

Keynote Speech: Development Traps in a World in Transition

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It's my first time I am in a microfinance conference, and I'm delighted to be here, to be exchanging, uh, views with all of you. And I'm going to try to link the microfinance to the macro events that are happening right now, and especially why are we losing economic potential, why are we losing talent, why are we wasting the resources that are latent but are underuse because very often they don't have the opportunities, and they don't have the finance to actually thrive. I'm going to be talking about what are known, increasingly known, as development traps in a world in transition. And you're going to mainly ask, "What is this about development trap?" But I'm going just to put the main argument with you. And the main argument is that many places where we live are not thriving. They're not doing as well as they should do, and they're playing below their capacity. Uh, whether they are in lagging behind regions in the US or in lagging behind regions in Europe or declining regions, where they are in many transition countries or in Central Asia or in parts of the developing world, what we have is that increasingly economic activity is becoming concentrated, and it's becoming concentrated in very few places. Normally, the macro cities, the capitals, the most dynamic areas, whereas not just small remote rural villages and towns, but intermediate cities and very often relatively large cities are experiencing low economic growth, low employment generation, and low productivity growth. And these traps, as I said, are not just concentrated in one part of the world. They're spread out, and they are creating problems, economic problems, because we have foregone potential, but also they're leading to political problems, which is reactions, crisis, leading to a more turbulent and challenging world as we were seeing, and it's also leading, in the end, when you have political turmoil, to lower well-being, lower opportunities, and lower economic dynamism. But first, you're going to ask, "What is this of a development trap?" And this is where you should come and stay with me. It's a concept that I have developed with colleagues, Simone Amarino and Michael Storper, that comes from what is known as the middle income trap, the middle income trap developed by the World Bank, Indemnity Guild, and Carras in the 2020s, sorry, which mainly it was a theory that looked at countries and said, "Well, we have a lot of countries growing, but when they reach a level of development of around \$11,000, some other people say \$15,000, they become stuck and they don't grow." This becomes easier to understand with an example. The key example is in the 1960s, South Korea and Brazil were growing at the same rate and had the same level of development. Since the 1960s, Brazil has been more or less stuck, growing very little, whereas South Korea has shot up to the ranks of the most dynamic regions. And what we did was translate this concept and adapt it from countries to regions across the world, not just for poor regions that grow and then are stuck, but we actually looked and saw that many areas, rich, poor, and of intermediate development, were not growing at the same rate as others, that some were losing out in terms of income, in terms of productivity, and in terms of employment. So we decided to put all this together and measure it relative to a place's own past. So are you growing in these three dimensions more or less than you were

in the past relative to the rest of the country the region is in, and then also relative in the case of the European Union, but also in other places to, in this case, to the whole of the European Union, so the wider economic space in which a region is located? And this is graphically what it looks like. So you might be growing for a long time above the historical baseline of your own region in the past, of the country you're in, or the super region in which you are, and then after a certain point, you start falling behind. And in some cases, this is a temporary blip, but in many cases, it becomes some sort of structural, uh, background, and it does last for a long time. So we put all this together. We created several indices, and we measured three dimensions. The first one is the risk. Are you in your city, is your region, is the place where you live, where you actually provide your activities at in a development trap, at risk of falling in a development trap? If it is, how big is the trap relative to other places? And as importantly, because when traps are durable, then it becomes a problem, how long have you been in a trap and gotten the consequences of being in a trap? And more than the abstract, what you want to see is how this translates into concrete measurements, and you have them here. Let's take a look at this is the measurement of the trap looking at the average trap in the case of Europe. Anything that is the risk of being in a trap, anything that is in dark red means a high level of a trap. Anything that is in very light pinkish color means a low level of a trap. And then what I want to look you look at to look at is to look at the region, if I can get it here, so the region of Paris. The city of Paris itself is not in a trap. It's actually very light pink, but it is surrounded by a sea of dark red, a lot of regions. And it's not just exclusively one thing that you can see in the case of France. It extends to Italy, to Croatia, to places like Romania, to places like Greece. And I would say that many of the regions in this area of the world would also be in a development trap. When we look at intensity, we find different, a different map. So you might be in a low-intensity trap in some parts of France, but the intensity becomes much bigger. That means that the slump, the loss of employment opportunities, of growth in productivity, and income is far greater in many parts of Central and Northern Italy, but also in the inland parts of Croatia. You said that Bosnia had the biggest delegation here. So the area on the border with Bosnia in Croatia is actually has the highest level of intensity of the trap. And then you can see also in parts of Greece. But it also happens in very dynamic countries. You have here Ireland, up, if I can put it over there, and then in Ireland, you can see a blot of dark blue, which is high-intensity of trap in the Midland regions. Why? Because growth is being concentrated in Dublin and in Cork, and many of the other areas are not sharing the benefits and the well-being that emerges from economic dynamism. And then finally, we look in Europe at the duration of the trap. And here in Europe, what is something that I find very interesting is that the trap has become a structural problem. You're not in a trap for a year and you come out. You're not in a trap in five for five years. This is the period between 2001 and 2019, a maximum of 19 years. And anything that is dark red means that you have been in the trap a minimum of 17 years, 17 years, almost the whole period. And now remember this relative to the risk, and remember because I'm going to come back to what the consequences are. Whereas Paris is thriving, the surrounding areas around Paris are actually stuck, and they have been stuck now for a generation going nowhere. And it's not just there. You can find them in Italy, many parts of Spain. You can find it in places that in theory should be dynamic, like Lisbon in Portugal, which has been stuck for quite some time. And you have

much less of that evidence in many parts of Central and Eastern Europe, with the exception, for example, of Croatia, parts of Romania, and of course, Greece here. But is this something that is confined to Europe? No. I'm going to highlight that there are other parts of the world, like the United States or Central Asia, where I'll bring an example, that have also significant problems with that development trap. Let me start with the United States. It's the same, but we have differences. In the United States, we have a longer time horizon. We look at traps since the 1970s. And what we find is that, yes, there are a lot of regions in the Rust Belt of the United States, in Appalachia, but also on the inland of coastal states on the Pacific Coast, inland California, inland Oregon, inland Washington, that are stuck in a trap. But there, the difference is that it's not a permanent state. It's not structural. You have much greater volatility. Many cities, many regions, many places go in a trap and then come out, and then sometimes they start a recovery, but very often they fall again in a trap, which is difficult from what we find in Europe, in which the trap has become structural. And you have a map. Anything that is in red, it means a higher level of entrapment. And as I was saying, you can find it in places like Pennsylvania, Upstate New York, Ohio, Michigan, Indiana. You can find it in the area of the Appalachian Mountains, in Kentucky, in North Carolina, in Georgia, but you can also find it outside the coast in the whole of the West Coast. So and the fact is that income is not no shield. You can be in a trap like you were in parts of Ireland at very high levels of income. It's not just affecting poorer places. And you can have different locations. So you can be in blue sorry, in green, not at risk of a trap, but then you have very distressed areas, including cities like Buffalo or, for example, places like Cleveland in Ohio. And when you put this in an example, more than in abstract graphs, etc., you find the situation Detroit is in. Not that long ago so I was already born in that period in 1970, Detroit was the fourth largest city in the United States. It hasn't grown. It was a city known for Motown, so motor cars and music. Now the city has been declining for a long time, and that decline has obviously been translated in loss of jobs, loss of opportunity, loss of economic dynamism, but also loss of population. It has gone down from being the fourth richest city sorry, the fourth most popular city in the United States to being the 26th city today. And despite some signs of new dynamism, the city is still not doing very, very well. But also, I'm going to bring and highlight where this happens in places where I have had a significant amount of work in recent years, which is the case of Kazakhstan. And I don't know whether any is anyone from Kazakhstan, but in Kazakhstan, I remember I was called through the Asian Development Bank by the government to actually help them measure the internal disparities within Kazakhstan. Why? Because Kazakhstan has been a country that has done, over the last few decades since independence, very well. It has grown much faster than most countries in the world, with very few exceptions like Ireland or China. But Kazakhstan was poor in 1991, but everyone was equally poor. In recent years, Kazakhstan has grown, but wealth has concentrated in very few places of the country. And when I did the first report, I measured inequality. I measured trajectories. I measured competitiveness. And then, since I was doing the development trap, I measured the development trap. And when it was given the report, it was given to the minister. The minister went through all the maps and then stopped at this map and said, "What is this?" That was in 2021. And this is a map of the development trap in Kazakhstan. Anything that is in dark blue means that you're trapped, that you're growing below what you

were doing in the past and below the rest of Kazakhstan in terms of employment, GDP, and productivity. And there you have some relatively poor, albeit in some cases densely populated, regions, like let me see if it works now. No, sorry. Yeah. Over here. So I have to put it over there, and it will work. All right. So you have over here up. It doesn't work. Anyway, right over here, the city of Shymkent and the oblast of Turkistan, which are highly densely populated but relatively poor, unstuck, not doing very well. You also have Kyzylorda, whereas you have Baikonur, which is low density, also not doing very well. But also on the west, you have Mangystau, which is one of the main oil-producing oblasts in the country, in theory rich, but the population is not benefiting from it, and it's also a place that has been stagnant for quite some time. But it's not just Mangystau. It's also the whole west oil-rich producing in places like Atyrau and West Kazakhstan. And when you move all this, you have that situation, and I'm going to bring the consequences in a moment, but you have that sort of problem elsewhere. So in Europe, what we have is a problem of low or stagnant growth, and it affects high-income, medium-income, and to a much lesser extent, low-income regions. In the whole case of Kazakhstan, it affects high and low-level income regions. And in the case of the United States, the main difference is that it's highly volatile, whereas in Kazakhstan or in Europe, they get stuck. In the United States, you go into a trap, you come out, and sometimes you go back, or sometimes you thrive afterwards. So now that we have what it is and we have measured where it is, what are the consequences? And there are two important consequences. There are economic consequences, and there are also political consequences and how they feed on each other. The first one is the economic price of territorial myopia, if you want. Why is being in a trap a big problem? Because first, you waste talent. And this is where microfinance comes in and is important. Talent is distributed more or less evenly across places. Opportunities are not. And a mainstream economist would tell you, "You go to your opportunities." So if you happen to be from a remote area of Albania on the border with North Macedonia, with Kosovo, the answer to you would be, "There's no future here. Go. Get on your bike and move to where you have opportunity." And opportunity might not even be in Tirana. Move to London. Move to Munich. But they have realized that this is not working. So the second option is, "Let's subsidize them." But when you subsidize people, what you're doing is all their talent, all their potential gets wasted. Here, the whole idea is that we are not actually investing enough in places that have got a wealth of talent that, in some cases, were motors of economic development until relatively recently, and we're channeling more and more investment to places that are already dynamic. And that, in the long run, is undermining the potential of many places in Europe, elsewhere in the world, that have got significant potential that is wasted. That has difficulties because let's suppose that we follow what is being proposed now for Europe. Let's try to imitate what China and the United States is doing. But if we want to develop a massive AI, and this is what's on the table right now, you cannot do it everywhere. You have to bet on one place. And even if you are successful, which is highly doubtful, that place is not going to be Tirana. It's not going to be Albania. It's not going to be virtually anywhere. It's going to be probably Paris or Munich. Those are the only places where we have significant potential. Does that mean that the other places do not have potential? They have massive potential, but we need to do other things in those places. And that would be an opportunity cost. And then the cost of ignoring this is that you might not be mobilizing

that potential. You might not be tapping on the talent that you have locally, and you would allow this drift of population to continue. And as a whole, as an aggregate, whether you are Albania or you're Kazakhstan or Uzbekistan or you are Thailand, you will be losing out in the medium and long run because you're not flying your airplane with all four motors. You're trying to fly your airplane with just one motor, and if that motor fails, the whole country falls. So my advice would be, "Well, use your talent." Second, and this is one thing that we're seeing in the case of Europe. In the case of Europe, yes, some places are dynamic, but we have 60 million people today living in places that have a lower GDP per capita than they had in the year 2000, 135 million or one-third of the population of the European Union living in places that have barely grown. Growth has been below 0.5% per capita per annum. So these are places that have been drifting away since the millennium and have fallen behind. And are these places where you should invest? No. These are places that, until very, very recently, were among the most dynamic places in Europe. I'm thinking about the Italian industrial districts that, until the 1980s, were the hub of the Italian economic miracle. And so you have this foregone potential, but you also have foregone choke points. We're talking about geopolitics, and geopolitics is about what do you have that the others don't have? If we try to actually pursue the shadows of the Americans and the Chinese in the case of Europe, then what's going to happen? We're never going to be leaders. We're never going to have choke points. If we build on what we have, and that's where funding and microfinance might you might end up with a lot of the reinforcing the areas in where Europe is still leader, and there are quite a few areas that I can talk later, but also you can actually encourage the development of other activities where we have significant potential, but that potential is underused because sometimes it's not in the usual places. And remember, much of the European dynamism in recent years has not come from Paris or Munich. It has come from places that, in many ways, were considered not to be auspicious for economic development. But on top of that, there's an important political price, which is, in my view, as important. And this pans out in very different ways in different parts of the world. In the case of Europe, it has led to a rise of Euroscepticism, anti-system voting, and populism. When you are in a trap for a long time, you think that you end up with no solutions, so you vote against the system that hasn't delivered for you. And this is the rise of anti-system voting. You can see this is until the year 2022. In national elections, that was anti-system vote sorry, Eurosceptic vote in the case of Europe was at 28.5% then. Last year, in 2025, it rose already to 33% of all the votes. And look at where it is concentrated. Remember my map of France? Look at France there. Sorry. Oop. If it just reappears. It worked before, but yeah. There it is. You can see Paris voting for mainstream parties surrounded in a sea of red voting for Eurosceptic parties. But it's also look at Italy. Look at East Germany. Look at Poland. Look at Hungary. You have all this spread throughout. In other cases, what is translated in other ways? Say, "Yes, we all want to be like the United States, and we envy the macro aggregate growth of the United States." But the Americans are saying, "We don't want this United States." So what is that? Because they're voting for an anti-system president. And where is that happening? Fundamentally, in these places that have been in a trap. Yes, because the country is doing very well, but wealth is concentrated in few places and in the hands of the very few, whereas if you are in West Virginia, you are in Ohio, you are in Iowa, you are in Indiana, you are doing far worse than

you were doing before. And that is a price that they are paying. But also, you have it in the case of Kazakhstan. I remember I gave my development trap plan to the minister in October 2021, and then at the beginning of 2022, there was a hike in the liquefied gas prices, and the country erupted. Where did it erupt? Precisely in the places where you have a development trap. It started in Zhejiangzhou, in Mangystau, and it spread to many of the southern parts where discontent was brewing because there were no opportunities in terms of employment and growth. So you can have different manifestations from Eurosceptic voting, although in Europe, we have not been, especially the French or the Dutch, about revolts of those that are disadvantaged and living in disadvantaged places as a result of that, the gilets jaunes, the yellow vests. We might have a structural realignment in terms of what we see in the United States and much greater polarization within the country, and we might have open unrest as it happened on the 2nd of February, 2022, in Kazakhstan. And this creates a toxic feedback loop. Places that are falling behind, that get into a development trap, voice their discontent, whether it is through revolt or at the ballot box, that leads to a much more fragile and difficult political situation. That fragile political situation feeds into the economy, and then the economy leads to lower economic growth. And I know it firsthand because I live in a country that suffered this. In the UK, the UK was doing very well, and it did very well since the single market for more than 30 years, but growth was concentrated in London. Yes, the macroeconomic was good. London, Oxford, and Cambridge were thriving, but the rest of the country was losing employment, was losing hope, was losing opportunities, and talent was wasted. When they were given the opportunity to vote for Brexit, they decided to vote for Brexit. And now, the areas that were falling behind are doing worse, but they knew they were going to lose. The areas that were doing well, like London and me in London, are doing worse, but we never thought we were going to do worse, and the whole country is doing worse as a result. So how do we avoid this? How do we spring the trap? And there are things that shouldn't be done. We shouldn't do countercyclical transfers, which is something, yeah, you have a crisis and you put more money, so that leads to more debt later on. We shouldn't do subsidies, which is what is now saying, "What do we do with these areas? Let's subsidize them," as I said before. We shouldn't go and try to imitate Silicon Valleys, and try to create Silicon Valleys in the middle of Albania because that rarely works. And we shouldn't do place-blind moonshots, the whole idea of saying, "Let's have a massive sort of big project that then turns into a white elephant." Money delivered matters much less than the institutional capacity of the places receiving it. What does it work? Using what you're doing, funding, investment, strategies to actually build on what you have and help the sort of people that you're helping, but not just at the level, the sort of firms that you're helping, but also at a much bigger scale, to not do exactly the same thing they're doing, but get funding, get support, get capacity to innovate, to actually move into sectors that are related, reinvent themselves, and become dynamic again. Digitalize. So let's stop chasing big dreams and try to digitalize and use AI, new technologies, automation to make sure that we do what we do better, and in the process, we transform what we do into something new and far more sophisticated. That would allow us to strengthen the real choke points. Yes, we can try to create an AI-generating industry in the whole of Europe, but why not invest in those areas where we have a more significant advantage? We are the best, by quite some margin, at producing the machines that

lead to the production of chips that are at the base of AI. But we are leaders in many areas surrounding medicine, and we are leaders in not just high-tech, but also medium-tech sort of firms, in apparel, in flat furniture with IKEA. So why not? Also, this is a way to actually generate new activity and facilitate the generation of innovation intermediaries. So this can be done in different ways. I'm going to focus mainly on the solutions in the case of Europe, but we can talk about other, especially in the chat, in other places. We might do things like, for example, improve the completion of the single market, address the bottlenecks, and do reforms, which do not cost any money, but they cost political capital. Translate the knowledge. We in Europe are very good at producing knowledge, but it doesn't reach industries. So how do we know that the knowledge that has been produced in research centers, at universities, sometimes in firms, is actually used to the best of our capacity? And also, facilitate it scaling up. And this is where you play a crucial role. How do you transform an idea and a project into something that then becomes an enterprise, and that enterprise doesn't stay as a microenterprise but grows into, let's say, a gazelle or a small and medium-sized enterprise? How do you go about doing this? And this is where we have to work. And you put this all together, and then you end up with a far more dynamic capacity to generate opportunities. But in order to do that, you need to also invest in institutions. Finance alone does not suffice. I think it was highlighted already by our sponsor, by the vice president of the Bank of Albania, vice governor. We need to invest to fund, but we also need to invest in education, in training, in skills. We need to invest in developing the capacity to innovate. We need to invest in improving our institutions. And let me just say what you're doing and is likely to work. What you're doing, I think, is absolutely fundamental in the current situation because you are helping people, real people, wherever they live, play to the best hands they have. And when you multiply that, you end up that we can play with our cards. Of course, I would like to be Roger Federer, but I haven't got the talent. And if you wish and want to transform me and put a lot of money into making me Roger Federer, that's never going to work. But I know I can be a better researcher if I have the right support and the right amount of investment. And this is where you can make a difference. There's a widespread trap, and it's more or less the same trap everywhere. But if you play to your own hands, if you make sure that whatever talent that is untapped there is used, you can make sure that you're giving those firms, those people, an opportunity, and you can avoid the prices that we are paying at the moment. You can avoid the economic price of not using the talent that we have everywhere. You can avoid the political price of massive discontent triggering polarization and conflict within our societies, and you can avoid this negative feedback loop of one feeding the other. So what we need to do is to have policies that are and interventions and strategies and funding that are adapted and play to the strengths of every place. This is what we call place-sensitive type of intervention. They have to be structural. I know that everywhere we like to respond to emergencies, but when the emergencies become daily situations, then the emergencies are only going to grow. You become strong by strengthening your pillars. And then you need to make sure that you're patient. This is not something that's going to happen overnight. The results take time. But if done in a good way, in a solid way, with societal consensus and developing the right institutions, they normally work, and they work to a much greater extent than pursuing pipe dreams. So if Europe or if any of your countries,

wherever you are, are bound to grow, my advice is try not to struggle at doing imitation. Try to succeed by being yourself, and not just by being yourself, by building on what you have and transforming yourselves and your firms and your companies into a better self. Thank you very much.