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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).<sup>1</sup> 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).<sup>2</sup> 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.<sup>3</sup>

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

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

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

<sup>3</sup> 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.<sup>4</sup> 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

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<sup>4</sup> 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.<sup>5</sup> 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

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<sup>5</sup> 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 changes in regional inequality are likely to be important for explaining the existing levels of ethnic inequalities as well, in countries where this is not the case, factors explaining regional inequalities are less useful. However, as will be shown below, in practice, regional and ethnic inequalities dynamics are difficult to separate and often explain different parts of the same puzzle.

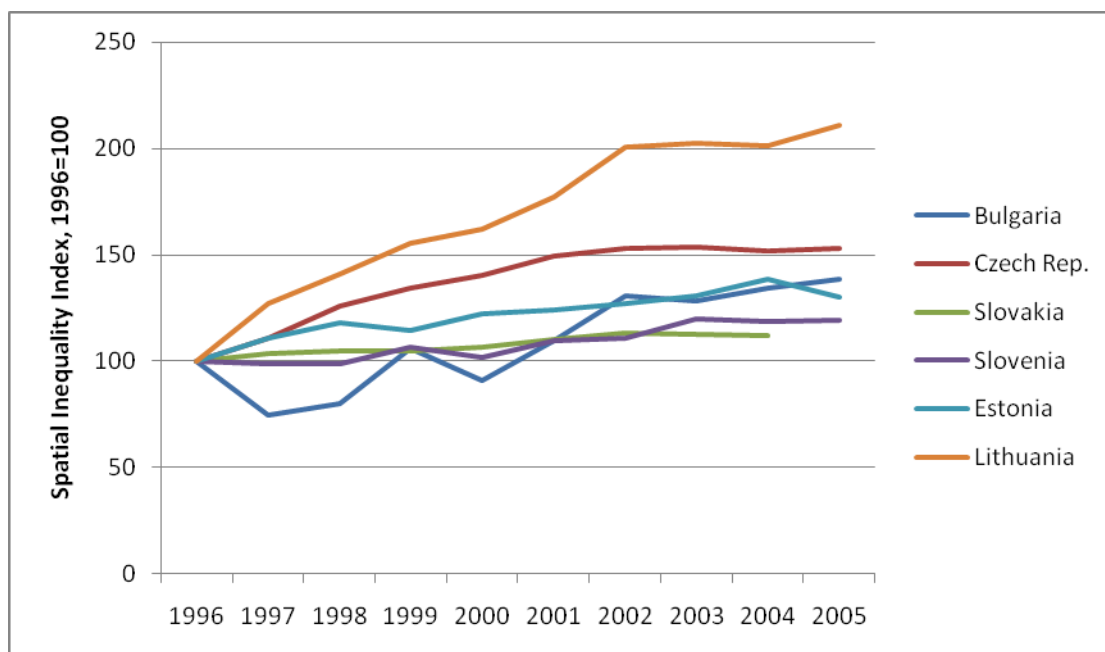
## **2. Spatial Inequalities: Regional Trends**

In this section, we provide an overview of the trends in spatial inequality in regions around the world. As noted above, data on spatial inequality is relatively plentiful, particularly in recent decades. We measure spatial inequalities using the population weighted coefficient of variation (termed here the Group Coefficient of Variation, or GCov) first suggested by Williamson (1965) and advocated also by Stewart et al (Stewart, et al. 2005). While this measure provides a useful way of comparing trends



within a country over time, it is more problematic for comparing across countries as the extent of inequality measured depends to a degree on the number of administrative units a country is broken down into: high levels of regional inequality may be ‘hidden’ by a small number of administrative units. Consequently, in addition to looking at the absolute value of the inequality index, we track these changing in spatial inequalities by indexing to a common year within each regional group. We focus here on the relationship between spatial inequalities and economic structure, using the proportion of agricultural value added as our primary explanatory variable rather than industry or service sector as we assume, following the theoretical review above, that it is the transition from agriculture to industry that is the primary factor affecting the emergence of regional inequalities, rather than the post-industrial transition to service sector.

**Figure 1: Transition economies – Trends in spatial inequality, 1996-2005**

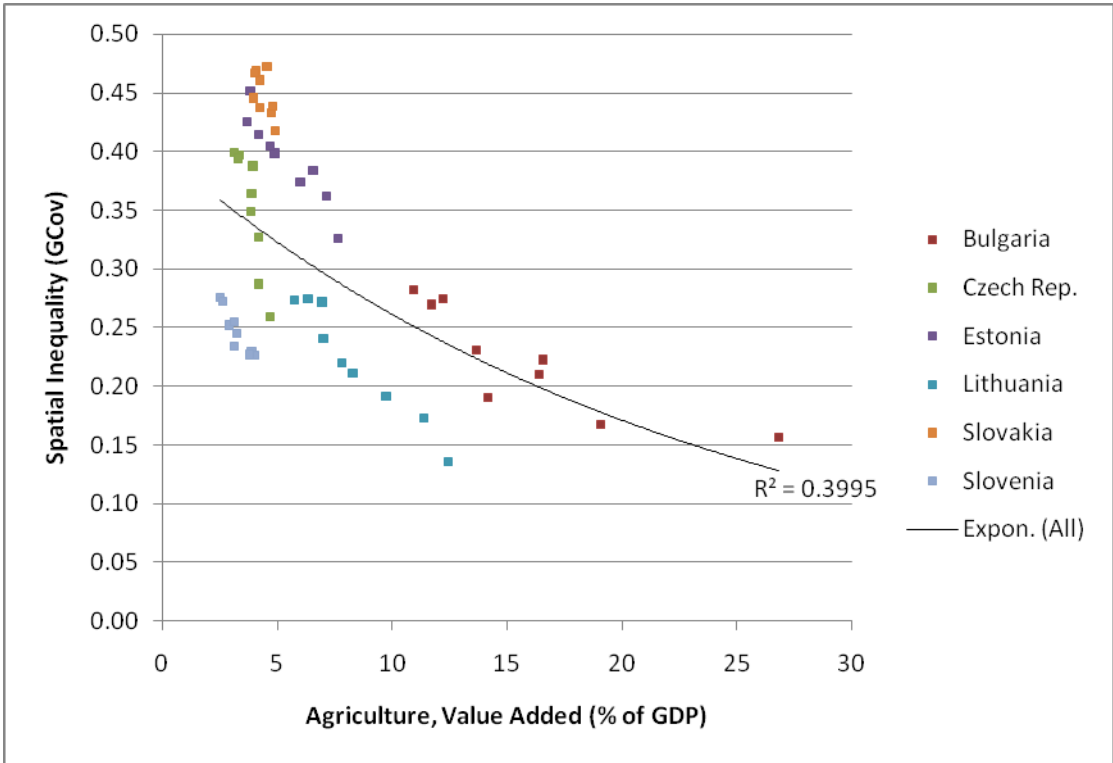


The first chart, Figure 1, shows the trends in spatial inequalities in GDP per capita for six transition economies in Eastern Europe since the mid 1990s. All six economies show overall spatial divergence over the entire period, but with noticeable differences in extent: Slovakia and Slovenia both experienced relatively modest increases in spatial inequality, while Lithuania, despite its small size, more than doubled its level of spatial inequality over the period. Figure 2 shows the relationship between the absolute level of spatial inequality plotted against the agricultural contribution to the economy (drawn from the World Development Indicators). The figure shows a remarkably clear and consistent trend – higher levels of spatial inequality are associated with a lower economic dependence upon agriculture. It is worth noting here that no statistically significant relationship holds between the overall level of GDP per capita and the level of inequality in these countries (not depicted graphically for space considerations).

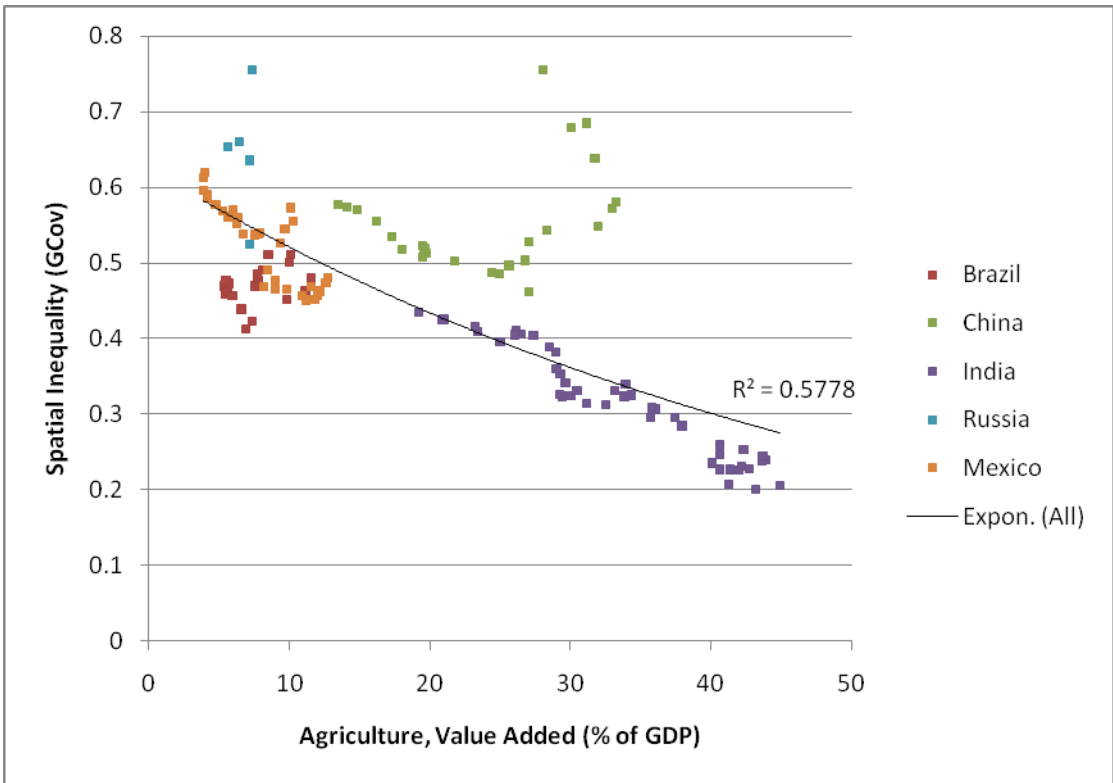
Figure 3 shows the same link between agricultural contribution to GDP and spatial inequalities for the four BRICs countries – Brazil, Russia, India, and China – and Mexico, although the data for Russia covers only a very short time period. Once again, a very clear inverse link can be seen between agricultural dependence and the extent of spatial inequalities, although at a much higher level of inequality according to the GCov

measure – most likely a result of the size and large number of administrative units in the countries in question. Again, the relationship with GDP per capita is insignificant.

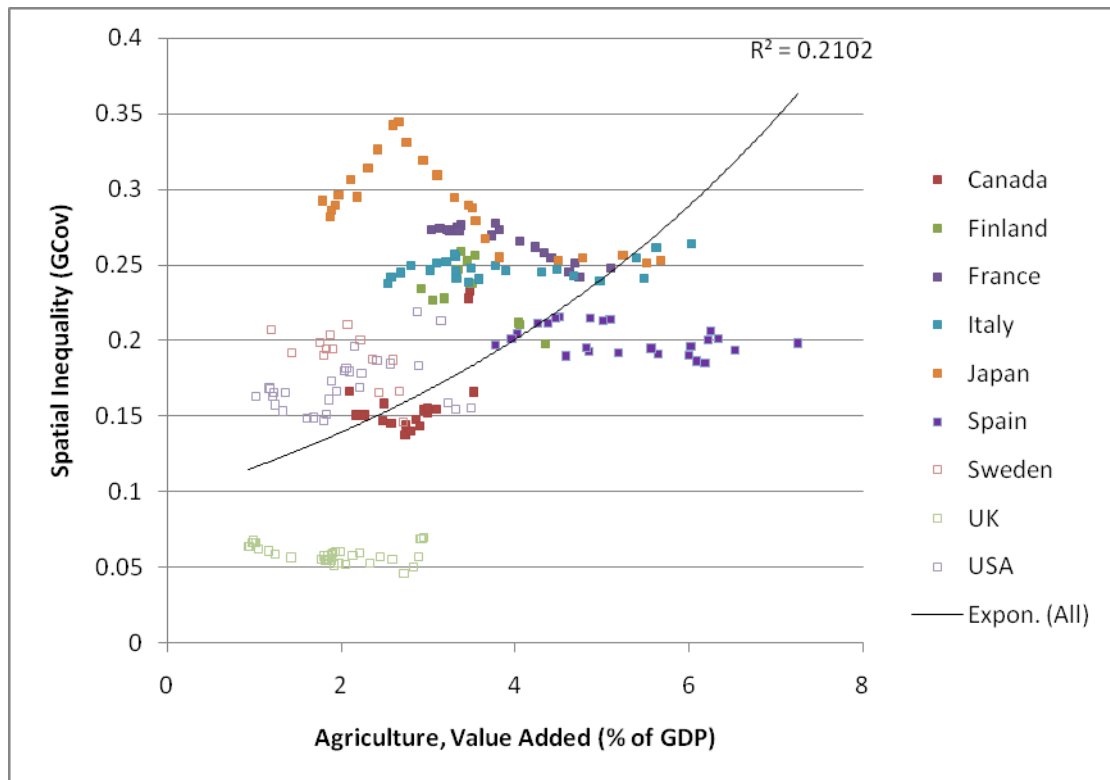
**Figure 2: Transition economies – Spatial inequality and agriculture, 1996-2005**



**Figure 3: BRICs +1 – Spatial inequalities and agriculture, 1960-2004**



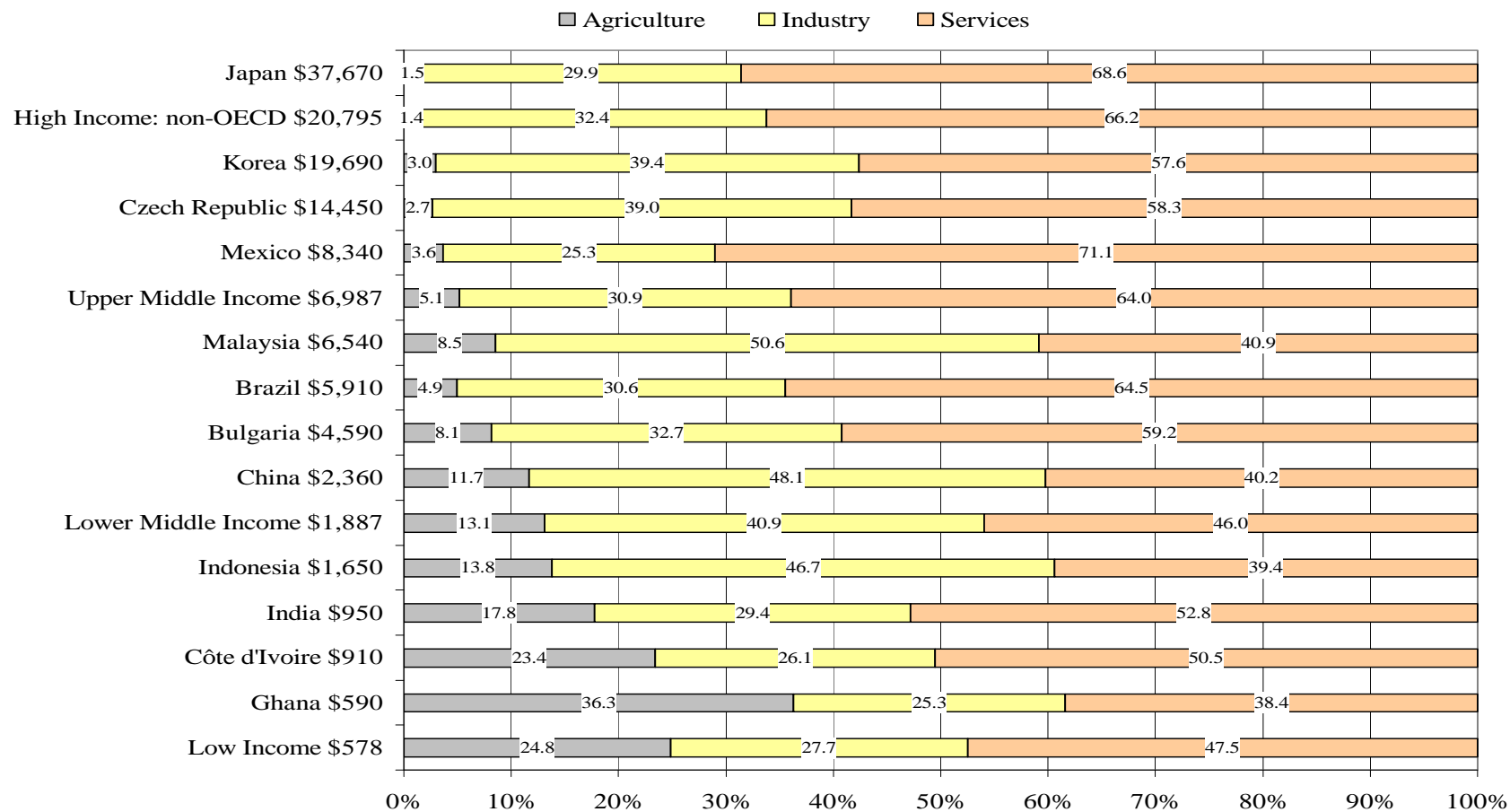
**Figure 4: Highly developed countries – Spatial inequalities and agriculture, 1978-2004**



What is striking about these two graphs is that not only have less agriculturally dependent countries exhibited higher spatial inequalities but also, with the exception of China, within country variation across years remains remarkably close to the overall trend. Finally, Figure 4 shows the relationship for nine developed countries across Western Europe, North America, and Japan. The relationship here is very different. While all countries in this sample have very low levels of agricultural value added, the broad trend is the reverse – those countries with particularly low agricultural dependence have particularly low spatial inequalities, although the relationship is much weaker. In addition, the within country variation across years is much less significant – while agricultural rates have shifted over the time periods available, for most countries, with the exception of Japan, the level of spatial inequality has not changed noticeably over time. This data thus strongly confirms the theoretical insight that the early stages of industrialization often leads to an increase in spatial inequalities, but the trend at the farther end of the scale is much less clear. We now turn to examine some case studies to try to unpick these dynamics across multiple dimensions.

### 3. Country experiences

In this section we will analyze and discuss the evolution of the socio-economic spatial and ethnic inequalities in case study countries with different levels of development and industrialization, and from different geographical regions of the world. In addition to determining the evolution of both types of inequalities, we will highlight the main policies that have affected (both purposely and inadvertently) the observed changes in inequality. For each of these countries we will analyze the evolution of the *regional* socio-economic inequalities, for ten of them, we will also analyze inequalities between the countries' main 'ethnic' groups. We interpret ethnicity broadly in this respect and ethnic groups can therefore be based on a common language, religion or race.



**Figure 4: Economic structure of the case studies**

Source: Authors' calculations based on data drawn from the World Bank World Development Indicators (WDI). Note: The economic structure of China, Czech Republic and the Lower Middle Income and High Income (non-OECD) groups are based on data from 2006. Japan's economic structure is based on data from 2005.

Different levels of income and development are usually associated with different economic structures. In general terms, agriculture is the most important sector -both in terms of value added and employment- in low-income, developing countries. When income per capita increases, the sectoral composition of the economy usually changes due to structural changes in consumer demand and relative labour productivity of the three main sectors (i.e. agriculture, industry and services) (Soubbotina 2004). While first during the industrialization phase *industry* becomes the most important sector of the economy, as income continues to increase and people begin to demand more services in such areas as health, education, information and entertainment, industry loses its primacy to the *service sector*; a process usually labelled post-industrialization (Ibid). Figure 1 roughly reflects the sketched relationship between the level of income and the sectoral composition of economies. Thus, for instance, it is clear that the higher the level of income, the less important agriculture is for an economy. From the perspective of our study, it is crucial to note that the twelve case studies not only differ with respect to the level of development, but were also at very different stages in their respective (post-)industrialization processes.

For each of our case studies we will analyze -for as far as data are available- the evolution of the *regional* inequalities in terms of income, poverty, employment and access to state services by drawing data from censuses, domestic household surveys, World Bank's Living Standards Measurement Surveys (LSMSs) and the Demographic and Health Surveys (DHS). Since socio-economic data are generally not available in ethnically disaggregated form, we will predominantly use the Macro International's Demographic and Health Surveys (DHS) to assess the prevailing ethnic inequalities.<sup>6</sup> The DHS surveys have been conducted in about seventy developing countries around the world and are usually repeated every five years. The standard *DHS* survey consists of a household questionnaire and a women's questionnaire for which a nationally representative sample of women age 15–49 is interviewed. In addition to asking a range of questions regarding issues such as family planning, maternal and child health, reproductive behaviour and intentions, contraception, breastfeeding and nutrition, the surveys also ask questions regarding a respondent's ethnic background, place of birth and socio-economic situation. An important assumption with respect to these surveys is that inter-ethnic socio-economic inequalities that are inferred from the women's questionnaires are a good approximation for the prevailing inequalities between the different ethnic groups as a whole. For some countries, the LSMS has an ethnic variable and can therefore also be used to assess the prevailing socio-economic inequalities between the main ethnic groups of a country.

## **Ghana**

Ghana is a multiethnic country of about 23 million people. The four main ethno-cultural groups, comprising together around 86 per cent of the population, are the Akan, Mole-Dagbani, Ewe and Ga-Dangme.<sup>7</sup> While all regions have a sizeable number of migrants or people considered to be 'strangers' in their region, there is a rough coincidence of ethnicity and administrative regions in Ghana (Gyimah-Boadi 2003). The Akans are by far the largest ethnic group with approximately 49 per cent of the population and form the majority of the population in five of Ghana's ten regions in the southern part of the

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<sup>6</sup> Macro International Inc. provides free of charge access to the DHS-data for prospective researchers. For more information visit Macro International's website on: <http://www.measuredhs.com/>

<sup>7</sup> The population data discussed in this section are based on Ghana's 2000 Housing and Population Census.

country (i.e. Western, Central, Eastern, Ashanti and Brong-Ahafo Regions). The second largest ethno-cultural group are the Mole-Dagbanis. They constitute around 17 per cent of the population and are dominant in the country's northern regions (i.e. 'Northern', 'Upper East' and 'Upper West') where most of them (i.e. more than two-thirds) live. The third largest ethnic group with about 13 per cent of the population are the Ewes. The Ewes are predominantly found in the southern part of the Volta Region in the eastern part of the country. With around 8 per cent of the population the Ga-Dangmes are the fourth largest group. They are mainly found in the Accra area and form about 30 per cent of the population in the Greater Accra Region.

These ethno-regional differences are partly reinforced by religious differences. While Ghana is a predominantly Christian country with almost 70 per cent of the population being Christian, Muslims constitute around 16 per cent of the population. They form a particularly important part of the population in the northern regions. However, Ghana's religious north-south divide is mitigated by the fact that Christians and Traditionalists also constitute a significant proportion of the population in the three northern regions, particularly in the Upper West and Upper East regions. Overall only 42 per cent of the population in the country's northern regions are Muslim, while 25 per cent are Christian and 29 per cent have a traditional religion.

In addition to having a different ethnic and religious composition, the northern regions also differ from the southern regions in terms of socio-economic development. Ghana's north-south divide arises from a combination of circumstances and policies. Three important factors can be identified. First, the geographical concentration of most agricultural activities/resources, particularly tree crops such as cocoa, as well as natural resources, notably minerals and forest resources, in the southern regions. Due to scant and irregular rainfall, the northern regions have only one main cropping cycle throughout the year which is predominantly used for subsistence farming.

A second factor arises from the British colonial policy of investing more heavily in those regions where exploitable resources such as gold, diamonds, timber, and cocoa, were available or readily produced, and cheapest to export. In addition to the administrative core region (i.e. Greater Accra Region), the gold-rich regions, Ashanti and Western, and the cocoa-growing regions (Eastern, Central and Ashanti) received the bulk of the capital investments made during the colonial era. The three northern regions (which under colonial rule constituted together the 'Northern Territories') were largely treated and to some extent deliberately kept as a reservoir to provide cheap labour for gold mining and cocoa farming in the south, and as recruiting grounds for the police and army (Benin 1975). The colonial administration undertook very little infrastructural or human capital development in the Northern Territories.

A third factor which is important for understanding the persistence of north-south inequalities relates to postcolonial development strategies and investment patterns. Like the colonial economy, Ghana's post-colonial economy had an 'endogenous' tendency to favour the south over the north in terms of the location of economic activities. Indeed, as Charles Anyinam notes in this respect: 'The economic policies and planning strategies adopted after independence failed to alter the colonial legacy of lopsided development. The development plans implemented between 1957 and 1980 tended to perpetuate and reinforce the inherited inequalities in Ghana's space economy. It is not that attempts were not made to solve the inequality problem. The country's experience with regional development approaches is quite extensive but they were all badly

planned and executed' (Anyinam 1993: 449). Since 1980, little has changed in this respect.

Faced with serious economic and financial problems in the early 1980s, Ghana embarked on a stabilisation and structural adjustment process supported by the International Monetary Fund and World Bank. However, the Structural Adjustment programmes (SAPs), which were implemented from 1983, in general reinforced the existing regional socio-economic inequalities. In line with the SAPs' objectives of restoring economic growth by rehabilitating the export economy, most external funding went to the country's core industrial region, the Greater Accra Region, as well as the cocoa, timber and mineral industries in the Western, Eastern, Ashanti and Brong Ahafo Regions (Songsore 2003). Ghana's northern regions, in contrast, benefited very little from this renewed economic stimulus. In order to redress the economic exclusion of the northern regions and mitigate the socio-economic north-south divide, President Rawlings undertook some ad-hoc projects in the northern regions in the 1990s, including the extension of the national electricity grid, the establishment of the University of Development Studies in Tamale, the rehabilitation of north-south roads, and greater expenditure on education and health. However, despite these projects, the vast majority of public expenditure and investment continued to go to the southern regions. Likewise, private investment did not benefit the northern regions much as nearly all projects were undertaken in the South, especially in the Greater Accra and the Ashanti Regions.

While under President Kufuor, who succeeded President Rawlings in 2001, private investment patterns essentially mirrored those of the 1990s, more public expenditure and investment started flowing to the northern regions. The Kufuor government introduced several mechanisms and projects in order to redress the seriously adverse conditions of the northern regions, especially relating to health, education and economic infrastructure. For instance, the funds that were freed up as a result of Ghana's 'qualification' for the Highly Indebted Poor Country (HIPC) initiative were earmarked to benefit the north disproportionately (Shepherd, et al. 2005).

Let us now look at some data regarding the evolution of the north-south and ethnic inequalities over time. Table 1 shows a range of socio-economic indicators for the period 1960-1980. The economic disadvantage of the Northern Region (which at the time of independence was comprised of today's three northern regions) and to a lesser extent the Volta Region compared to the rest of the country (especially with regard to the Greater Accra Region) in 1960 is illustrated by much lower levels of Gross value added per capita (see the second column of Table 1). Due to Ghana's lopsided development model, the north remained much poorer in terms of income, infrastructure, education and medical services in the 1970s. Illustratively, according to Kwodo Ewusi's composite measure of development (which is based on a wide range of socio-economic indicators, including per capita energy consumption, proportion of the population employed in non-agricultural activities, literacy rate, earnings per worker and number of hospital beds per 1000 persons), the Northern and Upper regions had levels of development equivalent to only 11 per cent and 7 per cent respectively of the level found in the Greater Accra Region in the mid-1970s (see column 3 of Table 1). Although the northern regions were doing considerably better when compared to other southern regions (instead of the Greater Accra Region), they were still lagging behind between 60-75 per cent. Other socio-economic indicators, including school enrolment, infant mortality and share of income, also show the persistence of a sharp north-south divide.

After nearly a decade of structural adjustment, the socio-economic north-south divide remained very severe at the beginning of the 1990s, as illustrated by Table 2. While in the 1990s the north appeared to have slightly caught up with the south regarding some socio-economic indicators (i.e. literacy and infant mortality), with respect to other indicators (i.e. the incidence of poverty and income) the north-south divide actually worsened considerably in this period. Thus, for instance, while the Greater Accra Region (i.e. the country's administrative/industrial/economic core region), the Western, Eastern, Ashanti and Brong-Ahafo Regions (i.e. the Akan-dominated, cocoa- and mineral-producing regions) and the Volta Region saw a considerable drop in their poverty rates, in two of the three northern regions (i.e. Northern and Upper East Regions) poverty increased between 1991/92 and 1998/99. It is also striking to note that while in 1991/92 the mean annual income per capita in the Greater Accra Region was about two times higher than in the Northern and Upper West Regions, in 1998/99, this was more than four times higher. An important event that contributed to the unfavourable evolution of poverty and income in the northern regions was the emergence of a serious violent conflict between the Kokombas and Nanumbas in 1994.



**Table 1: Ghana – Regional socio-economic inequalities, 1960-1980**

| Region                            | Gross added capita value per (£) (1960) <sup>1</sup> | Ewusi's measure of development (1970-75) <sup>2</sup> | Enrolment rate (1978-79) <sup>3</sup> |        |           | Literacy (1972-73) <sup>4</sup> | Life expect. In years (1970) <sup>4</sup> | Infant mortality Rate (1970) <sup>4</sup> | Share of income (1970) <sup>4</sup> | Gross output per capita (1980) <sup>4</sup> |
|-----------------------------------|--|---|---------------------------------------|--------|-----------|---------------------------------|---|---|-------------------------------------|---|
|                                   |  |   | Primary                               | Middle | Secondary |                                 |   |   |                                     |   |
| Greater Accra (10.0) <sup>a</sup> | 176  | 1.000 <sup>b</sup>                                    | 9.6                                   | 10.6   | 16.1      | 50.9                            | 64  | 56  | 35.8                                | 1546  |
| Central (10.4)                    | -  | 0.398   | 10.6                                  | 11.3   | 10.7      | 33.3                            | 44  | 140                                       | 7.9                                 | 32  |
| Western (9.0)                     | 68   | 0.392   | 9.8                                   | 8.8    | 9.5       | 37.9                            | 45  | 111                                       | 17.2                                | 2382  |
| Eastern (14.7)                    | 53   | 0.355   | 18.9                                  | 20.2   | 16.6      | 42.8                            | 48  | 124                                       | 12.7                                | 117   |
| Ashanti (17.3)                    | 68   | 0.340   | 20.3                                  | 20.9   | 19.6      | 27.9                            | 52  | 124                                       | 15.2                                | 398   |
| Volta (11.1)                      | 43   | 0.306   | 12.6                                  | 14.0   | 13.0      | 37.5                            | 54  | 130                                       | 3.6                                 | 15  |
| Brong-Ahafo (9.0)                 | 61   | 0.265   | 9.9                                   | 9.2    | 6.6       | 38                              | 47  | 142                                       | 2.6                                 | 35  |
| Northern (8.5)                    | 30   | 0.11  | 4.3                                   | 2.3    | 3.4       | 7.7                             | 39  | 168                                       | 3.0                                 | 27  |
| Upper (10.1)                      | -  | 0.071   | 4.0                                   | 2.5    | 4.7       | 7.4                             | 38  | 192                                       | 2.0                                 | 16  |

Note: Figures in percentages unless otherwise indicated. a) Figures in brackets show percentage distribution of regional population in 1970. ; b) Ewusi's measure of development is a composite index of development with Accra as base, which applies the Wroclow Taxonomic Technique to the following ten socio-economic indicators 1) Average annual earning per worker, 2) Per capita energy consumption, 3) Crude participation rate, 4) Population of employed labour in non-agriculture, 5) Rate of urbanization, 6) Literacy rate, 7) Population density per square mile, 8) Accessibility Index of region, 9) Number of doctors per 100,000 persons in the Region, and 10) Number of hospital beds per 1000 persons in the Region.

Sources: 1) Szereszewski (1966: 92); 2) Ewusi (1976: 89); 3) Government of Ghana, Government's Economic Programme (1981-82 to 1985-86) quoted in: Huq (1989: 60); 4) Republic of Ghana, Statistical yearbook, 1969-1970, Central Bureau of Statistics, 1971, Accra quoted in: Aryeety-Attoh and Chatterjee (1988: 34).

Table 2 also shows that the increased public expenditure in the north under President Kufuor has begun to show in the outcome statistics, as illustrated by the evolution of poverty between 1998/99 and 2005/06. Two of the three northern regions (i.e. Northern and Upper East Regions) outperformed the evolution of the national average in the period under review with regard to both of these socio-economic indicators. Thus, more specifically, while on the national level 11 per cent of the population moved out of poverty between 1998/99 and 2005/06, in the Northern and Upper East Regions, this was 17 and 18 per cent respectively. Only two regions (i.e. the Greater Accra and Upper West Regions) witnessed an increase in the incidence of poverty. With regard to improving infant mortality rates, two of the three northern regions did better than the national average in the period 1998-2003. Despite the recent improvements in the socio-economic situation in the north, the north-south divide remains severe.

Because the Mole-Dagbani dominate demographically the northern regions *and* a vast majority of them indeed lives in those regions, one can expect the inequalities between the northern and southern ethnic groups to largely mirror the north-south inequalities. Table 3, which shows the inequalities between the Akan, Ga-Dangme, Ewe and Mole-Dagbani with respect to a number of socio-economic indicators in the period 1993-2003, illustrates this. Indeed, consistent with the socio-economic north-south divide, the Mole-Dagbanis were doing significantly worse than the three southern ethnic groups on all of these socio-economic indicators during this period.

**Table 2: Ghana - Regional socio-economic inequalities, 1988-2006**

|               | Incidence of Poverty <sup>1</sup> |         |         | Mean annual per capita income <sup>2</sup> (Cedis) |         | Access to health services <sup>3</sup> | Primary school enrolment <sup>3</sup> | Infant mortality rate <sup>4</sup> |       |      |       |
|---------------|-----------------------------------|---------|---------|--|---------|--|---------------------------------------|------------------------------------|-------|------|-------|
|               | 1991/92                           | 1998/99 | 2005/06 | 1991/92  | 1998/99 | 1997                                   | 1997                                  | 1988                               | 1993  | 1998 | 2003  |
| Western       | 59.6                              | 27.3    | 18.4    | 116,000  | 568,000 | 28.0                                   | 74.6                                  | 76.9                               | 76.3  | 68.0 | 66.0  |
| Central       | 44.3                              | 48.4    | 19.9    | 118,000  | 444,000 | 35.9                                   | 72.0                                  | 138.3                              | 71.6  | 83.8 | 50.0  |
| Greater Accra | 25.8                              | 5.2     | 11.8    | 146,000  | 932,000 | 77.6                                   | 70.4                                  | 57.7                               | 58.4  | 41.4 | 45.0  |
| Volta         | 57.0                              | 37.7    | 31.4    | 116,000  | 415,000 | 41.7                                   | 70.2                                  | 73.5                               | 77.8  | 53.8 | 75.0  |
| Eastern       | 48.0                              | 43.7    | 15.1    | 85,000   | 527,000 | 32.8                                   | 78.1                                  | 70.1                               | 55.9  | 50.2 | 64.0  |
| Ashanti       | 41.2                              | 27.7    | 20.3    | 111,000  | 622,000 | 43.2                                   | 72.2                                  | 69.8                               | 65.2  | 41.9 | 80.0  |
| Brong Ahafo   | 65.0                              | 35.8    | 29.5    | 101,000  | 548,000 | 31.9                                   | 72.4                                  | 65.0                               | 48.7  | 77.3 | 58.0  |
| Northern      | 63.4                              | 69.2    | 52.3    | 72,000   | 210,000 | 18.4                                   | 40.0                                  | 103.1                              | 113.7 | 70.1 | 69.0  |
| Upper East    | 66.9                              | 88.2    | 70.4    | 83,000   | 321,000 | 8.2                                    | 45.0                                  | 103.1                              | 105.0 | 81.5 | 33.0  |
| Upper West    | 88.4                              | 83.9    | 87.9    | 76,000   | 206,000 | 19.8                                   | 36.1                                  | 103.1                              | 84.5  | 70.6 | 105.0 |
| National      | 51.7                              | 39.5    | 28.5    | -  | -       | 37.2                                   | 67.0                                  | 77.0                               | 66.0  | 57.0 | 64.0  |

Source: 1) Data derived from the Ghana Statistical Service. Available at: <http://www.ghanainfo.org> (Accessed on 29 January 2008).

2) Shepherd, et al. (2005).

3) Data drawn from the 1997 Ghana Core Welfare Indicators Survey.

4) Data derived from the Ministry of Health. Available at: [http://www.moh-ghana.org/moh/facts\\_figures/default.asp](http://www.moh-ghana.org/moh/facts_figures/default.asp) (Accessed on 29 January 2009).

**Table 3: Ghana - Socio-economic inequalities between ethnic groups, 1993-2003**

| PERCENT                    | Akan | Ga-Dangme | Ewe  | Mole-Dagbani |
|----------------------------|------|-----------|------|--------------|
|                            | 1993 |           |      |              |
| Has electricity            | 39.2 | 53.8      | 29.5 | 15.2         |
| Access to flush toilet     | 8.6  | 12.9      | 6.6  | 3.1          |
| Piped water in residence   | 18.9 | 32.1      | 15.0 | 8.2          |
| At least primary completed | 66.7 | 64.0      | 59.2 | 15.1         |
| At least second. completed | 3.6  | 8.8       | 4.3  | 1.4          |
|                            | 1998 |           |      |              |
| Has electricity            | 51.3 | 60.3      | 39.7 | 24.3         |
| Access to flush toilet     | 11.3 | 17.3      | 7.8  | 2.6          |
| Piped water in residence   | 19.6 | 36.6      | 17.1 | 9.3          |
| At least primary completed | 68.1 | 65.8      | 64.2 | 13.6         |
| At least second. completed | 4.7  | 11.3      | 6.3  | 1.5          |
|                            | 2003 |           |      |              |
| Has electricity            | 59.5 | 58.9      | 40.0 | 28.4         |
| Access to flush toilet     | 15.0 | 22.4      | 15.3 | 3.0          |
| Piped water in residence   | 20.8 | 31.5      | 17.7 | 9.5          |
| At least primary completed | 72.5 | 64.5      | 61.7 | 22.2         |
| At least second. completed | 7.6  | 13.1      | 10.4 | 4.1          |

Source: Authors' calculations based on the 1993, 1998 and 2003 Ghana DHS surveys.

In sum, in Ghana, the socio-economic north-south divide has persisted throughout the post-colonial period. The country's lopsided economic model (which clearly favoured the export-oriented regions in the south) is arguably the main reason for the persistence of the severe socio-economic north-south divide. In recent years, increased government spending in the north (in particular on health and education) appears to have contributed to a moderate improvement of the relative socio-economic position of the northern regions. Due to the predominance of one particular ethno-cultural grouping in the north, inequalities between the northern (i.e. Mole-Dagbani) and southern (i.e. Akan, Ewe and Ga-Dangme) ethnic groups showed more or less the same picture as those based on region.

### **Côte d'Ivoire**

Côte d'Ivoire is an ethnically diverse country of about 20 million people and 70 different ethnicities, which are usually clustered into five larger ethno-cultural groups: Akan, Voltaic, Krou, Northern Mandé and Southern Mandé.<sup>8</sup> The Akan form the largest ethnic cluster with about 42 per cent of the population and are predominantly found in the eastern and central parts of the country. The south-western part of the country is predominantly inhabited by people belonging to the Krou ethnic cluster who constitute about 13 per cent of the population. The Southern Mandé are predominantly found in the western part of the country and constitute about 10 per cent of the population. The Voltaic and Northern Mandé are the dominant ethnic groups in the north and together account for about 34 per cent of the population. Importantly, while the northern ethnic groups constitute the vast majority of the Ivorian population in the northern regions (i.e.

<sup>8</sup> The ethnic categorization discussed here is based on the classification used by the Institute National de la Statistique (see République de Côte d'Ivoire 2001).

72 per cent), due to extensive internal migration, a substantial proportion of them (i.e. nearly 44 per cent) lives in the South. Another important demographic feature of Côte d'Ivoire's population is the large proportion of foreigners, accounting for about 26 per cent of the population in 1998. Because the vast majority of these foreigners originate from Burkina Faso, Mali and Guinea, most of them share important ethno-cultural and religious traditions with northern Ivorians.

Religion is another important dividing line in Côte d'Ivoire. Among Ivorian nationals, Christians form the largest religious group with about 34 per cent of the population, while 28 per cent of the Ivorian population is Muslim. However, as the vast majority of non-Ivorians is Muslim (about 70 per cent), their presence in Côte d'Ivoire tilts the religious balance in favour of Muslims at the national level. Religious differences appear to reinforce ethno-regional north-south differences. While the Akan and Krou ethnic groups are predominantly Christian, Voltaic and Northern Mandé are mostly Muslim. Yet, although the northern population is predominantly Muslim, about 70 per cent of all Muslims live in the southern regions of the country.

Like Ghana, Côte d'Ivoire is characterized by a serious socio-economic north-south divide, which originates from ecological and climatological differences and the varying impact of colonialism and post-colonial development policies in the northern and southern regions respectively. While the northern and southern regions historically had different sources of income and grew different crops, until 1950, these differences did not result in sharp socio-economic inequalities. However, following the abolishment of forced labour in 1946, France (i.e. the colonial master) adopted a new policy which was aimed at rapidly expanding the production of coffee and cocoa in the southern and south-eastern parts of the country. Together with significant infrastructural improvements in the south in the 1950s, this led to increasing disparities in development between the south and south-east and other areas of the country (Hinderink and Tempelman 1979). By 1960, regional socio-economic inequalities were already quite severe, and they further worsened in the first decade after independence because the regime in charge under President Houphouët-Boigny maintained the outward-oriented agricultural model established by France. While the Côte d'Ivoire's development strategy produced impressive economic results, the concentration of investment, jobs and wealth in the southern parts of the country, especially in Abidjan and the cocoa area known as the '*Boucle du Cacao*', exacerbated the socio-economic disparities between the north and south. Subsistence farming continued to be the main economic activity in the northern regions in the first decade after independence.

However, from the late 1960s, the Ivorian government started promoting commercial food production in the north in order to reduce food imports, which constituted a serious drain on the country's foreign currency reserves (Hinderink and Tempelman 1979). As a result of the more active role of the state in the northern economy, an increasing amount of government expenditure and investment went to the north. This in turn led to a moderate reduction of the prevailing socio-economic inequalities between the north and south. In addition to the increased public investment and government expenditure in the northern regions, north-south migration and migration out of agriculture in the northern regions also contributed to reducing north-south income differentials (Riboud 1987). President Houphouët-Boigny actively encouraged internal and international migration by promising free access to land. While income inequalities between the north and south were reduced between 1965 and 1975, they nonetheless remained severe. The persistence of these sharp socio-economic inequalities more than a decade after independence increasingly began to threaten political stability. In response to the

increasing discontent among the northern people, the Ivorian government initiated the *Programme du Nord*, which basically was a massive public investment scheme to reduce the north-south inequalities in economic activity and social outcomes (see Berthélemy and Bourguignon 1996; Den Tuinder 1978). Another measure aimed at mitigating the regional imbalances in the distribution of social services was to alternate the independence festivities between Abidjan and other prefecture capitals (Gyimah-Boadi and Daddieh 1999). The massive facelifts that the prefecture capitals would undergo in preparation for these festivities constituted a huge economic boost for the town and its surrounding areas.

However, as a result of the deteriorating economic situation at the end of the 1970s, the increase in public investment in the northern regions quickly dried up. The sharp decline in the prices of coffee and cocoa clearly exposed the country's vulnerability to international commodity markets, and triggered a serious economic and financial crisis. Like Ghana, Côte d'Ivoire was more or less forced to embark on a prolonged structural adjustment process which led to sharp public expenditure cuts. Structural adjustment was accompanied by an economic recession which resulted in a substantial increase in poverty. An economic revival only occurred after the devaluation of the country's currency (i.e. CFA franc) in January 1994. From a northern perspective, an important consequence of the persistent economic problems until the mid-1990s was the decreasing amount of public investment that was finding its way to the North. However, because the negative impact of the recession on expenditure levels was considerably larger in the southern regions, the north-south divide improved somewhat *in relative terms*.

Due to the violent escalation of ethno-political tensions at the end of the 1990s and the eruption of a civil war in September 2002, the socio-economic north-south divide is likely to have worsened again. Although systematic and 'objective' data to assess the evolution of these inequalities are largely unavailable, it appears that the violent conflict and the subsequent split of the country between a rebel-controlled northern and a government-controlled southern part has had a more negative impact on the socio-economic situation of the northern regions.

Let us now look at some data illustrating the evolution of the north-south divide as outlined above. Table 4 illustrates that regional income inequalities around the time of independence were indeed quite severe. While the 1965 Domestic Income per capita (including non-monetary income) in Abidjan (by far the most developed area in the country) was 11 times higher than in the North, the northern regions were also doing considerably worse compared to the Centre (with a Domestic Income per capita of 1.9 times higher than the north) and other southern regions (2.6 times higher). If one only takes into account cash income, the northern disadvantage was even more pronounced: Domestic Monetary Income per capita in Abidjan, Centre and Southern regions was respectively 37, 4.5 and 7 times higher than in the North. Similarly, as shown in Table 5, educational differences between the north and south, as well as between the south and west, were also severe in 1967-1969.

**Table 4: Côte d'Ivoire – Regional economic inequalities, 1965**

|   | North  | Centre | South  | Abidjan | National |
|---|--------|--------|--------|---------|----------|
| GDP <sup>a</sup>                        | 15.3   | 46.5   | 95.0   | 91.1    | 247.9    |
| Commercial Product                      | 4.6    | 33.5   | 74.7   | 90.1    | 202.9    |
| Net Domestic Income                     | 15.1   | 40.5   | 85.3   | 63.0    | 203.9    |
| Net Domestic Monetary Income            | 4.4    | 27.5   | 65.0   | 62.0    | 158.9    |
| Net Domestic Income per capita          | 18,600 | 35,600 | 49,000 | 205,000 | 51,200   |
| Net Domestic Monetary Income per capita | 5,400  | 24,300 | 37,500 | 201,000 | 39,900   |

Source: Data drawn from Aubertin (1980: 49) (based on Ministère du Plan, Côte d'Ivoire, Loi Plan de développement économique, social et culturel pour les années 1967-1968-1969-1970). Note : a) GDP, Commercial Product, Net Domestic Income and Net Domestic Monetary Income are in billions of 1965 CFA francs.

**Table 5: Côte d'Ivoire – Estimated public primary school enrolment in 1967-1969 (per cent)**

|                           | 1967 | 1968 | 1969 |
|---------------------------|------|------|------|
| Abidjan                   | 33.1 | 32.5 | 31.1 |
| South (excluding Abidjan) | 55.3 | 51.7 | 52.1 |
| East                      | 29.3 | 30.6 | 30.6 |
| Center                    | 32.0 | 33.1 | 33.7 |
| Center-West               | 35.5 | 36.8 | 38.7 |
| West                      | 13.3 | 14.5 | 15.1 |
| North                     | 14.9 | 16.6 | 18.3 |
| Total Ivory Coast         | 30.5 | 31.3 | 32.0 |

Source: Salem (1975: 54).

As a result of the increased public investment and government expenditure in the northern regions from the late 1960s, the socio-economic north-south divide was considerably mitigated between 1965 and 1975, as shown in Table 6. Cash income per capita grew considerably quicker in the northern regions compared to other regions, including Abidjan. The north also caught up substantially with the south when non-monetary income elements are included in the analysis (although the reduction in inequalities was noticeably smaller). Yet, while income inequalities between the north and south were reduced between 1965 and 1975, the North continued to be seriously disadvantaged. Illustratively, in 1975, income per capita in the north was still about 22 per cent smaller than the national average and 65 per cent smaller than in Abidjan.

**Table 6: Côte d'Ivoire – Monetary income per capita in 1965 and 1975 (constant 1965 CFA franc)**

|               | Monetary income per capita |        |          | Total income (including auto-consumption) |        |          |
|---------------|----------------------------|--------|----------|---|--------|----------|
|               | 1965                       | 1975   | % change | 1965                                      | 1975   | % change |
| Abidjan       | 33,600                     | 47,100 | 40.2     | 60,500                                    | 66,000 | 9.1      |
| South         | 19,500                     | 26,000 | 33.3     | 31,500                                    | 40,100 | 27.3     |
| Central West  | 10,000                     | 18,300 | 83.0     | 19,000                                    | 31,700 | 66.8     |
| West          | 5,800                      | 9,000  | 55.2     | 13,400                                    | 17,900 | 33.6     |
| North         | 3,800                      | 8,900  | 134.2    | 16,000                                    | 22,800 | 42.5     |
| Center        | 12,800                     | 13,600 | 6.3      | 28,100                                    | 30,100 | 7.1      |
| East          | 10,800                     | 9,400  | -13.0    | 23,400                                    | 24,300 | 3.8      |
| Southwest     | 6,500                      | 8,800  | 35.4     | 15,300                                    | 17,800 | 16.3     |
| Côte d'Ivoire | 11,000                     | 15,300 | 39.1     | 23,200                                    | 29,200 | 25.9     |

Source: Bresson (1980: 78).

Due to the deteriorating economic environment at the end of the 1970s, the increase in public investment in the northern regions as part of the *Programme du Nord* quickly dried up and the socio-economic north-south divide therefore remained severe. Table 7 shows that in 1985 the Mean Expenditure per capita in the Savannah region (which depicts the situation in the northern regions) was about 50 per cent below the national average.

**Table 7: Côte d'Ivoire – Mean expenditure per capita by region, 1985**

| Regions       | Mean Expenditure Per Capita (CFAF x 1000 yr.) | Distribution of poverty |             |              |
|---------------|---|-------------------------|-------------|--------------|
|               |   | Poorest 10%             | Poorest 30% | All Ivorians |
| Abidjan       | 633.8   | 2.0                     | 3.5         | 18.8         |
| Other Urban   | 412.7   | 2.0                     | 10.8        | 22.4         |
| West Forest   | 296.0   | 8.1                     | 11.2        | 15.2         |
| East Forest   | 246.2   | 31.1                    | 34.4        | 24.7         |
| Savannah      | 177.7   | 56.8                    | 40.1        | 18.9         |
| Côte d'Ivoire | 350.9   | -                       | -           | -            |

Source: Glewwe (1988: 11).

Côte d'Ivoire's precarious economic and financial situation continued in the early 1990s. Table 8 illustrates the dramatic impact of the economic downturn on household expenditure levels in the period 1985-1995. From a north-south perspective, it is interesting to note that the negative impact of the recession on expenditure levels was considerably larger in the southern regions (as illustrated by the Abidjan, West Forest, East Forest regions) than in the northern or savannah region. Consequently, the north-south divide slightly improved *in relative terms* with respect to this indicator. In particular, while the savannah region had a Mean Household Expenditure per capita in 1985 of 39 per cent below the national average, in 1995, this was 'only' 25 per cent. Yet, in absolute terms, the expenditure levels in the savannah region also dropped substantially between 1985 and 1995, and as a result poverty levels further increased in the northern regions (affecting about 80 per cent of the population in 1995) (Azam 2004). Since the outbreak of the civil war in 2002, anecdotal evidence (such as the widespread closure of hospitals and schools, and the break-down of the administrative system) suggest that the north-south divide has worsened.



**Table 8: Côte d'Ivoire – Mean household expenditure by capita by region, 1985-1995**

|               | Mean household per capita in 1985 CFAF per year |         |         |         |
|---------------|---|---------|---------|---------|
|               | 1985  | 1988    | 1993    | 1995    |
| Abidjan       | 376,108   | 267,570 | 225,274 | 186,251 |
| Other Cities  | 261,867   | 158,534 | 125,445 | 118,605 |
| East Forest   | 164,035   | 140,286 | 101,667 | 98,269  |
| West Forest   | 252,047   | 130,142 | 105,986 | 96,247  |
| Savannah      | 142,588   | 112,673 | 86,040  | 91,240  |
| Côte d'Ivoire | 234,867   | 158,410 | 129,306 | 121,486 |

Source: Data drawn from Jones and Ye (1997: 5).

Let us now look at the evolution of the socio-economic inequalities between the main ethnic groups: Akan, Krou, Southern Mandé, Northern Mandé and Voltaic. Table 9 shows the disparities in Mean Expenditure per capita between the five main ethnic groups in 1985. Although the Voltaic and Northern Mandé had the lowest Mean Expenditure per capita (with the Voltaic performing considerably worse than the Northern Mandé), the difference between these two northern ethnic groups and the national average was considerably less than in the case of the northern regions (see table 7). This suggests that northerners who migrated from the north to the south or were born in the south were doing significantly better than the people in the northern regions themselves. All three southern ethnic groups had a mean expenditure per capita which was well above the national average.

**Table 9: Mean expenditure per capita by ethnic group, 1985**

| Ethnic groups  | Mean Expenditure Per Capita (CFAFx1000 yr.) | Distribution of poverty |             |              |
|----------------|---|-------------------------|-------------|--------------|
|                |   | Poorest 10%             | Poorest 30% | All Ivorians |
| Akan           | 354.6                                       | 34.0                    | 38.4        | 38.1         |
| Krou           | 367.5                                       | 5.2                     | 9.9         | 13.9         |
| Southern Mandé | 388.9                                       | 4.8                     | 7.6         | 11.2         |
| Northern Mandé | 338.5                                       | 22.3                    | 15.4        | 13.0         |
| Voltaic        | 244.7                                       | 26.5                    | 16.8        | 9.5          |
| Non-Ivorian    | 377.2                                       | 6.5                     | 11.6        | 14.1         |
| Côte d'Ivoire  | 350.9                                       | -                       | -           | -            |

Source: Glewwe (1988: 14).

For the period 1994-2005, Table 9 provides a number of other socio-economic indicators which were drawn from the DHS surveys. It is interesting to note that while the inequalities between the northern (i.e. Northern Mandé and Voltaic) and southern ethnic groups (i.e. Akan, Krou and Southern Mandé) regarding the educational attainment levels largely mirrored the north-south inequalities, with respect to the other three indicators, the ethnic inequalities showed a somewhat different picture. More specifically, the Northern Mandé appeared to be doing roughly the same or even better with respect to having access to electricity, a flush toilet or piped water in their residence than one or more of the three southern ethnic groups in the period under review. The main reason for this is that the Northern Mandé are more likely to live in

urban areas (where these amenities are more widely available) than the other ethnic groups, mainly because trade is their main economic activity.<sup>9</sup>

**Table 10: Côte d'Ivoire – socio-economic inequalities between ethnic groups, 1994-2005**

| PERCENT                    | Akan    | Krou | S. Mandé | N. Mandé | Voltaic |
|----------------------------|---------|------|----------|----------|---------|
|                            | 1994    |      |          |          |         |
| Has electricity            | 50.3    | 33.5 | 34.1     | 58.8     | 30.2    |
| Access to flush toilet     | 25.0    | 18.7 | 10.3     | 16.6     | 10.5    |
| Piped water in residence   | 35.8    | 23.6 | 15.4     | 33.3     | 18.6    |
| At least primary completed | 26.8    | 29.3 | 16.8     | 16.3     | 13.3    |
| At least second. completed | 1.4     | 1.0  | 0.4      | 1.1      | 0.7     |
|                            | 1998/99 |      |          |          |         |
| Has electricity            | 66.0    | 55.5 | 46.2     | 54.5     | 40.8    |
| Access to flush toilet     | 27.7    | 21.8 | 8.4      | 12.9     | 11.8    |
| Piped water in residence   | 42.5    | 44.8 | 19.0     | 35.0     | 30.5    |
| At least primary completed | 42.9    | 51.6 | 23.6     | 15.8     | 20.0    |
| At least second. completed | 4.9     | 4.4  | 0.8      | 1.6      | 1.9     |
|                            | 2005    |      |          |          |         |
| Has electricity            | 60.1    | 59.2 | 49.9     | 74.1     | 52.3    |
| Access to flush toilet     | 27.4    | 26.0 | 14.6     | 15.6     | 11.2    |
| Piped water in residence   | 47.5    | 43.7 | 32.3     | 49.6     | 32.8    |
| At least primary completed | 44.3    | 53.3 | 33.7     | 21.5     | 24.8    |
| At least second. completed | 9.8     | 6.4  | 4.5      | 3.9      | 3.5     |

Source: Authors' calculations based on the 1994, 1998/99 and 2005 Côte d'Ivoire DHS surveys.

In sum, like in Ghana, the socio-economic north-south divide in Côte d'Ivoire has persisted throughout the post-colonial period. The country's economic 'model' (based on an outward-oriented plantation economy) led to a sharp increase in socio-economic inequalities between the northern and southern regions. However, from late 1960s, the Ivorian government undertook some efforts to reduce the existing north-south inequalities. But due to the economic and financial problems of the late 1970s, these efforts were short-lived and the north-south divide therefore persisted. While North-South migration (which was actively encouraged by the country's long-term President Houphouët-Boigny) did little to develop the northern regions, it did improve the socio-economic situation of the northern people who decided to migrate to the South.

## Malaysia

Among all the Southeast Asian countries, Malaysia ranks second highest in terms of development after only Singapore, but highest in terms of vertical inequality. With a Gini coefficient of 0.492 (by World Bank data – Malaysian government data has it slightly lower), Malaysia also has high inequality in terms of its level of human development beyond the Southeast Asian region. Among countries of comparable human development, only the Latin American country of Panama has higher vertical inequality. Yet regional inequality in Malaysia is second lowest in Southeast Asia – beaten only by the Lao PDR – and lowest of all its development peers for which data was available, except Bulgaria (Table 11).

<sup>9</sup> In 2005, the urbanisation rate of the five main ethnic groups were as follows (in descending order): Northern Mandé 64.5%, Krou 50.1%, Southern Mandé 44.4%, Akan 43.8% and Voltaic 35.4 (source: 2005 Côte d'Ivoire DHS).

**Table 11: Human development and vertical inequality in selected countries, 2004**

| Southeast Asia  |              |              |              | Countries of similar HDI |              |              |              |
|-----------------|--------------|--------------|--------------|--------------------------|--------------|--------------|--------------|
|                 | HDI          | RI (GCov)    | VI (Gini)    |                          | HDI          | RI (GCov)    | VI (Gini)    |
| Singapore       | 0.902        | n.a.         | 0.423        | Trinidad                 | 0.801        | n.a.         | 0.403        |
| <b>Malaysia</b> | <b>0.793</b> | <b>0.397</b> | <b>0.492</b> | Bulgaria                 | 0.796        | 0.383        | 0.319        |
| Thailand        | 0.768        | 1.069        | 0.432        | Russia                   | 0.795        | 0.632        | 0.456        |
| Philippines     | 0.753        | 0.536        | 0.461        | Libya A.J.               | 0.794        | n.a.         | n.a.         |
| Indonesia       | 0.692        | 0.810        | 0.343        | <b>Malaysia</b>          | <b>0.793</b> | <b>0.397</b> | <b>0.492</b> |
| Viet Nam        | 0.691        | 1.026        | 0.361        | Macedonia                | 0.793        | n.a.         | 0.282        |
| Cambodia        | 0.568        | n.a.         | 0.404        | Panama                   | 0.791        | 0.432        | 0.564        |
| Myanmar         | 0.551        | n.a.         | n.a.         | Belarus                  | 0.790        | n.a.         | 0.304        |
| Lao PDR         | 0.534        | 0.337        | 0.370        | Albania                  | 0.781        | 0.761        | 0.282        |

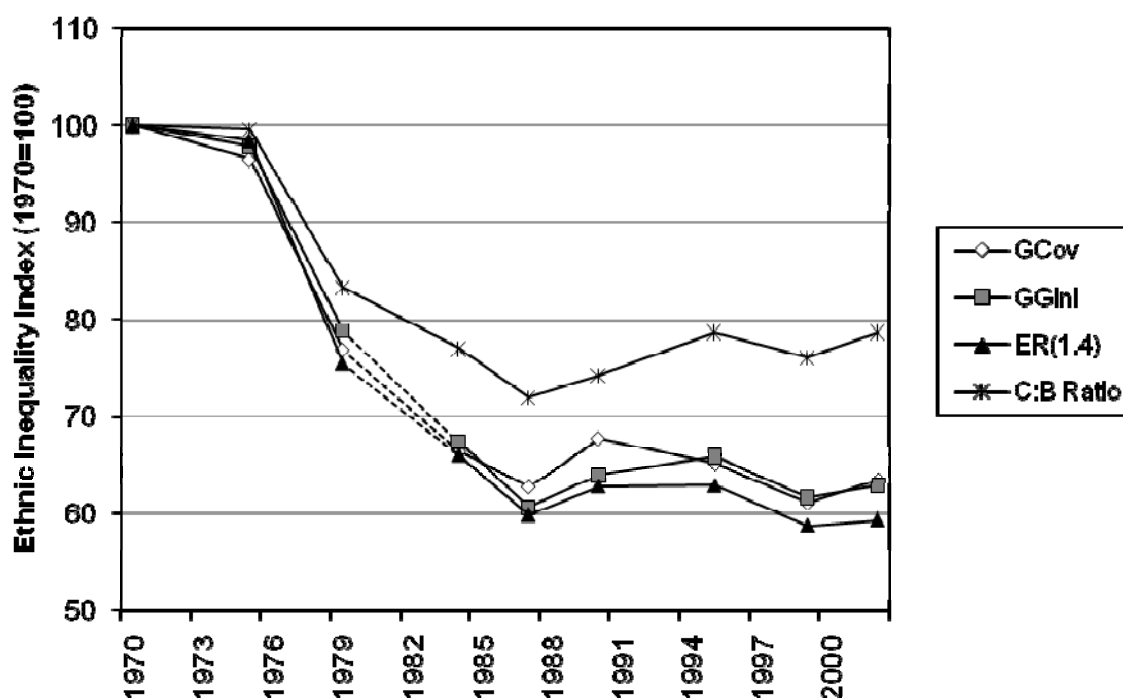
Key: HDI – Human Development Index; RI – Regional Inequality (GCov);  
VI – Vertical Inequality (Gini coefficient)

Inequality and the correction thereof have been at the heart of Malaysian economic policy since 1969 – not regional or vertical inequality, however, but another dimension of horizontal inequality – ethnic inequality. Inheriting a colonial ‘ethnic division of labour’ (Brown 1997a) from the British, the early years of Malaysia’s independence were marked by severe socio-economic disparities between the majority Malays and other indigenous groups (together termed the bumiputera) – who tended to be poor, rural subsistence farmers – and the minority Chinese community, which dominated the local economy. The other major immigrant community, the Indians, was more diverse, with many relatively well off Indians in the civil service but a significant proportion in the poorer sector that worked the rubber plantations. After ethnic rioting in 1969 was blamed on this inequality, Malaysia undertook arguably the most extensive affirmative action programme in history – the New Economic Policy (NEP) – aimed at correcting these ethnic imbalances by 1990. While many of the NEP’s ambitious targets were not quite met, the period undoubtedly saw a drastic decrease in these ethnic imbalances, along with remarkably high overall growth rates and a drastic decline in overall poverty. (The NEP also generated a vast academic industry dedicated to its analysis. For a representative sample, see Bowie 1994; Gomez 1996; Ishak 1996; Jomo 1986; Jomo 2001; Rasiah and Ishak 2001). This emphasis on ethnic horizontal inequalities is reflected in the various five-year Malaysia Plans and ten-year Outline Perspective Plans that set the broad parameters of government development policies. Ethnic affirmative action policies have been at the heart of these planning documents since 1969; regional inequality is afforded some attention, but vertical inequality barely gets a look in – in the most recent Eighth Malaysia Plan, the vertical Gini coefficient was reported in passing, but no policies proposed to deal with personal income inequality; previous plan documents have omitted even reporting the Gini coefficient (Malaysia 1991; Malaysia 1996; Malaysia 2001).

Largely because of its target-driven policies, the Malaysian government frequently releases summary data on ethnic inequalities across a variety of dimensions – e.g. income, employment, poverty – although the raw data of household income surveys are closely guarded (see Hashim 1998 for a study that gained unusual access). These data are often reported in academic studies, either as absolute averages or as dispersion ratios (e.g. Jomo 1990; Jomo 2004; Khoo 2004). Employing the horizontal inequality measurement techniques discussed above, however, it is possible to condense these ratios into an overall index of ethnic inequality in Malaysia. Figure 2 demonstrates this using three possible measures of horizontal inequality, the *group coefficient of variation*

(GCov), the *group Gini* (GGini), and the Esteban-Ray *polarization index* (ER)<sup>10</sup> calculated for the three main ethnic group – the Malay/Bumiputera, Chinese, and Indian – and a small fourth group of ‘Others’. Also reported is the bare Chinese-Bumiputera dispersion ratio (C:B Ratio), being the ratio between the largest two groups, and also the most politically important. All measures are indexed to their 1970 value for ease of comparison. Prior to 1984, the data on which these figures are based referred only to West Malaysia, without including the states of Sabah and Sarawak, a break represented by the dashed section of each curve.

**Figure 5: Malaysia –Ethnic inequality, 1970-2002**



Mirroring Stewart, Brown and Mancini’s findings, it is clear from this figure that the three composite measures of horizontal inequality are highly correlated across time. They all show a significant drop in horizontal inequality between the mid-1970s and the mid 1980s – a period associated with the full implementation of the NEP, from the passing of the Industrial Coordination Act in 1976 to the ‘loosening’ of the NEP by the Mahathir administration following the 1986 recession (Khoo 1992). This decrease is also reflected in the Chinese-Bumiputera dispersion ratio, although not as strongly. From the mid-1980s, however, the composite indices show a broadly flat trend with only minor variations up and down, while the Chinese-Bumiputera dispersion ratio has been steadily increasing again, with the exception of the period between 1995 and 1999. Both the faster drop in inequality in the earlier time periods and the differing trends between the composite indices and the bare ratio measure post-1987 can largely be attributed to the relatively faster population growth rates of the bumiputera, which has increased from around 52 per cent of the (West) Malaysian population in 1970 to around 65 per cent of the Malaysian population in 2002. The important implication of this is that overall ethnic inequality in Malaysia has not increased significantly since the end of the NEP, despite the slight increase in the Chinese-Bumiputera income ratio.

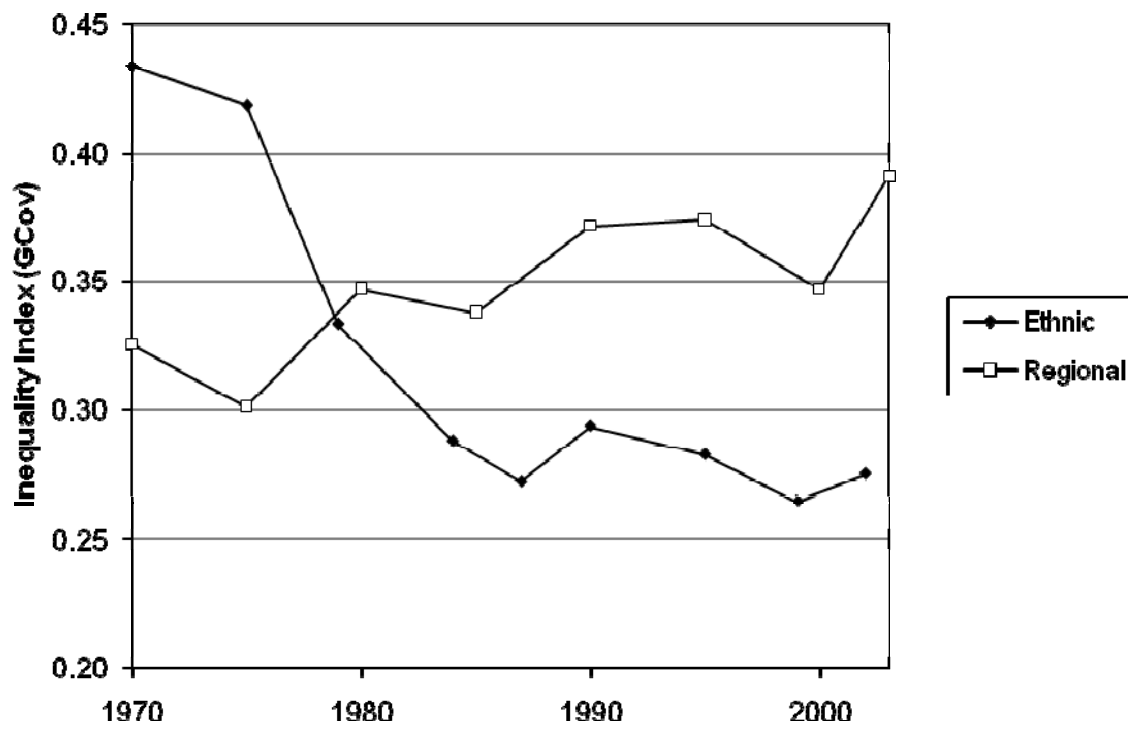
<sup>10</sup> The Esteban and Ray index includes a constant  $\alpha$  that represents inequality aversion ( $0 \leq \alpha \leq 1.6$ ). Following usual practice, this value is set here to 1.4.

Despite the predominant focus on ethnic inequalities, regional inequalities between the Malaysian states has recently started attracting more academic attention (e.g. Jomo and Wee 2002; Wee 1995). Two regions of Malaysia stand out as particularly important in terms of regional inequality – the East Malaysian states of Sarawak and, particularly, Sabah; and, the northern Malay-dominated states of Kelantan and Terengganu. In 1965, the former British colonies of Sabah (then British North Borneo) and Sarawak joined with already independent Malaya (and, briefly, Singapore) to form Malaysia. At the time, it was widely accepted that these two states dragged behind Malaya (now known as West Malaysia) developmentally, but they were both rich in natural resources – primarily timber – and inclusion in the Malaysian Federation was seen as providing a market and political structure for rapid development (Kaur 1998; Milne and Ratnam 1974). In fact, however, the two states have continued to lag behind in development terms. While absolute poverty in both states has declined markedly from around 51 per cent in both Sabah and Sarawak in 1976 (the first reliable estimates) to, respectively, 16 per cent and 5.8 per cent in 2003 (compared with 5.1 per cent nationally), they still lie bottom and third-from-bottom respective in the government's Development Composite Index, a similarly constructed measure to the Human Development Index. Populated largely by the non-Malay bumiputera groups, these states have nonetheless failed to benefit significantly from the pro-bumiputera policies of the NEP, which is widely seen as being, in reality, pro-Malay rather than pro-bumiputera. In contrast, Kelantan and Terengganu – the poorest two West Malaysian states at the time of independence – are almost exclusively Malay and should thus have benefited relative well from the NEP policies. Despite this, however, they continue to lag behind, with poverty rates around twice the national average. The situation in Terengganu is particularly marked as the state is home to most of Malaysia's off-shore oil reserves, and thus has a GDP per capita well above the national average, although this has not translated in to higher mean household incomes for the population as a whole.

By employing the GCov composite measure of horizontal inequality, we can compare the extent and change in ethnic and regional inequalities directly. Note that in comparison with the cross-sectional data presented above, when considering trends in regional inequality within one country over time, the dispersement of the population within the states is not an issue of major concern as we are interested in inequality between these states in themselves, rather than as indicators of a broader trend. Nonetheless, for geographic comparability, the data has been recoded for longitudinal administrative consistency, so that Kuala Lumpur is treated as a part of Selangor (which it was until 1976), and the states of Kedah and Perlis are merged (which they never were, but early data reported the two combined, largely due to the tiny size of Perlis).

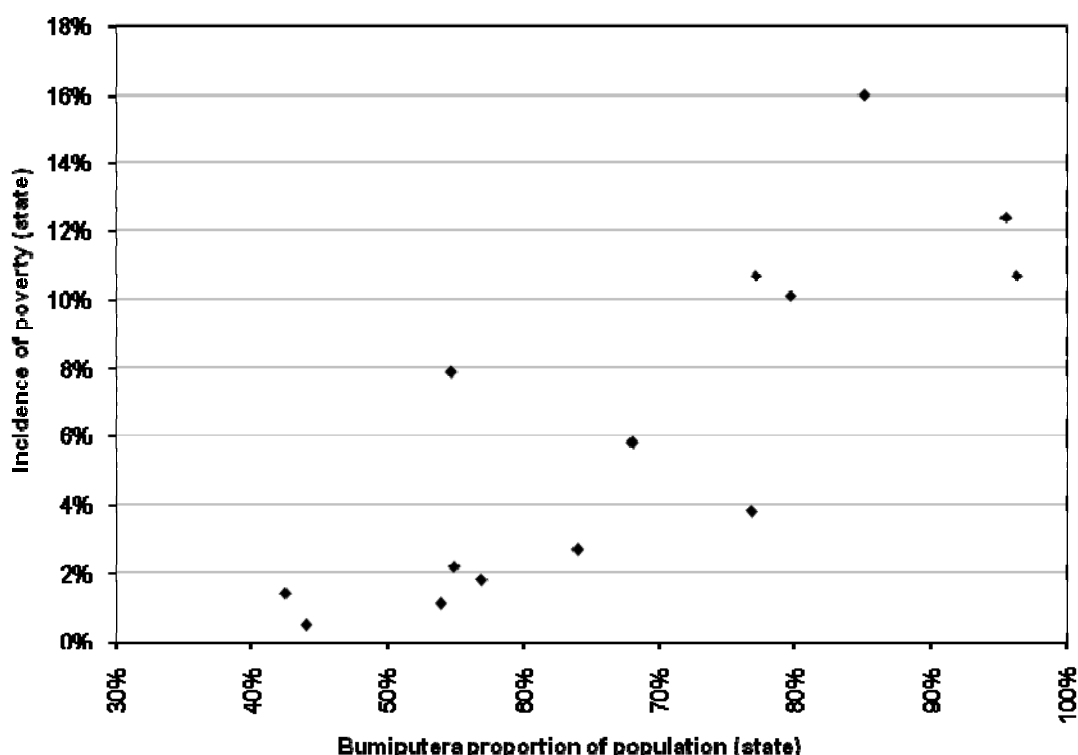
Figure 7 shows the absolute changes in regional and ethnic inequality since 1970. As we saw already, ethnic inequalities diminished rapidly before flattening out in the mid 1980s. In contrast, changes in regional inequalities between periods have been less consistent, but the trend is clearly upwards. In 1970, the inequality between ethnic groups was around a third higher than that between the Malaysian states; today the reverse is true, with the regional GCov measure more than 40 per cent higher than the ethnic measure.

**Figure 6: Ethnic and regional horizontal inequality trends, Malaysia 1970-2003**



These trends appear on face value somewhat contradictory. Given that the bumiputera-dominated states have always been the poorer states (Figure 8), one might assume that correction of ethnic inequalities would automatically have reduced regional inequalities; this does not appear to have been the case. Implicit in this is the assumption that intra-ethnic group vertical inequalities have risen over the period. Hashim's (1998) study of the period until 1987, however, showed a slight *decrease* in intra-group inequality; no data is available for subsequent years.

Figure 7: Proportion of bumiputera and poverty rate by state, 2002



Thus far, we have considered only inequality as measured by income, but increasingly scholars are treating inequality as a multi-dimensional concept (e.g. Maasoumi 1986). Income statistics can be misleading – if, for instance, not properly adjusted for regional fluctuations in price levels – and, moreover, is only one indicator (albeit an important one) in the broader set of (group) characteristics that make up the broader concept of ‘human development’. As yet, Malaysia does not produce a national human development report, let alone one disaggregated by region or even ethnicity – as some countries do, even where ethnicity is as sensitive an issue as in Malaysia, such as Macedonia and Kosovo (UNDP 2004). But we can get an idea of the multi-dimensional status of inequality in Malaysia through the available data nonetheless.

Clearly some concept of ‘poverty’ is one important dimension of inequality and, indeed, a dimension at the heart of the NEP – one of its two ‘prongs’ being dedicated to the ‘eradication of poverty regardless of race’. Poverty data is also an important complement to income data because average income data alone can obscure substantial levels of deprivation if intra-region (intra-group, etc.) inequality is high. In examining the poverty data on contemporary Malaysia, it is important to recognize that the country as a whole has made major advances in combating poverty in absolute terms, despite some academic reservations about the quality of the poverty statistics (Jomo 2001; Jomo 2004).<sup>11</sup> Figure 9 shows the trends in regional disparities in mean incomes and poverty since 1976. Regional disparities in state income per capita may have grown since 1976, but variations in poverty far outstrip this. Poverty in Malaysia is becoming increasingly and seriously regionally concentrated. Indeed, Sabah alone accounts for more than 30

<sup>11</sup> Among the concerns are that the poverty line was expressed as a flat rate for household income, irrespective of variations in household size/composition, urban or rural place of residence, or broader regional price fluctuations, except for Sabah and Sarawak, where a separate poverty was calculated. The government appears to have taken some of these concerns on board and has adopted a new methodology for the computation of poverty statistics, which will be presented in the forthcoming Ninth Malaysia Plan.

per cent of the poverty in the country, despite constituting only 11 per cent of the population.

**Figure 8: Trends in regional disparities in income and poverty, 1976-2003**

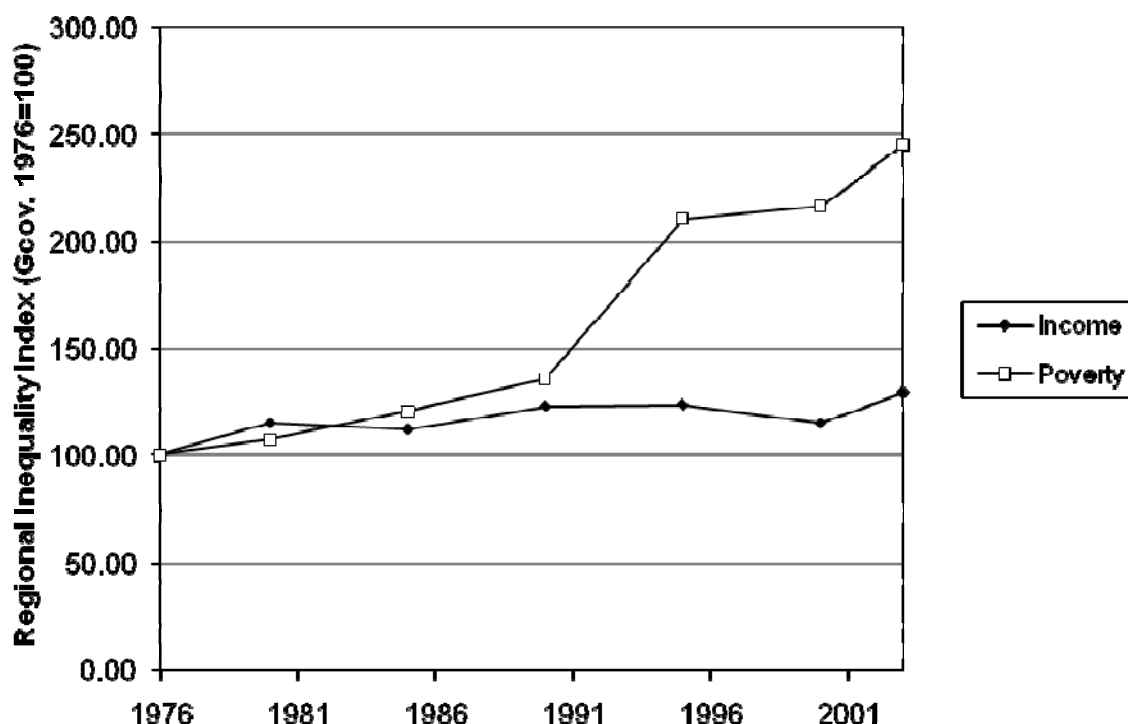


Table 9 shows all available socio-economic indicators by state and ethnic group, relative to the national average for the year 2000. For the limited number of indicators available for the ethnic groups, the picture is broadly consistent – the bumiputera having higher than average poverty and unemployment rates and lower than average household incomes; and vice versa for the Chinese. But the consistency of the different dimensions across the states is much lower. In Sarawak, for instance, generally poor indicators are off-set by a very low relative infant mortality rate, although this could reflect a problem with the data.<sup>12</sup> Conversely, in the race for top spot, Kuala Lumpur might have an advantage over Penang in raw income terms, but the latter has noticeably lower unemployment and infant mortality rates than Kuala Lumpur.

<sup>12</sup> According to further disaggregated data from the Department of Statistics, on which these were presumably based, some of the very rural regions of Sarawak (and Sabah) report exceptionally low infant mortality rates, in some cases zero. Given the lack of modern infrastructure in these regions, this is likely to be to at least some degree reflective of under-reportage of infant mortalities rather than actual conditions.

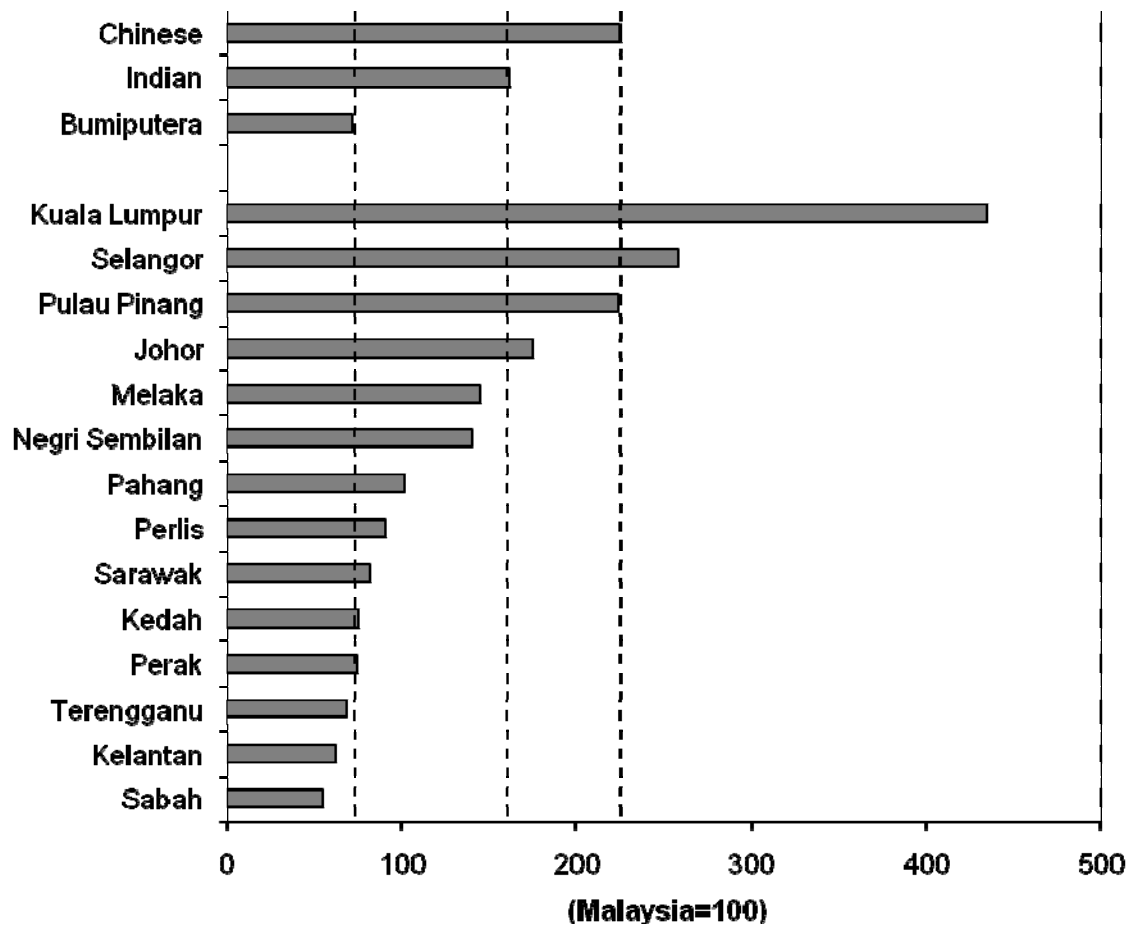


**Table 6: Malaysia – Socio-economic indicators by state and ethnic group, c.2000**

|                | <b>Infant<br/>mortality</b> | <b>Mean<br/>household<br/>income</b> | <b>Unemp-<br/>loyment</b> | <b>GDP per<br/>capita</b> | <b>Poverty</b> |
|----------------|-----------------------------|--------------------------------------|---------------------------|---------------------------|----------------|
| Johor          | 0.802                       | 1.070                                | 0.742                     | 0.970                     | 0.353          |
| Kedah          | 1.049                       | 0.652                                | 0.871                     | 0.580                     | 2.098          |
| Kelantan       | 1.198                       | 0.532                                | 1.097                     | 0.400                     | 2.431          |
| Melaka         | 1.136                       | 0.914                                | 0.645                     | 1.030                     | 0.529          |
| Negri Sembilan | 0.926                       | 0.945                                | 1.065                     | 0.920                     | 0.431          |
| Pahang         | 1.235                       | 0.600                                | 0.903                     | 0.680                     | 0.745          |
| Perak          | 0.827                       | 0.705                                | 1.129                     | 0.820                     | 1.549          |
| Perlis         | 0.988                       | 0.579                                | 0.613                     | 0.640                     | 1.980          |
| Pulau Pinang   | 0.864                       | 1.265                                | 0.548                     | 1.450                     | 0.275          |
| Sabah          | 1.420                       | 0.771                                | 1.806                     | 0.640                     | 3.137          |
| Sarawak        | 0.765                       | 0.921                                | 1.484                     | 0.940                     | 1.137          |
| Selangor       | 0.679                       | 1.498                                | 0.613                     | 1.270                     | 0.216          |
| Terengganu     | 1.309                       | 0.647                                | 1.065                     | 1.570                     | 2.098          |
| Kuala Lumpur   | 1.346                       | 1.661                                | 0.839                     | 1.990                     | 0.098          |
| GCov           | 0.262                       | 0.355                                | 0.389                     | 0.391                     | 1.032          |
| Bumiputera     | 1.162                       | 0.789                                | 1.484                     | n.a.                      | 1.431          |
| Chinese        | 0.635                       | 1.421                                | 0.516                     | n.a.                      | 0.294          |
| Indian         | 0.774                       | 1.011                                | 0.871                     | n.a.                      | 0.373          |
| Other          | n.a.                        | 0.719                                | 0.258                     | n.a.                      | n.a.           |
| GCov           | 0.239                       | 0.275                                | 0.471                     | n.a.                      | 0.541          |

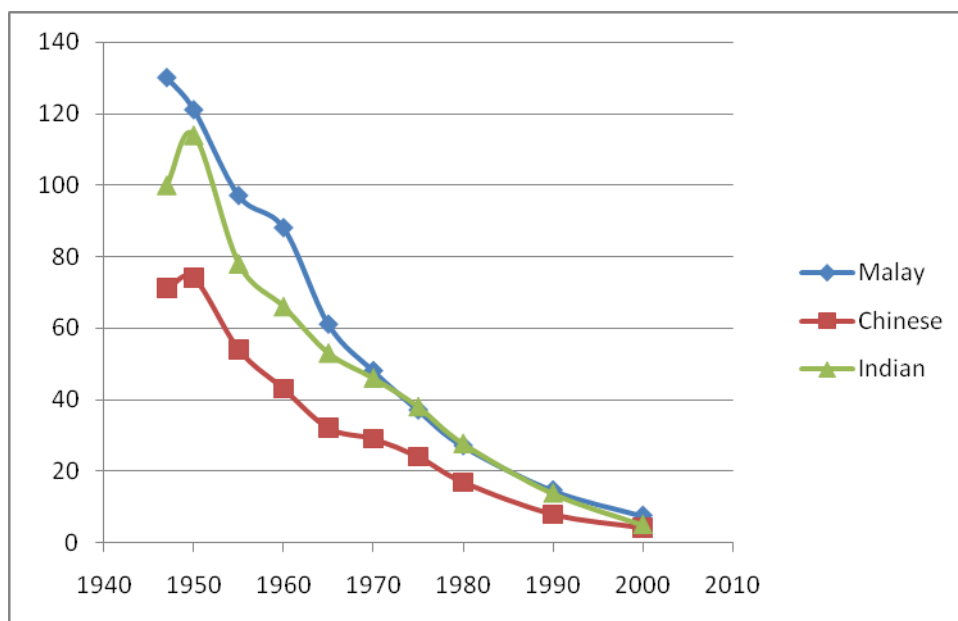
Another important point to note is that of the inter-state disparity is greater than inter-ethnic disparity in two of the three dimensions for which data on both is available – mean monthly income and poverty – while unemployment remains more unequal between ethnic groups. From these three indicators we can compile a composite index of socio-economic development comparable between inter-state and inter-ethnic differentials by simply taking the average of the three scores, suitably inverted in the case of the relative poverty and unemployment rates (where a higher score relates to lower levels human development). Figure 11 shows this composite index for both the states and the main ethnic groups. From this we can see that while the Chinese still retain a significant socio-economic advantage over the other ethnic groups, particularly the bumiputera, this advantage is almost exactly on a par with that enjoyed by Penangites irrespective of ethnic group, and well behind that enjoyed by residents of Kuala Lumpur and Selangor. Conversely, the socio-economic disadvantage endured by the bumiputera is roughly on a par with that of Perak and Kedah and less than that endured by Kelantan and Terengganu. Sat at the bottom of the barrel on all accounts is Sabah.

**Figure 9: Composite socio-economic development index, Malaysian states and ethnic groups c.2000**

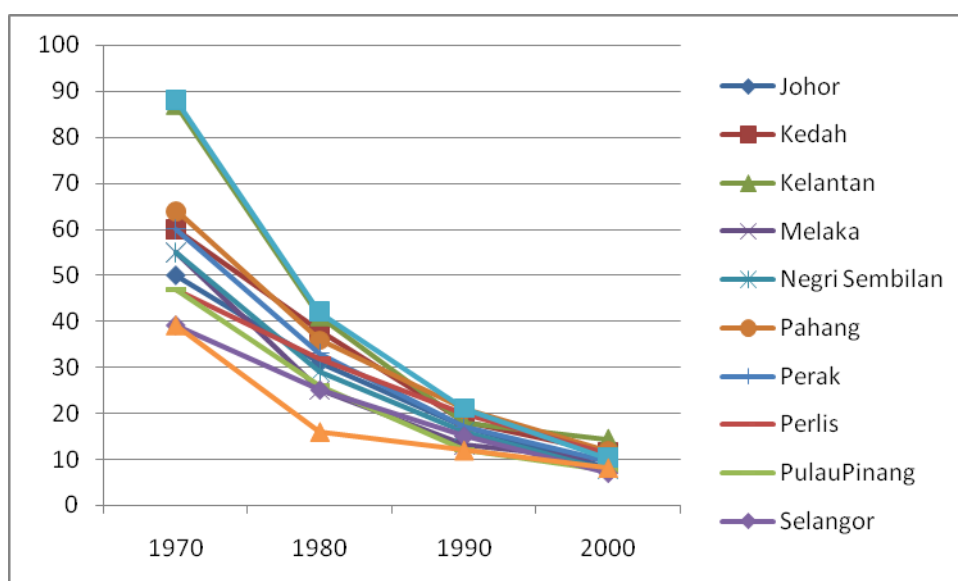


In evaluating these trends in the Malaysian context, however, it is important to note that overall the country has made huge strides in human development and that inter-group disparities (both at the state and ethnic level) may have remained steady relative to each other, but have declined substantially in absolute terms. To give some indication of this, Figure 7 and Figure 8 chart the changing infant mortality rate by ethnic group and in West Malaysia over the long term, since 1945; and, by state since 1970. While the ratio of performance has remained broadly steady – with both Indian and Malay groups experiencing an IMR around 50% higher than the Chinese over the entire period, the absolute level has declined drastically. Similar time trends are evidenced in state level trajectories.

**Figure 10: Malaysia – Infant Mortality Rate by ethnic group, 1945-2000**



**Figure 11: Malaysia – Infant Mortality Rate by state, 1970-2000**



Malaysia's experience of rapid industrialization and high growth rates throughout much of its period of independence points to a number of conclusions. Firstly, it is clear that redistributive policies are not *per se* incompatible with rapid growth, and that targeted interventions – in this case at ethnic inequalities – can achieve some effective results, although sustaining such reductions appears to be more difficult, given the country's experience post-1985. Secondly, and confirming the Brazilian evidence (see below), it is clear that effective and significant decreases in bottom-line human development indicators – literacy, infant mortality rates – can be achieved across multiple dimensions of horizontal inequality. But the final note is one of more caution – where policies to target 'headline' income inequalities between one dimension of horizontal inequality are introduced (in this case, ethnicity), this may not translate into reductions – and indeed may even be accompanied by increases – in horizontal inequalities across another

dimension (in this case, region), even when the demographics of these two dimensions are largely overlapping.

## **Brazil**

In this section, we turn attention to the Brazilian case study, drawing primarily on two data sources: a random 1% sample of the 1970, 1980, 1990, and 2000 censuses; and, national and regional accounts produced by the Brazilian Institute of Geography and Statistics (IBGE, *Instituto Brasileiro de Geografia e Estatística*).

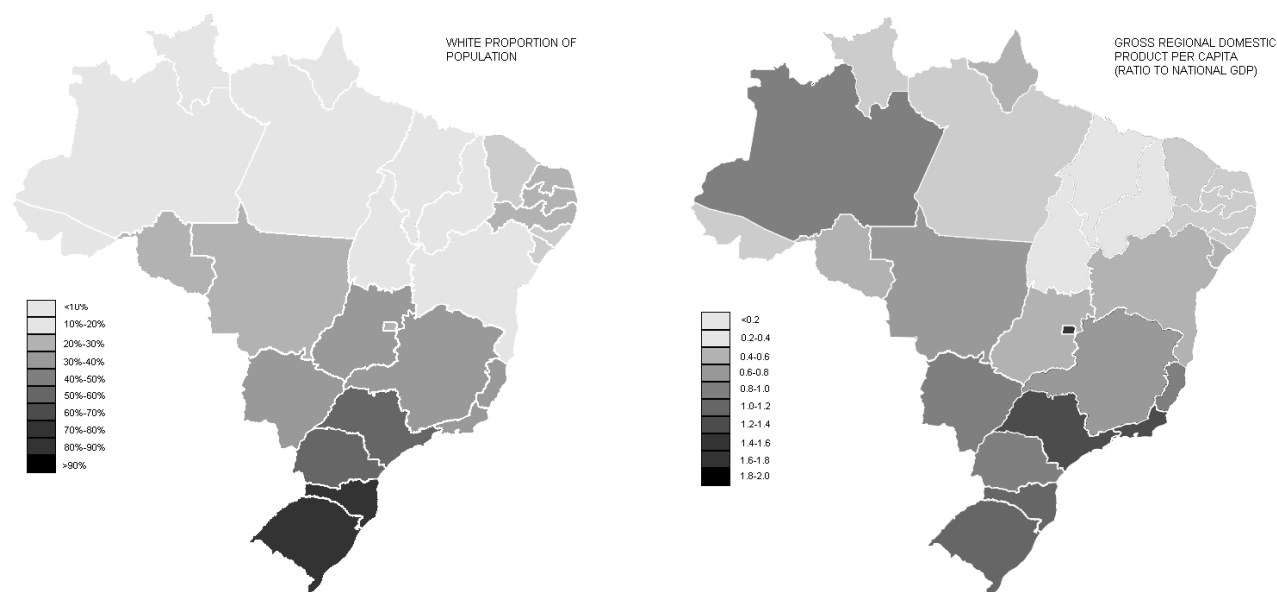
The population of Brazil, like much of Latin America, is characterized by a large degree of ethnic mixing and fluidity, with most people tracing some degree of mixed heritage from a combination of white settlers, originally from the Iberian peninsula with more recent waves from Germany and other countries; black or ‘Afro-descendant’ descendants of slaves; and, indigenous groups. Since 1950, the Brazilian census organization has distinguished five categories: White, Black, Brown (*Pardo*, used for those of mixed descent), Indigenous, and ‘Yellow’ (East Asian), although the question was excluded from the 1970 census (Noble 2002). In the latest census, a slight majority of the population reported themselves as White and around a third as *Pardo*. Table 13 shows the ethnic composition of the 1% random census samples used for much of the socio-economic data in this section. Constitutionally federal, Brazil is divided into 27 states

**Table 13: Brazil - Ethnic composition of census samples, 1980-2000**

| Race         | 1980   | 1990   | 2000   |
|--------------|--------|--------|--------|
| White        | 57.48% | 53.79% | 54.96% |
| <i>Pardo</i> | 35.25% | 39.79% | 36.84% |
| Black        | 6.19%  | 5.44%  | 6.67%  |
| Asian        | 0.68%  | 0.48%  | 0.49%  |
| Indigenous   | -      | 0.19%  | 0.42%  |
| Unknown      | 0.41%  | 0.31%  | 0.62%  |

As Map 1 indicates, however, there is a strong overlap between geography and ethnicity; and between geography and socio-economic performance. This interlacing of a regionalized economy with ethnic concentrations combined for much of Brazil’s early period of independence with a racial supremecism that postulated ‘Whitening’ as the desired developmental outcome. Regional-racial identification was strongest for much of the nineteenth century in São Paulo, giving rise to a *paulista* movement that was both racist and exploitative – a classic example of internal colonialism or ‘Orientalism within one country’ as Barbara Weinstein memorably termed the movement. The racist structure of Brazilian political economy reached its zenith in the 1932 Constitutionalist Revolution, where the *paulistas* attempted to turn back the constitutional reforms of the past three decades. São Paulo revolted against the federal government, but the rebellion was quickly crushed.

**Map 1: Brazil – Ethnic distribution and GRDP per capita by state, 2000**

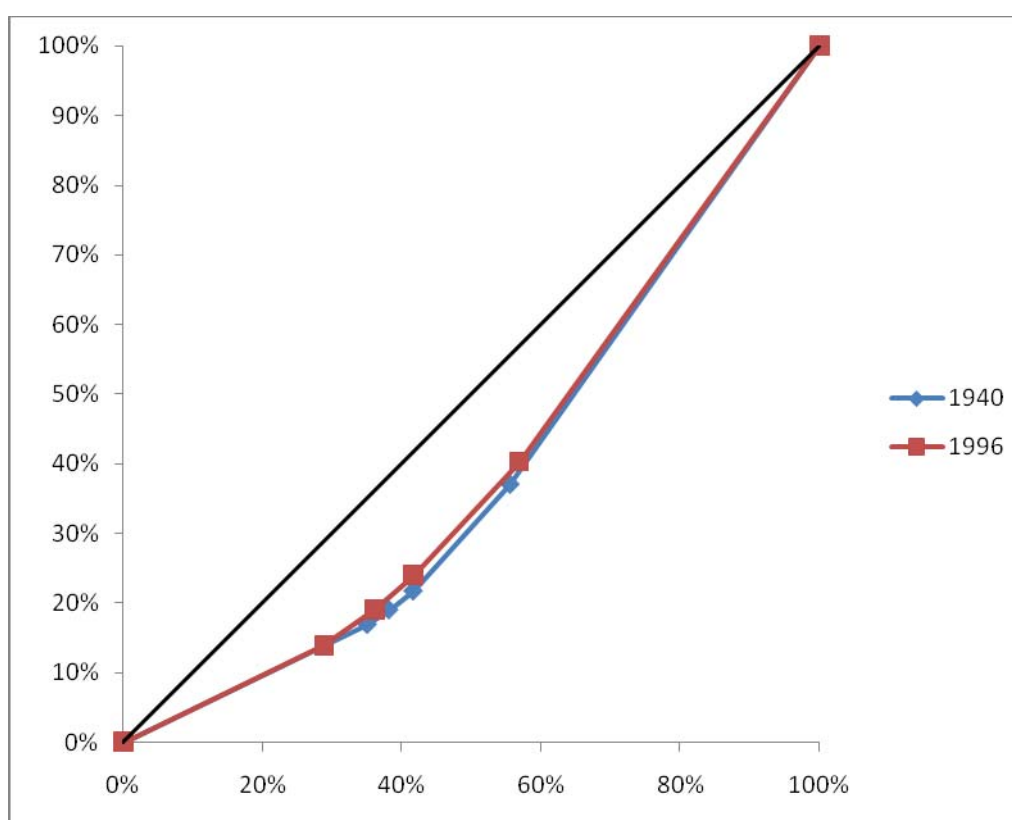


Economically, Brazil followed an import substitution policy for much of its period of independence, with some products even completely banned from import under the ‘Axeco C’ regulation (Green, et al. 2001). Brazil’s economy was heavily reliant on coffee at independence, and this had left it vulnerable to price fluctuations; the 1932 rebellion and the subsequent coup in 1937 have been largely linked to the fall in the price of commodity and the subsequent massive programmes undertaken by the Brazilian government to support coffee prices, which failed. Import substitution only started to deliver rapid industrialization and diversification of the economy in the 1940s; between 1950 and 1961, the national economy grew at around 7% per annum. By the 1980s, however, increasing debt and negative impacts of the oil shocks ushered in a period of stagflation – the ‘lost decade’ in which GDP per capita growth slowed to 1.4% and real incomes shrank by 6%. Brazil redemocratized in 1988 with a new constitution that radically altered the political economy, implementing substantial fiscal decentralization to the state level and mandating educational and other socio-economic priorities. Subsequently, facing a hyperinflationary threat, the new administration of President Collor de Mello began a process of trade liberalization and privatization. It was only after the ‘Real Plan’ of 1994 pegged the *real* to the US dollar, however, that inflationary pressures were brought under control. Despite fears that he would renege on debt repayments and undo the monetary restraint of the previous decade, President ‘Lula’ da Silva, in power since 2002, has overseen a continuous, though relatively modest, era of growth.

As Azzoni et al. (2005) note, Brazil is a country of notoriously high regional inequalities, perhaps unsurprising given its size. At the broadest level, regional inequalities in Brazil have remained remarkably steady over the *longue durée*. Azzoni (2001) provides estimates of regional inequality in Brazil broken down into the five broad geographical regions; Figure 1 calculates the regional Lorenz curves for these regions. The Southeast region of Brazil, which accounted for just over 40% of the population in both 1940 and 1996, dominated the national economy, particularly the state of São Paulo (not shown), which had a share of national income around twice its population share in both years.

Over the period for which we have annual GRDP data at the state level, from 1985 to 2006, there is evidence of general trend of increasing regional inequalities, with an apparent downturn after 1999. Table 14 shows the GRDP per capita ratio by state at five-yearly intervals between 1985 and 2004; Figure 10 tracks the population-weighted regional inequality index on an annual basis between 1985 and 2006. As already mentioned, a significant proportion of the total regional inequality has been due to the position of São Paulo state, with a GRDP per capita some two-thirds higher than the national average, and, in 1985, almost ten times that of the poorest states of Piauí and Maranhão. While the Federal District around Brasília overtook São Paulo as the richest federal entity in the early 1990s, the *Distrito Federal* is relatively small in population, and so does not contribute much inequality in the population-weighted measure. Since the late 1980s, however, São Paulo's GRDP has been converging towards the national average, largely accounting for the reduction in regional inequalities over that period. While São Paulo's Southern, majority-White neighbouring state Rio de Janeiro has increased its economic advantage over the same period, Rio de Janeiro is a much smaller state than São Paulo, so the net effect of these changes was to reduce regional inequalities, at least until the turn of the century. The apparent dramatic increase in regional inequalities between 1999 and 2002 may be misleading as this coincides with a rebasing of the time-series which results in particular in a dramatic increase in the reported GRDP ratio of the Federal District from 1.8 to 3.1.

**Figure 12: Brazil - Regional Lorenz curves, 1940 & 1996**



Source: Calculated from data in Azzoni (2001)

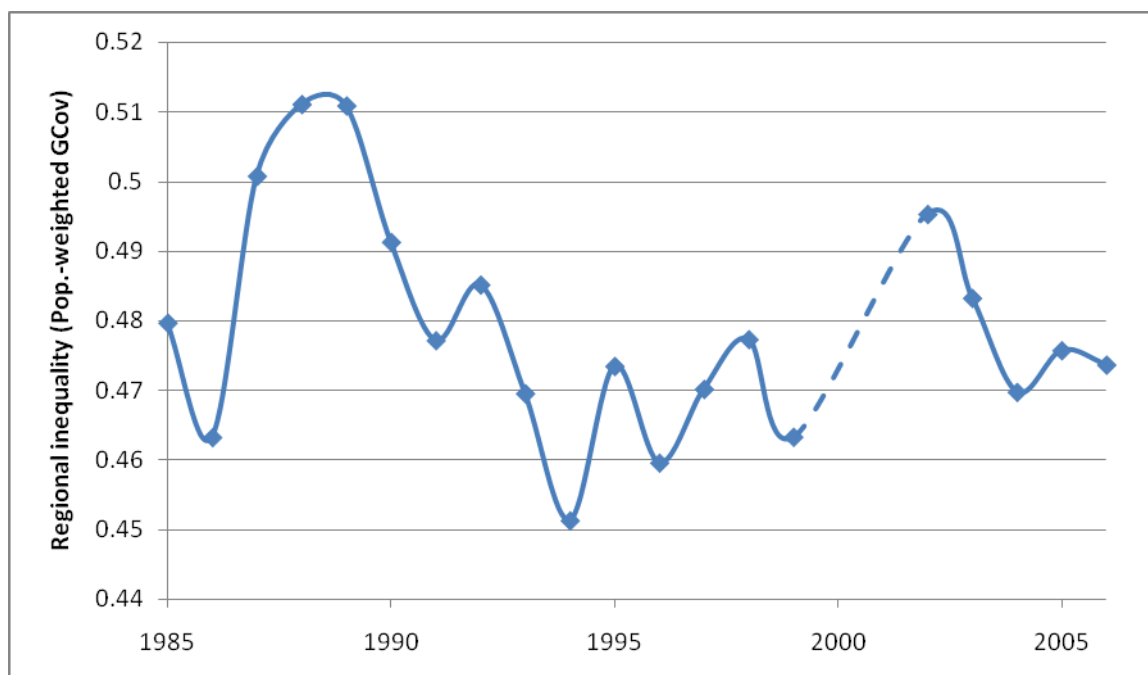
The drop in regional inequalities in Brazil from the late 1980s onward followed major decentralization of the Brazilian state in the 1988 Constitution, which granted tax-raising powers to the states and abrogated the central government's power to over-ride state economic policies (Mora and Varsano 2001; Selcher 1998). It is important to note,

however, that while decentralization may have driven regional inequalities downwards in Brazil, it has also been linked to the country's spiralling debt crisis in the 1990s, as state governments – particularly in large and powerful states such as São Paulo and Rio de Janeiro – overspent their budgets, expecting the federal government to bail them out, which it largely did as the impact of default would have adversely impacted the national economy (Facchini and Testa 2008).

**Table 14: Brazil - GDP per capita ratio by state, 1985-2004**

| Region              | 1985 | 1990 | 1995 | 1999 | 2004 |
|---------------------|------|------|------|------|------|
| Acre                | 0.48 | 0.49 | 0.50 | 0.48 | 0.53 |
| Alagoas             | 0.51 | 0.41 | 0.37 | 0.40 | 0.40 |
| Amapá               | 0.70 | 0.81 | 0.78 | 0.59 | 0.70 |
| Amazonas            | 1.15 | 1.27 | 1.09 | 0.97 | 1.17 |
| Bahia               | 0.67 | 0.56 | 0.53 | 0.56 | 0.65 |
| Ceará               | 0.39 | 0.37 | 0.44 | 0.46 | 0.43 |
| Distrito Federal    | 1.31 | 1.47 | 1.77 | 1.90 | 1.96 |
| Espírito Santo      | 0.99 | 0.94 | 1.10 | 1.06 | 1.06 |
| Goiás               | 0.55 | 0.64 | 0.64 | 0.63 | 0.77 |
| Maranhão            | 0.22 | 0.24 | 0.23 | 0.24 | 0.28 |
| Mato Grosso         | 0.59 | 0.60 | 0.70 | 0.82 | 1.04 |
| Mato Grosso do Sul  | 0.80 | 0.79 | 0.89 | 0.91 | 0.92 |
| Minas Gerais        | 0.88 | 0.87 | 0.92 | 0.91 | 0.90 |
| Pará                | 0.49 | 0.61 | 0.53 | 0.47 | 0.51 |
| Paraíba             | 0.32 | 0.39 | 0.39 | 0.40 | 0.43 |
| Paraná              | 0.97 | 1.11 | 1.04 | 1.12 | 1.10 |
| Pernambuco          | 0.52 | 0.55 | 0.57 | 0.57 | 0.59 |
| Piauí               | 0.22 | 0.25 | 0.29 | 0.29 | 0.30 |
| Rio de Janeiro      | 1.40 | 1.25 | 1.34 | 1.38 | 1.50 |
| Rio Grande do Norte | 0.48 | 0.44 | 0.45 | 0.48 | 0.55 |
| Rio Grande do Sul   | 1.24 | 1.31 | 1.36 | 1.29 | 1.37 |
| Rondônia            | 0.80 | 0.63 | 0.58 | 0.64 | 0.64 |
| Roraima             | 0.63 | 0.75 | 0.42 | 0.44 | 0.50 |
| Santa Catarina      | 1.08 | 1.21 | 1.17 | 1.16 | 1.25 |
| São Paulo           | 1.70 | 1.72 | 1.64 | 1.60 | 1.41 |
| Sergipe             | 0.93 | 0.57 | 0.53 | 0.53 | 0.70 |
| Tocantins           | -    | 0.25 | 0.29 | 0.32 | 0.39 |

**Figure 13: Brazil - Regional inequality index, 1985-2006**

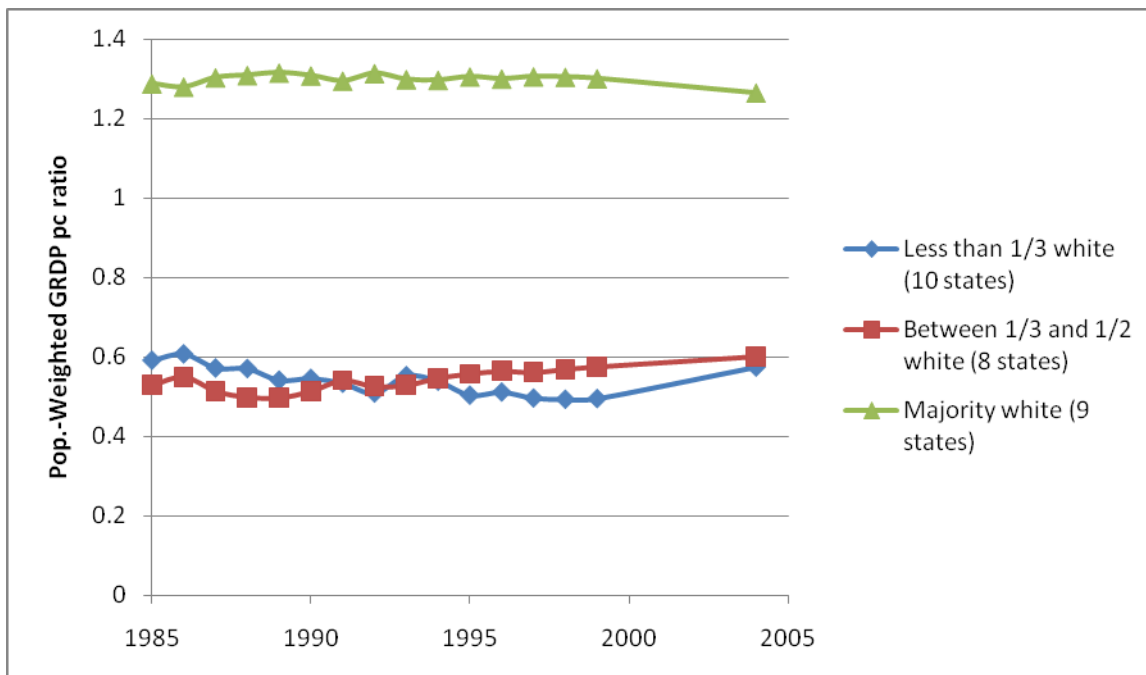


As noted above, racial and ethnic classifications in Brazil are often problematic, but we can nonetheless get some picture of the evolution of the overlap between ethnic and regional inequalities. As Map 1 showed, the Southern states are largely white, and relatively very well-off. Figure 3 shows the overall GDP per capita ratio for three broad groups of states depending on their ethnic profile according to the 2000 census. The majority white states are clearly much better off, with a GDP per capita ratio more than twice that of white-minority states over the entire period; there is little difference evident between the two categories of white-minority state. Moreover, the ratios remain largely constant over the entire time period. Figure 4 shows the population-weighted Pearson's correlation between the 'Whiteness' of each state and its relative GRDP per capita ratio for each year. This shows a more positive trend, with the correlation declining constantly after 1995, when the liberalization policies began to bite.

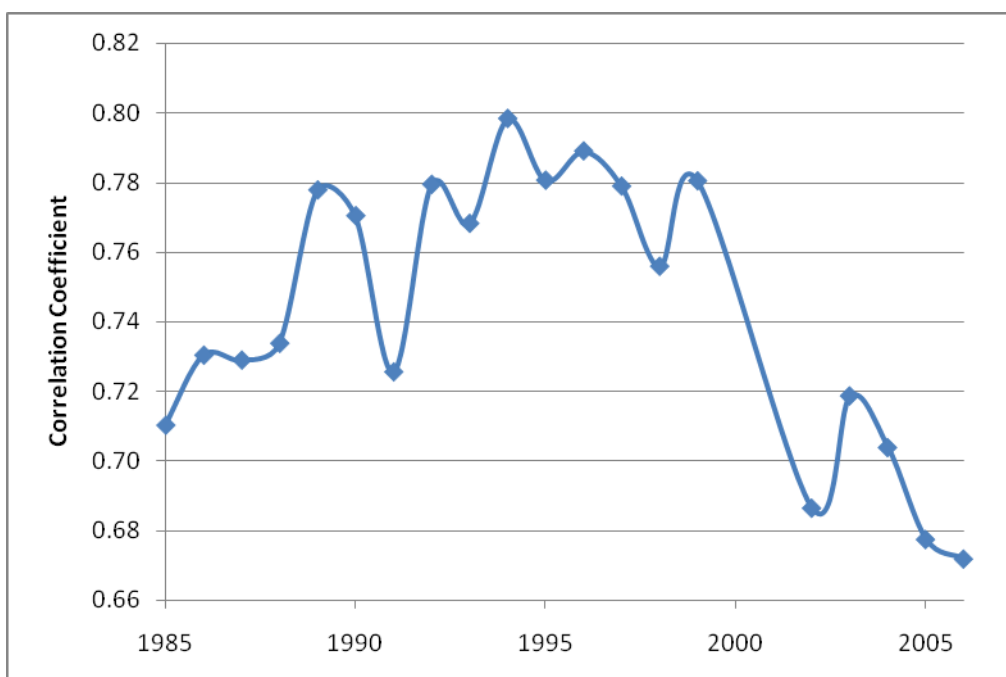
Thus far we have been considering regional inequality only in terms of GRDP. Drawing on the four census samples available, we also construct a 'pseudo Human Development Indicator' for each state. We calculate this by generating an HDI-style 'shortfall' measure for each of three socio-economic indicators available in the datasets – literacy, employment rate, and child survival rate – in each time period, and take the unweighted average of these three indicators. The results are presented in Figure 5. The figure confirms the geographical clustering of human development performance, with the Northeastern region performing particularly poorly in all time periods, the Northern region performing slightly better, and the best performance in the South, Southeastern, and Centre-East regions. But the figure also suggests a much clearer catching-up across all states over the period. In 2000, the worst performing state in the Northeastern region (and in the country), Alagoas, had a shortfall measure at least less than that of the best performing state in the region in 1970, Paraíba.



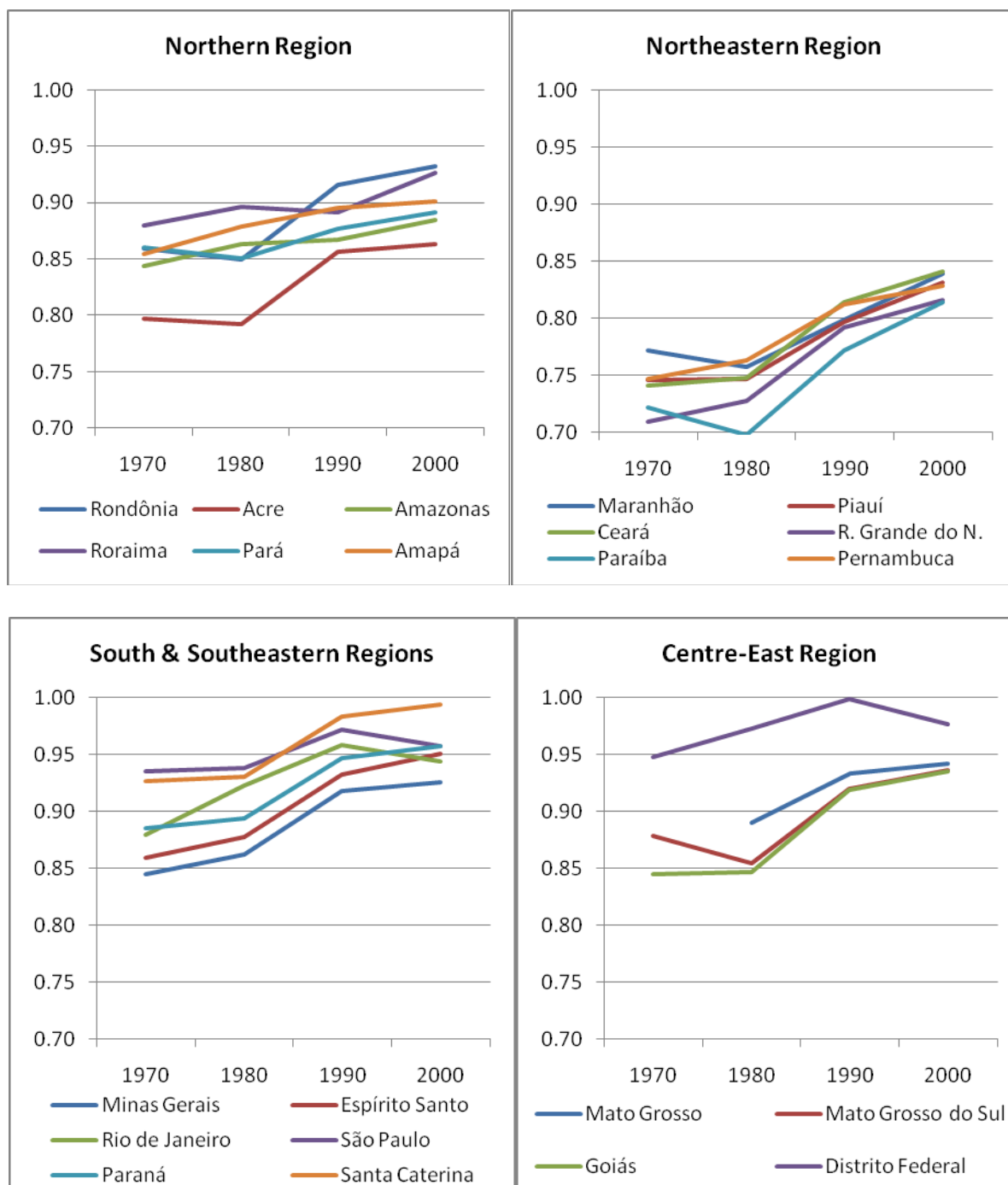
**Figure 14: Brazil – GRDP per capita ratio by state and ethnic profile, 1985-2004**



**Figure 15: Brazil - Population-weighted correlation coefficient between GRDP per capita ratio and White proportion of population, 1985-2004**

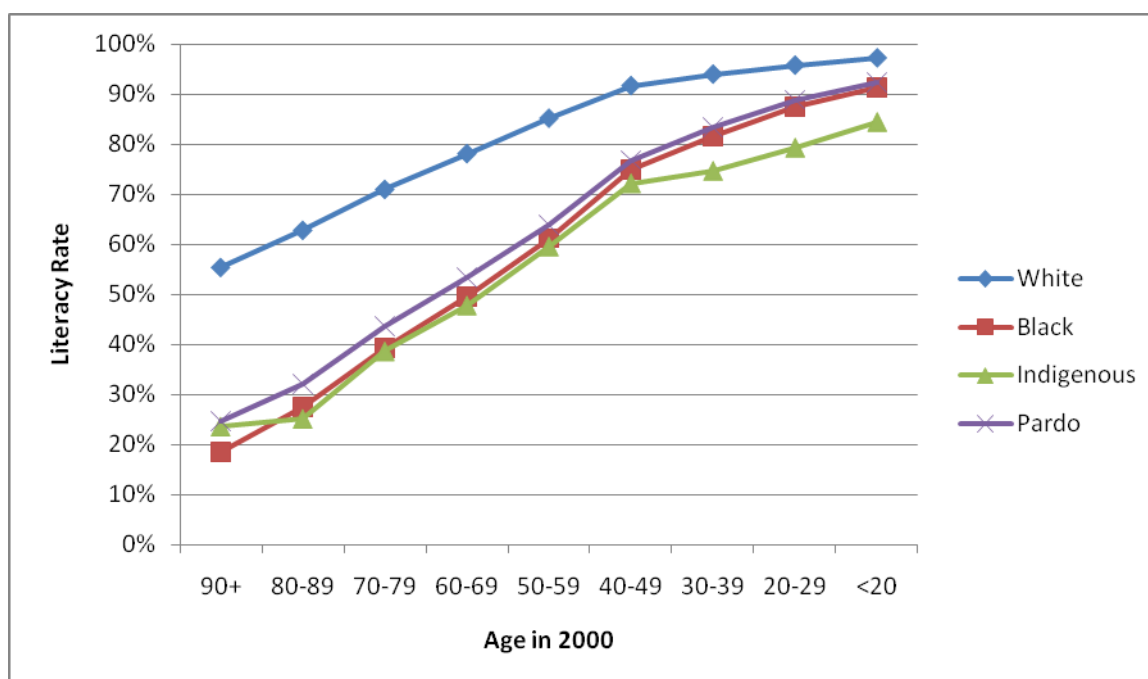


**Figure 16: Brazil – Pseudo Human Development Index by state, 1970 – 2000**



We have seen, then, that regional GDP inequalities in Brazil have remained remarkably stable, both over the *longue durée* between 1940 and 1996, and in terms of the more fine-grained data available post-1985, but that human development indicators show a more sustained catch-up in the poorest states. We now turn to the component aspects of human development with a focus on racial rather than regional inequalities. Rather than tracing literacy rates between census samples, it is more useful to trace changes in literacy between age cohorts within the same sample. Figure 5 shows the literacy rate of the four main ethnic groups by age cohort in 2000.

**Figure 17: Brazil – Literacy rate by age cohort and ethnic group, 2000**



Source: Authors' calculations from 2000 Census sample

Table 15 shows the male employment rate (ages 18-60) by race for the three censuses in which the race question was asked. In 1980, when overall employment levels were at their highest, there was little difference between any of the ethnic groups and, indeed, *Pardo* employment rates were slightly higher than Whites in this sample. As employment rates fell over the subsequent two census periods, however, White employment rates fell much less severely; between 1990 and 2000, the White male employment rate fell by less than eight percentage points, whereas the equivalent fall for both Black and *Pardo* groups was around 14%. It is worth investigating how far this change in the employment standing of the different groups was due to regional rather than racial dynamics. Table 16 compares the employment rate of White versus non-White males by state in 1990 and 2000, with t-test statistics for the significance of the differences. In 2000, White employment rates were higher than non-White in all but three states, although in two further states the difference was not statistically significant. The picture ten years previously, however, was markedly different. In 1990, there was no statistical difference in White/non-White male employment rates in five states and a statistically significant *advantage* for non-Whites in a further ten states. Particularly noteworthy is the transformation in the richest states in the Southeast region, Minas Gerais, Espírito Santo, São Paulo, and Rio de Janeiro. In 1990, Whites held a statistically significant employment advantage in only one of these states, Espírito Santo, and then by less than 2%; by 2000, Whites held an employment advantage of more than 3% in all four states. Of course, this tells us nothing about income returns or the occupational status of the jobs held by the different ethnic groups, but this nonetheless constitutes a marked transformation in employment structures.

**Table 15: Brazil – Male employment rate (ages 18-60), by race and census year**

| Race       | 1980  | 1990  | 2000  |
|------------|-------|-------|-------|
| White      | 89.3% | 88.3% | 80.4% |
| Black      | 89.5% | 86.6% | 75.5% |
| Indigenous | -     | 77.6% | 73.0% |
| Asian      | 89.3% | 86.9% | 78.7% |
| Pardo      | 90.7% | 87.5% | 76.6% |
| Unknown    | 87.4% | 57.0% | 69.7% |
| Total      | 89.8% | 87.7% | 78.5% |

**Table 16: Brazil – Male employment rates by state and ethnic group, 1990 and 2000**

|                    | 1990<br>Non-<br>White | White        | Diff.        | t-stat       | Sig. | 2000<br>Non-<br>White | White        | Diff.        | t-stat       | Sig. |
|--------------------|-----------------------|--------------|--------------|--------------|------|-----------------------|--------------|--------------|--------------|------|
| NORTH              |                       |              |              |              |      |                       |              |              |              |      |
| Rondônia           | 0.920                 | 0.935        | -            | 3.431        | ***  | 0.842                 | 0.863        | -0.021       | -4.217       | ***  |
| Acre               | 0.886                 | 0.917        | -            | 2.858        | ***  | <b>0.799</b>          | <b>0.782</b> | <b>0.017</b> | <b>1.750</b> |      |
| Amazonas           | 0.811                 | 0.830        | -            | 2.989        | ***  | 0.716                 | 0.735        | -0.019       | -3.458       | ***  |
| Roraima            | 0.796                 | 0.900        | 0.104        | 5.872        | ***  | 0.770                 | 0.834        | -0.064       | -4.760       | ***  |
| Pará               | <b>0.873</b>          | <b>0.863</b> | <b>0.010</b> | <b>2.807</b> | ***  | 0.779                 | 0.788        | -0.009       | -2.690       | ***  |
| Amapá              | 0.827                 | 0.850        | 0.023        | 1.442        |      | 0.716                 | 0.734        | -0.018       | -1.394       |      |
| Tocantins          | 0.890                 | 0.900        | 0.010        | 2.541        | ***  | 0.766                 | 0.790        | -0.024       | -3.861       | ***  |
| NORTHEAST          |                       |              |              |              |      |                       |              |              |              |      |
| Maranhão           | <b>0.884</b>          | <b>0.873</b> | <b>0.011</b> | <b>3.195</b> | ***  | <b>0.796</b>          | <b>0.788</b> | <b>0.008</b> | <b>2.573</b> | ***  |
| Piauí              | <b>0.891</b>          | <b>0.881</b> | <b>0.010</b> | <b>2.339</b> | ***  | <b>0.804</b>          | <b>0.796</b> | <b>0.008</b> | <b>2.115</b> | **   |
| Ceará              | <b>0.886</b>          | <b>0.872</b> | <b>0.014</b> | <b>5.358</b> | ***  | 0.764                 | 0.771        | -0.007       | -2.760       | ***  |
| R. Grande do Norte | 0.835                 | 0.842        | 0.007        | 1.866        | *    | 0.707                 | 0.727        | -0.020       | -5.049       | ***  |
| Paraíba            | 0.866                 | 0.851        | 0.015        | 4.352        | ***  | 0.762                 | 0.762        | 0.000        | -0.251       |      |
| Pernambuco         | 0.831                 | 0.835        | 0.004        | 1.466        |      | 0.699                 | 0.722        | -0.023       | -8.442       | ***  |
| Alagoas            | <b>0.848</b>          | <b>0.836</b> | <b>0.012</b> | <b>2.614</b> | ***  | 0.714                 | 0.726        | -0.012       | -2.535       | ***  |
| Sergipe            | <b>0.852</b>          | <b>0.851</b> | <b>0.001</b> | <b>0.199</b> |      | 0.741                 | 0.766        | -0.025       | -4.492       | ***  |
| Bahia              | 0.860                 | 0.869        | 0.009        | 4.004        | ***  | 0.732                 | 0.759        | -0.027       | -11.738      | ***  |
| SOUTHEAST          |                       |              |              |              |      |                       |              |              |              |      |
| Minas Gerais       | 0.891                 | 0.892        | 0.001        | 0.910        |      | 0.779                 | 0.812        | -0.033       | -22.979      | ***  |
| Espírito Santo     | 0.890                 | 0.909        | 0.019        | 6.112        | ***  | 0.806                 | 0.844        | -0.038       | -10.079      | ***  |
| Rio de Janeiro     | <b>0.833</b>          | <b>0.828</b> | <b>0.005</b> | <b>3.018</b> | ***  | 0.734                 | 0.765        | -0.031       | -15.413      | ***  |
| São Paulo          | <b>0.884</b>          | <b>0.879</b> | <b>0.005</b> | <b>4.488</b> | ***  | 0.766                 | 0.796        | -0.030       | -26.021      | ***  |
| SOUTH              |                       |              |              |              |      |                       |              |              |              |      |
| Paraná             | <b>0.921</b>          | <b>0.916</b> | <b>0.005</b> | <b>3.491</b> | ***  | 0.823                 | 0.840        | -0.017       | -8.137       | ***  |
| Santa Catarina     | 0.892                 | 0.900        | 0.008        | 2.086        | *    | 0.831                 | 0.856        | -0.025       | -6.866       | ***  |
| R. Grande do Sul   | 0.889                 | 0.901        | 0.012        | 4.975        | ***  | 0.782                 | 0.838        | -0.056       | -21.000      | ***  |
| CENTRE-EAST        |                       |              |              |              |      |                       |              |              |              |      |
| Mato Grosso do Sul | 0.919                 | 0.924        | 0.005        | 1.614        |      | 0.825                 | 0.843        | -0.018       | -4.601       | ***  |
| Mato Grosso        | 0.912                 | 0.937        | 0.025        | 8.778        | ***  | 0.822                 | 0.858        | -0.036       | -10.614      | ***  |
| Goiás              | <b>0.910</b>          | <b>0.903</b> | <b>0.007</b> | <b>3.174</b> | ***  | 0.815                 | 0.830        | -0.015       | -5.384       | ***  |
| Distrito Federal   | <b>0.885</b>          | <b>0.871</b> | <b>0.014</b> | <b>3.016</b> | ***  | 0.773                 | 0.791        | -0.018       | -3.666       | ***  |

In this section we have traced the evolution of regional and ethnic inequalities in Brazil focussing on the democratic era following the 1988 constitutional reforms. This era was accompanied by three major political economy developments: decentralization, trade liberalization and privatization. In addition, the new constitution promoted human development delivery as a state priority. Unpicking the precise impacts of these major shifts is beyond the scope of this paper, but we can nonetheless draw some tentative conclusions. Firstly, while trade liberalization is typically seen to exacerbate regional inequality, Brazil appears to provide counter evidence. Like Malaysia, Brazil has also achieved significant reduction in basic human development indicators irrespective of race and state, but has struggled to translate this into similar reductions in income inequality. Whether or not the affirmative action programmes for Black Brazilians will make any inroads into this disparity is too early to tell.

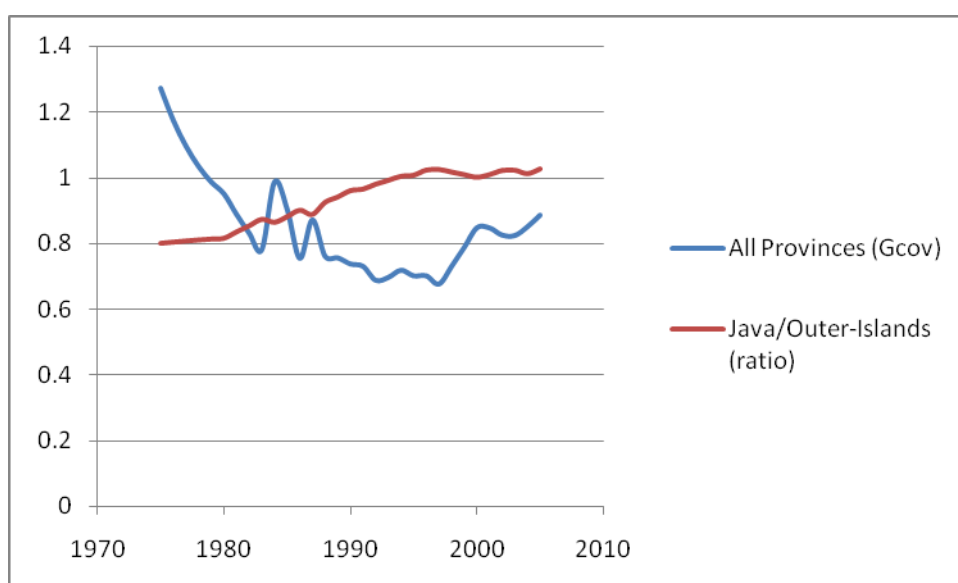
## **Indonesia**

Indonesia has been beset by regionalist and ethnic problems since gaining independence from the Netherlands in 1950. The Indonesian war of independence itself generated or exacerbated ethno-regional tensions in a number of areas of the archipelago. Religious identity was the main mobilising factor in many of these rebellions. In Ambon, where Christians had fought for the VOC against other indigenous groups centuries earlier, many Christian again sided with the Dutch against the Republic and, when its cause was lost, declared their own independent Republic of the South Moluccas (RMS – Republik Maluku Selatan). The RMS was quickly crushed, but its legacy remains in the region (Chauvel 1985; Bartels 2001). Ethnicity rather than religion was also evident in resistance to the Republic, notably in the Malay heartlands in Sumatra and the Riau archipelago. In Sumatra, local ethnic elites, including Malay, Karo and Simalungun groups, established with Dutch backing the autonomous East Sumatran Nation (NST, or Negara Sumatera Timur). As we have already seen, nascent nationalism in pre-war Sumatra had been suspicious of Javanese hegemony; the NST formalised this with almost complete exclusion of Javanese, Chinese and other immigrant communities from its governing committee. Increasing dominance of the Malay *kerajaan* elites within the NST, however, led to fragmentation within the local communities, and when the Dutch finally conceded sovereignty to the unitary Indonesian state, it was only the Malay elites that resisted incorporation (van Langenberg 1982). In the subsequent period, many ethnic groups in Sumatra that had previously found it convenient to identify themselves as Malay, a practice common amongst those who had migrated to the urban centre of Medan, sought to reassert their ‘ancestral’ ethnic identities in the context of a broader Indonesian nationalism (Bruner 1961). Similarly in Riau, local elites under the leadership of Major Raja Muhammad Yunus attempted to revive the Riau sultanate as ‘separate and distinct from Indonesia’ (Wee 2002: 500-1). The sultanate, which had been effectively abolished by the Dutch in 1911, had close links with the Melaka-Johor dynasty, and it was on the basis of this Malay identity that the province sought to establish its distance and distinction from Java-centred Indonesia. Armed resistance to the emergent Indonesian republic lasted throughout the revolution until 1950, when Muhammad Yunus fled to Johor, Malaysia.

First under Sukarno, and the more Draconianly under Suharto, the Indonesian state repressed any political manifestation of regional or ethnic discontent for many decades; even data collection on these issues was rarely conducted under the New Order’s SARA regulations. Only in extreme cases – Aceh, Papua, and East Timor – did regional and ethnic inequalities remain politically problematic.

Like most of Southeast Asia, Indonesia followed a largely export-oriented growth strategy during much of the New Order regime, buoyed by significant oil revenues for much of this period. Indonesia, however, is generally seen as having handled its resource wealth reasonably well and largely avoided the ‘Dutch Disease’; poverty alleviation was also significant, although not as successful as in neighbouring Malaysia, and was particularly concentrated on rural poverty alleviation in the main island of Java (Booth 1993; Booth 2000). Following the collapse of the New Order in 1998, Indonesia instituted a radical decentralization programme, including the introduction of a mandatory ‘equalization’ formula through which the central government is obliged to disperse more money to less wealthy provinces and districts. Indonesia now ranks as among the most fiscally decentralized countries in the world. World Bank assessments, however, have found this to be only partially effective at reducing poverty and inequality (World Bank 2003), and politicians in Indonesia are increasingly looking for ways to ‘roll back’ decentralization.

**Figure 18: Provincial horizontal inequalities, Indonesia 1972-1998**



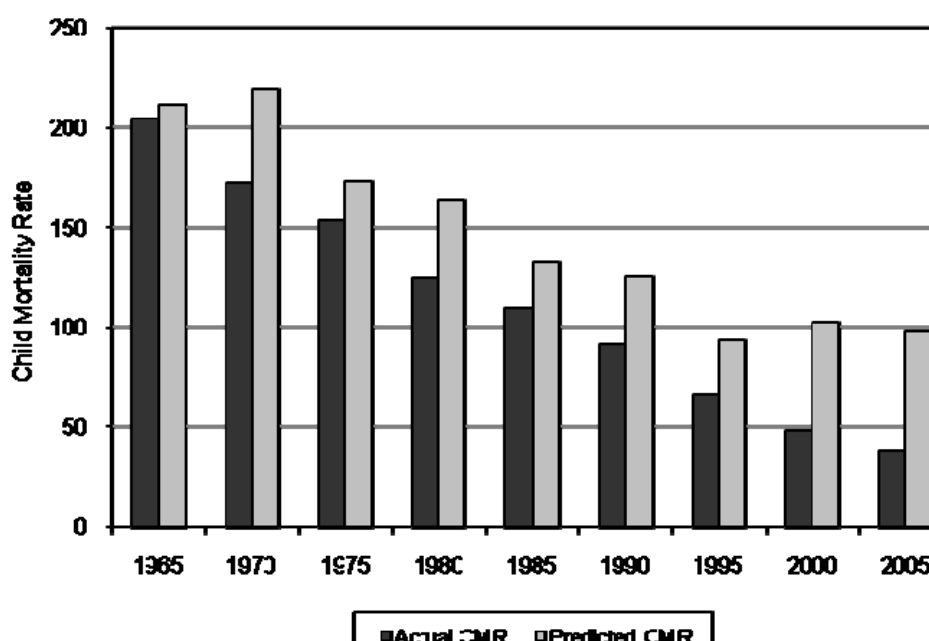
Sources: Authors' calculation from Esmara (1975), Akita (1988), Akita and Alisjahbana (2002) and data provided by the *Badan Pusat Statistik Indonesia*

Figure 15 tracks the level of regional inequality in Indonesia since reliable data collection began in 1975. A previous data series (not graphed) showed an initial spike in the level of regional inequality in the early 1970s, which is largely attributable to the discovery and exploitation of natural resources in Aceh, Riau and Papua (then called Irian Jaya), which saw their respective GRDP per capita accelerate significantly, with Riau increasing from already 2.6 times the national average in 1972 to 10.6 times in 1975, and Papua increasing from 1.1 times to 2.7 times over the same period. It must be noted, however, that the 1972 data was derived from sectoral estimates rather than from official GRDP data, which only began to be collated in 1975, and so may underestimate the level of regional disparity. The subsequent decline in provincial inequalities confirms the standard interpretation that, while in many ways corrupt and kleptocratic, the Suharto regime was relatively redistributive in its management of natural resource revenues, particularly through the INPRES (Presidential Instructions) system of regional disbursements (cf. Ravallion 1988; Booth 2000). Since democratization and decentralization in 1998/99, however, regional inequalities have increased noticeably.

Under the New Order regime, Indonesia performed remarkably well in service delivery in aggregate terms, at least until the financial crisis of 1997, although, as will be seen

later, aggregate figures mask severe sub-national variations. Figure 16 shows the country's performance in reducing child mortality against what would be expected for a country of its level of GDP (based on a simple regression of CMR on GDP per capita). Since 1965, when the first data is available, Indonesia has performed well even holding for its generally high growth rates before 1997, reducing from a CMR of 204 in 1965 to 38 in 2005, against an expected reduction from 211 to 98. Poverty rates declined significantly across the period, from an estimated 53.6 per cent in urban areas and 38.7 per cent in rural areas in 1970 to 9.7 per cent and 12.3 per cent respectively in 1996 (figures from Booth 2000: p.76). Moreover, this was achieved with minimal effects on inequality; the consumption Gini coefficient increased only marginally between 1964 and 1996, from 0.35 to 0.36; in rural areas it declined significantly from 0.35 to 0.27.

**Figure 19: Indonesia - Child mortality performance, 1965-2005**



To a large part, the good service delivery of the New Order period was enabled by the substantial revenues it derived from the exploitation of oil and natural gas resources during the period. While the country suffered a variety of the 'Dutch disease' that beset countries such as Nigeria, with non-oil export sector suffering from the appreciating rupiah, this was limited both in extent and time, with little negative impact beyond the years of the oil boom in the early 1970s (Booth 2000). Natural resource revenues nonetheless provided the state with significant income.

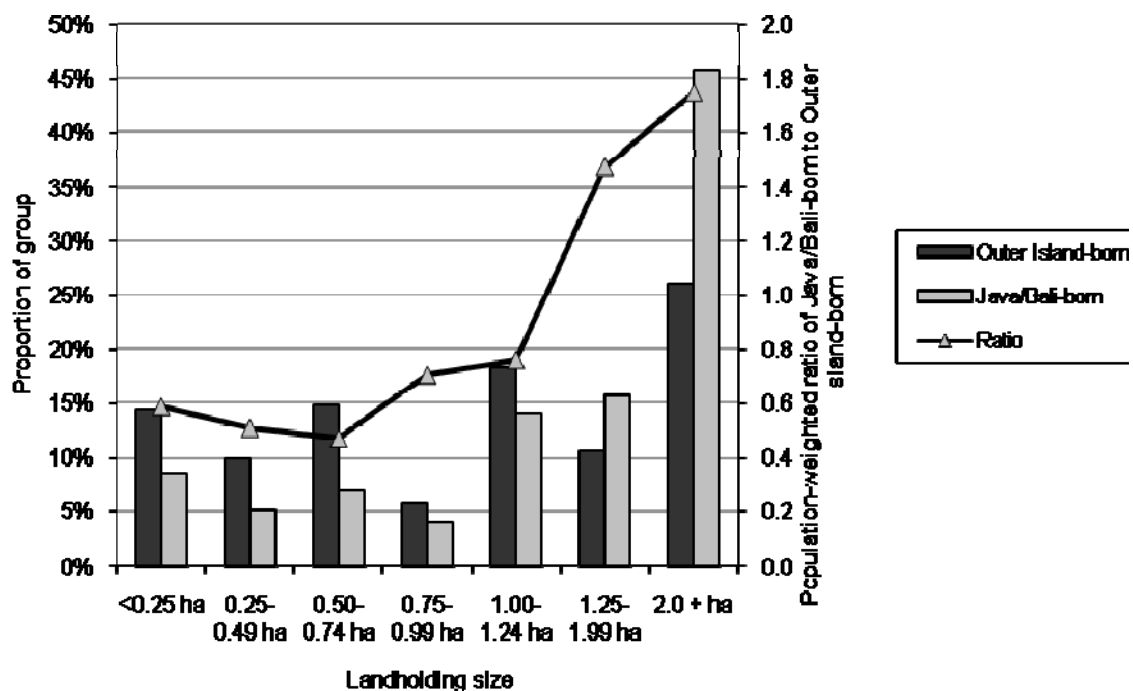
Sub-national variations in service delivery were, however, marked. Theil-L index decomposition analysis of household expenditure shows that while overall inequality reduced between 1990 and 1999, the proportion of this inequality accounted for by difference between provinces increased from 13 per cent to 21 per cent (Mohammad Zulfan, et al. 2001: p.288). The political economy of resource wealth and service delivery was particularly marked in those provinces with high natural resources but, from Jakarta's perspective, dubious political loyalties either due to their military incorporation into the country – as in West Papua and East Timor – or because of their history of rebellion – as in Aceh. This contributed to a cycle of rebellion, negative socio-economic impacts, and thus further rebellion. Poverty in Aceh increased by 239 per cent from 1980 to 2002; over the same period, poverty in Indonesia as a whole fell by 47 per cent. By 2000, Aceh's regional GDP had risen to fourth out of thirty

provinces, largely due to natural resource income, but its poverty rank had also increased to fifth from 28th.

Tracking ethnic inequalities in Indonesia is rendered difficult because the ethnic make-up of the country is so diverse and because the state forbade collection of such data for long periods. We can get an insight into the dynamics of ethnic inequality through an examination of the impacts of migration. Under Suharto, the appointment of positions of local power by the central state in Jakarta resulted throughout the archipelago in an increasing political dominance of Javanese, particularly retired military officers who were often appointed as provincial governors or district *bupati*. In addition, at the socio-economic level, the massive state-sponsored (and World Bank supported) transmigration programme and the associated informal migration was an important source of social exclusion and horizontal inequalities in the outer islands. The programme impacted on local ethnic groups and horizontal inequalities in two ways. Firstly, the deforestation that accompanied the programme's settlement practices displaced smaller, migratory local communities and deprived them of their livelihoods. The World Bank's assessment of the Transmigration II settlement, which it had partly funded, noted that it had 'a major and probably irreversible negative impact' on the Kubu ethnic groups (World Bank 1994: p.22). Secondly, the transmigration programme exacerbated rural ethnic inequalities and tension by assigning to the mostly Javanese transmigrants prime land, often in substantially larger family plots than those owned by local residents (e.g. Leith 1998). Figure 17 shows the distribution of landholdings among agriculturalists in the outer islands (i.e. all of Indonesia except Java and Bali), according to broad region of birth – i.e. among those from Java and Bali (the origin of transmigrants) as against the local-born population, based on 1990 census data. It shows how larger land holdings were concentrated on the Java/Bali born agriculturalists. Overall, the interpolated median landholding of Java/Bali-born agriculturalists in the outer islands was 1.17 hectares, some 44 per cent higher than that of local-born agriculturalists, at 0.82 hectares.

**Figure 20: Indonesia - Landholding among agriculturalists in the outer islands by region of birth, 1990**

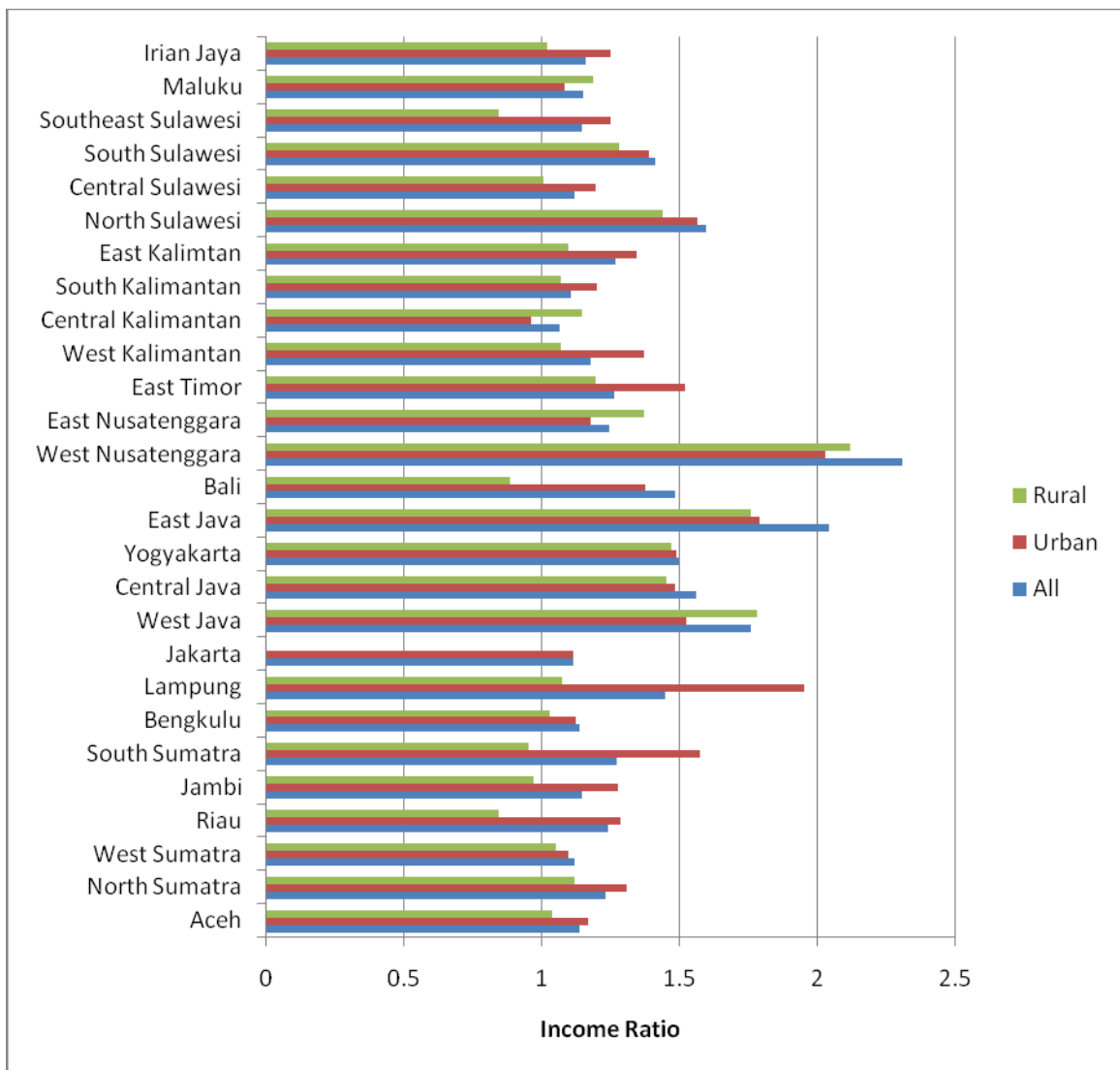




Source: Authors' calculations from 1990 census sample. Note: 'Agriculturalists' are defined as persons who responded 'agriculture' to question on 'industry of main occupation last week'

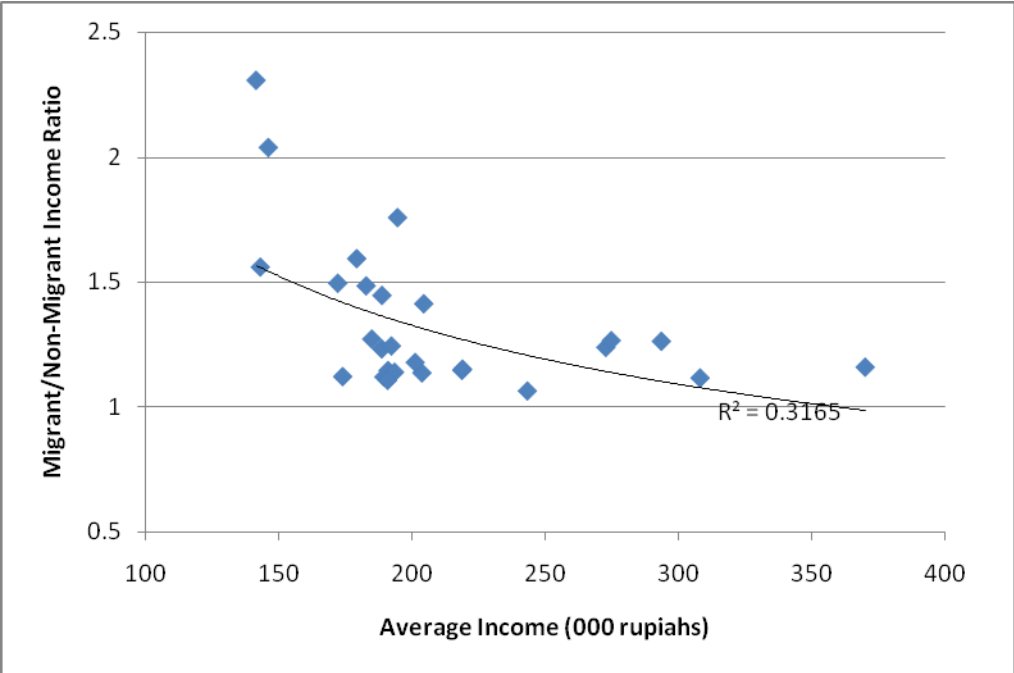
Figure 18 shows the average income of migrants relative to non-migrants by province, broken down by urban and rural status. In every province, the overall average income of migrants was significantly higher than that of non-migrants and while in some provinces, local-born residents retained an income advantage in the rural areas – notably provinces in the southern part of Sumatra, which received relatively fewer 'transmigrants' – in the urban areas, migrants held a income advantage in all provinces except Central Kalimantan. Moreover, as Figure 22 shows, the income advantage of migrants is inversely related to the overall average income of the province in a consistent way: in poorer provinces, the disparity between migrants and local born residents is considerably greater.

**Figure 21: Indonesia – Ratio of migrant to non-migrant incomes by province, 1995**



Source: Authors' calculations from 1995 Inter-Censal Survey data

Figure 22: Indonesia –Average income and migrant/non-migrant income ratio by province, 1995



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