The Changing Landscape of International Development: An Introduction*

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Abstract

Since the late 1980s, extreme poverty has declined sharply, life expectancy and schooling have increased, and electoral democracy has expanded. However poverty reduction has slowed in recent years, particularly following the COVID-19 pandemic, amid intensifying conflict, fragility, climate risks, democratic backsliding, and the erosion of global trends—including trade integration and geopolitical stability—that once supported growth. These dynamics raise three interrelated questions: what barriers impede further progress; where will future growth in lower-income countries come from; and how can growth be broadly shared. Taking stock of 15 chapters forthcoming in Volume 6 of the *Handbook of Development Economics*, we discuss how external conditions, state capacity and policy choices shape development; analyze the shifting growth drivers, including trade, technology and the rise of services; discuss persistent inequality and distributional tensions; and conjecture that investing in institutions and people pays off.

Keywords: Economic Development; Poverty Reduction; Growth Drivers; Market Imperfections; Inequality; Outstanding Questions

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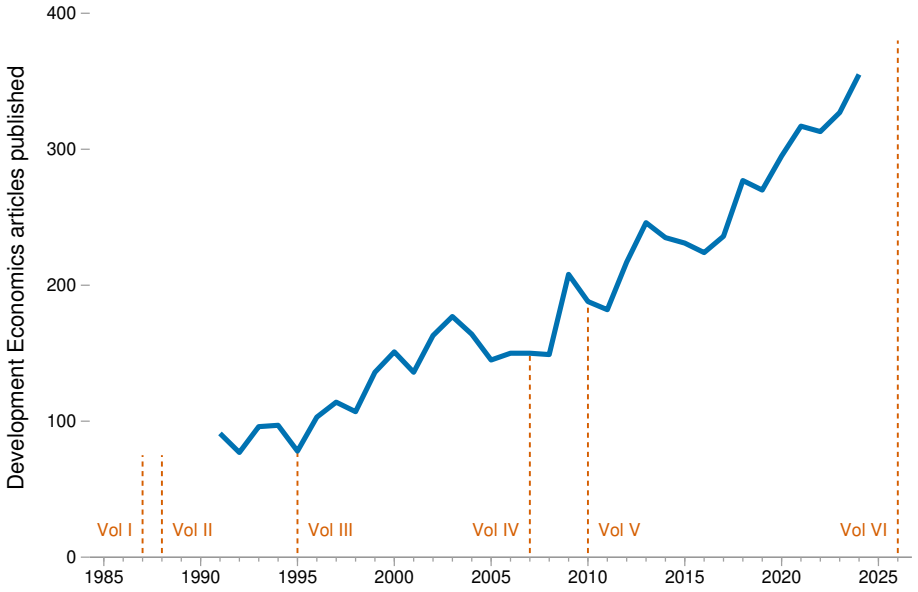
1 Foreword: Major gains, serious challenges

Much in the world has changed since the last edition of the *Handbook of Development Economics*, Volume 5, was published in 2010—including the field of development economics itself. Over this period, academic literature on the topic has expanded dramatically: as Figure 1 shows, three-fifths of development articles featured in leading general and specialized journals have been published since Volume 5. Compared to the period between Volumes 4 (2007) and 5 (2010), the quantity of such articles has increased tenfold during this period.

Figure 1: Quantity of development economics research

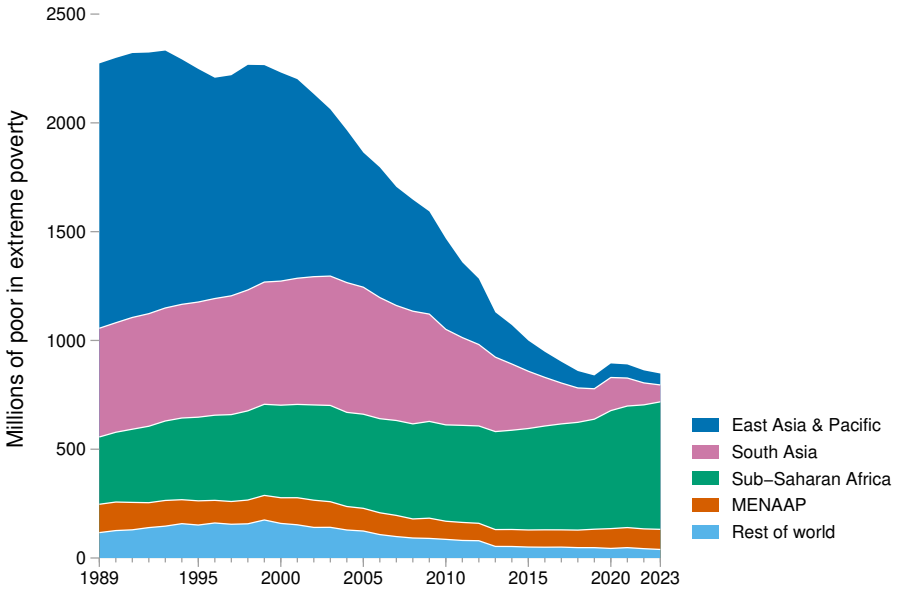


Notes: Count of articles with any JEL code from O10 to O19 in 17 selected journals: AER, AEJ-Applied, AEJ-Macro, AEJ-Micro, AEJ-Policy, Ecta, EDCC, EJ, JDE, JEEA, JEG, JEP, JIE, JPE, QJE, Restat, Restud. Publication years of volumes of *Handbook of Development Economics* are indicated. Data source: EconLit (American Economic Association 2026).

This growth reflects a broader shift: nearly every field in economics has expanded its focus toward issues central to low- and middle-income countries (LMICs). This intellectual shift coincides with meaningful progress on several core dimensions of economic development. Figure 2, for instance, illustrates the evolution of extreme poverty (measured as the number of people living on less than US$3 per day) since 1989—the year the Berlin Wall fell and Volume 2 of the *Handbook of Development Economics* was published. The sharp decline in extreme poverty from around 2.3 billion people in 1989 to 850 million in 2023 represents an undeniable success story, led by East Asian countries and particularly China. In the twenty-first century, South Asian countries, led by India, also experienced remarkable declines in extreme poverty.

The reduction in extreme poverty has gone hand in hand with significant improvements

Figure 2: Population living in extreme poverty by region



Notes: Extreme poverty is defined as living below US$3/day consumption, 2021 PPP. Regions are defined by the World Bank. Data source: World Bank Poverty and Inequality Platform (World Bank 2026a).

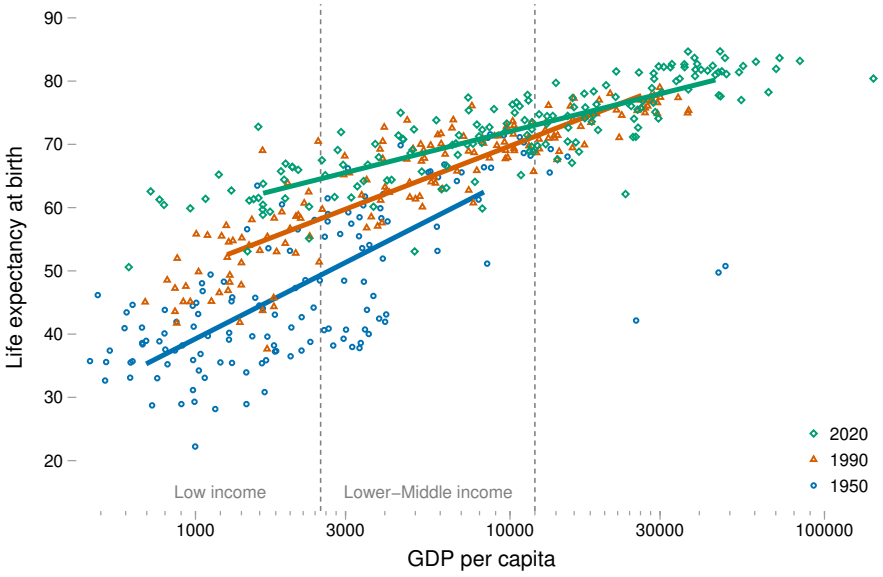
in human development indicators. Between 1990 and 2021, global life expectancy rose by 6.2 years.[1] This increase was driven not only by rising incomes worldwide but also by technological advances (e.g., vaccines, antibiotics, antivirals) that improved health outcomes across income levels.

Figure 3 illustrates this pattern using the Preston curve, plotting the country-level relationship between GDP per capita and life expectancy in 1950, 1990, and 2020. Over these decades, life expectancy increased across all countries, with particularly large gains in low-income countries. In the graph's low-income segment, life expectancy for a given level of income is at least 20 years higher in 2020 than in 1950. Similarly, Figure 4 shows a substantial decline in under-five mortality between 1989 and 2025. As discussed below, education outcomes—measured by school enrollment and literacy rates—also improved significantly over this period.

During the late twentieth century, electoral democracy also emerged as the dominant form of governance in both rich and poor countries, giving citizens greater scope to influence political decisions through representatives chosen in elections with universal suffrage. By 2015, a quarter century after the Berlin Wall fell, a majority of the world's poor lived in democratic countries (Pande 2020).

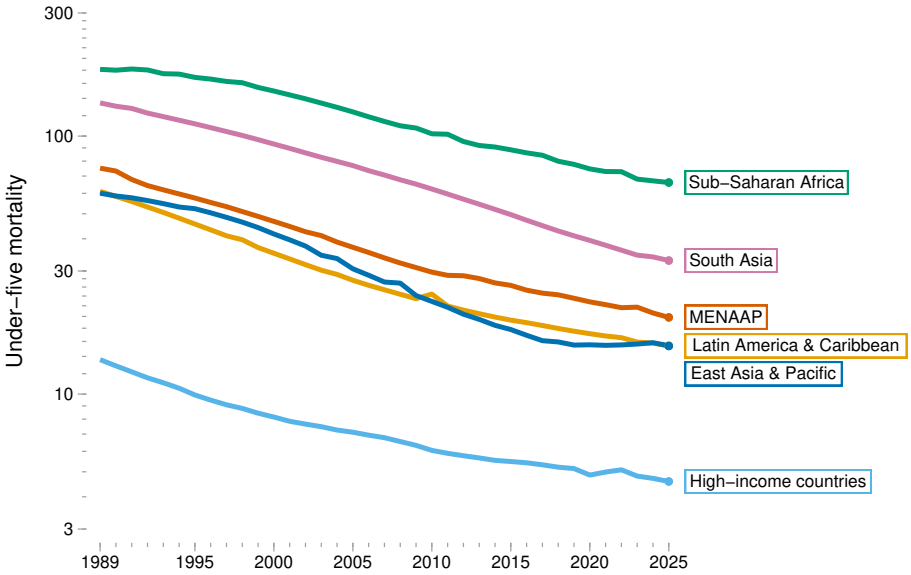
[1]This improvement was mainly due to reductions in deaths from enteric infections like diarrheal and typhoid diseases. Eastern sub-Saharan Africa experienced the greatest increase in life expectancy (10.7 years gained) across all regions.

Figure 3: Life expectancy



Notes: GDP per capita is 2011 USD PPP. Trendlines (linear years on log GDPpc) are calculated using all datapoints, but drawn only between the 10th and 90th percentiles of GDPpc. The trendline in 1950 excludes three wealthy Persian Gulf states. Denoted country income thresholds are approximations; actual World Bank classifications are based on GNI in current USD. Data sources: Life expectancy from United Nations World Population Prospects (United Nations 2024); GDP per capita from Maddison Project Database (Bolt and Zanden 2025).

Figure 4: Under-five mortality



Notes: Under-five mortality is measured as deaths under age 5 per 1,000 live births. Regions are defined by the World Bank. Data source: United Nations (2024).

Over the same period, political and legal rights for previously marginalized groups, particularly women, expanded dramatically. For example, between 1970 and 2019, the unweighted World Bank's Women, Business, and the Law Index—which averages eight indicators of individual rights (including workplace, mobility, and marriage laws) to measure women's access to employment and entrepreneurship—rose from 46.5 to 75.2 points (Hyland, Djankov, and Goldberg 2020). Economic growth and stronger citizen voice also contributed to a dramatic expansion of social assistance programs in recent decades, as Hanna, Olken, and Weiss (2026) highlight. As of 2025, over a quarter of the global population receives government payments.

Nevertheless, important challenges remain and new ones are emerging. Notably, recent years have seen a significant slowdown in the global decline of extreme poverty. In 2020, during the Covid-19 pandemic, the number of people living in extreme poverty actually increased by around 50 million—the first such annual increase during the 21st century. The surge was driven largely by sub-Saharan Africa, where extreme poverty rose by 2.0 percentage points in 2020, and by South Asia, where it increased by 0.7 percentage points. While poverty has since begun to decline again, the pace has significantly slowed. Between 2021 and 2023, 46 million people exited poverty, compared to 339 million between 2011 and 2013 (World Bank 2026a).

To a large extent, this slowdown reflects the entrenched nature of extreme poverty in two regions of the world: sub-Saharan Africa and the Middle East and North Africa (MENA). As shown in Figure 2, progress against extreme poverty has been slow in these regions despite its near elimination in most parts of the world. Projections suggest that poverty in sub-Saharan African and MENA may even rise in the future.

Several chapters in volume 6 of the Handbook of Development Economics shed light on the factors driving these trends, as we discuss below. At the same time, the persistence of extreme poverty in these regions has sparked fresh interest in a longstanding question in development economics: whether some individuals, communities, or countries are caught in poverty traps—self-reinforcing cycles in which poverty perpetuates itself, making escape nearly impossible without external intervention.

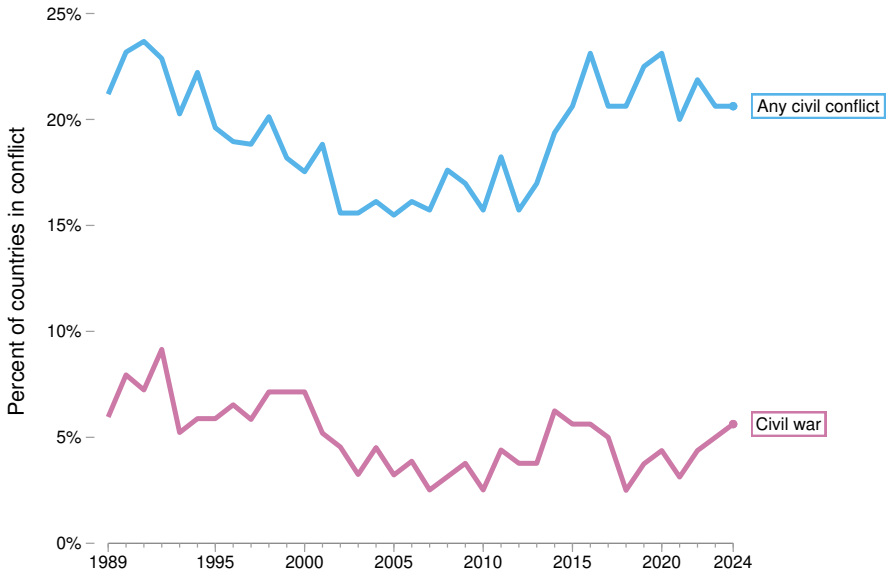
Bandiera et al. (2026) discuss the literature examining the conditions and mechanisms that could lead to poverty traps—ranging from poor health and low aspirations to missing credit markets and coordination failures.

Breza and Kaur (2026) explore how psychological factors can both trap individuals in poverty and shape economic institutions in low-income contexts. They argue that common behavioral biases have particularly large and persistent effects in such settings because these biases

amplify core features of poverty—such as living close to subsistence, experiencing high income volatility, market failures, weak institutions, and reliance on social networks. Using a "missing markets" framework, they highlight why corrective tools and services are undersupplied and discuss the circumstances under which social capital may help fill these gaps.

Another factor is that adverse income shocks can lead households that only recently exited poverty to slip back into it. Over the last decade, such shocks—including pandemics, conflict, and the effects of climate change—have increased. For example, Rohner (2026) shows that the past decade has seen an intense and sustained peak of high-conflict periods, with more than 50 armed conflicts ongoing globally during each year (Figure 5).

Figure 5: Civil conflict



Notes: "Civil conflicts" are intrastate conflicts resulting in 25 or more battle-related deaths per year. "Civil wars" are those resulting in 1000 battle-related deaths per year. The country sample is limited to countries with population one million or more. Data sources: UCDP/PRIO Armed Conflict Dataset (Davies et al. 2025); UCDP Onset Dataset (Gleditsch et al. 2002).

The adverse impacts of climate change, in particular, are projected to fall disproportionately on lower-income countries. Recent estimates suggest that unabated global warming could lead to future economic losses of as much as 8–13% of global GDP (Nath, Ramey, and Klenow 2024). In Chapter 12, Kelsey Jack and Nicholas Ryan highlight the uneven global distribution of environmental damages from climate change. For example, exposure to temperature extremes (as measured by increased cooling degree days, or days where hotter temperatures lead to increased demand for cooling) is concentrated almost entirely where most of the world's poor live: already hot tropical regions in South America, Africa, the Middle East, and South Asia. By contrast, most high-income countries experience far smaller increases in extreme temperature exposure—no more than one-quarter of the increase experienced by

LMICs. The chapter also notes that environmental damages more broadly, including air and water quality, are lowest in some of the fastest-growing lower-income countries.

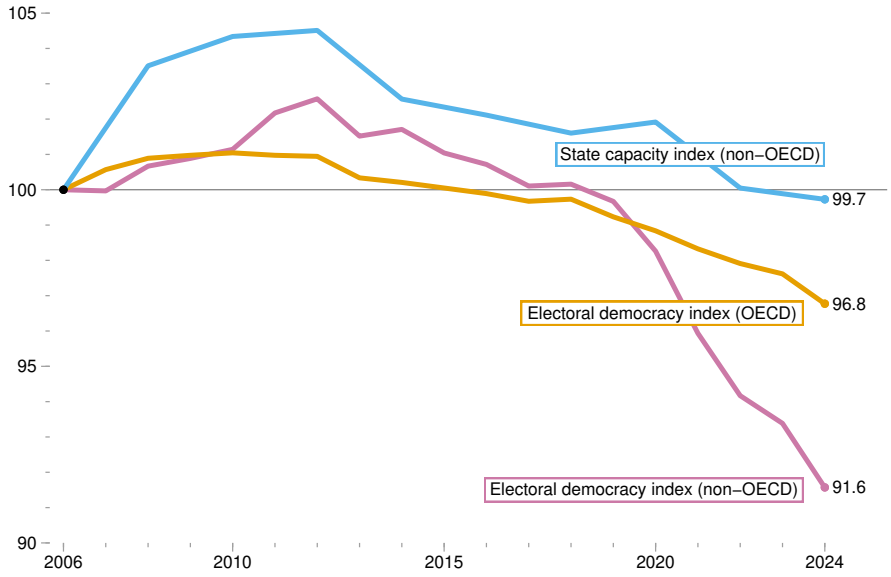
At the same time, global trends that until recently supported growth and rising living standards in LMICs are shifting. Acemoglu, Akcigit, and Johnson (2026) and Goldberg and Ruta (2026) highlight the central roles that technology and international trade have played in the development process, and how these roles are now changing. Technological advances, from the Green Revolution to the diffusion of digital technologies, have enabled dramatic productivity growth in many countries. Goldberg and Ruta (2026) emphasize the complementary importance of access to international markets and participation in global value chains (GVCs), noting that hyper-globalization coincided with East Asia's strong growth performance in the 1990s and that the rise of GVCs reshaped the development trajectories of many low-income countries. These forces operated within a broader international environment characterized by relative peace and stability, alongside a rules-based trading system. Together, they fostered long-term investment and cross-border knowledge sharing that were both critical for development.

Since roughly the Covid-19 pandemic, these conditions have come under increasing strain. New technologies, particularly automation and artificial intelligence, are now widely viewed less as a promise and more as a potential threat to low-income countries' traditional comparative advantage in low-skill activities. Perhaps more importantly, the resurgence of protectionism and economic nationalism in advanced economies, the intensification of geopolitical rivalries, and the sharp rise in policy uncertainty and unpredictability are eroding the conditions that enabled development progress over recent decades.

In response to such profound economic, social, and political change, governments that are willing and able to respond to citizen needs can provide an important bulwark against the impacts of these shifts on well-being. Yet, as Figure 6 shows, recent years have seen a secular decline in the quality of electoral democracy in both OECD and non-OECD countries. This decline has been steeper in non-OECD countries, which also start from lower baseline levels. Democratic backsliding in these settings has also been accompanied by gradual reductions in state capacity, suggesting that non-OECD countries are also becoming less capable of responding to citizen needs.

As noted, these trends are unfolding alongside rising levels of conflict (Figure 5). Beyond its immediate humanitarian costs, conflict disrupts markets, deters investment, displaces populations, and diverts scarce public resources away from health, education, and infrastructure. In lower-income countries—many already grappling with persistent poverty, climate vulnerability, and limited state capacity—conflict and violence further entrench low-growth

Figure 6: Electoral democracy and state capacity



Notes: Electoral democracy and state capacity indices based on expert assessments. The electoral democracy index represents "polyarchy", comprising five subcomponents: extent to which executive and legislative officials are popularly elected, universality of suffrage, free and fair elections, freedom of expression, and freedom of association. The state capacity index comprises the extent to which the state has a monopoly on force, and the extent to which the administrative state functions at a basic level. Both indices indexed to 100 in base year 2006. The non-OECD sample is the Bertelsmann Transformation Index sample: all countries excluding OECD members as of 1989 (except including Türkiye) and excluding populations under 1 million (except including Bhutan, Djibouti, and Montenegro). OECD sample is OECD members as of 1989 (except excluding Türkiye). Data sources: Electoral democracy index from V-Dem (Coppedge et al. 2016; Coppedge et al. 2025; Pemstein et al. 2025); State capacity index from Bertelsmann Transformation Index (Bertelsmann Stiftung 2024).

trajectories and make them even harder to reverse.

Moreover, these shifts are unfolding amid dramatic reductions in the willingness of high-income countries to support international development assistance. The OECD estimates that net official development assistance (ODA) declined by 9–17% in 2025, following a 9% drop in 2024, with bilateral ODA to sub-Saharan Africa estimated to have fallen by 16–28% (OECD 2025).

2 Looking ahead: three critical questions

Taken together, these advances in global development alongside persistent and emerging headwinds raise three interconnected questions. First, what are the key barriers to continued progress on addressing extreme poverty, particularly in Africa and the Middle East? Second, amid substantial shifts in economic, political, and social forces, where will future growth come from for LMICs? Third, how can countries ensure that future aggregate growth translates into broadly shared development gains? These questions run throughout volume 6 of the

Handbook of Development Economics. Many chapters, whether directly or indirectly, engage with them. The following sections consider each in turn.

2.1 What are the key barriers to continued progress?

Several chapters in the volume examine barriers to continued progress on key development objectives. A range of factors are highlighted, including geography, political accountability, conflict, and changing external conditions related to technology, climate change, the policies of advanced economies, and geopolitics.

The most direct discussion of the ingrained nature of poverty in certain regions, particularly sub-Saharan Africa, appears in Part 1 of the volume. Dupas (2026) emphasizes that geography plays an important role in shaping economic outcomes, often in ways that are overlooked—helping explain, at least in part, why countries in sub-Saharan Africa have lagged behind.[2] Geography is not destiny; countries with unfavorable geographic conditions can overcome them through appropriate actions and investments. But "bad" geography complicates the process of economic development and makes it costly relative to settings that are more geographically conducive to growth. Likewise, Casey (2026) examines the role of politics and policy. Assessing countries based on current measures of political accountability and administrative capacity, she finds that sub-Saharan Africa is disproportionately represented among the lowest-performing countries—though recent decades have largely seen democratic stagnation in these countries, rather than outright backsliding. Recent gains in state capacity have also been very limited for sub-Saharan Africa, consistent with Figure 6. Meanwhile, Rohner (2026) shows that the largest concentrations of parties to armed conflict are in Africa as well as Asia, helping explain the currently high global levels of conflict (see Figure 5).

Part 2 also highlights how aggregate global trends can pose barriers to continued development progress, focusing on international trade and GVCs, technology adoption, and the growing importance of the service sector. Across these topics, an important question—sometimes addressed explicitly, sometimes framed as an agenda for future research—is how these forces have operated in regions like sub-Saharan Africa and MENA and what they imply for their economic future.

This question is particularly relevant to international trade. Goldberg and Ruta (2026) highlight the important role trade-led manufacturing growth has played in economic development, largely by facilitating cross-border transfers of knowledge and technology and by supporting

[2]Another important determinant is history, which is not covered as a standalone chapter in the volume but is mentioned in Part 1. We refer the reader to the annual review by Nunn (2009) on the role of history in economic development, and to Conley and Kelly (2025) for a recent list of historical persistence studies.

institutional upgrading. A rich microeconomic literature examines the mechanisms driving this process, including scale effects through access to large high-income country markets; quality, skill, and technology upgrading through trade, foreign direct investment, and GVC participation; technology transfer through quid-pro-quo arrangements; and trade agreements that enhance policy stability and predictability.

While strongly present in East Asia, many of these channels were largely absent in Africa. African countries were early participants in several trade agreements (Goldberg and Reed 2023), but high transport costs and weak infrastructure left their markets imperfectly integrated globally and regionally, limiting scale economies. African economies are also largely excluded from GVCs, which have historically supported trade-led growth (World Bank 2020). Where GVC participation occurred, it was concentrated in agricultural value chains with weaker knowledge spillovers.

Such limited manufacturing-led structural transformation raises concerns about Africa's prospects going forward—especially as recent structural and policy shifts make trade-led growth less likely globally. These challenges are especially pronounced in regions facing elevated risks from conflict or climate-related shocks; as Faber et al. (2025) show, firms are more likely to reshore operations from low-income countries seen as risky.

2.2 Where will future growth come from for LMICs?

These barriers and new challenges raise a natural question: where will future growth come from? While relevant for all countries, the question is particularly significant for lower-income economies, especially in Africa. Several chapters explore this core theme, particularly in Part 2. Although none offers a definitive answer, a set of potential "engines of growth" emerges, including technology *adoption*—distinct from innovation—and the expanding role of the service sector. However, both potential growth drivers have important caveats.

The importance of technology adoption for developing economies is explored in Acemoglu, Akcigit, and Johnson (2026). They identify several factors that make adoption difficult in practice, including weak institutions, financial constraints, limited human capital, and inappropriate technologies, as well as a range of market distortions examined in other chapters. This emphasis aligns with the argument in Goldberg and Ruta (2026) that one of international trade's most important development benefits has been its role in helping several LMICs overcome these constraints to achieve technological upgrading and productivity growth.

Despite its historical importance, technology adoption's role in future growth is increasingly uncertain. As noted above, several emerging technologies are increasingly perceived as

potential threats to low-wage economies. This raises important research questions about how technology adoption will evolve in LMICs, and which specific technologies are most likely to support growth and development. The term "technology" encompasses a wide range of improvements—from advanced agricultural inputs and practices to new health treatments, digital tools, and artificial intelligence. How these innovations will diffuse to LMICs in the coming years, and what their long-run effects will be, remain important and promising areas for future research.

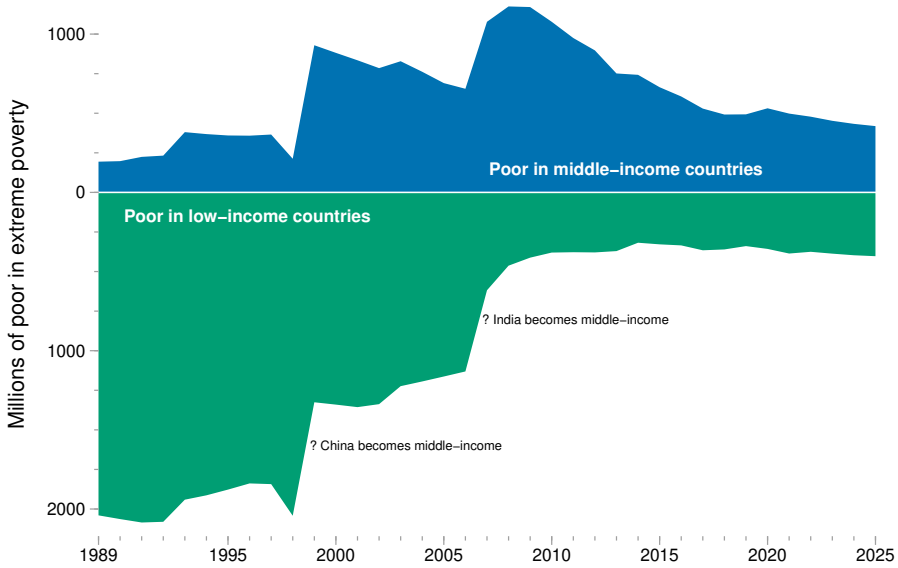
The service sector's potential as a future driver of growth is examined in Peters, Zhang, and Zilibotti (2026), which proposes a model of growth and structural transformation centered on services instead of manufacturing. The service sector's importance for growth in Africa was previously highlighted by Gollin, Jedwab, and Vollrath (2016), who coined the term "urbanization without industrialization" to describe a pattern where growth is concentrated in urban areas and driven primarily by non-tradable consumer services. Peters, Zhang, and Zilibotti (2026) show that this process is best characterized as service-*led* rather than service-*biased*. The latter implies that rising incomes—driven by productivity gains in other sectors—boost demand for services as a luxury good, leaving unanswered the question of where productivity growth originates. Service-led growth, by contrast, locates productivity gains within the service sector itself. They document this pattern in several countries in East and West Africa, as well as in earlier work on India, showing that recent growth has been led primarily by non-tradable consumer services.

These findings on the potential for service-led growth support a cautiously optimistic assessment of future growth prospects, while also highlighting important caveats and areas for further study. Growth remains feasible, albeit potentially at a slower pace than in earlier industrialization episodes. Moreover, whether service-led growth can generate the positive spillovers historically associated with manufacturing is debated: Gollin, Jedwab, and Vollrath (2016) found little evidence of economy-wide spillovers while Peters, Zhang, and Zilibotti (2026) adopt a more optimistic perspective. They also raise an important question: what are the sources of productivity growth in services? The chapter points to three possible mechanisms: agglomeration economies; reductions in labor market frictions that induce formalization; and technology adoption—once again underscoring technology's key role in development. Understanding the relative importance of these channels represents an important research agenda.

2.3 How to ensure that growth is broadly shared?

As economies advance, make progress on addressing extreme poverty, and begin moving up the development ladder, additional questions become increasingly important—including "growth for whom?" and "at what cost to future generations?" Several chapters examine the range of complex dimensions underlying these questions, including: the relationship between growth and inequality, the declining quality of jobs in LMICs, the unequal impacts of climate change, rising within-country inequality, and persistent gender inequality in labor markets. Each of these concerns merits consideration.

Figure 7: Population living in extreme poverty by country income

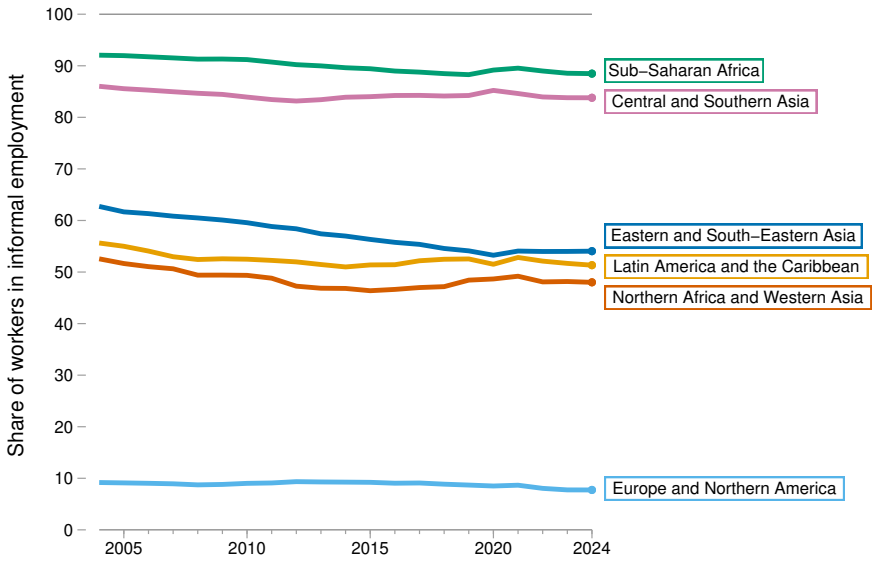


Notes: Extreme poverty is defined as living below US$3/day consumption, 2021 PPP. Country classifications from 2025 are extrapolated from 2024. Data source: Poverty headcounts from World Bank (2026a); Country income classifications from World Bank (2026b).

Growth and inequality are often closely linked. In many countries—particularly those that have experienced rapid growth in recent decades—rising incomes have been accompanied by increased inequality. As Figure 7 illustrates, this means that several fast-growing, populous countries are home to a large share of the world's poor (see Page and Pande (2018)). Notably, the figure shows that following China and India's transitions from low- to lower-middle-income status in 1999 and 2007, respectively, the share of the world's poor living in middle-income countries rose immediately. Within countries, extreme poverty continues to be concentrated in rural areas characterized by relatively low agricultural productivity. Likewise, despite India's rapid economic growth, its skewed sex ratio—symptomatic of the "missing women" problem—has persisted and in some regions intensified (Saikia et al. 2021), underscoring how

growth can fail to address, or may even exacerbate, deeply entrenched social inequalities. Looking ahead, inequality complicates the promise of service-led growth. As Peters, Zhang, and Zilibotti (2026) demonstrate, such growth often benefits urban households more than rural ones, and within cities, the gains accrue disproportionately to the rich.

Figure 8: Informal employment



Notes: Share of employed people (typically those who worked at least one hour in the previous week, either for pay or profit or to produce final goods for own use) working in jobs, whether primary or secondary, that lack basic social or legal protection and employment benefits. These jobs typically have no written contracts, are not eligible for government benefits, and are not subject to labor legislation, collective bargaining, or income taxation. Does not include illegal and illicit activities. Regions are SDG regions defined by United Nations. Data sources: International Labour Organization via Our World in Data (2026).

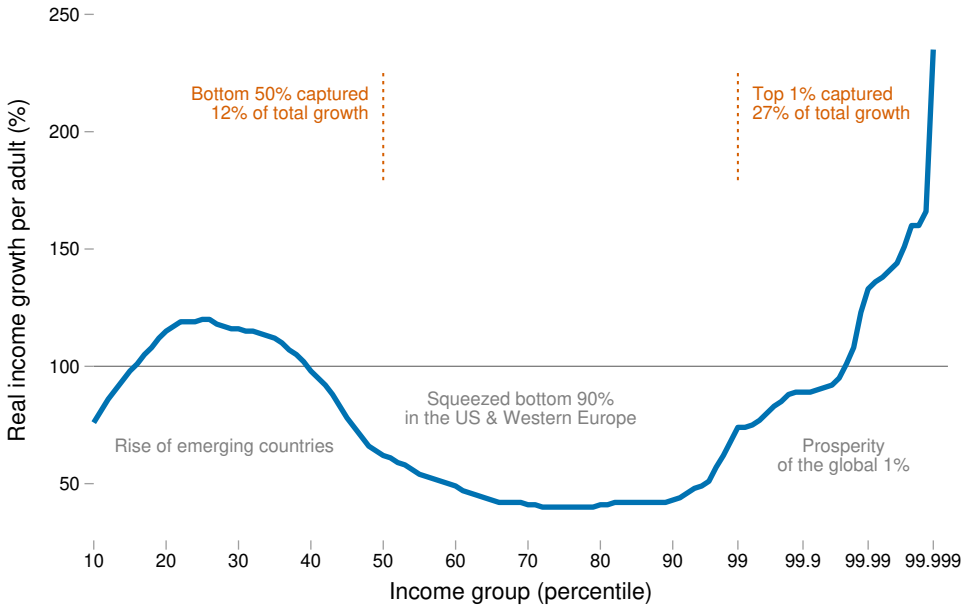
A second concern is the quality of jobs available in LMICs. As shown in Figure 8, a large share of workers worldwide is employed in the informal sector, broadly defined as employment not subject to government regulation. This share is highest in sub-Saharan Africa and Central and South Asia and, despite economic growth, it has not declined over the past two decades—either in these regions or globally. Although the definition of a "good" job is open to interpretation, informal employment is generally viewed as less desirable than work in the formal economy, as workers tend to value benefits, job stability, and the protections associated with regulation.

A third concern is the unequal impacts of climate change. As Jack and Ryan (2026) highlight, the adverse impacts of climate change are disproportionately borne by LMICs and are becoming increasingly immediate. Neither individual adaptation nor informal regulatory approaches have proven successful at helping households cope with environmental damages. Consequently, concerns that current growth may compromise the planet's future and the welfare of future generations have moved to the forefront. Such concerns reflect key aspects

of well-being—including health and mortality—that extend beyond standard measures of economic welfare. Failure to address them may also undermine future growth and development.

The concept of inequality is multi-dimensional and would require multiple volumes to analyze adequately.[3] One specific issue that has garnered significant attention in recent years and proven consequential for LMICs is the perceived trade-off between reductions in global inequality and increases in within-country inequality, especially in high-income countries. The well-known "Elephant Curve" is frequently invoked to illustrate this perception. Figure 9 plots this curve using data from the World Inequality Database for the period 1980–2016.

Figure 9: The Elephant Curve



Notes: On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the world's richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation. Source: Alvaredo et al. (2018).

The curve shows that individuals in the lowest deciles—the world's poor, largely concentrated in LMICs—experienced income growth of as much as 125% over this period. While this contributed to declines in global poverty and inequality, people in the sixth through ninth deciles—corresponding to the middle classes in higher-income countries—saw substantially lower income growth. Although real incomes increased across the entire global distribution, changes in inequality depend not on absolute gains but on *relative* income growth across

[3]For a comprehensive study, see Institute for Fiscal Studies (2024).

groups. In relative terms, the curve shows that the world's poor and super-wealthy benefited more than the middle classes, especially in the United States and Western Europe.

These distributional patterns matter for reasons beyond inequality itself: the perception that both the bottom and the very top benefited *at the expense of the middle class* has contributed to a broader backlash against globalization, trade, and openness. The choice of 2016 as the endpoint in Figure 9 is deliberate; it marks the onset of this backlash, signaled by the Brexit referendum in the United Kingdom and the rise of strong anti-trade rhetoric in the United States. Such developments threaten future growth and prosperity—not only in poorer regions, but also in higher-income economies where opposition to trade and immigration has been strongest. This dynamic reflects a classic case of relative "losers" resisting policies that increase aggregate welfare, even when they themselves benefit in absolute terms. The backlash has also, arguably, contributed to rising support for authoritarianism and greater tolerance of democratic backsliding across country income levels.

A further concern is persistent gender inequality in labor markets. Although educational gender gaps have closed in most countries—and reversed in some—women on average remain underrepresented in the labor force and in high-quality jobs. To the extent that these differences reflect preferences or comparative advantage, they may be viewed as consistent with efficient specialization. However, if they reflect constraints or discrimination that limit women's opportunities, the implications are troubling—both from a human-rights perspective, as no country can be considered fully developed if it systematically discriminates against part of its population, and from an efficiency perspective. An economy that fails to fully utilize the talents of roughly half its population leaves substantial gains unrealized, and existing estimates suggest these losses are indeed large.

Field, McKelway, and Voena (2026) highlight the interlinkages between economic development and gender norms around work. While economic development is generally associated with less conservative gender norms—and many OECD and Latin American countries have trended downward in adherence to work-related gender norms in recent years—all countries in sub-Saharan Africa and South Asia became more conservative between 2000 and 2020. Women also remain overrepresented in the informal sector.

3 Key foundations

Having examined aggregate trends and their distributional effects, we now turn to the microeconomic features and actors that affect how these broader forces translate into economic outcomes—which is the focus of Part 3. In particular, we examine the roles of markets, people,

and the state. We consider how market failures and misallocation constrain productivity, particularly in lower-income countries; how human capital and labor market dynamics influence development trajectories; and how political institutions and state capacity are often critical to success—and the wide-ranging costs when they are weak or absent.

3.1 Markets

The nature of market failures and misallocation in lower-income countries is a central topic in development economics. A widely held view in the macro-development literature is that distortions—broadly understood as "wedges" between the allocation of resources that would arise in a frictionless, competitive economy and those observed in practice—are more prevalent, or at least more salient, in lower-income economies than in higher-income ones. These wedges distort incentives and lead to misallocation, thereby slowing economic development. The example of gender-based discrimination discussed above, which results in talent misallocation, is one such distortion.

Part 3 begins by exploring various sources of misallocation and the role of market failures in LMICs, starting with the broad assessment by Falcao Bergquist, Lashkari, and Verhoogen (2026). Bandiera et al. (2026) focus their analysis on the forces underlying poverty traps. Das and Dobbin (2026) examine the functioning of "human capital" (i.e., health and education) markets, where market failures are pervasive. Jack and Ryan (2026) discuss the limitations on individual, community, and government responses to environmental externalities in lower-income countries, especially as extreme temperature damages are rising and concentrated in the tropical regions.

These chapters raise the question of how much such distortions matter for aggregate productivity, with broad implications for setting policy priorities. During periods of rapid growth, it may be reasonable to focus on identifying and harnessing the forces that sustain that growth. But as future growth prospects become more uncertain, ensuring that *existing* resources are allocated efficiently becomes increasingly important. The structural and geopolitical shifts discussed above suggest that the global economy has entered such a period of uncertain and likely slower growth, making the chapters on distortions and market failures directly relevant to some of today's most pressing policy concerns.

The importance of addressing domestic barriers to an efficient allocation of resources takes on added significance in the current global context. The recent surge in economic nationalism and protectionism implies that lower-income economies can no longer rely on external forces to support their development—whether through direct aid or access to large, high-income

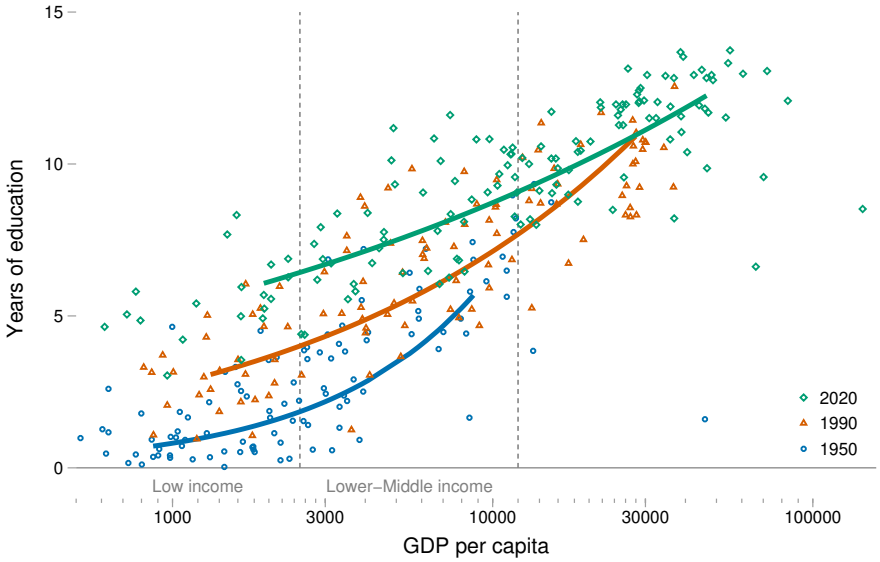
markets. Increasingly, countries will need to depend on their own domestic resources to sustain progress. As discussed in Bandiera et al. (2026), this may heighten the risk that some countries become trapped in a low-demand equilibrium.

However, correcting market distortions is only part of the story.

3.2 People

Arguably, a country's most important resource is its people. While natural resources like oil, gas, or rare earth minerals can generate substantial income boosts and the potential for sustained development, they can also lead to the "resource curse" in contexts with weak institutions—as the chapters on geography, trade, and conflict highlight.

Figure 10: Formal education of adults



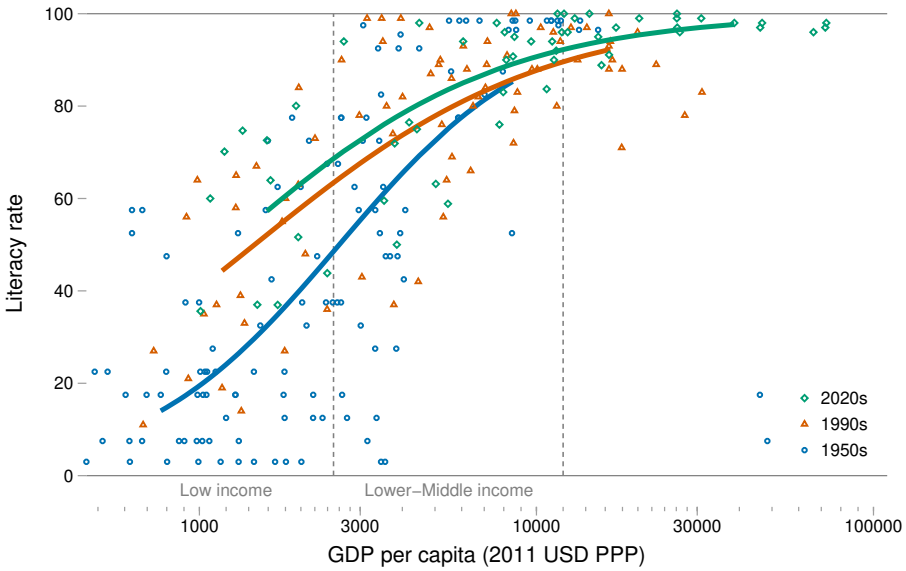
Notes: Mean years of formal education are calculated for individuals aged 16–64. GDP per capita is 2011 USD PPP. Trendlines (log years on log GDPpc) are calculated using all datapoints, but drawn only between the 10th and 90th percentiles of GDPpc. The trendline in 1950 excludes one wealthy Persian Gulf state. Denoted country income thresholds are approximations; actual World Bank classifications are based on GNI in current USD. Data sources: Education from Barro and Lee (2015) and Lee and Lee (2016) via Our World in Data (Ritchie et al. 2023b); GDP per capita from Maddison Project Database (Bolt and Zanden 2025).

For this reason, Part 3 also focuses on people. These chapters examine the accumulation of human capital and its role in development; the contribution of psychological factors, whose interactions with poverty were underappreciated until recently; and, returning to the theme of misallocation, the importance of deploying an entire population's skills and talents, not just men's. The section also underscores the importance of social protection in supporting citizens facing adverse shocks and ensuring that individual talent is not wholly constrained

by economic circumstances. Related themes recur throughout the volume, particularly in discussions of how education interacts with technology adoption and the shift toward service-based growth.

As noted, recent decades have seen remarkable improvements in schooling. Primary education is now nearly universal in most countries, largely due to the expansion of compulsory schooling laws. As Figures 10 and 11 show, much like the upward shift of the Preston curve for health, both years of schooling and literacy rates for a given level of national income have increased since the 1950s. Using data from 154 countries covering 97% of the world's population, Gethin (2025) estimates that roughly 45% of global economic growth between 1980 and 2019 can be attributed to the expansion of education.

Figure 11: Literacy

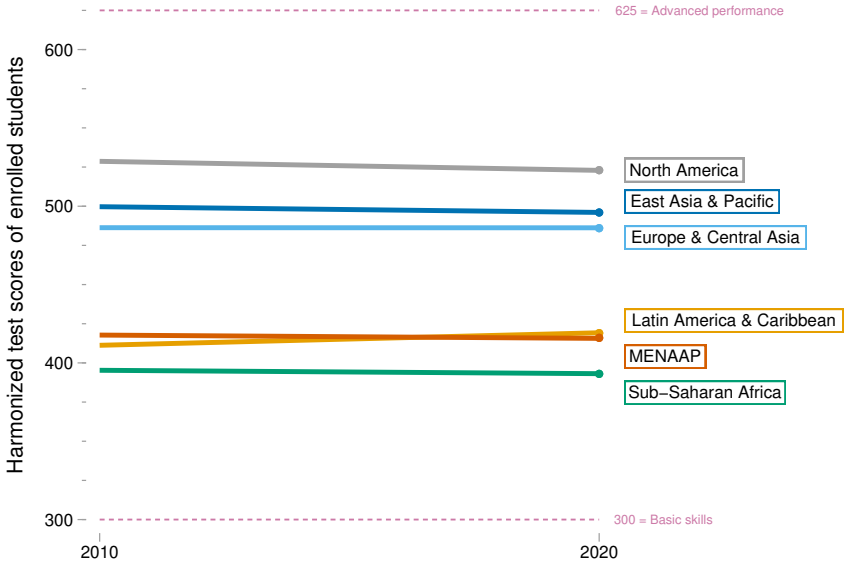


Notes: GDP per capita is 2011 USD PPP. Trendlines (literacy rate on log GDPpc, logit model) are calculated using all datapoints, but drawn only between the 10th and 90th percentiles of GDPpc. The trendline in 1950 excludes two wealthy Persian Gulf states. Denoted country income thresholds are approximations; actual World Bank classifications are based on GNI in current USD. Data sources: Literacy from UNESCO (1957), UNESCO (1953), Buringh and Van Zanden (2009), Zanden et al. (2014), and UNESCO Institute for Statistics (2025) via Our World in Data (Ritchie et al. 2023c); GDP per capita from Maddison Project Database (Bolt and Zanden 2025).

Yet important challenges remain. Aghion, Almås, and Meghir (2026) show that despite increases in years of schooling, education quality has stagnated. Moreover, as with poverty reduction, large regional gaps in learning outcomes persist and have shown little sign of closing over time (Figure 12). The chapter on human capital markets (Das and Dobbin 2026) highlights that weak learning outcomes in many LMICs do not reflect a lack of supply: education markets, like health markets, typically include multiple public and private providers, offering families meaningful choice. Rather, the primary challenge lies in the vast heterogeneity

in quality, combined with information frictions that prevent many parents from sending their children to the highest-quality options available locally.

Figure 12: Learning outcomes



Notes: National mean harmonized test scores from international assessments (TIMSS/PIRLS, PISA, PISA+TIMSS/PIRLS, SACMEQ, PASEC, LLECE, PILNA, EGRA, and EGRANR). Balanced sample across years 2010 and 2020. Each region is represented by between 12 and 23 countries, except Europe & Central Asia, which is represented by 42, and North America, which comprises the US and Canada. South Asia has insufficient data points to plot. Regions are defined by the World Bank. The regional average is not weighted. The scoring system is based on TIMSS standards where a score of 300 points represents basic skills and a score of 625 points shows advanced performance. Only students in school are measured. Data sources: Patrinos and Angrist (2018) via Our World in Data (Ritchie et al. 2023a).

Beyond regional disparities, a broader challenge facing all countries is identifying what skills will be in demand in the age of artificial intelligence and determining how education systems can prepare students for this changing environment. The current literature provides little guidance, and reliable data remain scarce. In a context where future labor market dynamics are highly uncertain, there is a compelling case for investing in foundational skills—such as literacy, math, and logical reasoning—over narrowly specialized vocational training. Such skills may best prepare students for an unpredictable world.

3.3 State

Markets and people operate within institutional and political contexts that can either enable or constrain development, making the role of the state pivotal. As noted above, however, recent decades have been characterized by democratic backsliding and only limited gains in state capacity, particularly in lower-income countries. These trends weaken governments' ability to respond effectively to citizen needs and to manage increasingly complex economic

and social challenges.

The rising incidence of conflict further underscores the importance of capable state institutions. A significant share of conflict today is within states rather than across them, with national governments frequently involved as central actors. These patterns reinforce a broader lesson: sustained development requires not only correcting market distortions and investing in human capital, but also strengthening state institutions capable of providing security, delivering public goods, and ensuring accountability (Casey 2026).

4 Reflections and open questions

Development is a multifaceted process. The chapters in Volume 6 of the *Handbook of Development Economics* underscore the complexity of the forces at work and the difficulty of drawing simple or universal conclusions. How, then, should we make sense of these dynamics? Below we advance a few broad conjectures, but they do not resolve all of the questions raised above. If anything, they generate additional outstanding questions that merit careful consideration.

4.1 Development is shaped by external conditions, economic forces, and policy choices

One lesson is that countries that successfully moved up the development ladder in recent decades typically did so by combining favorable external conditions with the types of economic forces and policy choices examined throughout this volume.

East Asian countries provide the clearest illustration of this combination. Consider, for instance, the experience of South Korea. Following the 1953 armistice, the country—and the broader region—benefited from a prolonged period of peace and stability, which enabled it to pursue an export-oriented growth strategy. This strategy integrated South Korea into GVCs and was complemented by policies, including industrial policies, that promoted technological upgrading. Upgrading occurred both through direct links with foreign investors and through learning-by-doing facilitated by trade, foreign direct investment, and GVC participation. These processes were reinforced by substantial investments in education, reflected in South Korea's high ranking on the Human Capital Index. Over time, these economic transformations were accompanied by the consolidation of democratic institutions.

Of course, not all countries have enjoyed favorable external conditions or successfully leveraged the forces and policies associated with sustained development. South Korea's experience

stands in sharp contrast to that of countries like Yemen or Sudan, which in recent decades have occupied the opposite end of the development spectrum. Persistent conflict and civil strife have trapped these economies in low-income, low-growth equilibria, with limited prospects for progress as long as instability persists.

Most countries, however, fall between these two extremes. Many African economies, for example—including Kenya, Nigeria, and Rwanda—have experienced steady growth in recent decades, even if not at the double-digit rates observed in East Asia. Many have also achieved significant gains in health, as well as improvements in schooling as measured by years of education. Yet by and large, Africa's advances have not been accompanied by structural transformation from agriculture to manufacturing or by deep integration into manufacturing-based GVCs. Technological upgrading has largely been limited to the adoption of digital technologies, which have improved living standards through greater connectivity and reduced information and transaction costs. While meaningful, these changes have not generated the economy-wide transformation associated with East Asia's manufacturing-led growth. Inequality across Africa remains high, gender disparities in labor markets persist, and gains in schooling have not translated into improvements in education quality, which remains among the lowest globally. Institutional capacity and state effectiveness remain limited, and adaptation to climate change has been minimal.

For economies in this middle category, the chapter by Peters, Zhang, and Zilibotti (2026) underscores that the service sector has emerged as a potential alternative path to growth. Indeed, growth in many such countries is currently service led. However, as noted above, it remains unclear whether services can generate the positive spillovers that made manufacturing such a powerful engine of productivity growth, technological upgrading, and broader development—and labor market pressures associated with artificial intelligence may pose new and still poorly understood challenges to this alternative growth trajectory.

4.2 Success can arise from a range of policy approaches

A second lesson concerns the nature of the policy choices that underpin successful development trajectories. In many cases, success can be linked to the adoption of "good" policies that enjoy broad support among economists, such as investments in health and education or openness to trade and foreign direct investment. At the same time, some successful trajectories were reinforced by institutional features or policy choices that are more controversial or even difficult to reconcile with standard economic prescriptions.

These tensions become clearer when we examine specific country experiences more closely.

Returning to the example of South Korea, two features stand out: the prominent role of *chaebols*—large, family-controlled conglomerates spanning multiple industries and central to state-led industrialization, representing a clear departure from the benchmark of undistorted competitive markets—and the extensive use of industrial policy. Similarly, in China and Vietnam, political systems have enabled a degree of policy continuity and time consistency that is often more difficult to achieve in democratic settings. These experiences raise a broader question: whether certain country- or context-specific features may confer advantages under some circumstances, but not under others.

This broader question is taken up explicitly in Chapter 3 by Moscona, Nunn, and Robinson (2026). They engage with the concept of "appropriate development," where "appropriate" refers to development strategies tailored to specific contexts. Which elements of a country's setting are immutable, and which can—or should—be altered through policy remains an open and, in part, philosophical question. Most would likely agree that geography, the starting point of the *Handbook*, is among the least amenable to direct intervention. Yet even here human action matters: climate change generates feedback effects, and infrastructure investment can mitigate some geographic constraints. In most other domains, however, the boundary between what should be taken as given and what can—or ought to—be changed through policy is far less clear.

4.3 Investing in institutions and capacity pays off

A third lesson is that investments in democratic institutions, state capacity, and implementation can yield returns even when reforms are partial. For democratic institutions, this theme arises in the chapter on politics and policy by Casey (2026). She emphasizes that reforms aimed at strengthening institutions and building capacity must be tailored to the underlying economic environment and the state's implementation capabilities. Importantly, she highlights that reforms need not be perfect to have impact. For example, Kenya's imperfect transition from autocracy to democracy was sufficient to tighten executive constraints, curtail ethnic favoritism, and improve the allocative efficiency of public infrastructure. Technological advances can also, at times, enable institutional leapfrogging. Digital governance tools, for instance, can complement human capital in contexts where budget constraints limit personnel hiring. India's digitization of social protection programs illustrates both the promise of such approaches and their limits, including resistance from administrators who benefitted from previous systems. The chapter by Rohner (2026) likewise underscores the importance of supporting institutional reform—particularly in Africa—as a means of reducing conflict risk.

A similar logic applies in the domain of environmental policy. In their chapter, Jack and Ryan

(2026) argue that formal regulatory responses to environmental damage and climate change are important, even when implementation is imperfect. In settings characterized by low state capacity and incomplete information, governments often rely on coarse regulations that use rough proxies for enforcement. Yet, as the experience of East Asian countries suggests, meaningful improvements in environmental quality are feasible with focused policy effort. Whether and how countries can coordinate to enable effective global climate action, however, remains an open question.

For state capacity, partial reforms can likewise generate meaningful gains. Investments in tax administration in Indonesia, for example, strengthened revenue collection and improved compliance, even without comprehensive institutional overhaul. Such experiences suggest that incremental improvements in core state functions can yield substantial returns and enhance governments' ability to finance development priorities.

5 Conclusion

Volume 6 of the *Handbook of Development Economics* focuses on themes that have generated a substantial body of research over the past two decades and that sit at the forefront of current academic and policy debates. In doing so, we have deliberately refrained from revisiting topics comprehensively covered in earlier editions—including agricultural productivity growth and health—or in related volumes, such as the 2017 *Handbook of Field Experiments* (Banerjee and Duflo 2017).

Inevitably, space constraints also required us to omit several areas that have seen substantial research progress and may warrant dedicated treatment in future volumes. Below, we briefly highlight three—financial access and microfinance, insurance and risk management, and migration—and direct readers to recent reviews.

Financial access and microfinance

The World Bank's Global Findex Database documents a striking expansion in financial access. Although systematic measurement only began in 2011, account ownership in LMICs has increased from 42% to 75% by 2024. Mobile money and digitally enabled accounts—technologies that were scarcely present two decades ago—have played a central role in this transformation, particularly in sub-Saharan Africa, where 40% of adults now hold mobile money accounts. The economic impacts of mobile money is an active area of research; we refer readers to the recent VoxDevLit by Suri et al. (2023).

Access to microcredit has also expanded. A robust body of research has examined the

benefits and limitations of microfinance, with evaluations finding that while traditional microcredit models—small loans with short repayment horizons—can increase borrowing and investment, they generally do not produce transformational impacts in business profits or income. More recent innovations in product design, including more flexible repayment contracts and improved digital contracts, show greater promise. For a comprehensive and regularly updated review, we refer readers to the VoxDevLit by Cai et al. (2025), which synthesizes evidence on program impacts, contract design, and alternatives to traditional lending models.[4]

Insurance and risk management

Agricultural and weather-indexed insurance products have attracted considerable research attention as tools for managing uninsured risk in LMICs. Agricultural producers face significant risks, and while government-subsidized insurance products have achieved some adoption, take-up of unsubsidized index insurance has remained low despite extensive experimentation. Cole and Xiong (2017) provide a thorough review of research on agricultural insurance in developing contexts, examining adoption patterns, impacts on investment decisions, and effects on consumption smoothing. Carter et al. (2017) focus specifically on index-based insurance, reassessing the evidence to examine how revised contract design, technology improvements, and enhanced marketing can partially overcome adoption constraints.

Beyond agriculture, many LMIC governments have developed health insurance products to complement tax-funded healthcare provision, though evidence suggests these programs have only partially achieved their objectives. Das and Do (2023) review two decades of experience with health insurance in LMICs, examining the effects on both financial protection and health outcomes. Dupas and Jain (2026) also provide a review of public health insurance in their chapter in *The Handbook on Social Protection*.

Migration

While some chapters in this volume discuss migration, it does not include a standalone treatment of the economics of domestic and international migration. Migration enables workers to realize large productivity gains by moving from labor markets where their skills are underutilized to those where they can be more productively employed. Domestically, substantial productivity gaps between rural and urban areas persist across many LMICs, with rural-urban migrants experiencing considerable gains on average. However, frictions in information, financial, and land markets continue to constrain mobility and help explain

[4]The chapters by Breza and Kaur (2026) and Bandiera et al. (2026) both touch on financial markets.

the persistence of these gaps; see the chapter by Bryan, Frye, and Morten (2025) in the *Handbook of Regional and Urban Economics*. International migrants moving from lower- to higher-income countries also typically experience substantial income gains, a large share of which is remitted to their countries of origin.

The economic significance of migration—particularly South-North flows—is likely to increase in the coming decades, as diverging demographic trends create both pressures and opportunities: aging populations and shrinking workforces in high-income countries alongside youth bulges in lower-income countries, especially in Africa. For a comprehensive synthesis of the evidence on international migration, we direct readers to the VoxDevLit by Yang et al. (2026), which reviews the growing body of research on the impacts of migration on sending and receiving communities as well as the effects of various migration policies.

Many other important open questions remain—particularly regarding international finance and how the global community will coordinate and fund climate mitigation and adaptation in an era of declining development assistance and a weakening rules-based multilateral order. In part, these topics are difficult to cover comprehensively because research continues to lag the rapidly evolving technological and geopolitical forces that are reshaping the development landscape. As the AI-driven data economy expands, the types of resources that countries and firms seek are also changing, with rising demand for critical minerals essential to low-carbon technologies and digital infrastructure. How these changes interact with shifting geopolitical dynamics will likely have important implications for development, especially in lower-income regions such as Africa, which holds roughly 30% of global reserves of key minerals.

Given the urgency of these challenges, we hope the next volume of the *Handbook of Development Economics* will engage them more fully and help advance the next generation of research at the frontier of the field.

Declaration of Generative AI and AI-assisted technologies in the writing process: The professional version of ChatGPT was used to help refine language and improve clarity. All AI-generated content was reviewed, edited, and adapted by the authors to ensure the manuscript represents our authentic and original contribution and reflects our own interpretation and insights.

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