

“Cultivating” Local Resources or “Hunting” Mobile Resources? Analysis of Endogenous and Exogenous Approaches for Local Economic Development

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Abstract

In a rapidly changing global economy, approaches that rely solely on “nurturing” local resources or “hunting” mobile resources to promote local development are limited and narrowly focused. This article first analyzed the advantages and disadvantages of indigenous and exogenous approaches for local economic development. This article also used an example of Hangzhou’s “Future Sci-Tech City” to demonstrate a balance of both integrated indigenous and exogenous approaches. These findings suggested that a balance of both, an integrated approach would be beneficial to the local economic growth. However, as economic development varies from region to region, local governments have to consider their development context to determine the best way to achieve local economic growth.

Keywords

Indigenous Approach, Exogenous Approach, Local Development

1. Introduction

In a fast globalizing economy, local and regional development occurs amidst increasingly complex and interdependent global flows of resources, finance, and people (Turok, 2018). This complexity, with the fundamental geographical unevenness and inequalities adding on, has brought immense conceptual and empirical difficulties (Coe, Dicken, & Hess, 2008) when deciding development strategies while sustaining the economic viability in the era of multinational corporations.

Empirical evidence and theories have demonstrated both advantages and drawbacks for applying whether “indigenous” or “exogenous” approaches in local and regional development. The advocate of “*Local economic development is more a question of ‘cultivating’ local resources rather than ‘hunting’ mobile resources*” at a period of a pervasive re-emergence of Alfred Marshall’s theory (Marshall, 1890) of industrial clusters, is virtually based on narrow perceptions of how regions compete, prosper and grow in economic terms. Each place has its own context, therefore they had to find a particular way for development. An integrated approach of both utilizing local resources and attracting and embedding mobile resources is needed, with a careful analysis of the weight of both elements in the development by consideration of local potential, risks and uncertainties.

This paper is divided into five parts. The first part summarises the literature review on urban economic development and presents its research ideas. The following three parts introduce indigenous and exogenous approaches that can promote local economic development and their advantages and disadvantages from theoretical and example analysis, using the successful practical model of Hangzhou’s “Future Science and Technology City” to demonstrate the need to balance these two elements when promoting local economic growth. The last section concludes the whole article and offers suggestions for future research.

2. Indigenous Approaches

Indigenous approaches are a set of means of nurturing “home-grown” assets and resources “that may be locally and regionally embedded, perhaps more committed and less willing to divest, and more capable of making enduring and sustainable contributions to local and regional development” (Pike, Rodríguez-Pose, & Tomaney, 2011). The abundance of local resources, including people, social trust, traditions, existing infrastructure, natural resources and economic assets, may help the area to develop toward less dependent upon external economic interests and in a more sustainable way.

The term “industrial district” Alfred Marshall introduced in “Principles of Economics” (Marshall, 1890), which later inspired the “cluster” theory, has been a base for indigenous approaches. From the perspective of neoclassical economics, Marshall believes that the geographical concentration of a number of local firms in the same industry can produce a localized external economy by using specialized talents, shared technology and materials to have highly efficient production. Advancing by the geographical proximity, minimum production cost and external economies of scale can be obtained through the local cooperation. It may bring technological knowledge spillover, labour market pooling, specialist supplier availability, and more significantly, an industrial atmosphere of synergy and innovation.

Applying Marshall’s idea into strategy making, it is obvious to see the similarities of benefits for “cultivating” local resources: the advantages not only reflect in economic factors such as low cost of land and labor, high productivity and ef-

efficient marketing strategies, but also strong networks for long-term cooperation with better trust and innovative social capital and culture. Firstly, utilizing what the area already has is the most economical way to search for promising future paths. It does not need to take extra costs or risks for figuring out exotic factors and forces into local framework and is less challenging to make a realistic vision while maximizing local economic potential. Secondly, “cultivating” and sustaining the existing performance which using the role models of entrepreneurial behaviors and skills by existing large firms, can set paradigms and leaderships to aid the growth of numerous small-medium size enterprises and further establishment of new business in the area. Thirdly, the overall productivity and sustainability will be improved from the proximity to local suppliers and professionals, reduction of transportation costs and wastes, close relationships and networks for cooperation and information sharing, and complementarity in service and technology. Lastly, the mechanism of self-reproduction will be manifested when the local “ground” becomes fertile, and the attractiveness and competitiveness generated by local competitions can “absorb” more external investment interests into the “ground” for developing innovative and mobilized features of the area.

However, the disadvantages are manifest as well. Firstly, growth can be stagnant if the internal factors of local resources are only used to improve the economy without creative design and adjustment to local conditions and economic changes. For example, China’s rapid economic growth over the past few decades would not have been possible without its continuous revision and adjustment of policies related to economic development in response to changes in national conditions. Therefore, a region should make full use of all aspects of local strengths, such as human resources, environmental resources, and even geographical advantages, and adjust accordingly to changes in the industry. Furthermore, endogenous development is an idealized project, as no city or country can achieve rapid economic growth entirely independently of other regions. For example, industrial manufacturing and the production of agricultural products require taking full advantage of local strengths and forming partnerships with other places to sell local specialties to each other or buy products from other places that cannot be manufactured locally. On the other hand, endogenous development and local micro-scale growth are often too slow to generate significant returns and local transformation. For example, if local businesses fail to create new jobs in the short term and human capital is not fully utilized, this waste of resources tends to limit the long-term development of a place in the long run.

3. Exogenous Approaches

“Attracting the investment of transnational corporations and exploiting their potential benefits for local and regional economics” (Pike, Rodríguez-Pose, & Tomaney, 2011) are the central of exogenous approaches. Since the emergence

of global production networks, Foreign Direct Investment (FDI) that grows in a form of holding controlling ownerships in business in one area by an entity based in another country takes off in rapid economic growth (Andrianiony, 2018). The evolving theory of transnational corporations explains the fundamental reasonings behind international mobile investments, thereinto Stephen Hymer's multinational enterprise theory (Hymer, 1979) and John Dunning's eclectic theory (Dunning, 1988) provide most of the themes. Hymer believes that it is the emergence of large, multidivisional firms, advanced communication technology and increasing global competitions attributes to the economic mobility, while Dunning's eclectic paradigm of "ownership specific advantages", "internalization specific advantages" and "location specific advantages" determines the increasing passion of enterprises engaging in an international production (Pike, Rodríguez-Pose, & Tomaney, 2011).

These theories provide the foundation for developing exogenous approaches in today's globalized society. Firstly, mobile resources contribute to local economic growth through the transfer of foreign capital, technology and entrepreneurial skills. The newly established subsidiaries usually carry their own abundant funding, global reputation, developed technology which can later be the catalyst of local innovation, mature entrepreneurial management skills and trained professionals from parent organizations to the local area. Secondly, especially for lagging regions, it advances the adjustment and improvement of internal local industrial structure, which through FDI, localities have the opportunities to remould traditional local industries and upgrade other fields such as high-tech and service sectors. Then, it can soon generate a large number of direct and indirect employment opportunities and revenues in a short period. Lastly, the ensuing "spillover" effect will bring more investment opportunities and creative professionals to flow into the area which in a long run will facilitate the overall local prosperity and competitiveness.

In addition to FDI, there are many ways to achieve exogenous growth. Firstly, local governments can take full advantage of local resources, such as the natural environment and human resources, to increase trade activities with other cities and countries. In terms of human capital, each region has its characteristics, with some areas being small in population but large in area and others being large in population but crowded. In addition, the natural environment varies from region to region, and there are differences in the plants suitable for cultivation and the breeds of animals kept in each region. As a result, trade opportunities are increased accordingly due to the differences between regions. Furthermore, each region can also have relevant policies introduced by the local government to attract talents or enterprises to settle in the region, increasing human capital and providing more employment opportunities, thus promoting rapid economic development.

In addition to FDI, there are many paths to exogenous growth. First, local governments can increase trade with other cities and even other countries. Each

region has its own characteristics, in terms of human capital, some regions are less populated but geographically broad, while others are more populated but overcrowded. And the organisms or plants suitable for growing or farming are different from place to place. Each region can take advantage of its own advantages to trade with other regions, which is very beneficial to the rapid economic development. Secondly, local governments can issue relevant policies to attract talents or enterprises to settle in, which can increase human capital and provide more jobs, thus promoting rapid economic development.

But on the other hand, “hunting” mobile resources is full of risks and uncertainties due to its essence. It may restrain the growth of local firms, especially small-medium ones. The competition between can cause negativity in local economy and even toward monopoly of foreign enterprises. Additionally, the capital that flows into the locality with high cost of labor and production at the beginning is bound to have an exodus of capital at the end, due to the fact that there is a need for profits to flow back to their parent organizations. Beyond economic factors, the unstable political element in today’s changing climate is hiddenly hazardous. So do the diversity of culture. Sometimes the challenges of overcoming cultural differences and political issues may cause the failure of embedding such resources into local framework (**Table 1**).

4. A Balanced Approach

Both approaches are based on the idea that local and regional development should be driven in a bottom-up manner while allowing specific design to address particular local circumstances by endogenous and exogenous forces and factors (Pike, Rodríguez-Pose, & Tomaney, 2011). A right balance and correct proportion of weight of both elements in development strategies are needed. The development model of Future Sci-Tech City, which locates in Hangzhou, Zhejiang Province, China, offers a good demonstration of such an integrated approach.

This development zone in Yuhang district, Hangzhou, is a result of a district government partnership with Alibaba, a giant leading enterprise of high-tech and e-commerce in the area, in order to create an international innovation ecosystem for local entrepreneurs to grow businesses in, with the surroundings of Xixi National Wetland Park and several universities including Zhejiang University providing a pristine and academic environment to live, work, and innovate

Table 1. Comparison of indigenous and exogenous approaches.

	exogenous approaches	indigenous approaches
Key criteria	Economies of scale and concentration	Utilization of local resources (natural, human and cultural)
Dynamic force	Urban growth pole	Local autonomy and enterprises

(Bay Area Council, 2019). Alibaba Group was originally founded in Hangzhou and guided by the mission of “make it easy to do business anywhere” to develop an online trade platform for connecting domestic and global business. Its cooperation with Yahoo in 2005 was a turning point, in which US web giant financed this mainland e-commerce powerhouse when it suffered from cashing out many small venture capitalists. It is a role model of entrepreneurship who firstly applied both global thinking and domestic connection into business in China and act like a “brace” in this district development plan to bolster up the growth of other industries and businesses in the area. The local government cherishes the origin business atmosphere that Alibaba brings, and the role universities play as a gathering ground of talents as precious “natural” resources, and further develops policies that especially emphasize attracting oversea returnees and business startups from all over the world with China’s Belt and Road Initiative (Miao et al., 2019). The industries are not limited to one subject, but comprehensive in sectors, such as including laboratories for pharmacy development (Riken, 2019). This development zone has now achieved its initial success which has already turned the inanimate district that used to be only fulfilled with Alibaba’s employees and university students, to now become a prospering area in Hangzhou that many creative professionals and talents choose to live and work, and also for small business startups to first enter the industry.

5. Conclusion

In a fast-changing global economy, merely emphasizing either “cultivating” local resources or “hunting” mobile resources for local development is limited and narrow in views. Both indigenous and exogenous approaches have flexibility and adaptability in local framework, demonstrating their values to local economic development in both theories and empirical advantages. So do drawbacks. Indigenous approach is good at maximizing local economic potential and achieving growth in the most economic and sustainable way while the exogenous one is exemplary for its competitiveness of further innovation and industrial regeneration of the area. A balanced and integrated approach of both is recommended. However, each area should deeply analyze its locality to understand and set its own context and characteristics first. Whatever the chosen development trajectory and policy regime are, the most important thing before development is to have a clear vision and appreciation of the local circumstance and dynamic, and then decide what the best way to achieve local economic growth is.

This article explains the endogenous and exogenous pathways and illustrates their advantages and disadvantages with examples. Local governments should combine endogenous strengths with exogenous pathways to promote economic development. However, due to space constraints, the author did not explore the research questions in greater depth and will continue to dig deeper into these issues in future studies. Future researchers can conduct further research on the combination of endogenous and exogenous approaches and explore how to

combine the two better to promote economic development, which is of great significance in giving full play to the role of both approaches to promote local economic development.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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