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# **Ethnic and Spatial Inequalities**

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## **Ethnic and Spatial Inequalities**

### **Introduction**

Inequalities and poverty are complex and multi-dimensional, with causes and indicators including access to education, availability and standards of healthcare, opportunities for employment, accessibility of power structures, income levels and quality of infrastructure. As levels of inequality continue to grow around the world, variations in these dimensions of poverty are increasingly linked to its ethnic and spatial features.

This chapter focuses on ethnic and spatial inequalities arising from endeavours to generate growth, promote development, reduce poverty and ensure adequate welfare provisions for citizens. It explores the impact and efficacy of different policy instruments and development strategies adopted to redress ethnic and spatial inequalities in multi-ethnic countries. The themes of regime type and policy planning and implementation frame the analysis here.

### **Ethnic conflicts in the world**

The causes and origins of the prevailing socio-economic inequalities between different ethnic groups and regions are related to such factors as ecological and climatological differences, the geographical distribution of natural resources and the differential impact of colonialism and of post-colonial economic and developmental policies. As for the rise of regional and ethnic inequalities, and the corresponding increase in the powerlessness felt by disaffected groups, this is the result of a number of cross-cutting factors, including differing paths of historical development, globalisation, development strategies, changes in migratory and settlement patterns and variations in the international political and economic environment.

Problems emerging from ethnic relations have led to conflict in both developed and developing countries, including Afghanistan, Lebanon, Sri Lanka, India, Fiji, Indonesia, Malaysia, Rwanda, Sudan, Ethiopia, Australia, Yugoslavia, France, Britain and the United States. The factors that have contributed to ethnic cleavages in these countries include form of political mobilization, nature of government policies and manner of economic development. Research has also indicated that society, specifically those in the developing world, is constantly subject to change due to rapid modernization arising from industrialization, technology development and globalization.<sup>1</sup> National, ethnic and class identities have been subject to transformations due to economic development. Existing inequalities can be further exacerbated through form of governance and government policies, including those implemented to reduce poverty.

Other studies argue that contact between different ethnic communities inevitably leads to an assertion of difference. Around this issue of difference centre the important themes of identity, belonging, migration, citizenship and nation building, issues contributing to strife in countries with developed as well as developing economies.<sup>2</sup>

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<sup>1</sup> See Horowitz 1985; Gurr 1992; McGarry and O'Leary 1993; Pfaff-Czarnecka, Rajasingham-Senanayake, Nandy and Gomez 1999; Varshney 2002.

<sup>2</sup> See, for example, Christie 1998; Marx 1999; Gilroy 2000; Tong and Chan 2001.

While the number of violent conflicts and civil wars has been on the wane since the mid-1990s, there were still 31 ongoing intra-state violent conflicts around the world by the mid-2000s.<sup>3</sup> Low income countries in the developing world have been particularly at risk of experiencing violent conflicts and civil wars. Studies of the determinants of civil war typically find GDP per capita to be the strongest explanatory variable. For example, Hegre and Sambanis' meta-analysis of the sensitivity of such studies finds GDP per capita to be the only predictive factor that holds strongly across all specifications.<sup>4</sup>

Violent conflicts in these developing countries usually result in a dramatic slowing down of the development of their economies. The World Bank has strikingly described the devastating consequences of violent conflicts as "development in reverse".<sup>5</sup> Violent conflicts are, however, not confined to the developing world, evident in such incidents in Bosnia, Chechnya and Thailand. Moreover, since the end of the Cold War the identity basis of conflicts has become much more explicit, with the proportion of all conflicts that are coded as "ethnic" increasing from 15 per cent in 1953 to nearly 60 per cent by 2005.<sup>6</sup>

In a good number of analyses of economic and social development in the developing world, much attention is drawn to the historical impact of regime type and the imposition of neoliberal policies on spatial inequalities and wealth and income disparities.<sup>7</sup> The economic development model that has been adopted by a country has similarly heavily influenced the extent of ethnic fractionalization and spatial inequalities. Other key factors that have a bearing on ethnic and spatial inequities include the existence of a welfare state, the extent of migration and the degree of the state's intervention in the market.

### **Ethnicity, institutions, welfare**

One key lesson emerging from the country studies in this project is that institutions matter. Since institutions remain in place even with regime change, it is the types of incentives offered that vary when a new government comes to power. An issue of related importance is that of institutional capacity. In South Africa and Indonesia, a factor contributing to spatial inequality was the quality of institutional capacity at the local level to deliver policies. While decentralization has helped devolve power, inefficiencies in the policy delivery system have impaired implementation of development and redistribution policies.

The case of China raises the importance of historical context in terms of institutional framework. Institutions can remain unaltered even after regime change and can promote economic development if the necessary incentives are provided and resources are mobilized. These incentives include land reform and the award of property rights. Decentralization was crucial because, with the local level still having the power to respond to incentives, they were able to better craft deployment of such resources to suit the recipients.

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<sup>3</sup> Harborn et al. 2006.

<sup>4</sup> Hegre and Sambanis 2006. See also Brown and Langer 2005; Collier and Hoeffler 2004; Elbadawi and Sambanis 2002; Fearon and Laitin 2003; Murdoch and Sandler 2002.

<sup>5</sup> Collier et al. 2003.

<sup>6</sup> Stewart and Brown 2007.

<sup>7</sup> Harvey 2005; Hale 2005; Ferguson and Gupta 2002; Ong 2006.

The theme of institutions is central in debates about the impact of transnational migration, which leads to ethnic heterogeneity, on the welfare state. Banting argues that political institutions and their functioning are a more determinant factor for the development and survival of the welfare state than ethnic homogeneity.<sup>8</sup> Countries with left-leaning parties and strong unions, particularly in Europe, have shown themselves to be supportive of a welfare state. In situations where unions are weak and left-based parties are out of power, variations have been noted such as a decline in welfare contributions. In the United States, the decline of welfare state has been attributed to the weak position of the left and the unions, though the racialization of society also appears to be a contributory factor.<sup>9</sup>

In Asia, the rise of the “welfare developmental state” is particularly strong in South Korea which still has a strong union base. A similar welfare developmental state has emerged in Taiwan, described as a “reluctant” welfare state, with the common factor being the rise of civil society and growing democratization which helped promote the institutionalization of welfare provisions.<sup>10</sup> In Taiwan, since its social policy is strictly subordinate to the overriding policy objective of economic growth, its form of a welfare state can also be characterized as a “productivist social policy regime”, and its overarching concern is “workfare” rather than “welfare”.<sup>11</sup>

Other Asian countries have adopted a different approach to welfare provisioning involving the participation of the state, capital and civil society, an issue which is worth considering at length. Since the longstanding government in Singapore has adopted a strong anti-welfarist stand, there has been no support for cash provisions for the needy. Instead, the government’s position on poverty alleviation is threefold: first, to subsidize items which will potentially make an individual more productive, i.e., human capital investment through better education, better health and better housing. Second, to eschew any social pooling of funds to provide a common standard of welfare entitlement, especially if it means higher taxation, as the latter is seen as a disincentive for strive. Third, instead of the “social risk pooling” practices of developed nations to meet welfare needs, promote a system of individual savings account for social security, the Central Provident Fund (CPF) for housing, health care, education and retirement.<sup>12</sup> The government strategy is one of generating self-sufficiency and wealth accumulation through employment where every wage earner is compelled to save a portion of his or her monthly income in an individualized CPF account, with proportional contribution from the employer. There is neither social insurance nor social risk sharing or redistributive elements in the CPF social security scheme. The regime views the CPF as a way “to avoid placing the burden of the present generation’s welfare costs onto the next generation” and for this reason the government actively tries to act as a “partner” to private initiatives in developing care programmes and agencies, including for the management of all forms of welfare needs, including poverty.<sup>13</sup> For this so-called “many helping hands” strategy, the government provides co-funding and public donations, while services are rendered by volunteers and members of the community.<sup>14</sup> Almost all the voluntary welfare organizations are significantly aided by government grants. Since inter-ethnic wealth and income inequalities have emerged, giving rise to

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<sup>8</sup> Banting 2000.

<sup>9</sup> Stephens 1979; Banting 2000; Kymlicka and Banting 2006.

<sup>10</sup> Such demands are also due to the emergence of a rapidly ageing population.

<sup>11</sup> Country report on Taiwan.

<sup>12</sup> Country report on Singapore.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

criticisms and calls for the establishment of a bureaucracy that will treat all needy citizens equally, the government has instead promoted ethnic self-help organizations. Although poverty still occurs – and with greater frequency – as income inequality continues to expand, it only affects a minority segment of the society, allowing the government to argue that it sees no necessity to embark on policies that affect the entire population. The ad hoc manner in which the government provides additional financial assistance suggests that it is handing out cash to the needy very reluctantly.

This idea of a “multi-stakeholder participation” mechanism to resolve social inequities also prevails in Vietnam, which practices the government terms as “socialist-oriented market economy”, though the regime has introduced neoliberal-type policies.<sup>15</sup>

In Europe and the United States, both regions which, unlike countries in Asia and Africa, accept migrants in large numbers, the debate is whether ethnic heterogeneity and migration has slowed the growth of – or even eroded – the welfare state. Taylor-Gooby argues that the situation in Europe is different from that in the United States,<sup>16</sup> claiming that while Alesina and Glaeser’s model confirms the contention that diversity has obstructed the growth of the welfare state in the United States,<sup>17</sup> they have, however, overlooked the presence of left politics and the impact of political institutions on welfare spending in Europe. The latter prevent an erosion of the European welfare states as a consequence of an increasing diversity caused by migration. Consequently, Taylor-Gooby argues that Alesina and Glaeser’s findings cannot be generalised to Europe. A fairer conclusion is that increased diversity may have diminished the amount of social spending.

Another issue of importance here is the level of public support for the welfare state. Welfare states are dependent on public opinion of its inhabitants, though the type of welfare regime is also likely to influence public opinion. If a welfare state is established such that most people benefit from it, for instance through universal benefits and services without means-testing, it is more likely that broader segments of the population would support it and not oppose the idea that people of a different ethnic group also have access to it. The opposite is also possible in welfare states characterised by means-tested benefits targeted at the most needy groups, where it is more likely that the native population would be more reluctant to support social policies. In such a regime type, if most of the welfare state beneficiaries belong to another ethnic group, or a small group which is considered as non-deserving, it is probable that a backlash against the welfare state would occur or that there would be insufficient leverage for the welfare state to take root.

It is important to make a distinction between the impact of ethnicity on a developing welfare state and a welfare state that is well established. Most European countries experienced the largest influx of migrants after their welfare states and economies had been well developed. Since existing institutions change very slowly, it may take years before the influence of migration becomes visible. As Taylor-Gooby suggests, “when a left wing influence is established and has influenced political institutions, as is the case in Europe but not in the United States, different patterns of development and of path-dependency are set in train”.<sup>18</sup> Such arguments suggest that regime types and

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<sup>15</sup> Country report on Vietnam.

<sup>16</sup> Taylor-Gooby 2005.

<sup>17</sup> Alesina and Glaeser 2004.

<sup>18</sup> Taylor-Gooby 2005 (p. 671).

developmental strategies are key factors in determining whether growth processes are likely to generate – and sustain – ethnic and spatial inequalities.

### **Regime Types, developmental models and ethnic inequities**

In industrialized East Asia, a defining characteristic of its development model is the high degree of government intervention in the economy, popularly known as the developmental state. One of the core concerns of the developmental state is state-business cooperation, with the government playing an important role in steering resources to private firms in order to attain its development and social goals, including reducing poverty by generating employment. In this model, social partnerships between the state, capital and labour have provided for a stability in policy planning and implementation and have served to control wage increases, creating the incentive for a greater volume of foreign direct investments (FDI). In this model, the importance of the small firm in terms of promoting innovation, generating employment and redressing spatial and ethnic inequities has been noted, particularly in studies of the industrial capacity of countries such as Japan, Taiwan and Singapore.<sup>19</sup>

Japan, more well-known for its cultivation of huge internationally-renowned firms, ranks alongside Italy as having the highest proportion of small firms among OECD countries. It is Japanese SMEs, and not the large enterprises, that employ a vast majority of the country's workers.<sup>20</sup> Taiwanese SMEs constitute a phenomenal 98 per cent of business organisations in the country's economy, while in Singapore the government began emphasising the need to support SMEs to foster domestic entrepreneurial capacity. In these three Asian countries where the governments' economic agenda was on pursuing structural transformation to help enhance accumulation, poverty has been reduced appreciably without any policy focus on this problem. The important role of small firms in redressing social and economic inequities is not unique to Asian countries.

In Britain, the Thatcher government recognized the importance of the small firm in terms of creating employment, as the economy began in 1979 to move into a deep recession that continued into the early 1980s. Atkinson and Storey also pointed out that during the 1980s, self-employment had grown significantly in many of the developed economies; quoting a 1992 OECD study, they showed that Britain had the fastest growth rate of self-employment among European countries between 1979 and 1990, rising from 7.5 per cent in 1979 to 12.2 per cent in 1990.<sup>21</sup> From 1981, the Thatcher government also began to focus more attention on the interests of enterprises owned by ethnic minorities as civil unrest began to spread rapidly. Government investigations into the factors that precipitated civil unrest revealed that one reason was that the state had not focused enough attention on the interests of businesses owned by minorities, an issue the government began to address after 1986.<sup>22</sup>

Boissevain, in his analysis of growing self-employment among ethnic minorities, argued that a number of other factors encouraged self-employment among ethnic minorities. First, the unemployment rate among migrants was particularly high, compelling a number of them to go into business. Second, growing discrimination at work had also

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<sup>19</sup> Johnson 1982; Amsden 1989; Wade 1990; Woo-Cumings 1999.

<sup>20</sup> Whittaker 1997.

<sup>21</sup> Atkinson and Storey 1994 (pp. 12-13).

<sup>22</sup> Waldinger et al. 1990 (p. 40).

encouraged ethnic minorities to consider alternative forms of employment.<sup>23</sup> For Boissevain, the fact that many of these migrants had begun establishing roots in the host country suggested that they no longer considered their stay as a temporary sojourn.<sup>24</sup>

But most developing economies, including those in Asia, have been just as inspired by another model of development vastly different from the developmental state, that is neoliberalism with its strong emphasis on wealth accumulation and the promotion of the private sector as the primary engine of growth. The espoused economic doctrines of neoliberalism include limiting state intervention in the economy and the endorsement of privatization, liberalization and deregulation.<sup>25</sup> By subscribing to the main tenets of neoliberalism, governments actively encourage the aggressive participation of foreign companies in its economy, which were to become one of the key drivers of industrial growth.

In most nations, economies are reputed to have depended on one particular type of development model though, as the country studies in this project indicate, there is a great flexibility within ruling regimes about policy options they consider, adopt and apply. Botswana, for example, underwent three different stages of growth. Botswana's longstanding regime is said to have implemented a form of developmental state though it subsequently introduced neoliberal policies, an interesting consequence of which was an increase followed by a decrease in poverty. Malaysia similarly underwent three stages of economic growth, the second stage consisting of a mix between policies based on developmental state and neoliberal models of development. Malaysia, interestingly, has a good record of reducing poverty during the past three decades, though the impact of this mix of obviously contradictory policies on poverty reduction is unclear. Singapore, widely seen as a "pragmatic state", has had a similar mix of developmental state-type and neoliberal-type policies, a policy planning route that has also been adopted by China. In Singapore, selective privatization has been practiced, with key sectors kept under state control, such as the airline industry, and though poverty has been reduced substantially, a serious rise in income inequalities has occurred, while the poor have limited capacity to secure access to key provisions such as health services.

In other cases, the impact of neoliberalism on society is clearer. In Costa Rica, neoliberalism weakened the relationship between business, labour and social protection. There was growing emphasis on targeted-based initiatives to control social expenditure, leading to less social protection, though society has greatly opposed privatization. Such protests have contributed to a transition from top-down statecraft to more social dialogue, an indication of the growing importance of social movements. These transitions have also led to the decline of the influence of techno-bureaucratic elites. In

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