Rethinking Development

Gordon Hanson, Dani Rodrik, and Rohan Sandhu

THE FUTURE OF ECONOMIC DEVELOPMENT WILL BE VERY DIFFERENT FROM ITS PAST

SIMONA BORTIS-SCHULTZ

The world economy is entering a new stage in which national security and geopolitical goals loom much larger in government policy agendas. Even leaving aside the decline in multilateralism and rise in trade protection in advanced economies, export-oriented industrialization has lost its luster as a trusted vehicle for economic growth and job creation. Climate change remains an ever-present threat, while the renewables revolution offers both hope and new possibilities for structural change.

Adjusting to these disruptions requires a substantial rethinking of growth strategies in both low- and middle-income countries. The focus must shift from export-oriented industries toward the vast majority of people in low- and middle-income countries who work in traditional, untraded service sectors. Improving the lot of the world's street vendors, gig workers, micro-entrepreneurs, and others untouched by global markets will do more for developing national economies than, say, assembling smartphones. Policymakers would be wise to adapt sooner rather than later.

The goal of economic development hasn't changed: greater worker productivity and the opportunity for a decent income. In the past, successful growth strategies emphasized fundamental capabilities alongside structural change (Rodrik 2014). The fundamentals focused on governance, institutions, integrated markets, and human capital. Structural change was achieved through industrialization—turning rural subsistence farmers into urban factory workers. The more rapid the industrialization, the more rapid the resulting economic growth. And the greater the investment in fundamentals, the higher the likelihood of sustainable growth.

Patterns of employment

That model has gone only so far and may be essentially played out for many developing economies. Consider future patterns of employment in the developing world. Based on current demographic, schooling, trade, and industrialization trends, we can make some rough projections of occupational composition. Table 1 classifies occupations based on educational requirements (college/no college) and exposure to international trade (exposed/sheltered) a decade hence for all developing economies, excluding China (which requires separate treatment in view of its head start in manufacturing). We list examples of jobs in each cell.

The numbers have some striking implications. Note first that most workers will not have a college education. Second, more than three-quarters will be in occupations that are not directly exposed to the international economy, either through trade or "offshorability." Most important, about two-thirds of the developing world's labor force will be in occupations that do not require a college education and are not tradable. These are currently very low productivity, predominantly informal jobs such as street vending, domestic and food service work, and subsistence farming.

The inescapable conclusion is that the standard modes of productive transformation—namely, investment in conventional education and export-oriented industrialization—can no longer generate large numbers of good jobs. These strategies will therefore not contribute much to income opportunities for most workers in developing economies. Instead, the central challenge of economic development today is how to increase productivity in nontraded activity jobs, mostly in services, that do not require a standard college education. That question should frame all discussions on the future of development strategy.

Nontraded services

Earlier this year, we launched Harvard Kennedy School's Global Economic Transformation Initiative to help policymakers come up with answers to this economic development challenge. Our initial conference highlighted new research on the importance of services to economic growth and, especially, recent evidence by the scholars Tianyu Fan, Michael Peters, Youdan Zhang, and Fabrizio Zilibotti suggesting that there is significant productivity growth in many nontraded services traditionally considered stagnant. At the same time, our discussions revealed that many developing economy leaders remain adamant about industrialization as a vehicle for economic diversification, the green transition, exports, and growth. After all, services largely denote low-skill, low-productivity, and survivalist activities in most countries.

Manufacturing is important for several reasons (productivity and learning spillovers, investment attraction, national security), but it is no longer the employment generator it once was. It has become substantially more capital intensive in most countries and sectors. Productivity growth in industrial enclaves is not meaningful for economic development if it does not also create jobs for the rest of the population. And focusing on sectors like semiconductors or the assembly of smartphones or electric vehicles will not in itself drive much growth. The focus must be on generating productivity growth in activities where the bulk of the jobs are and will remain. We need an updated version of the industrial policies that worked well to foster industrialization—but this time mostly for nontraded services.

There are two legs to that strategy. One focuses on the supply side of labor, on vocational training and workforce development. The other focuses on the demand for labor, on enhancing the productivity of local firms. These two sides of the coin must be coordinated for maximum impact on productive employment.

Our projections indicate that for most workers in developing economies, and for the foreseeable future, the transition into the labor market will be a direct move from secondary school to the world of work. A successful transition means rethinking our approach to workforce development. Secondary education in many countries today does little to raise individual earning power. Classes are not oriented toward the occupational skills employers want nor do they teach people the soft skills they need to find good jobs and advance professionally.

TABLE 1

Tomorrow's workers

In a decade's time about two-thirds of developing economy workers will be in occupations that don't require a college education and aren't tradable.

(projected occupational composition of developing economies' labor force, 2036)

Education	Trade exposed	Sheltered	Total
College	3.3%	9.8%	13.2%
	Software developers, IT engineers, offshore business process outsourcing staff, engineers, pharma/biotech researchers in exporting firms	Schoolteachers, doctors, nurses, civil servants, public administrators, lawyers and accountants serving home market	
No college	20.6%	66.3%	86.8%
	Garment and footwear workers, electronics assembly workers, cash crop workers, call center agents	Street vendors, shopkeepers, domestic workers, drivers, food service workers, subsistence farmers	
Total	**23.9%**	**76.1%**	**100.0%**

SOURCE: Authors. **NOTE:** Excludes China. Total may not add up due to rounding.

Opportunities for change

Yet opportunities for change abound. Many developing economies have recently made or are considering making upper secondary education (ages 15–18) mandatory. This opens a window for career and technical training in educational systems to replace the failed models of the past. There is credible evidence that such training can be effective across a wide variety of settings. The ongoing digitization of education and employment data, even in low-income countries, makes it possible to design, test, and implement programs that meet distinct regional labor market needs in a way that was previously unimaginable. In high-income and some middle-income countries, sub-baccalaureate career and technical programs train workers for good jobs in health care, construction, personal services, and IT support and infrastructure. Suitably modified, such approaches are readily applicable across the developing world (Hanson 2026).

On the demand side, we need industrial policies better suited for the smaller firms that dominate services. One strategy aims to encourage large firms to invest in the capabilities of their suppliers or other small enterprises. For example, platform companies can assist retail and food service firms and gig workers that use their systems with marketing and technical assistance. Government can nudge these companies to do even more and can work with established exporters, mining operators, and large retailers to expand and productively upgrade their network of local suppliers. Many large employers have proprietary training programs that can be adapted to serve a broader range of firms.

Another strategy would provide micro and small enterprises with direct productivity-enhancing public resources. Many governments already provide such services, ranging from loans to management training. But these programs do not typically target productivity and rarely take into account constraints small businesses face. Evidence from interventions in developing economies suggests that carefully targeted management training, marketing assistance, and provision of technology can boost productivity and employment in smaller informal enterprises (Rodrik and Sandhu 2025).

Learning and experimentation

Several key messages emerge from these new policies, whether focused on workers or firms. First, productive jobs hold the key to economic development, and the more there are, the better. Technology, innovation, exports, and even growth itself are inadequate if they benefit only a narrow segment of the workforce. Second, success on the development front will depend largely on the fate of nontraded services. These activities are dominated by smaller firms but generate the bulk of jobs. Without a substantial increase in their productivity, development will stall.

> "The central challenge of economic development today is how to increase productivity in nontraded activity jobs, mostly in services, that do not require a standard college education."

Success depends on a culture of learning and experimentation. Governments cannot pick winners; they do not know in advance what will work. This uncertainty needs to be factored into government programs. Collaborative, iterative approaches that are open to revision and focus on removing constraints through public support must replace top-down programs with fiscal subsidies and fixed program parameters.

Generals, it is said, always prepare to fight the last war. Development practitioners should avoid that mistake and embrace the new approaches changed circumstances require. F&D

GORDON HANSON *is the Peter Wertheim Professor in Urban Policy at the Harvard Kennedy School, where* **DANI RODRIK** *is the Ford Foundation Professor of International Political Economy, and* **ROHAN SANDHU** *is the founding director of the Reimagining the Economy initiative.*

REFERENCES

Hanson, Gordon. 2026. "Workforce Development for the Developing World." In *Development, Reimagined: Pathways to a Thriving World*, edited by Asim Kwaja and Fatema Sumar. Cambridge, MA: Center for International Development.

Rodrik, Dani. 2014. "The Past, Present, and Future of Economic Growth." In *Towards a Better Global Economy: Policy Implications for Citizens Worldwide in the 21st Century*. New York: Oxford University Press.

Rodrik, Dani, and Rohan Sandhu. 2025. "Servicing Development: Productive Upgrading of Labor-Absorbing Services in Developing Economies." *Global Policy* 16 (2).

Rodrik, Dani, and Joseph E. Stiglitz. 2025. "A New Growth Strategy for Developing Nations." In *The New Global Economic Order*, edited by Dani Rodrik and Lili Yan Ing. London: Routledge.