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Spatial and Ethnic Inequalities and Development

Country Experiences

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In contrast to between-country comparisons, ‘remarkably little systematic’ analysis has focused on spatial or regional socio-economic inequalities within countries and correspondingly the determinants of these inequalities are insufficiently understood (Kanbur and Venables 2007: 204).¹ Similarly, socio-economic inequalities between different *ethnic groups* or what Stewart (2000) has termed ‘horizontal inequalities’ appear to be largely neglected in the economic literature on poverty reduction and inequality, which instead has predominantly focused on inequality between individuals (i.e. ‘vertical inequality’, in Stewart’s terminology).² Moreover, due to the methodological individualism of economic theory and analysis, economists have contributed relatively little to enhancing our understanding of why horizontal inequalities emerge and are often so persistent (Langer and Stewart 2008). In recent years, however, the importance of spatial and ethnic inequalities has been increasingly recognized and more research has been conducted on the subject.³

There are a number of reasons why spatial and ethnic inequalities in economic activity, incomes and social indicators matter both from an economic and political perspective. First, *between-group* inequalities (either between regions or ethnic groups) form an important part of the overall inequality in a country. Second, regional socio-economic inequalities in large countries such as China, Russia and India as well as most other developing and transition economies appear to be on the rise (Kanbur and Venables 2007). Third, an increasing amount of research has shown that socio-economic inequalities between different ethnic groups (i.e. horizontal inequalities) can lead to a wide variety of political disturbances, including violent conflict and civil war; especially where these socio-economic inequalities are complemented by political inequalities and inequalities in cultural recognition (see, in particular, Stewart 2008).

The objective of this paper is to analyze and compare the evolution of the socio-economic inequalities between different regions and ethnic groups around the world. Subnational data on ethnic inequalities and on inequalities across non-traditional dimensions, such as employment, are extremely hard to find. The paper is hence organized as follows. The next section provides a theoretical review of the main issues in spatial and ethnic inequalities. The following section provides regional overviews of the dynamics of spatial inequalities in GDP per capita, for which data is relatively plentiful. Section three then provides a series of detailed case studies across multiple dimensions of inequality. Section four concludes.

1. Spatial and Regional Inequalities and Development: A Theoretical Review

To start with, it is important to note that the origins of and dynamics sustaining or aggravating the prevailing spatial and ethnic inequalities within a country are not necessarily the same. While in ‘ideal-type’ cases where regional and ethnic boundaries coincide perfectly, the reasons for the existing regional inequalities may be more or less the same as those explaining the relatively (dis-)advantaged position of a particular ethnic group compared to other ethnic groups, in countries where there is no clear

¹ Please note that in this paper we will use ‘spatial’ and ‘regional’ inequalities interchangeably.

² The terms ‘ethnic’ and ‘horizontal’ inequalities will be used interchangeably throughout this paper.

³ The two most important research initiatives that were undertaken in this respect are: 1) The UNU-WIDER project on ‘Spatial Disparities in Human Development’ which was conducted in the period 2003-2005 under the direction of Ravi Kanbur, Tony Venables and Guanghua Wan (see for more information: <http://www.wider.unu.edu/>) and 2) the Oxford-Based Centre for Research on Inequality, Human Security and Ethnicity (CRISE), established in 2003, has also extensively analyzed the impact and evolution of socio-economic horizontal inequalities in developing countries around the world (see for more information: <http://www.crise.ox.ac.uk/>).

geographical element to the ethnic composition of a country, different factors may explain the emergence and persistence of the prevailing spatial and ethnic inequalities. We will start with why spatial inequalities arise and how they are likely to evolve over time.

In order to explain why spatial inequalities arise, the economic geography literature distinguishes between first and second nature geography (Venables 2005). First nature geography differences between spatially defined entities simply refer to differential natural endowments and characteristics, such as the presence of natural resources and the proximity to rivers, coasts and borders. Second nature geography differences relate to efficiency gains and agglomeration forces which usually amplify a region's initial advantage in terms of first nature geography. Second nature geography differences basically arise because economic interactions tend to be more efficient in densely populated areas compared to sparsely populated ones. There are a number of reasons for this, including technological spillovers or externalities (i.e. firms become more innovative and efficient by learning from their competitors and firms in related activities), 'thicker' labour markets (i.e. in regions of dense economic activity, processes of job-seeking and matching tend to be more efficient and less costly), and larger markets (i.e. larger markets allow firms to benefit from increasing returns to scale) (Kanbur and Venables 2007). Moreover, agglomeration forces can lead to 'virtuous circles of self-reinforcing development in some cities or regions, while other regions lag behind' (Ibid: 208).

There are a number of other factors that appear to play an important role in explaining the levels of and changes in spatial inequalities.⁴ First, the regional composition of public investment and expenditure appears to have an important impact on the prevailing social indicators across different regions within a country. Illustratively, Sahn and Stifel (2003) find that rural-urban disparities in neonatal care and school enrolment in twenty-four African countries are closely linked to disparities in the distribution of public education and health services. Similarly, in their statistical study of regional income disparities in Peru, Escobal and Torero (2005) found that while geographic variables such as altitude, soil type and temperature provide a good explanation for the observed regional variance in income, once they added public infrastructure variables to their model, the geographical variables lose most of their explanatory power, suggesting the importance of public policy decisions in explaining the levels of regional inequality. Although public investment and expenditure may go a long way in mitigating the existing socio-economic regional inequalities, in practice, the provision of public services is often 'concentrated in urban areas which are both relatively easy to serve and politically influential' (Kanbur and Venables 2007: 208). Similarly, according to Harry Richardson and Peter Townroe, '[a]ny allocation of public expenditure among regions which seeks to maximize returns to the growth of the national product will tend to reinforce regional disparities' (Richardson and Townroe 1986: 653).

A second factor which appears on balance to have contributed to increasing spatial inequalities in a range of countries around the world is the increased openness to international trade. Export-oriented regions tend to benefit more and grow faster as a result of the opening-up of the economy to international trade than more inward-looking regions (Kanbur and Venables 2007). Illustratively, Kanbur and Zhang (2005) found that China's increased openness to international trade contributed significantly to the

⁴ The next three paragraphs draw on examples discussed in Kanbur and Venables (2007).

sharp increases in regional inequalities after 1978. Similarly, both Rodríguez-Pose and Sánchez-Reaza (2005) and García-Verdú (2005) found that Mexico's spatial inequalities worsened as a result of the trade liberalization and economic integration which took place as part of the North American Free Trade Association (NAFTA)-agreement.

Third, migration of individuals and households from low-income regions to high-income regions is a potentially important mechanism through which regional inequalities can be mitigated. Indeed, in the case of Brazil, Timmins (2005) found that the benefits of agglomeration forces were considerably reduced once migration was taken into account. Conversely, government policies which place physical or other restrictions on inter-regional migration can play an important role in maintaining and possibly exacerbating a country's regional inequalities. The already mentioned study by Kanbur and Zhang (2005) again provides important insights in this respect, since it shows how restrictions on migration in China prevented the poor from benefiting fully from the rapid economic growth in the export-oriented coastal regions and thereby contributed significantly to increasing regional inequalities. Similarly, for Chile, Soto and Torche (2004) show that fiscal impediments, including restrictions on the sale or rent of subsidized houses, effectively inhibited migration and contributed to maintaining regional inequalities in the 1980s and 1990s.

How are spatial inequalities likely to evolve over time? Williamson's (1965) empirical study of the relationship between regional inequalities and national development is very important in this respect. Based on his cross-country analysis of regional inequalities in twenty-four countries with varying levels of income as well as his analysis of the observed pattern of regional inequalities over time in ten of his case studies, he concludes that increasing regional inequalities are typical of early stages of development, while decreasing regional inequalities are typical of the more mature stages of national growth and development (Williamson 1965). Since then, a number of other studies have also found evidence for an inverted U-curve relationship between the evolution of regional inequalities and the level of development (see, for example, Petrakos and Saratsis 2000; Terrasi 1999). While different scholars emphasize different factors and mechanisms to explain the non-linear relationship between regional inequalities and national development, the main theoretical arguments are broadly the same. Roberto Ezcurra and Manuel Rapún aptly summarize the theoretical underpinnings of the relationship as follows: 'In the early stages of economic development, a high proportion of economic activity tends to be located in a small number of regions [...], since the bulk of the income and the factors of production needed to generate it are concentrated in those areas. This type of scenario gives rise to internal and external economies of scale which boost the growth of the regions concerned (Hirschman 1958; Myrdal 1957). For the duration of the process just described, therefore, regional inequality will increase. The situation cannot be expected to persist indefinitely, however. Indeed, there is a point when the initial growth areas begin to suffer the consequences of the congestion costs associated with excessive agglomeration (Petrakos and Brada 1989). To this one must add the spatial diffusion of technology, together with the emergence of new locational advantages associated with lower production costs, or a lower level of unionization of the workforce, for example. The gains in political power achieved during this stage by the initially more backward regions should not be underestimated either (Friedmann 1969). There is a tendency towards the spatial diffusion of economic development, therefore, which eventually leads to a decrease in regional inequality' (Ezcurra and Rapún 2006: 355).

Let us now turn to ethnic inequalities.⁵ Certain historical circumstances or ‘foundational shocks’ (Figueroa, et al. 1996) such as slavery or colonialism often lay at the basis of the prevailing socio-economic ethnic inequalities in a country. In Malaysia, for instance, the economic disadvantage of the Malay community finds its origins in the ethnic division of labour which was established by the British colonial government around the 1920s (see, for example, Abraham 1997; Brown 1997b). While the Europeans, the Chinese and the Indians were mostly employed in the high productivity modern sector of the economy, as entrepreneurs, managers and employees in firms, estates and trading companies, the Malays were mostly engaged in the low productivity traditional sector of peasant agriculture and fishing. In the same vein, the racial inequalities in the United States have their origins in 300 years of economic, physical, legal, cultural and political discrimination based on race, with slavery as the foundational shock which initiated the persistent inequalities.

In contrast to the hypothesized inverted U-curve relationship between the level of regional inequality and the level of development, there is no obvious way in which ethnic inequalities will evolve over time when income increases. Similarly, there is no reason to assume that ethnic inequalities should be smaller in low income countries compared to higher income countries. Indeed, while ethnic inequalities are often created by a foundational shock (which itself can last for many decades or centuries), once the shock has ended, ethnic inequalities often persist for long periods afterwards, as illustrated by the black/white differentials in the US, or indigenous/Ladino differentials in Latin America.

Building on the existing literature dealing with the causes and dynamics of persistent socio-economic ethnic inequalities, Stewart and Langer (2008) argue that the following five factors are crucial for explaining why ethnic inequalities are often so persistent:

1. Unequal rates of accumulation, due to inequalities in incomes and imperfect markets. There are cumulative forces, such that deprivation/riches at one point in time make it harder/easier to accumulate assets in the future. If an individual/group has a higher income due to higher assets, then saving (including educating children) is easier, so we might assume that the rate of saving and accumulation is likely to be higher among richer individuals/groups. While in theory ‘perfect’ capital markets should enable people to borrow to overcome the disadvantage of not having their own savings, in practice, banks require collateral so that borrowing too is easier for the rich than for the poor. Extensive empirical evidence shows that poorer individuals/groups accumulate less, both with respect to human and financial capital.
2. Dependence of the returns to one type of capital on the availability of other types. There are interactions among returns to different types of capital according to the other types of capital a person/group has. Thus, for instance, human capital permits greater earnings, which enable people to accumulate more; financial capital is more productive if people have human capital with which to use it; human capital may be more productively employed if people have financial capital; and both types of capital are likely to be better used with good networks (i.e. more social capital).
3. Asymmetries in social capital. One reason for persistent horizontal inequalities lies in sustained asymmetries in social capital which then cause unequal returns on other

⁵ This section draws on Stewart and Langer (2008).

types of capital. While asymmetry in social capital occurs among individuals – poor people tend to have more contacts with other poor people than with richer people – it applies even more strongly among groups because there is a strong tendency for cultural groups to have more intra-group interactions than intergroup ones (Blau 1977). One can differentiate between network and community norms aspects of social capital; in general, however, disadvantaged groups seem to be lagging on both.

4. Present and past discrimination by individuals and non-governmental institutions. Group members are often subject to overt (or implicit) discrimination or favouritism by non-group members in access to different types of capital and in employment, in virtue of their group (cultural) characteristics. We should note that historic discrimination contributes to poor returns even where it seems there is no current discrimination. For example, unequal endowments today may be partly a reflection of past discrimination. Effects persist even if there is no current discrimination that is even if, for example, there are equal employment opportunities for the same educational attainments, since past discrimination may have led to inequality in educational endowments.
5. Political inequalities which result in discrimination by governments, as well as a lack of corrective measures and policies. Group inequalities in most cases include political inequalities which are in the same direction as the socioeconomic inequalities. This means those who are deprived in socioeconomic dimensions also lack political power. These political inequalities generally underpin the socioeconomic inequalities since they often lead to bias in the distribution of government resources, including access to social and economic services and government employment and contracts.

Combinations of these factors can result in vicious and virtuous cycles of wealth accumulation; with groups starting in a privileged position being able to accumulate more, having higher returns to assets and thus sustaining their privilege, while those who start in an underprivileged position fall into a vicious cycle, or relative poverty trap.

As mentioned at the beginning of this section, while sometimes the origins and changes in spatial and ethnic inequalities can be explained by more or less the same factors, this is clearly not always the case. Moreover, there are even cases where relatively moderate regional inequalities go together with very severe ethnic inequalities (e.g. the United States (?) and Malaysia in the 1960s (?)). While in countries where there is a ‘nice’ overlap between ethnicity and region the factors identified to explain the origins and

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