact that the development actors must be flexible productive organizations, as occurs with the small and medium size firms, capable of overcoming the rigidity of large Fordist organizations. In this way, the economies would obtain better results, particularly in times of rapid change in both the milieu and the market. Second, and more strategic, he defends diversity in techniques, in products, in tastes, in culture and in policies, which facilitates opening up various development paths for the different territories according to their own potential. Third and last, and more instrumental, he states that development processes are the result of having introduced innovations and knowledge through the investments made by the economic actors. This is a process that is territorial in nature given that it is a result of the forces that shape the milieu in which the firms are inserted; in other words, thanks to the interaction of the actors that shape what Aydalot calls innovative milieu.

This approach shows that development does not necessarily have to be focused in large cities, but rather is diffused in urban centres of different size, as explained by Giacomo Becattini (1979), a specialist on Marshall. The entrepreneur (both individual and collective), plays an outstanding role in industrial development and becomes the motor force of growth and structural change due to his creative capacity and innovative nature (Fua, 1983). Fua and Becattini add, however, that the firms are not isolated entities exchanging products and services in abstract markets, but are located in specific territories and are part of the productive systems, and are strongly integrated within the local society. In other words, society organizes itself for the purpose of producing goods and services more efficiently that give way to industrial districts and clusters of small and medium size firms that bring out network economies within the territory.

John Friedman and Walter Stöhr open up this approach and look at development policy from a territorial perspective. They give great importance to the local actors' initiatives through their investment decisions and participation in the definition and implementation of policies (Friedman and Weaver, 1979). They also point out that the economic progress of a territory is only possible when the firms and actors within the territory interact, organize themselves and invest with the view of developing the local economy and society. Following this line of thought, they put forward "bottom-up" development strategies that allow mobilize and channel resources and development potential within the territory (Stöhr and Taylor, 1981).

## Self-Centred Development and Local Economic Potential

Endogenous development is often associated with the capacity of a local community to use the existing development potential within the territory, and so respond to the challenges at a given historical moment. At present, it is clearly due to the important effects that the globalization process is producing in the spatial division of labour. This view obeys a territorial approach to development and a positive, often optimistic, assessment of the role played by the existing development potential in all types of territories, that would allow the local communities give the adequate economic answer, and so satisfy the needs of the population (Vázquez-Barquero, 1988; Albuquerque, 2001).

### *Autonomous Development of the Territory*

This is a territorial approach, based on the assumption that each local community has been shaped, historically, with respect to the relations and interests of their social groups, the construction of their own identity and their own culture that distinguishes it from other communities (Massey, 1984). Thus, the territory can be understood as the network of the interests of a territorial community, which allows us perceive it as a local development agent, as long as it is possible maintain and develop the integrity and the territorial interests in the development and structural change processes. This concept explains the reality in all types of territories, as Scott (1988) recognizes in pointing out the importance of culture and local identity in the development processes in the more dynamic metropolitan areas. Saraceno (2000) agrees with this when analyzing today's transformation and productive differentiation process in rural areas.

Therefore, at a specific moment in time, a territorial community, by its own initiative, may find new ideas and projects that will allow them use their resources and find solutions to their problems and their needs. The local actors, through their initiatives and investment decisions and participation in formulating and managing policies, contribute towards the development and productive dynamic of a locality, country or territory (Friedmann and Weaber, 1979). The "development from below" strategies that allow mobilize and channel resources and the existing capacities within the territory, lead to economic progress when the local actors interact, organize themselves and carry out their initiatives in a consistent and coordinated manner (Stöhr and Taylor, 1981).

This interpretation has received the support of those who believe that development is not imported, but rather is produced thanks to the economic and social work and effort of the local communities. To eliminate poverty and create jobs the most efficient strategy would be to re-establish an autonomous development model that would drive the local development potential and stimulate small agricultural production, small and medium size firms and handicraft industry, and so detain the massive urbanization process and involve the participation of the population in the development process.

## *Development, Solidarity and Democracy*

This populist view of development has recurrently appeared, particularly after the three great technological revolutions: in the early XIX century, as a reaction to the dehumanization that industrialization and urbanization represented; in the first third of the XX century in industrialised economies, faced with unemployment and the effects of an economic and industrial crisis, that follow the electrical revolution; and at the present time, as a reaction to the impact of globalization.

This approach would explain why, in recent decades, socially sustainable development has received special attention to the extent that development strategies and policies stimulate, above all, the start-up and development of economic initiatives, based on solidarity, the autonomy of local communities and so, of countries, and the use of the local development potential. Giordani (2004) argues that the social economy approach overcomes the separation between capital and labour and introduces solidarity within the economic process, and he proposes a new development model that includes the public sector (government), the private sector (business) and the social economy sector for Venezuela. From this point of view, solidarity would be at the center of production, of accumulation, of distribution and of consumption.

This approach shows that the social economy appears spontaneously in answer to social deficiencies (in employment, housing, quality of life) that neither the market nor the State is able to attend. These are projects focused towards social well-being carried out by the cooperatives, the micro and small firms, the savings banks and non-profit organizations; where what counts is work done by the members involved in management, and the decisions are made democratically among its members. Social economy is a development culture that allows for the integration of population groups with risk of exclusion, takes advantage of the existing development potential within the territory, and spurs on production and employment.

### *Self-Development with Local Initiatives*

In sum, this populist vision of endogenous development maintains that today, what is important about development is its autonomous character, based on the use of their own resources and can therefore be produced in any locality or territory, since all territories have a development potential. The point would be to use the local resources in projects designed and managed by the citizens themselves and the local organizations, in such a way that its inhabitants would control the process through the local development initiatives.

This is an optimistic interpretation of the development processes. It considers that the needs of the population would be well covered, and the success of the local initiatives guaranteed when the population defines, takes responsibility and controls the projects, no matter how limited the means available and/or investments made. Furthermore, it values the usefulness of the resources of all types available in a territory, and considers that what is important are the resources and potentialities of the territory and that constitutes the capacities on which income is based. It also considers that development policies should be implemented by local action groups, the most efficient public actions are those designed and managed from the bottom

up, which also gives a democratic value to development policy and to the citizens' decisions for satisfying their needs.

This approach has, however, important limitations. Above all, it ignores the fact that the development process depends on capital accumulation, that savings and investment are required mechanisms for assuring long-term economic progress and a social transformation process; and that in any case they are mechanisms that will facilitate the economic sustainability of development.

The importance of introducing knowledge in the production processes is often ignored, and the importance of the role played by the institutions and the organization of production for obtaining increasing returns is not fully appreciated. Last of all, it is an autarchic approach to development, and ignores the fact that the local economies are integrated within the national and international productive systems, and that in one way or another, it is useful take advantage of its effect on these processes.

## Human Development and Culture

Development processes are conditioned by the territory's institutions and culture, as acknowledged by sociologists (Weber, 1905; Putman, 1993), historians (Landes, 1998) and economists (Guiso *et al.*, 2006). Culture embodies the values, norms and principles that are transmitted from one generation to another through the family, religion and social groups, and can either facilitate or block the economic outcome. Economic development depends on cultural factors such as the work ethic, savings capacity, honesty, tenacity and tolerance, as well as the norms and institutions that regulate the relations between people and territorial organizations.

### *Development of People's Capability*

Culture leads the people's behaviour; nevertheless, culture is something more than an instrument that facilitates and influences the development processes, because the mechanisms that favour the development processes have to do with the projection and use of individual and collective capabilities and with the creative and entrepreneurial capacity of the people. In other words, the core of the development process would lie in the development of human capabilities and in particular, in the population's creative capacity, which is one of the keys of the capital accumulation process and the economic progress of societies and territories.

Amartya Sen (2001) proposes an important change in the interpretation of development, when he maintains that the concept of development goes beyond economic growth and the per capita income of a country or territory, given that they are only an instrument for carrying out the capabilities of the population. What is really important is that people carry out the tasks and activities that they wish, and are capable of, carrying out. That is to say, economic development is achieved by using the capabilities that people have developed thanks to the material and human resources and to the culture that a territory has.

This concept shows the strong relationship that exists between development and freedom. Sen argues that what is important in the development processes is the capacity of people to decide what potentials they wish to use in carrying out their life project, and so, in their contribution to development. In other words, the point is that the citizens can choose, that the population should have the opportunities to undergo the activities they wish with the abilities and knowledge they possess. From this point of view, the citizen's freedom to choose would be central to the development process, and so Sen argues that the institutions, norms and rules, both formal and informal, should contribute to the exercise of the citizens' freedom, and that freedom is an intercultural value, since it always allows the use of the population's capacities and abilities.

### *Development, Creativity and Entrepreneurial Capacity*

Sen's approach presents development as an open process that feeds on the peoples' opportunities and capabilities, which change and transform as the process takes shape. A city, a region and a country develop when the necessary mechanisms are created and when institutions that allow its citizens choose freely the capabilities they wish to develop are available. It is, therefore, a continuous transformation process of the economy and of society based on the development of potential and the capacities of the individuals and affects all types of territories no matter what level of development.

This perspective of development places man at the center of the economic and social transformation processes, and this has important implications. Above all, it is understood that the results of human activity, in a material sense, are never an end in itself, but rather an instrument for achieving the well-being of citizens in general. Furthermore, poverty (and therefore, low income levels) is no longer a restraint for development since what is important is not the amount of resources of a territory but rather the capacities of its inhabitants. A known fact, as shown by the migratory flows of the last century, is that people with few economic resources do not necessarily lack entrepreneurial and creative capacity, or a capacity to save and invest. Last of all, this view eliminates the false differentiation between development and underdevelopment, given that it considers development as a continuous process that changes and transforms the capabilities of the population in relation to the changes in the environment, that they also help transform.

The argument that the use of the population's capabilities is a critical element in the development processes leads, inexorably, to the consideration that man's creative capacity is a necessary condition for the development of a country or territory. Without it, the functioning of the economic system and the forces that motivate the processes of progress cannot be understood.

Creative capacity has permitted man create the mechanisms (economic, technological and institutional) that permit increased productivity, permit reach economic progress and change society. Creativity goes hand in hand with the entrepreneurial capacity of individuals and organizations since it facilitates its development, and thus, the urban, technological, organizational, productive and institutional transformations (Lasuen and Aranzadi, 2002). In conclusion, it is through the entrepreneurial capacity that people transform reality and create opportunities for development.

Entrepreneurial and organizational capacity is, therefore, one manifestation of the people's creativity, and that allows them produce something new and original within their environment. The creative process is produced with respect to the resources, potential and attractiveness that characterize a territory and which change from one place to another. Because of this, the entrepreneurial capacity is always conditioned by the cultural factors that explain the specificity of the territory. Therefore, development is produced thanks to the entrepreneurial creativity of the citizens in a specific cultural environment. In this way, development, creativity and culture relate differently to each other in each territory. A process of continuous interactions between them is produced as the territorial development process begins.

### *Culturally Sustainable Development*

Territorial development is, ultimately, an interactive process. The economic and non-economic institutions are important in order for the economy to function, for the introduction of innovations and for technological change, as well as for the transformation of productive and monetary organizations (Polanyi *et al.*, 1957). Yet, the economic development process also produces the transformation of institutions and of culture, as sustained by Marxist thought when it argues that the productive structure determines beliefs and culture in general; although Becker (1996) points out that given that individuals and society have a limited control over culture, cultural change would be slower than those of social capital. Change in culture, institutions and social capital also exert an influence on the mechanisms that make productivity and territorial development more dynamic.

Human development is an interpretation that places man at the center of development, since transformation and change in the economy and society in general are produced thanks to its capabilities, and more specifically thanks to the creative and entrepreneurial capacities, and development makes sense when it benefits man. This allows us to deal with the question of poverty in a more natural manner, since even if the economic resources are few, human capacity may be used and developed so as to improve the well-being of the population. On the other hand, this view of development argues in terms of a culturally sustainable development model that interprets economic and social change as an open and continuous process and therefore conceptualizes the structural change and economic progress no matter what amount of resources or income levels are available.

However, this view does not consider the relevance of the development potential of the territory in the economic development processes sufficiently. Furthermore, this approach does not give the mechanisms and forces of development that condition the capital accumulation process its true value, which is why its proposed actions are usually restricted, and limit the possibility of self-sustaining development processes. Lastly, this approach can be termed as assisted development, and lacks the capacity for promoting development processes that are economically and socially sustainable.



## The Evolutionary Approach to Development

From the perspective of the evolution and transformations of a country's or territory's economy, the central issue of development would be in identifying the mechanisms that facilitate growth and structural change processes. In this sense, endogenous development theory presents a useful interpretation, because it goes farther ahead in terms of the efficient use of the available resources, of the development potential and analyzes the mechanisms that regulate and control the accumulation processes that facilitate increasing returns, and thus explains economic development. These forces, that are endogenous to the functioning of the capital accumulation process, are, among others, the organization of production, the diffusion of innovation, the territory's urban development and the change and adaptation of the institutions (Vázquez-Barquero, 2002 and 2005).

### *Flexible Organization of Production*

One of the central forces of the capital accumulation process is the organization of the productive system, as seen in advanced countries, in the late developed economies and in the emerging economies over the last two decades (Becattini, 1997; Pietrobelli and Rabellotti, 2006). The question lies not in whether the productive system of a locality or territory is formed by large or small firms, but rather in the organization of production system, and its effects on the behaviour of productivity and competitiveness.

Thus, clusters, local productive systems and industrial districts are forms of organization of production, based on the division of labour between firms and on a local exchange system that produces increased productivity and economic growth. They are organization models that allow generate increasing returns when the interaction between firms permit the emergence of external economies of scale, usually concealed in the productive systems, and ultimately one of the development potentials of the local economies.

Furthermore, the adoption of more flexible forms of organization in large firms, and groups of firms, makes them more efficient and competitive and stimulate new territorial strategies involving networks of subsidiary plants which makes them more autonomous and more integrated within the territory. The greater flexibility of large firm organization allow them make a more efficient use of specific local resources and assets, and so obtain competitive advantages within the markets.

The formation and expansion of networks and flexible firm systems, the interaction of firms with the local actors and the strategic alliances allow the productive systems generate scale economies (both external and internal, according to the case) in production as well as in research and development (when the alliances affect innovation), and so reduce the firms' negotiation and transaction costs.

### *Technical Change and Diffusion of Innovation*

The introduction and diffusion of innovation and knowledge is, in turn, another mechanism for increased productivity and economic progress, for it stimulates economic growth and structural change in the productive system (Maillat, 1995; Freeman and Soete, 1997).

The adoption of innovations allows the firms to widen their range of products and create larger groups and build smaller plants, which are more efficient economically, and so reinforce the internal economies of scale. Furthermore, the innovations helps firms define and carry out strategies focused towards exploring and opening up new products and factors markets. The adaptation of technologies favours the differentiation of production and creates scope economies. Thus, the introduction and diffusion of innovations leads to the improvement in the stock of technological knowledge of the productive system, which creates external economies, for the benefit of all sorts of different firms within the system.

In sum, the diffusion of innovations throughout the productive fabric allows obtain internal and external economies of scale and economies of scope to each and every firm within the cluster or productive system. Thus, the productivity and competitiveness of the local firms and economies are increased.

### *Urban Development*

In today's scenario, characterized by the globalization of production and exchange and greater service activities, cities continue to be a preferred space for economic development, because it is there where the investment decisions are made and where industrial and service firms are located (Lasuen, 1973; Scott, 1998).

Cities are a place for endogenous development. They generate externalities that lead to increased returns, they have a diversified productive system that enhances the economic dynamic, they provide space for networking in which relations among actors lead to the diffusion of knowledge, and they stimulate the innovation and learning processes of firms. Cities are places for the creation and development of new industrial and service spaces due to their capacity to generate externalities and allow hidden economies to emerge.

Yet, as Saraceno (2006) points out, the diversification of the economic activities of rural areas and the multiple forms of external integration contribute significantly towards the differentiated development of the rural localities and territories. The strength of these development processes is not so much rooted in the farms economies of scale, as in the enhancing of the scope economies, when the diversification of the farms production combines with different industrial and services activities. The diversification of the rural economy improves the performance of areas with low population density, and with small firms and farms, diffused throughout the territory; particularly when the local productive system is well articulated and is well connected to the transports and communications network in a dynamic urban region.

## *Flexibility and Transformation of Institutions*

Last of all, development processes also have deep institutional and cultural roots (Lewis, 1955; North, 1990 and 1994). The development of an economy is led by local actors through the initiatives and investment and location decisions made in order for their projects to be carried out. Cities and territories stimulate the development of specific forms of organization and institutions, both formal and informal, which have been shaped as the productive system, culture and the society in general developed. The local organizational and institutional environment would facilitate or obstruct the economic activity.

Economic development, therefore, takes on strength and momentum in those territories with evolved, complex and flexible institutional systems. Its strategic relevance lies in that institutional development allows for the reduction of transaction and production costs, strengthens trust among the economic and local actors, it expands networks and cooperation between the actors and reinforces learning and interaction mechanisms. In other words, the institutions condition the behaviour of productivity, and so, the returns and the economic progress.

## *Economically Sustainable Development*

Finally, as mentioned above (Vázquez-Barquero, 2002), development mechanisms become the economic capacities of the territory. They create an environment in which the economic growth and structural change processes are organized and also carried out. Capital accumulation processes require the combined action of each and every one of these development forces, to the extent that the effect of each one of them on productivity and returns is conditioned by the behaviour of the others. That is to say, the interaction of the forces of development and its synergic functioning stimulate economic development and social progress.

The evolutionary approach of endogenous development is an interpretation that goes beyond the proposals of traditional neoclassical growth theory, by using an analytical model that considers increasing returns focal for economic progress, considers that the introduction of innovation and knowledge is key in the development processes, and analyzes development from a territorial perspective. It also proposes a self-sustaining development model, based on the creation of a surplus that allows reinvestment and guarantee the continuous transformation of the productive system through the constant change of the forces of development. This approach is in itself a model for analysis and action.

Nevertheless, it is a partial view of the economic dynamic of a country or a territory for it does not point out the relevance of the macroeconomic system, but rather leans on the assumption that the economy maintains the macroeconomic equilibrium. Furthermore, even if it interprets economic growth under competitive conditions, it does not include an analysis of the functioning of the demand nor of the integration of the local economy within the system of international economic relations. Last of all, it is an interpretation that focuses, above all, on the economic conditions of change and transformations of the economy and society in general, and thus, does not include in the analysis important elements that affect the social, cultural and environmental sustainability of development.

## The New Development Policy

The new development policy is characterized by its strategic view of economic development, providing local actors with the capacity to foster productive restructuring and, subsequently, improve the employment rate and welfare of local communities. Local initiatives are very diverse in nature (Aghon *et al.* 2001; Altenburg and Meyer-Stammer, 1999; Vázquez-Barquero, 1993 and 2002).

### *Fostering Firm's Development and Cluster*

One of the objectives of local initiatives is the start-up and development of firms and the formation of firm networks.

In the first quarter of 1994, Guatemala's Ministry of Agriculture, Cattle and Food launched the Project for the Rural Development of the Cuchumatanes Mountain area (Cifuentes, 2000). The project affected 9,000 poor rural families, with a net income per family of less than \$ 1,200 per year. In order to favor sustainable development and improve local well-being, the improvement of local entrepreneurial and managerial capabilities was encouraged. The experience and knowledge of self management that exists within the local population, and was lost during the civil war, were recovered, and cooperatives and associations of agricultural producers began to acquire full legal capacity. Moreover, more informally structured organizations, or Interest Groups were encouraged, and this brought people with common productive and commercial interests together.

Whereas in the Cuchumatanes region the process of local development was started by the Central Administration initiative by means of the decentralization program, in Rafaela, Argentina, an industrial district under productive restructuring was the municipality, who in 1996 define the local development strategy through a strategic plan (Ferraro and Costamagna, 2000). That same year, the Centre for Entrepreneurial Development was created, financed by the Inter-American Development Bank (IDB) as well as by local firms and the municipality. The Centre gives technical and financial assistance to local and regional firms, which will allow them to improve their production, have a greater presence in the markets, and increase the internationalization of small firms.

The social economy plays an important role for fostering entrepreneurial capability not only in rural and agricultural areas, as in the Cuchumatanes, but also in industrial places like the shoe production cluster in Marikina (Philippines). As indicated by Scott (2005), the Marikina Footwear and Leather Goods Manufacturers Cooperative, provides financial services to members of the cooperative; among which stand out "the right to take out loans, to purchase raw materials at a reduced price, and to discount letters of credit". The cooperative has a footwear brand (B&G) that the members may use when manufacturing their shoes. The cooperative provides distribution and marketing services to its members.

Finally, in order to facilitate integration within the international economic system, the government of Penang, in Malaysia, created the Penang Development Center (PDC), whose main objective was to promote socioeconomic development through the formation of a network of

local and foreign firms (Rasiah, 2007). The PDC played an important role in the creation of the electronic cluster in Penang with an important presence of multinational corporations (Clarion and National Semiconductors, Intel, Motorola, Hewlett-Packard, AMD, Hitachi), located during the seventies; and consumer electronic firms (such as Sony, Toshiba, Pensangko, Komag, Seagate and others) located during the eighties and nineties. PDC helped stimulate the formation of firm networks, and differentiate and diversify the productive fabric, particularly after the late eighties. A productive network has been created in which the domestic SMEs have established ties among themselves as well as with the MNCs.

### *Diffusion of Innovation and Knowledge*

Another major axis of the new development policy is the diffusion of innovation and knowledge throughout the local productive fabric, as can be seen in the initiatives that work in territories with very different productive dynamics and levels of development.

A particularly interesting case is that of the Technological Centre do Couro, Calçado e Afins (CTCCA) of Novo Hamburgo, Rio Grande do Sul in Brazil. This is a private, non-profit institution established in 1972 and founded for the purpose of helping the shoe wear firms at the beginning of their export activity, by providing services that would allow them maintain the quality standards required by international markets. After thirty years it has become an institution capable of stimulating research activity and product and process development in the shoe industry of Brazil.

In Asia, both in developed as well as emerging countries, the technological policy is at the core of the development programs. In Japan, the policies in support of technology during the eighties were focused towards promoting structural change in underdeveloped regions, through the support of high technology activities in peripheral locations. In China, the Scientific and Technological Park Zhong Guan Cun in Beijing, has become, since 1999, an example of how to combine training with scientific research and both with the creation and diffusion of innovations. In its central area are located 2,400 firms and public centers, a result of the investments of multinational corporations like IBM, Microsoft, HP, Oracle, Siemens, Motorola, NTT, Fujitsu, Panasonic, Samsung and Mitsubishi, among others.

Last of all, in Malaysia, the Malaysia Technological Park, located within the "Multimedia Super Corridor", at the outskirts of Kuala Lumpur, was created in 1996 as an instrument for converting Malaysia into an economy focused towards the production of high technology and knowledge intensive goods and services. This complex provides firms with services and infrastructures that stimulate the creation and diffusion of technological innovation and knowledge. It gives technical and financial services to entrepreneurial initiatives that wish transform an innovative idea into a business; it helps in the implementation of research projects through its Biotechnology division (in the fields of molecular biology, biochemistry, pharmacology and food sciences); it provides training services in the fields of engineering, biotechnology and information technology; and it provides fully equipped floor space and services to firms that wish to locate in an environment focused towards a knowledge economy.

## *Building Up Infrastructures for Local Development*

Initiatives targeting the build up of infrastructures and social overhead capital are traditional instruments for urban and regional development and they are also a tool for local development. And the reason is that they help both to make cities and territories more attractive for investment and, therefore, foster sustainable development. In Asia, during the last fifteen years important investments in infrastructures (such as international airports, ports, roads, underground, high-speed railways) have taken place in leading cities like Bangkok, Kuala Lumpur, Seoul, Beijing or Shanghai, making these global city-regions more attractive to inward investment and global capital (Scott *et al.*, 2001; Douglas, 2001). However, in Latin America, practically all the local development experiences involve improving accessibility, meeting the needs of social overhead capital and making cities and regions more attractive places in which to live and to produce.

Under certain circumstances, the question is to build up infrastructures, as in the Cuchumatanes Project, where in order to reach Guatemala City's and International markets a link from the mountain area to the Panamericana highway was built. Sometimes, the question is the creation of a town, as in the case of Villa El Salvador, located 20 km. South of Lima and close to the Panamericana highway. This is an initiative that allowed transform a deserted area into a city that at present has a population of over 400 thousand inhabitants. A Self-managed Urban Community was created, and one of the main projects was the building up of an industrial park in order to provide industrial land, equipment and the services required by micro-firms and small and medium-sized firms (Benavides and Manrique, 2000).

At times, the purpose is that transport infrastructures become a tool for sustainable development like that of Curitiba, Brazil (Cambell, 2001). During the late nineties, a project was launched that tries to integrate urban infrastructure actions (construction of a road that communicates fourteen neighborhoods in the periphery of the city) with business initiatives which use the premises (community huts) in which micro-firms and small enterprises can be located with the support of the services available through professional and entrepreneurial training. The urban transport system was transformed into a surface metro system and it became the strategic element for local development.

Finally, neighborhood restructuring in Caracas, Venezuela, is a good example of how to use urban policy instruments as a tool for local development (Baldó and Villanueva, 1996; Villanueva, 1998). The Catuche project, launched in 1993, is an initiative which relied on the Jesuit Fathers of the Pastora and the Caracas Municipal government, to provide this marginal neighborhood with the basic services and social overhead capital needed to improve the environment, living conditions of the population and social inclusion. Some of the most important actions of this initiative are the environmental clean-up of the Catuche River, the building or reconstruction of public services and new housing, the promotion of micro-firms to carry out the construction projects, and the improvement of neighbor relations. It was funded by the municipal government of Caracas, the national government, and non-governmental organizations.

## *New Governance for Local Development*

At the center of the new development policy are actions aimed at improving the organization and management of development in cities and regions in order to give an efficient answer to the problems and challenges that lie ahead (Aghon *et al.*, 1991).

The development of a locality or territory is organized by the decisions made by the public and private agents. Frequently, as occurred in Bogotá, in Rosario or in Quezaltenango, in the early stages of the local development policy, local leaders stimulate the implementation of local initiatives, but they should count on explicit or tacit support from other local actors as well.

In Latin America, as in Asia, endogenous development policy is also based on initiatives where social and economic projects are coordinated and managed through new forms of governance such as partnerships among public and private actors, international agencies, or non-governmental organizations. In Villa El Salvador, the Autonomous Authority of the Cono Sur Industrial Park (Autoridad Autónoma del Parque Industrial del Cono Sur) was founded and brings together public and private agents working to develop the Industrial Park. In Jalisco, Mexico, local entrepreneurs, including executives of multinational corporations as well as the public actors, participate in the creation of local networks of suppliers. In Caracas, the Catuche project was managed by the Consortium of the Quebrada de Catuche, made up of members from the Catuche community, representatives from the group of promoters, and professional participants.

Thus, the development of new organizations and institutions has also become one of the characteristic features of new development strategies in Latin America (Costamagna, 1999). Furthermore, for the definition and design of local development initiatives and strategies, a new approach to economic planning, based on the local actors' negotiation and agreement was progressively adopted by planners and managers. This is an answer to the needs and demands for new forms of organization and policy management. Strategic planning helps cities and regions target precise goals with their initiatives. There are many examples as those of Rosario and Cordoba in Argentina, and regions in Morocco, Tunisia and other developing countries, where Local Economic Development Agencies (LEDA) were created for the purpose of promoting the economic activity and favor the improvement in the standard of living for the local population (Canzanelli, 2003).

## *Interaction and Synergy of Local Initiatives*

As seen above, endogenous development policy meets a relevant function in the economic development processes, for it acts as a catalyst of the development mechanisms, through the local initiatives: it facilitates entrepreneurial development and the creation of firm networks, it encourages the diffusion of innovation and knowledge, improves urban diversity, and stimulates the development of the institutional fabric. In other words, the purpose of endogenous development policy is to act in a combined manner on all of the mechanisms and forces of development, trying to create and improve the synergy, in such a way that the conditions for the sustained growth of productivity are created, and the sustainable development of each locality or territory is stimulated.

Local development policy became a local answer to challenges and opportunities created by economic integration. It shows a strong analytical coherence, in so far local initiatives are consistent with the endogenous development approach, discussed above. Furthermore, the differences with the traditional industrial and regional policies are very distinct: local development policy responds to a territorial approach to development, and not to a functional one; it tries to stimulate the local development potential, and therefore the mobility of capital and labor is not its priority as occurs in the case of the traditional policy; the actions are implemented through specific intermediary agencies that supply services to local firms and people, and escape from direct financing to firms. Local initiatives, finally, are often promoted and managed by the local actors.

Nevertheless, local initiatives are in many cases, isolated actions that don't always obey a proposal for integrated development, that would allow exploit the synergy of the combined effect of complementary actions. Furthermore, the strategic coordination of private and public policy actions is always a challenge for local development policy. Finally, local development policy is not a welfare and redistributive policy, but intends to overcome the imbalances through the promotion of development in all territories, trying to built up the development capabilities of the territory.

## Conclusion

The above discussion leads us to consider that endogenous development is an approach in which different views of development converge. The core of this interpretation lies in the territorial character of the growth and structural change processes that depend on the territorial resources and mechanisms on which development is based, and also on the laws that regulate and govern the growth and income distribution processes. It is not possible, however, to reduce the concept of endogenous development to a single general interpretation, given that the territorial base of development differs from one place to another, reality changes and the conditions under which development processes take place, also change. In this sense, the different approaches of endogenous development are not necessarily incompatible, but rather, can be integrated within a more complex interpretation.

The populist approach makes more sense within a wider interpretation of endogenous development, that considers that the entrepreneurship and the creative capacity of the population are mechanisms that spur on economic and social progress of places and territories. In turn, the evolutionary approach of development is an interpretation that states the mechanical aspects of the development processes and is useful for the analysis and actions. Therefore, it helps us to interpret today's development problems and guides the actor's answers to the challenges of globalization. Finally, the cultural approach of development, understands development as a culturally sustainable process. But, its sustainability requires support from the evolutionary approach of development, since the economic development processes are stimulated by human capabilities, as well as the territory's specific resources and assets that foster the forces of development.

Last of all, the concept of endogenous development has become an interpretation that helps define strategies and policies, that the local actors may implement by taking advantage of the opportunities brought about by globalization. Whichever interpretation is adopted, the



development policies must be based on the economic, social, environmental, institutional, political and cultural factors that combine uniquely in each locality, each territory. Because of this, the new development policy maintains that the development initiatives differ from one territory to another, from one locality to another; and it is the local citizens and organizations who decide how to answer the challenges that each place and territory face in the process of development.

## References

Aghon, G., Albuquerque, F. and Cortés, P. 2001. *Desarrollo Económico Local y Descentralización en América Latina: Un Análisis Comparativo*. Santiago de Chile: CEPAL/GTZ.

Albuquerque, F. 2001. *Desarrollo económico territorial*. Sevilla: Instituto de Desarrollo Regional- Fundación Universitaria.

Altenburg, T. and Meyer-Stamer, J. 1999. How to Promote Clusters: Policy Experiences from Latin America. *World Development*, 27: 1693-1713.

Aydalot, P. 1985. *Economie régionale et urbaine*. Paris: Economica.

Baldó, J. and Villanueva, F. (1996) Plan de reestructuración de los barrios de la estructura urbana, in H. Garnica (ed) *Los Barrios no tienen quien les escriba*, Diario El Universal, Dec, 9: 1-4.

Becattini, G. 1979. Dal settore industriale al distretto industriale: alcune considerazioni sull'unità di indagine dell'economia industriale. *Rivista di Economia e Politica Industriale* 1: 7-21.

-- 1997. Totalità e cambiamento: il paradigma dei distretti industriali. *Sviluppo Locale* 4, 6: 5-24.

Becker, G. 1996. Preferences and values. In G. Becker (ed.) *Accounting for Taste*. Cambridge, Massachusetts: Harvard University Press.

Benavides, M. and Manrique, G. 2000. La experiencia de desarrollo económico local del distrito de Villa el Salvador, in G. Aghon, F. Albuquerque and P. Cortés (eds). *Desarrollo Económico Local y Descentralización en América Latina: Un Análisis Comparativo*, Santiago de Chile: CEPAL/GTZ. 20001.

Cambell, T. 2001. Innovation and Risk-taking: Urban Governance in Latin America, in Scott, A.J. (ed). *Global City-Regions. Trends, Theory, Policy*. Oxford: Oxford University Press.

Canzanelli, G. 2003. The role of International Organizations for the Promotion of Endogenous Development. Mimeograph. Geneva: ILO and Napoli: University of Naples.

Cifuentes, I. 2000. *Proyecto Cuchumatanes. Transferencia de servicios técnicos a las organizaciones de productores*. Huehuetenango, Guatemala: Ministerio de Agricultura, Ganadería y Alimentación.

Costamagna, P. 1999. *Iniciativa de desarrollo económico local. La articulación y las interacciones entre instituciones. El caso de Rafaela*. Mimeograph. Santiago de Chile: CEPAL/GTZ Project.

Douglas, M. 2001. Intercity Competition and the Question of Economic Resilience: Globalization and Crisis in Asia, in Scott, A.J. (ed). *Global City-Regions. Trends, Theory, Policy*. Oxford: Oxford University Press.

Easterly, W. 2001. *The Elusive Quest for Growth: Economists' Adventure and Misadventures in the Tropics*. Cambridge, Mass: MIT Press.

Ferraro, C. and Costamagna, P. 2000. *Entorno institucional y desarrollo productivo local. La importancia del ambiente y las instituciones para el desarrollo empresarial. El caso de Rafaela*. Buenos Aires: CEPAL, LC/BUE/R.246.

Freeman, C. y Soete, L. 1997. *The economics of industrial innovation*. Cambridge, Massachusetts: MIT Press.

- Friedmann, J. and Weaver, C. 1979. *Territory and Function*. London: Edward Arnold.
- Fuá, G. 1983. L'industrializzazione nel nord est e nel centro, in G. Fuá and C. Zachia (eds) *Industrializzazione senza fratture*. Bologna: Il Mulino.
- 1994. *Economic growth: a Discussion on Figures*. Ancona: Istaio.
- Garofoli, G. 1991. *Modelli locali di sviluppo*. Milano: Angeli.
- 1992. *Endogenous Development and Southern Europe*. Aldreshot: Avebury.
- Giordani, J. (2004). *Hacia una Venezuela productiva*. Caracas: Ministerio de Planificación y Desarrollo.
- Guiso, L., Sapienza, P. and Zingales, L. 2006. Does Culture Affect Economic Outcome? *Journal of Economic Perspectives* 20 (2): 23-48.
- Landes, D. 1998. *The Wealth and Poverty of Nations*. New York: Norton and Company Inc.
- Lasuen, J. R. 1973. Urbanization and Development. The temporal interaction between geographical and sectoral clusters. *Urban Studies* 10: 163-188
- Lasuen, J. R. y Aranzadi, J. 2002. *El crecimiento económico y las artes*. Madrid: Fundación Autor.
- Lewis, A. 1955. *The Theory of Economic Growth*. London: George Allen & Unwin.
- Lucas, R.E. 1988. On the mechanics of economic development. *Journal of Monetary Economics*\_ 22, 1: 129-144.
- Maillat, D. 1995. Territorial dynamic, innovative milieus and regional policy. *Entrepreneurship & Regional Development* 7: 157-165.
- Massey, D. 1984. *Spatial Divisions of Labour. Social Structures and Geography of Production*. London: Macmillan.
- North, C.D. 1990. *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.
- 1994. Economic Performance through Time. *The American Economic Review* 83, 3: 359-368.
- Pietrobelli, C. and Rabelotti, R. (eds.) 2006. *Upgrading to compete. Global value chains, Clusters, and SMEs in Latin America*. Boston: Harvard University Press.
- Polanyi, K., Arensberg, M. C. and Pearson, W. H. 1957. *Trade and Market in the Early Empires: Economies in History and Theory*. Chicago: Henry Regener Company.
- Putman, R. 1993. *Making Democracy Work*. New Jersey: Princeton University Press.
- Rasiah, R. 2007. Cluster and Regional Industrial Synergies: The Electronics industry in Penang and Jalisco. A. Scott and G. Garofoli (eds.) *Development on the ground*. London: Routledge
- Romer, M. P. 1986. "Increasing returns and long run growth". *Journal of Political Economy*, 94: 1002-1037.
- 1994. The Origins of Endogenous Development. *Journal of Economic Perspectives* 8: 3-22.
- Saraceno, E. (2000). La experiencia europea de Desarrollo rural y su utilidad para el contexto latinoamericano. Paper presented to the Workshop "Experiencias, politicas e instrumentos para el Desarrollo rural en Europe and America". San Fernando de Henares, Madrid. October.
- Saraceno, E. (2006). Políticas rurales de la Unión Europea y proyectos territoriales de identidad cultural. Paper presented to the International Workshop "Territorios con Identidad Cultural. Cusco, Peru. 9 and 20, April, 2006.
- Scott, A. 1988. *New Industrial Spaces*. London: Pion Ltd.
- 1998. *Regions and the World Economy*. Oxford: Oxford University Press.
- 2005. The Shoe Industry of Marikina City, Phillipines: A Developing-Country Cluster in Crisis. *Kasarinlan: Philippine Journal of Third World Studies*. 20, 2: 76-79.

Scott, A., Agnew, J., Soja W.E., and Storper, M. 2001. Global City-Regions, in Scott, A.J. (ed). *Global City-Regions. Trends, Theory, Policy*. Oxford: Oxford University Press.

Schumpeter, J. A. 1934. *The Theory of Economic Development*. Cambridge, MA: Harvard University Press, (1st edition in German, 1911).

-- 1939. *Business Cycles*. New York: McGraw-Hill.

Sen, A. 2001. *Development as Freedom*. New Delhi: Oxford, Oxford University Press, 2<sup>nd</sup> edition.

Stöhr, W. B. and Taylor, D. R. F. (eds.) 1981. *Development from Above or Below?* Chichester: J. Wiley and Sons.

Vázquez Barquero, A. 1988. *Desarrollo local, una estrategia de creación de empleo*. Madrid: Pirámide.

-- 1993. *Política Económica Local*. Madrid: Pirámide.

-- 2002. *Endogenous development*. London and New York: Routledge.

-- 2005. *Las nuevas fuerzas del desarrollo*. Barcelona: Antoni Bosch editor.

Villanueva, M. 1998. Proyecto Quebrada de Catuche. Programa de habilitación física de barrios (PROHABITAT). Unpublished paper, Seminar on "Programas Sociales, Pobreza y Participación Ciudadana en Caracas", Cartagena: Banco Interamericano de Desarrollo.

Weber, M. 1905. *The Protestant Ethic and the Spirit of Capitalism*. Londres: Routledge.