Original Article

International Trade and Horizontal Inequalities: Conceptual and Empirical Linkages

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Abstract This article develops a general framework for considering the relationship between international trade and horizontal inequalities. Horizontal inequalities (inequalities between 'culturally' defined groups) affect people's well-being and can lead to violent conflicts. They are the product of historic influences, but are also affected by current economic developments, including trade policies. The main determinant of the relationship between trade and horizontal inequalities is economic specialisation by group in relation to the structure of exports. Six examples illustrate this. They show the large influence of colonial policy on current horizontal inequalities. Trade liberalisation has tended to enlarge horizontal inequalities, as export expansion has been largely in products produced by relatively privileged groups. However, the Malaysian experience, where the government policy has aimed to change the ethnic division of labour, through education, employment and industrial policies, shows that this is not inevitable but can be mitigated through deliberate and comprehensive policies.

Cet article développe un cadre général pour examiner la relation entre le commerce international et les inégalités horizontales. Les inégalités horizontales (inégalités entre les groupes 'culturels') affectent le bien-être et peuvent conduire à des conflits violents. Elles sont le produit d′influences historiques, mais également des développements économiques actuels, et notamment des politiques commerciales. Le principal déterminant de la relation entre le commerce et les inégalités horizontales est la spécialisation économique par groupe selon la structure des exportations. Six examples de cas illustrent ceci. Ils montrent la grande influence de la politique coloniale sur les inégalités horizontales actuelles. Dans la mesure où l′expansion des exportations a principalement concerné les produits fabriqués par des groupes relativement privilégiés, la libéralisation des échanges a eu tendance à augmenter les inégalités horizontales. Toutefois, l′expérience de la Malaisie, où la politique gouvernementale visait à modifier la division ethnique du travail grâce à des politiques industrielle, d′éducation et d′emploi, montre que ce n′est pas une fatalité, mais peut être vaincu par des politiques déterminées et englobantes.

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Introduction

This special section is concerned with the impact of trade and trade liberalisation on the evolution of countries' socio-economic horizontal inequalities. The concept of horizontal inequalities refers to inequalities between 'culturally' defined groups such as ethnic, religious and caste-based groups or between different regions (Stewart, 2002). Horizontal inequalities encompass multiple dimensions – political, social, economic and cultural status. All of these dimensions are important in terms of causing grievances, and mobilising people politically, sometimes leading to violent conflict. In this study, however, we are concerned only with the socio-economic dimension, that is, group inequalities in a vector of social inputs and human development achievements (such as access to education and health services, nutrition rates, literacy rates, life expectancy, infant mortality rates and so on), and a vector of economic inputs and achievements, including access to a variety of assets, to employment of different types and the consequent consumption and incomes.

The impact of trade and trade policies on the evolution of vertical inequality (inequality among individuals) in particular countries, within regional trade blocks and at the global level, has been extensively analysed (see, for example, Wood, 1994; Cline, 1997; Spilimbergo *et al*, 1999; Milanovic, 2002; Milanovic and Squire, 2005; Lee and Vivarelli, 2006) without reaching much consensus on the direction and strength of the impact of trade on income inequality (see, for example, Bensidoun *et al*, 2005). In contrast, the relationship between trade and socio-economic horizontal or group-based inequalities has been relatively neglected in economic analysis. Yet, socio-economic horizontal inequalities are important from a number of perspectives, including because they can have adverse effects on the well-being of members of the deprived groups, they can impede efficiency, they may make it very difficult to eradicate poverty, they lead to unfair and exclusionary societies and they raise the risk of violent conflict (Stewart, 2002). This collection of papers is a first step towards addressing this important void.

Because of their clear political significance, in some heterogeneous societies (notably Malaysia, South Africa, Northern Ireland, Fiji) a variety of policies have been adopted to attempt to reduce horizontal inequalities – for example, through affirmative action of various kinds (giving preferences to particular groups in employment, education and asset ownership), through the careful allocation of public expenditure and through the use of the legal system to eliminate discrimination. Although these policies can achieve much, their impact can be severely reduced or even offset if economic policies – in particular those relating to trade – simultaneously work to increase horizontal inequalities. Conversely, if such economic policies support a reduction of horizontal inequalities, the effectiveness of affirmative action policies will be greatly increased (and horizontal inequalities may fall even without any explicit affirmative action).

Defining Group Inequalities: Why they are Important

Before considering how trade policies may affect horizontal inequalities, it is necessary to discuss the type of groups under consideration. In our case studies, we are mainly concerned with group distinctions that are widely recognised in a particular society as of social and political significance. In practice, important group distinctions often arise from differences in religion (for example, from differences between major religions, such as Muslims and Christians, and groupings within them, such as Shia and Sunni, Catholic and Protestant); in some societies, ethnic distinctions are important (for example, Ewes and Akans in Ghana, Igbo, Hausa-Fulani and Yoruba in Nigeria); in some – such as India and Nepal – caste is the main basis of social distinction and discrimination; in some places, geographical distinctions are important (often accompanied by some ethnic or religious differences), such as in East Timor or Eritrea; and in others, what we call 'race' seems to be the significant differentiating group characteristic, such as in Malaysia or Brazil.

Socially significant group identities arise partly from individuals' *own* perceptions of membership of and identity with a particular group and partly from the perceptions of *those outside the group* about others. An important question – long debated by anthropologists[1] – then is why and when some differences are perceived as being socially significant, and others are not, both by group members themselves and by others. Here we will not enter that debate, but note that group distinctions are formed and reformed historically; that leaders, educators and the media, among others, are important influences over how significant group distinctions evolve; that groups often have uncertain boundaries, and are fluid, with new groups emerging and old ones ceasing to be important. Yet despite the fact that boundaries evolve, at any one time group distinctions are often an important element in the way that people see themselves, and interact, and consequently are relevant to the well-being of individuals and the health of society. Moreover, as ideology has become less important as a source of identity and political mobilisation, ethnic and religious distinctions seem to have become more important, as indicated by the increasing proportion of violent conflicts that are presented as 'ethnic'.

Research into politically salient group distinctions suggests that it is not so much the personal importance of a particular identity to people that determines political salience, but rather the identities that are important, or seen to be important, in the allocation of government jobs and contracts that gain political salience. For example, in West Africa people regard religion as highly important to their sense of self and in their everyday life, socialising and so on – more important than ethnicity. Yet it is ethnicity, not religion, that is regarded as the source of political favours and discrimination, and political mobilisation tends to be ethnic rather than religious (Langer, 2005; Langer and Ukiwo, 2008).[2] Similarly, Daniel Posner's insightful work explaining the conditions under which cultural cleavages become politically salient shows that this depends 'not on the nature of the cleavage itself […] but on the sizes of the groups it defines and whether or not they will be useful vehicles for political competition' (Posner, 2004, p. 529).

Although the determinants of group well-being and prospects go well beyond their social and economic situation and include political and cultural status dimensions, here we are concerned only with socio-economic aspects, as noted above. Inequalities between groups are generally due to historic (and current) discrimination and are beyond the control of the individuals within the groups. Most identity differences are determined at birth (race/gender) or are inherited and not chosen (ethnicity and, mostly, religion), and hence are not within the control of the individual. Therefore, differences in outcomes associated with identities indicate (Roemer-type) unequal opportunities. Consequently, horizontal inequalities approximate what Roemer (1998) has called 'inequality of opportunities', defined as those inequalities arising from factors outside the control of the individual (see also World Bank, 2006).

There are multiple elements within the broad socio-economic category, which may be important to people – for example, access to and ownership of land, education, employment and incomes. Most of these elements are not only important in themselves, but are also instrumental for achieving others. For example, education is wanted in itself (as an important basic human right) and also as a means to enhance incomes, and similarly access to land represents status and security, as well as generating incomes and employment. Although certain socio-economic outcomes are relevant across all societies – notably incomes, health and nutrition – what is needed to achieve these outcomes can vary across societies, and therefore also the particular inequalities that are of most significance. For example, access to primary education may be an important source of inequality in very poor societies, but in more developed countries where there is universal primary education, access at higher educational levels is more important. Equally, access to and ownership of land is of huge importance where there are land shortages and land concentration and agriculture accounts for a considerable proportion of output and employment, but becomes less important as development proceeds, and access to housing and formal sector jobs becomes more important. Our aim should be to measure the horizontal inequalities that are relevant to the actual context. However, in real situations, such as those included here, data availability limits the range of variables that one can measure.

Horizontal inequalities matter for a number of reasons:

- Unequal access to political, economic and social resources and inequalities of cultural status can have a serious negative impact on the welfare of members of poorer groups who mind about their relative position and that of their group. This is illustrated by research in the United States showing that the psychological health of Blacks in the United States is adversely affected by the position of the group to which they belong (see, for example, Broman, 1997; Brown *et al*, 1999). Including the position of the group as a factor determining individual welfare has been modelled theoretically by Akerlof and Kranton (2000).
- Severe horizontal inequalities may reduce the growth potential of society, because they mean that some people do not have access to education or jobs on the basis of their potential merit or efficiency but are discriminated against because of the group to which they belong. As deprived groups get improved access to education and jobs, the potential of the economy can be realised more fully. This was exemplified by the rapid growth experienced in Malaysia as policies enabled the majority Malay population to participate in economic transformation (see Faaland *et al*, 2003).
- Horizontal inequalities can prove a major handicap to the elimination of poverty because it is difficult to reach members of deprived groups effectively with programmes of assistance. This is especially so because deprived groups face multiple disadvantages and discrimination and these need to be confronted together. This has been a serious problem, for example, in tackling poverty in the Andean countries (see Hall and Patrinos, 2006). It has been well illustrated for gender inequalities (see, for example, Kabeer, 2011).
- Finally, sharp group inequalities make violent group mobilisation and ethnic conflicts more likely, by providing powerful grievances that leaders can use to mobilise people, by calling on cultural markers (often common ethnicity or religion) and pointing to group exploitation. Evidence across countries has found a significant relationship between horizontal inequalities and the onset of violent conflict (see, for example, Østby, 2008; Cederman *et al*, 2011). Other statistical cross-country work supporting this relationship includes Gurr's successive studies of relative deprivation and conflict (see Gurr, 1970; Gurr, 1993; Gurr and Moore, 1997 and Barrows' investigation of sub-Saharan African countries in the 1960s (Barrows, 1976)). Within-country studies present a similar picture (see, for example, Mancini, 2005 on Indonesia and Murshed and Gates, 2005 on Nepal), showing that the location of conflict within the country is related to the extent of group inequality. Of course, not all countries with high horizontal inequalities experience conflict – it is a matter of increased likelihood of greater incidence of conflict as horizontal inequalities increase.

Hence, the extent of socio-economic horizontal inequalities is an important issue in any heterogeneous society and should be a concern for policy. Considering the potentially major impact of trade policies on the evolution of countries' horizontal inequalities (and as a consequence on the prevailing socio-political situation), it is crucial to analyse systematically and comparatively the linkages between trade, horizontal inequalities and political stability in a range of countries.

Trade and Horizontal Inequalities

Trade policies are here defined to encompass policies towards the exchange rate, and taxes, subsidies and quantitative restrictions on exports and imports. The types of trade policy prevalent in developing countries have changed radically during the past 60 years. In the 1950s, 1960s and 1970s, the dominant industrial strategy was import-substitution (IS) in which developing countries promoted their incipient industrial sectors by heavy protection, including import controls and tariffs; in many cases, primary products exports were subject to taxation, which provided a major source of revenue, and exchange rates were typically controlled, often at well above the 'market' rate, and multiple exchange rates were not uncommon.

The adjustment policies of the 1980s and after, advocated by the International Financial Institutions and widely adopted, involved a radical change in policies towards international trade. Import quotas were abolished, and tariffs were progressively reduced; taxes in exports were also removed (or reduced). Countries were encouraged to move towards a 'competitive' and single exchange rate, generally involving devaluation. Taken together, these policies can be defined as 'switching' policies (Stewart, 1995): that is, policies that aim to encourage resources to move into the tradable sector. Devaluation and reductions in export taxes encouraged resources to move into export production sectors. The effect on sectors substituting for imports was more ambiguous, as reduced import quotas and tariffs hurt the IS sector by making imports more competitive, but the depreciation in the exchange rate offered some compensating protection. However, for most countries it seems that the policies definitely hurt the IS sectors.

Trade policies affect both production and consumption, the former via the effects on sectoral incentives, and the latter via their effects on relative prices. The distributional impact of the policies depend on both production and consumption effects.

With respect to production, the impact of international trade policies on horizontal inequalities depends on three elements:

1. The precise nature of the trade policies: including the extent and nature of tariff changes; exchange rate policy and so on.
2. The nature of the economy: in particular, what the major commodity exports are; and how important trade is to the economy.
3. The economic specialisation of salient groups or how the different groups are positioned in the economy. Geographic advantages and disadvantages of different regions and group concentration in particular regions are important factors in explaining different groups' positioning in the economy, as is, in many cases, the colonial past.

Although Acemoglu *et al* (2001) have shown that differences in colonial experience are an important source of 'exogenous differences in institutions', which in turn can help explain differences in income per capita *across* countries, often, the colonial experience also played an important role in establishing horizontal inequalities *within* former colonialised countries through allocating different functions to different identity groups. An 'ethnic' division of labour can be very subtle and can take on different forms depending on the type of economy. For example, colonial policy involved a sharp racial division of labour in Malaysia, with the Chinese the trading and entrepreneurial class, the Indians imported to work on plantations and the Malays subsistence farmers (Brown, 1997). In contrast, in West Africa, there tends to be a concentration of the production of particular export crops in the South of the countries leaving the Northern regions mainly devoted to subsistence, which, of course, has serious implications for the distributional impact of trade policies. As recent trade policies have tended to favour some sectors (tradables) and hurt others (non-tradables), their impact on horizontal inequalities largely depends on whether the ethnic (regional) division of labour follows this tradable/non-tradable distinction, assuming that trade policies that favour a particular sector provide most benefits to groups that are concentrated in that sector. Where the dominant owners of an industry come from a different group from the workers, the owners may benefit, but not the workers – as, for example, in plantation economies. Similarly, migrant groups may dominate the most rewarding opportunities – as happened, for example, with the migration of Javanese in Indonesia. Moreover, groups who are not present in sectors benefiting most from trade policies and liberalisation might still be able to capture a (large) part of the surpluses of the producers in these sectors if they control the state or have priority access to state institutions.

Once in existence, horizontal inequalities can persist for very long periods of time. Illustratively, the inequalities between the Blacks and Whites in the United States or between the indigenous population (IP) and non-IP in many Latin American countries have been in existence for centuries rather than decades. In many cases, the persistence of horizontal inequalities is not necessarily the result of conscious decisions by political actors or because of an unequal distribution of power (the apartheid regime in South Africa being the most obvious 'counter'-example where this was the predominant reason for the emergence and persistence of horizontal inequalities over time), but because they are the outcome of economic forces and mechanisms. In earlier work, we have developed a framework for understanding the persistence of horizontal inequalities that incorporates the following factors: unequal rates of accumulation across groups; dependence of returns on one type of capital to other types of capital so that privileged access to, for example education, results in greater returns to other types of capital; and, asymmetries in social capital among groups, as well, sometimes, as the persistence of discrimination (see Stewart and Langer, 2008). Although this framework of analysis is a useful starting point for analysing the evolution of socio-economic horizontal inequalities, the current special issue complements this research by analysing whether trade patterns and trade policies contribute to promoting and maintaining horizontal inequalities.

It is possible to generalise a bit about the likely impact of trade reform policies on *groups as producers*. First, in economies where there is crop specialisation by group and crops are the main tradables, trade policies promoting exports are likely to increase horizontal inequalities, as the groups specialising on export commodities tend to be relatively privileged; second, a similar argument tends to apply to mineral resources, but here much depends on government policies towards taxing and redistributing the revenues; third, in economies in which the policies promote labour-intensive industrialisation those with basic education are likely to gain (see Wood and Ridao-Cano, 1996), which in the normal case would tend to favour the richer and better educated group(s), although this can be offset by education and employment policies that favour the poorer groups, as new productive opportunities, such as manufacturing can offer, are more accessible to members of less privileged groups than established ones, and this may contribute to a reduction in horizontal inequalities; fourth, where the policies dismantle the protection of privileged IS, it is possible that they will act to improve horizontal inequalities as very often richer groups have been involved in such sectors.

Turning to the impact of exchange rate changes and tariff reforms on *groups as consumers*, the outcome depends on the design of the policies. It appears that tariff and quota reductions tend to favour richer groups, as import tariffs often bear most heavily on luxury consumption, but such reductions may not be universal (although they normally are) but could be retained on the products consumed by the rich, thereby altering the distributional impact. Moreover, consumption patterns can differ by group (for example, some groups do not consume alcohol) and tariff reform can therefore help some and hurt others, depending on their design.

We should note that international trade can affect horizontal inequalities as a result of changing global patterns of demand and international prices, not only because of specific policies adopted by particular countries.

So far we have not taken migration into account. However, migration (international or domestic) can be an important factor explaining the observed evolution of horizontal inequalities within a country. The impact of migration on horizontal inequalities is complex. On the one hand, migrants typically receive less good treatment in many respects (especially in relation to public employment and land ownership) than local populations and they are frequently specialised in particular sectors. On the other hand, people who migrate often do relatively better than the people who stay behind. For example, in Côte d'Ivoire, where there has been historically a lot of North–South migration, the 'Northerners' who migrated southwards do considerably better than their 'co-ethnics' in the North; yet, at the same time, it appears that they continue to be relatively disadvantaged compared with the 'Southerners' (see Langer, 2005).

Thus, migration might have an equalising effect on the prevailing 'ethnic' inequalities in a country, while at the same time contributing to a worsening of inequalities across regions because often the most 'dynamic' and 'entrepreneurial' people are the ones first to leave the relatively deprived regions and areas. Yet, regional inequalities might also decrease as a result of internal migration because of remittances being sent home or because of the fact that a number of people left or because of an improvement in land–labour ratios (Fan *et al*, 2009; see also Xing *et al*, 2009). Conversely, barriers to migration might also contribute to a worsening of the regional and/or ethnic inequalities. For example, in the case of China, Fan *et al*'s (2009, p. 17) analysis demonstrates that 'in periods where migration was suppressed (and investment in lagging regions was low), regional inequality rose'. In sum, internal migration means that in countries where groups are originally geographically based, there is no longer a simple equation between changes in regional inequalities and changes in inequalities between ethnic groups.

Research Methodology and Case Study Analysis

In order to improve our understanding of the linkages between trade and horizontal inequalities, four case studies are extensively analysed in this special section, that is, Uganda, Indonesia, Mexico and Peru. Each study explores how trade has affected the state of horizontal inequalities. The studies first identify the major groups in the economy and the historical source of horizontal inequalities, including the extent of group specialisation in different parts of the economy; second, the studies record the main trade policy changes and their economic outcomes; and finally, the studies show how these trade policies (and outcomes) have affected horizontal inequalities. The four case studies were purposively selected because each of these countries was known to have sharp ethnic and regional inequalities, but at the same they also differ substantially with regard to their level of income, their geographical location, the nature of their economy and (to a lesser extent) the trade policies they have introduced. The reason for analysing such a diverse set of case studies was to explore to what extent the underlying dynamics and relationship between trade and horizontal inequalities is similar across these different contexts. In the remainder of this 'Introduction', we will also take into account the experiences of Ghana and Malaysia, which we have investigated in earlier work (see, for example, Stewart and Langer, 2008; Langer and Stewart, 2011), while we also draw on the work of Seini, 2012 on Ghana and Yusof, 2012 on Malaysia which provide useful additional insights into the relationship between trade and horizontal inequalities.

In this overview, we follow the same stages of analysis as in the country studies.

- The first section summarises the nature of group distinctions in each country and the historic source of horizontal inequalities, identifying the traditional group division of labour and providing some evidence for the severe historic horizontal inequalities in each country.
- The next section briefly points to the main characteristics of each economy, followed by a review of trade policy changes in the different countries and major economic outcomes.
- The section after that considers other policies that might have affected groups' abilities to exploit trade opportunities.
- The penultimate section considers how far trade (and other relevant) policies have affected horizontal inequalities in each country.
- Finally, on the basis of this analysis we come to some broad overall conclusions, including some policy recommendations.

Findings from the Case Studies

Relevant Group Categorisations

Our sample of countries supports the apparently somewhat contradictory views that (i) group distinctions are fluid and evolve over time; and at the same time (ii) they are important, widely recognised in the country, often a source of favour or discrimination and of inequality.

In every case, the major distinctions and inequalities among groups can be traced back to colonialism. In Uganda, the colonial power (Britain) privileged parts of the country (the South) in terms of development, including infrastructural investment, education and the introduction of cash crops. A similar situation was observed in Ghana. In these cases, the main distinction is a regional one, but it is also ethnic, as particular ethnic groups come from particular regions.

Indonesia is the most complex of the countries in terms of group distinctions. ‘Spread over two thousand inhabited islands over a geographical distance equivalent to that from London to Baghdad, Indonesia is unsurprisingly a country of extreme ethnic heterogeneity’ (Brown in this issue). Brown draws on three over-lapping divisions: that between Javanese and non-Javanese; between migrants and non-migrants; and Muslims and non-Muslims. The overlapping nature of these distinctions is due to the fact that Javanese have been major migrants (often supported by the state), but there are other migrants; although Javanese are virtually all Muslims, there are many other Muslims. Each of the three divisions has been the source of political tensions periodically.[3] Colonial policy favoured the Javanese and promoted migration, being responsible for initial horizontal inequalities.

In contrast in Malaysia, colonial policy resulted in sharp differences among the main ethnic/racial groups: ‘ethnic specialisation’, or ‘the identification of race with economic function’, was a hallmark of the colonial Malaysian economy. Malays specialised in the production of rice, as fishermen and small-scale farmers in the rural areas. Chinese were in the urban areas, specialising in commerce and industry and tin mining, and the Indians were largely engaged in the plantations as unskilled labour and some were in the service occupations on the urban areas. Foreign interests, largely British, were owners of the plantations, tin mines and important in trading (Yusof, 2012). A further complication is the existence of non-Malay Bumiputera (sons of the soil) also mainly small peasant farmers, in parts of the country, notably Sabah and Sarawak. An ethnic division of labour was thereby built into society and inherited on independence in 1957. The regional dimension is less strong than in Africa, although Bumiputera are more rural than non-Bumiputera, and the non-Malay Bumiputera are mainly located outside the peninsular.

Like the African examples, the two Latin American cases are similar in the nature and origins of the major group distinctions. In both Mexico and Peru, the major distinction is between indigenous peoples (IP) and those of European descent, initially arising from the colonial invasion. In both cases, much intermarriage and geographic and social mobility has made the distinctions quite fluid and to some extent subjective. Nonetheless, in both cases, there remains a strong regional dimension, with particular parts of the country being the areas in which IP form a large proportion of the total population. Yet in both cases, much rural–urban migration has occurred, and thus IP are be found in large numbers in the cities, often concentrated in the slums – and often describing themselves in different terms from their rural counterparts.

Historic Economic Specialisations

The very origins of the group distinctions involve economic specialisation. In Uganda (and Ghana), relatively fluid distinctions were hardened by colonial policy, and the regional distribution of cash crops (and education) also dictated economic specialisation by group, with Northerners as subsistence farmers and Central and Southerners in cash crop production and the professions and providing most of the labour for any incipient non-agricultural activities. In Uganda, for example, private non-agricultural wage earners formed 2.4 per cent of total activities in the Northern region compared with 9.3 per cent in Central (rural), and 18 per cent in Northern urban areas compared with 41.3 per cent in Central. In Indonesia, the Javanese received more education than non-Javanese and accounted for most of the local professional classes, whereas small numbers of Chinese were involved in business activities, like in Malaysia. By their nature migrants’ economic activities tended to differ from non-migrants, although precisely how varied according to the historic circumstances of their migration – for example, Javanese migrants were frequently provided with land in settlement schemes, but this was not the case with other migrant groups; while migrants also staffed the oil and gas industries.

In Latin America, the IP were initially (and many still are) involved in subsistence agriculture; urban migrants were servants, sometimes provided unskilled labour and were often located in the urban informal sectors. In the meantime, people of European descent were professionals, and dominated the formal industrial, cash crop and mining sectors.

Horizontal Inequalities

Apart from Indonesia, where they are more moderate, sharp horizontal inequalities have long been present in each of these countries as might be expected given this description of economic specialisation. Northerners, in the African examples, had lower incomes, less education and poorer health; and similarly, for the IP in Latin America. In Indonesia, the Javanese have been historically (and remain) richer and more educated than other groups. In Malaysia, Bumiputera were sharply worse off than both the other groups in terms of most socio-economic aspects in 1960. Some of these differences are illustrated in Table 1. The variables and dates differ across countries but the picture of severe horizontal inequalities is common to all.

Major Characteristics of Each Economy

When the countries became independent, agriculture was the main economic activity in each of the countries, and each country was largely dependent on the export of primary

Table 1: Magnitudes of historic horizontal inequalities

Ghana	Ratio of Northern to Ashanti		
	Infant mortality rate (1931)	Female illiteracy (1993)	Per capita income (1999)
	1.48	2.3	0.61
Uganda	Ratio of Northern to Central		
	Child mortality (2006)	Illiteracy rate (1999)	Poverty rate (1999)
	1.28	2.3	3.22
Malaysia	Ratio of Bumiputera to Chinese		
	Mean income (1970)	Poverty rate (1970)	
	0.43	2.49	
Indonesia	Ratio of Javanese to non-Javanese		
	Land held below 0.25 ha	Land held above 2.00 ha	
	0.6	1.78	
Mexico	Ratio of municipalities with more than 70 per cent indigenous to municipalities with <40 per cent		
	Lacks basic education	Capability poverty (%)	
	1.59	2.88	
Peru	Ratio of Southern Andes to non-Lima coast		
	Illiteracy rate (1876)	Illiteracy rate (1972)	
	1.24	2.17	

Source: Case studies; Seini, 2012; Yusof, 2012.

products at this time. However, the primary products differed. In Uganda, cotton and coffee (peasant grown cash crops) accounted for most exports, whereas in Ghana major exports were peasant-grown cocoa together with some gold. Indonesia exported fruit (coconuts, pineapples and bananas, grown on estates) and later peasant-grown rice. In Malaysia, the major exports were rubber and palm oil (grown on estates) and tin. Mexico exported cocoa, fruit and sugar (mainly grown on plantations) and oil and also a significant amount of manufactures. Peru has had waves of primary production specialisation including sugar and cotton, guano, silver, gold and zinc, with mining typically accounting for 60 per cent of total exports.

Trade Policies

The timing and details of trade policies over the past 40 years or so differed across these countries but the broad aims and thrust were similar. A major aim on achieving independence was to diversify away from primary production. With this objective, each country initially adopted an IS phase, which lasted from around 1950 to 1980, protecting domestic industry with tariffs and quotas, and generating domestic revenue by the taxation of exports and imports. Exchange rates were generally tied to an international currency at above market rates. Although Foreign Direct Investment (to support IS) was encouraged with tax incentives and subsidies, most countries had capital controls with respect to financial flows.

From the early 1980s, each country underwent a liberalisation phase, with reductions in quotas and tariffs, floating of the exchange rate, and more recently the relaxation of capital controls. Both Ghana and Uganda adopted these policies under the auspices of the IMF and World Bank, supported by a series of adjustment loans. These institutions also played a role in policymaking in the other countries, although least in Malaysia, which has had most autonomy in policymaking. The extent and steadiness of the move towards liberalisation varied across countries. For example, Peru's policies have see-sawed, moving to, from and back again towards a liberalisation package. Both Malaysia and Indonesia were affected by the East Asian financial crisis on the late 1990s. Malaysia reimposed capital controls at this time, and Indonesia adopted IMF-sponsored deflationary policies.

Although the IS phase had similar effects across countries, leading to the development of local industry, which was mostly rather inefficient and uncompetitive on international markets, the liberalisation phase has had notably different effects across countries (Figures 1 – 3).

- In both Ghana and Uganda, (especially Ghana), it was associated with deindustrialisation, with a fall in the share of employment accounted for by this sector and a revival of primary product production, which had been at a low in both countries – in Ghana because of a decade or more of economic mismanagement associated with political instability; and in the case of Uganda because of a civil war. In both cases, economic growth accelerated and has been sustained over 20 years or more, but diversification has not been achieved. Agriculture and food exports still accounted for around 70 per cent of the total in 2008.
- In strong contrast, the two Asian countries saw real diversification with new manufacturing (and other) exports emerging, and a reduction in the share of primary exports in total export output. Indonesia expanded the production and export of labour-intensive textiles and of peasant-grown rice. Oil production came to be important in the 1970s, accounting for the bulk of export revenue by the early 1980s

and then declining. Malaysia's export growth was focused particularly on electronics (also labour-intensive) and there too oil became an important export.

- Developments differed between the two Latin American countries. Like the African countries, Peru continued to rely on primary exports, with copper, oil, lead and zinc dominant from 1981 to 1995, copper and gold as the major exports from 1995 to 2008 and coca also became important (although not in official statistics). In Mexico, however, the Free Trade Agreement with the United States led to the massive expansion of maquila trade in the free trade zones bordering the United States.

Patterns of trade over time depend not only on policy, but also on discoveries (for example of oil), shocks (such as financial crises or world recession) and on changing patterns of world demand. Consequently, the differences in growth rates, both of GDP and of exports, reflect these changes, as well as the differing specialisations due to trade policies.

Both Ghana and Uganda saw an increase in the growth of GDP and exports in the 1990s and 2000s compared with the previous era (see Figure 2). Indonesia, Malaysia and Mexico's growth was higher taking the period as a whole, but in each case GDP growth

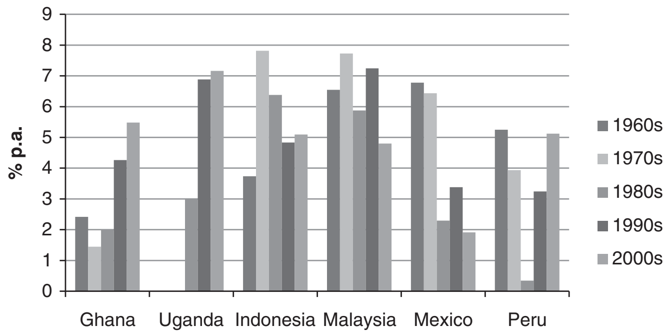

Figure 1: Average annual growth in GDP by decade.
Source: World Bank, World Development Indicators.

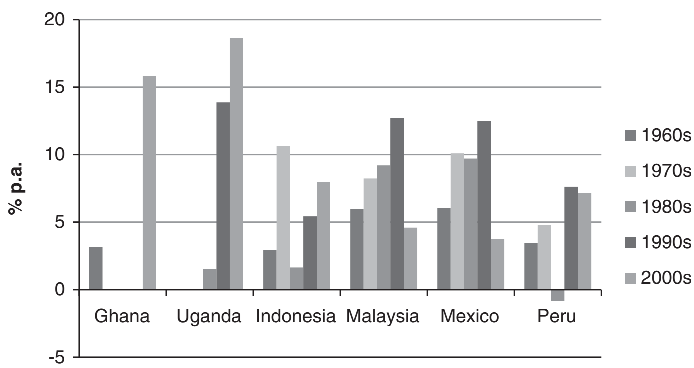

Figure 2: Average annual growth in exports by decade.
Source: World Bank, World Development Indicators.

peaked in the 1970s (and in the case of Peru the 1960s) despite a decade-by-decade increase in the growth of exports in the cases of Malaysia and Mexico until a deceleration in the 2000s.

Other Policies Relevant to the Impact of Trade Policies on Horizontal Inequalities

Government policies towards investment, education, training and employment can affect the way that trade impacts on horizontal inequalities. In overall terms, Uganda sticks out in a negative way here, as continued violent conflict in the North limited development efforts there. Malaysia and Indonesia stand out in a positive way; Malaysia, in particular, introduced a systematic set of policies (starting with the New Economic Policy – NEP – in 1970) to favour Bumiputera in education, employment, access to investments and capital ownership. Indonesia used its oil resources to direct

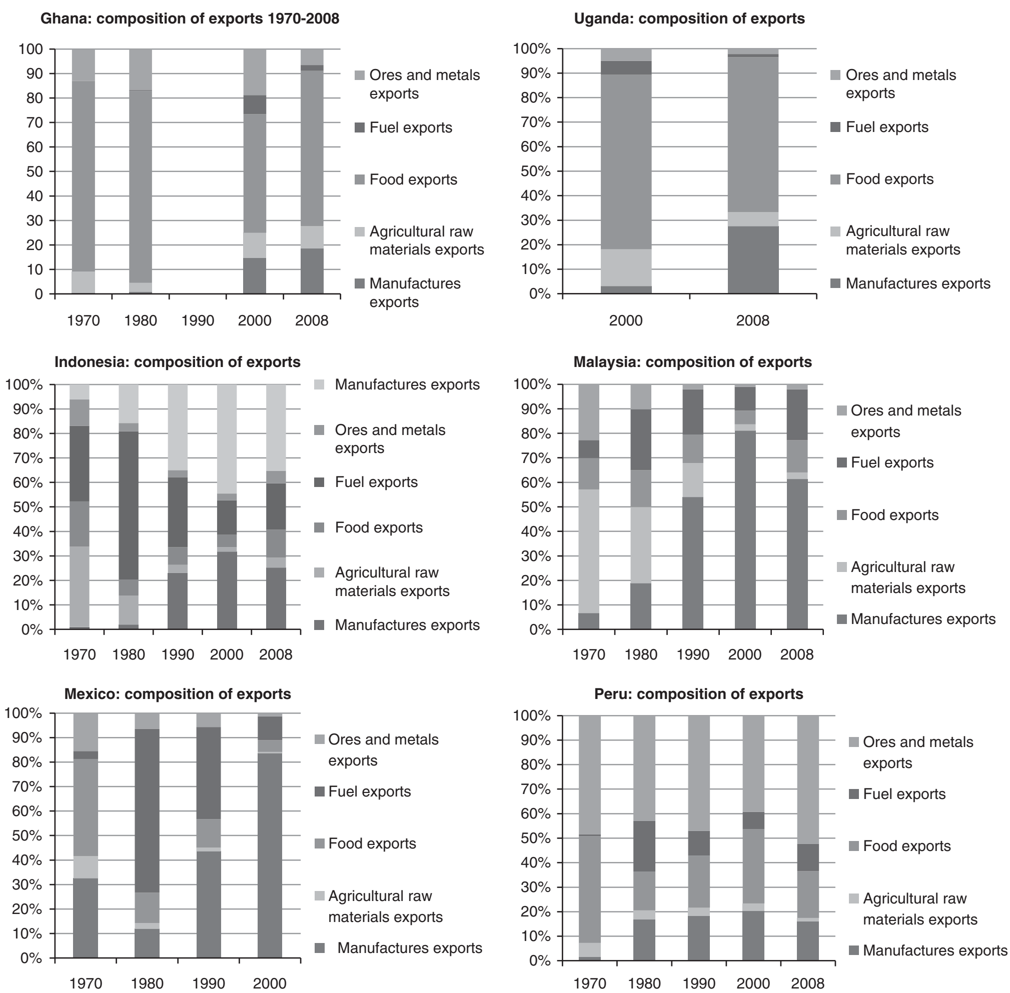

Figure 3: Composition of exports over time, selected case studies.
Source: World Bank, World Development Indicators.

social and economic infrastructure to the less-developed areas through the INPRES system (Presidential Instructions). The remaining countries all expanded access to education and reduced educational horizontal inequalities in quantitative terms at least. However, inequalities remained in both quantitative and qualitative terms. In Ghana and Peru, there were some attempts to improve economic infrastructure in the areas where the more deprived groups lived (the North of Ghana and the Andes in Peru), but private investment lagged behind in these areas in both countries. In Ghana, there had been strong investment in infrastructure and institutions aimed at promoting cash crops in the North in the 1960s and 1970s, but these declined with economic stagnation and were not revived during the liberalisation phase – which focused on the revival of Southern-based commodities.

It is important to say more about the two positive cases in this respect as they both – in different ways – show how complementary policies can affect trade outcomes in terms of horizontal inequalities.

In Malaysia, the government invested in agricultural development schemes (through the Land Development Authority) to increase acreage devoted to palm oil, and to incorporate poor Bumiputera farmers into the development and thereby improve their productivity and reduce poverty. But of greater importance was the NEP and its successors in Malaysia, which explicitly aimed to end the identification of race with occupation. These programmes involved both demand and supply-side policies. Quotas were used extensively in 'employment, share capital, commercial and residential properties/assets, enrolments in universities licenses and contracts' (Yusof, 2012). The policies were directed at reducing the gap between Bumiputera and the Chinese. They ignored the Indians and were not directed at achieving regional balance (which in fact worsened). As a result of these policies, ethnic specialisation was greatly reduced. The Bumiputera educational performance improved greatly. As industrialisation took pace, Bumiputera participated as labour (migrating from the countryside) and as (sometimes part) owners of the new enterprises. By altering the balance of ethnic specialisation, these policies changed the way trade policies affected horizontal inequalities.

In Indonesia, some (non-trade) policies acted to worsen horizontal inequalities, but others to reduce them. On the negative side, the enforced migration policies – initially a colonial policy but carried on in the 1960s and 1970s – moved Javanese to the outer islands, creating new Javanese/non-Javanese inequalities in the receiving areas. But on the positive side, massive investments in spreading education and health infrastructure (financed by oil revenues) reduced horizontal inequalities in these areas, whereas agricultural investments (especially in rice) improved rice productivity massively and turned Indonesia from a rice importer to an exporter. The net effect was first to reduce regional inequalities and second to give enough education to the poorer sections of society to enable them to take up the (growing) opportunities for industrial employment.

How Trade Policies Affected horizontal inequalities

We can divide the trade policies into two broad phases (as noted above): the IS phase and the liberalisation phase. The impact of both on horizontal inequalities differed across the regions. In the case studies (and here), the most detailed analysis concerns the liberalisation phase.

The African Examples

In both Uganda and Ghana, industrialisation was largely confined to the South/Centre of the countries, and the relatively deprived Northern regions, where education and infrastructure was much less, benefitted little. Consequently, the industrial IS policies almost certainly worked to worsen regional horizontal inequalities. Internal migration, especially in Ghana, softened the impact on ethnic inequalities, taken as a whole, but migrants from the North were mainly agricultural labourers and took on the lower income occupations in urban areas. In both cases, the effective IS stage was quite short, brought to a halt by political disturbances and a prolonged period of economic stagnation. Both countries started a long period of recovery in the mid-1980s, which was accompanied by substantial aid flows, including loans from the IMF and WB and strong policy conditionality directed at liberalising the economies. There was a marked recovery in the primary export sector in both cases as shown in the earlier figures.

Ghana

In Ghana, during the IS phase, there were major efforts to introduce food IS with a heavy focus on the North, including large-scale rice production. The 1960s period 'saw the development of tractor services for peasant farmers, followed by the development of cooperative and state farms … a rapid process of accumulation in the North … supported by state subsidies' (Seini, 2012). According to Seini, 'intensive state-led private capitalism had several benefits in narrowing North–South Inequalities'. There was 'massive investment in the regional economy including infrastructure, marketing and processing facilities; the state played a strong role in setting up or facilitating the institutions (financial, industrial) which were key to market development'. At this time, Ghana exported some rice to neighbouring countries. Cotton was also developed in the North in the 1970s, providing peasant farmers with a useful cash crop.

Many of the agricultural developments initiated in the 1960s in the North came to a halt with no spare parts for tractors, bank credit dried up and many farmers defaulted. Large-scale rice production suffered. Hence, the positive impact on North–South inequalities was much reduced. However, for both rice and cotton, trade liberalisation had the most dramatic and negative effects, especially for cotton. Imports of rice soared from the late 1980s while domestic production rose slowly, and cotton production fell after peaking in the mid-1990s, affected by international competition, including from subsidised production in the United States.

Investment policy reforms and devaluation also led to a revival of the cocoa industry in the South (which had gone into decline from the 1970s starved of investment and facing low prices); the big rise in production (from 202 metric tonnes in 1991 to 615 in 2007) and improved returns to farmers which increased Southern farmers' prosperity, had the effect of worsening North–South inequalities. As Seini notes, 'the regional effects of cocoa rehabilitation has been that the north has effectively become a labour reserve for the cocoa industry, once again'.

The revival of other traditional primary industries under liberalisation – gold, diamonds, bauxite, manganese, timber and timber products, which are all based in the South- also worked to worsen North–South inequalities. Moreover, non-traditional exports (apart from handicrafts) are also located in the South.

Some industrialisation in Ghana had occurred during the IS phase, through State Owned Enterprises, mainly heavily dependent on government and poorly managed. They were almost all in the South. The liberalisation policies included privatisation of these enterprises, which after a time increased employment and incomes, again contributing to worsening North–South inequalities.

The North–South inequalities in Ghana (which translate into ethnic inequalities, between Mole and Dagbani – Northerners – and Akan, Southerners) largely reflect differences in occupation between North and South. The North remains dependent on low return food crop farming with a lower share of non-farm activities. The non-Akan Southerners are highly educated and are professionals and skilled workers and fishermen.

For the most part, the Southerners dominate high-level positions in the civil service. Seini suggests that this probably explains why institutions that supported Southern activities were strengthened while 'institutions that served the rice and cotton industries in the north were neglected' (Seini, 2012).

Development of rice production (largely due to protectionist policies) was concentrated in the North and helped reduce North–South inequalities; however, first the general economic stagnation kept production and consumption at low levels, and then trade liberalisation, especially from the late 1980s, led to a surge in rice imports.

Uganda

Uganda is in many ways similar to Ghana, with cash crops and industry mostly in the Centre and South and with subsistence farmers much more prevalent in the North. However, owing to prolonged conflict, there has been little effort to develop the North. Thus, like Ghana, successful rehabilitation of traditional exports has largely benefitted the South.

The Uganda study simulates the impact of trade reforms on regional distribution. The trade reforms analysed include the complete removal of tariffs; partial removal of tariffs; the impact of the East Africa Customs Union; the impact of the Uruguay round; and the AGOA (the African Growth and Opportunities Act of the United States, which extends the Generalised Preference Scheme to additional products, in particular garments).

The analysis suggests that the schemes would, in general, have the biggest impact in reducing poverty in the North and the East and less impact in the Centre and the South – thereby reducing horizontal inequalities. The reasons given for this finding are (i) that poverty is higher in the North and East and it is easier to reduce poverty where it is high; (ii) that the schemes all benefit agriculture most, and the North and East are more specialised in agriculture and have the least non-agricultural activities; and (iii) that the AGOA particularly benefits cotton, which is grown in the North.

In each case, however, the impact on poverty is very small, and thus Matovu concludes that 'inequality would have to be addressed through other redistributive tools like expenditure programs targeted to the poorest lagging behind'.

Although the simulations suggest that trade liberalisation would tend to reduce poverty most in the North and East and less in Western and Central regions, actual changes, from 1999 to 2005, during a liberalisation era go in the opposite direction. Poverty fell by 3.3 percentage points in the Central region and by 5.7 percentage points in the Western region from 1999 to 2005, whereas it rose in the Eastern region by 0.9 percentage points and fell in Northern regions by 2.9 percentage points. Consequently, the ratio of Northern to Central poverty moved from 3.2 to 3.7, and Eastern to Central from 1.8 to 2.2. Hence, it is difficult to be confident that further liberalisation would reduce horizontal inequalities.

The Asian Examples

Indonesia and Malaysia followed different paths from the Africa cases, although they too first had an IS phase then a liberalisation one. But they differed from the African cases in several respects. First, they did not have the phase of instability and stagnation that the African cases suffered in the 1970s and early 1980s, although they were both affected by earlier violence (Malaysia from a communist insurgency from 1948 to 1960 and Indonesia from instability and mass killings, 1948–1967) and by the 1997 financial crisis. In addition, Indonesia experienced a period of political turbulence (including outbreaks of violence), which led to a substantial weakening in economic performance in the late 1990s. Second, both countries had significant oil resources (much more so in Indonesia than Malaysia). At its peak, oil accounted for 70 per cent of exports in Indonesia, but it peaked at just 25 per cent in Malaysia. Third, as noted above, both countries had more active policies to counter horizontal inequalities (especially Malaysia) than the African cases. Fourth, in both cases, liberalisation policies led to a substantial expansion in manufactured exports, which in 2000 accounted for as much as 80 per cent of exports in Malaysia and 57 per cent in Indonesia. The proportion dropped by 2008, probably because of the world recession.

Indonesia

The Indonesian case study explores statistical correlations between the economic structure of a district and horizontal inequalities defined in terms of Muslim/non-Muslim, Javanese/non-Javanese and migrant/non-migrant. The results show a significant and quite large relationship between the presence of oil and gas and the extent of religious/non-religious horizontal inequalities; a similar but much smaller relationship is shown between the presence of plantations and Muslim/non-Muslim horizontal inequalities. In each case, it seems likely that the industry confers particular benefits on non-Muslims, and thus any liberalisation favouring these sectors would tend to increase such horizontal inequalities. Turning to migrant/non-migrant horizontal inequalities, 'There is a strong and statistically significant relationship between employment in the gas industry and migrant economic advantage' in rural areas (Brown, this issue). When it comes to the Javanese/non-Javanese horizontal inequalities, it seems that the textile industry favours Javanese but no such effect can be observed for electronics.

These correlations indicate the *average* relationship between the presence of a particular industry and particular horizontal inequalities. However, the marginal relationships may differ from the average, if opportunities open up for new groups to participate in particular industries – for example, in employment in manufacturing or in the oil and gas industry. How far this happens depends on educational and other policies. In the case of Indonesia, educational policies have spread basic education throughout the country, in principle opening up opportunities for the non-Javanese.

Malaysia

Malaysia is of particular interest because it has introduced active policies to help Bumiputera to participate in trade and production opportunities. Malaysia saw a big rise in manufacturing output and exports, from the mid-1970s (see Figure 4). Much of the export expansion consisted in (labour-intensive) electronics. The transformation of the economy was due to active government action to support industry, a high rate of investment, educational expansion providing the human resources needed, as well as trade and exchange rate policies favouring exports.

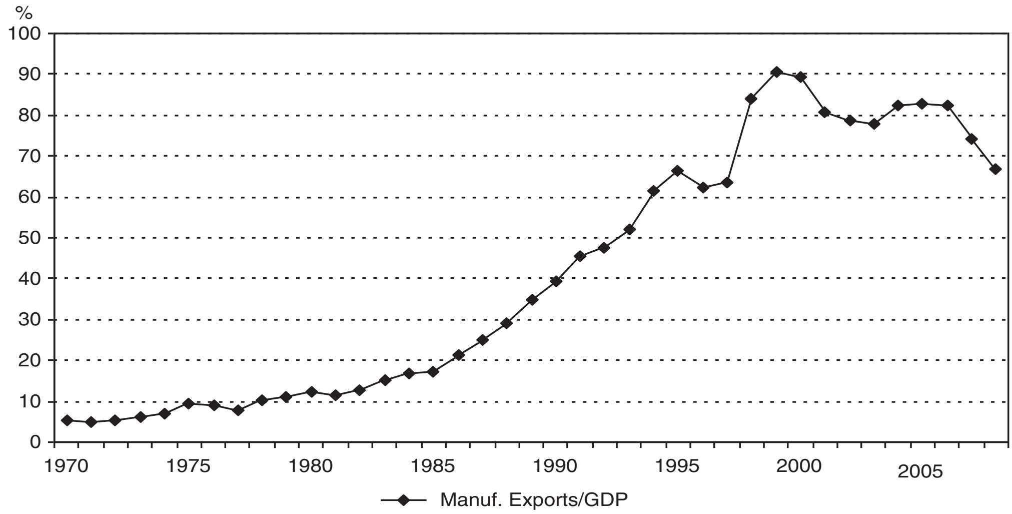

Figure 4: Share of manufacturing exports in GDP, 1970–2008.
Source: Yusof, 2012.

Rural-urban migration of Bumiputera provided the unskilled labour for the electronics industry and this improved their position relative to their prior occupations, whereas in the agricultural sector government investment in palm oil and rubber – settling land on Bumiputera – also improved their situation.

Horizontal inequalities in Malaysia decreased markedly from 1970 to 2008. The first decade saw the major improvement and there was little change from the mid-1980s to the end of the 1990s (when the NEP was replaced by the National Development Policy - NDP – which placed less emphasis on affirmative action). However, there was a further reduction in horizontal inequalities from 2000 (Figure 5 from Yusof, 2012). The latter may be partly due to improved terms of trade for oil and rubber.

The Malaysian case shows that the impact of trade policies on horizontal inequalities depends on non-trade policies that accompany liberalisation policies. In the first place, expansion of labour-intensive manufactured exports (as in Indonesia) creates employment opportunities for the underprivileged; but, second, such an expansion, and the ability of poorer groups to join the industrial labour force, depends on the prior expansion of basic education; third, the affirmative action policies of the Malaysian government contributed, with respect to education, employment and capital ownership and the agricultural sector.

The Latin American Cases

The two Latin American cases are very different because whereas Mexico moved into manufacturing exports during the liberalisation period Peru remained a primary product exporter, resembling the African cases in this respect. Nonetheless, neither of the strategies helped the indigenous groups. The only trade benefitting these groups appears to have been the (illegal) coca trade in Peru.

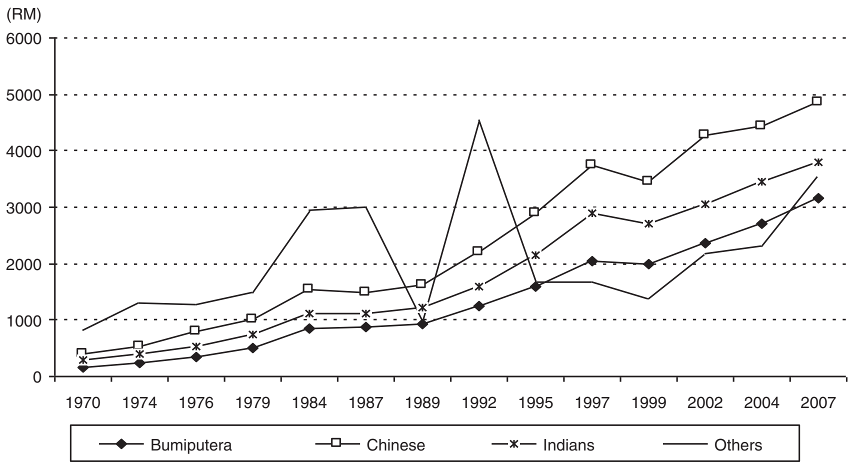

Figure 5: Mean income of ethnic groups in Malaysia.
Source: Yusof, 2012.

Mexico

Agricultural production suffered from liberalisation; the labour-intensive maquila sector in manufacturing expanded, although the wages were low. However, IP are concentrated in the states specialising in agriculture, and not the Northern states where the maquila activities are prevalent.

Agricultural production in the high-IP states is concentrated in four tradable goods – corn and beans, and coffee and cacao. Corn and beans imports were liberalised under NAFTA and consequently imports from the United States negatively affected domestic production and incomes, whereas the coffee-producing states suffered from the dismantling of the International Coffee Agreement. In general, macroeconomic policies acted to reduce wages, whereas trade liberalisation affected agriculture particularly adversely. According to Puyana, the three lowest income deciles lost about a quarter of their income.

In manufacturing in general, as with agriculture, there was a fall in real wages. There was a massive increase in the *maquila* sector in the Northern states bordering the United States, which, by 2004, accounted for 30 per cent of employment in manufacturing, but only 7 per cent of value-added. There were very weak linkages with the rest of the economy, and the states in which the maquila was located had low proportions of IP.

The case study shows that the states with the most IP have the least connection with global markets (or even local markets), and their major activity is subsistence agriculture, hunting and fisheries. However, analysis shows that there was some convergence of per capita income of high-IP states and the national average in the IS phase (1970–1980) and divergence in the liberalisation phase (1993–2006), although some convergence may have been associated with the 2008 financial crisis, which affected the high-income states most connected to the global market worst. In the case of Chiapas, statistical analysis suggested that the larger trade coefficients of municipalities the more the divergence in income.

Peru

Peru's economic history has been one of successive cycles in which different primary products emerge and then dominate exports. In this dynamic process, it seems that it is always the non-indigenous that led the process and benefitted from it.

> One cycle after the other … failed to provide broad inter-linkages with the domestic economy … the entrepreneurial class was not 'indigenous'. Off-shore guano benefitted Creole groups and European immigrants … . Mining took place in the Andes, once again led by non-indigenous groups … . Rubber and oil had their turns in the Amazon, with more negative than positive effects for most indigenous peoples, the former built on exploitation and slavery, the second left localised pollution. (Orihuela, this issue)

Moreover, the resources generated permitted the ruling classes to neglect local development. Policy 'privileged Lima and the coast', including the limited industrialisation during the IS phase, while modern agriculture ate into indigenous lands. The Free Trade Agreement with the United States was backed up with legislation dealing with land rights in the Amazon – permitting companies to buy out local people, legislation enacted without consultation with local people.

There is one important exception to the exclusionary impact of trade, that is, the coca leaf, which is produced and controlled by IP, and transformed into cocaine in a decentralised system. The trade also feeds conflict and exploitation, but it is the sole trading activity that primarily benefits IP.

Conclusions and Policy Recommendations

In each of our countries, the colonial powers left deep horizontal inequalities. Country case studies show that the IS phase did not correct this, but tended to concentrate its benefits on the more privileged groups, with particular benefits for the capital city and groups living near the city, and for a managerial elite. Nonetheless, most cases of market liberalisation and export expansion did not improve horizontal inequalities. Where natural resources were important as exports, as in Mexico and Peru, the richer groups tended to benefit most; similarly, where improved terms of trade and export expansion benefited largely agricultural production, as in East and West Africa, geographic specialisation continued to mean persistent regional and ethnic horizontal inequalities, although this was somewhat offset by the reduced protection for IS industry. There appeared to be weak linkages, generally, between the export sector and the rest of the economy, particularly with producers in disadvantaged groups. Structural change towards manufacturing appeared to offer the possibility of reducing horizontal inequalities, as shown by the one case where horizontal inequalities were reduced, and manufacturing expansion provided the main source of export expansion. Here, there was a potential for the less privileged groups to participate in the new employment opportunities, but in the one clear 'success' case from the point of view of reducing horizontal inequalities (Malaysia) the participation of the more deprived group was facilitated by strong complementary policies. In both Mexico and Peru, manufacturing exports did expand, but the deprived groups did not participate proportionately and/or suffered poor conditions when they did participate.

If market liberalisation and export expansion are to improve horizontal inequalities, these case studies suggest that policies to support the deprived groups in participating in such activities appear essential. These policies include the provision of appropriate education and training directed towards the poorer groups to enable them to participate in new opportunities; investment in infrastructure in regions where poorer groups are located; in addition, anti-discriminatory policies are vital, and policies of affirmative action can play a role. Without such complementary policies, the market alone is likely to perpetuate or even worsen horizontal inequalities.

Such complementary policies need to be on a large scale to make a significant difference. Minor efforts were made in both Peru and Ghana – for example by social investments in deprived areas – but these were insufficient to offset the unequalising impact of the other policies, given the underlying economic and social structure. Moreover, comprehensive and sustained policies, such as occurred in Malaysia, are likely to be more fruitful where new economic opportunities are opening up, as in manufacturing employment in both Malaysia and Indonesia. In agrarian economies, large-scale (and political challenging) land reform would be needed. In addition, the political economy for large redistributive policies must also be favourable. In both Malaysia and Indonesia, the relatively poor groups formed the majority of the population and controlled the government, which was emphatically not the case in our other examples.

Acknowledgement

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Notes

1. See Banks (1996) and Ukiwo (2005) for that debate.
2. In the middle belt of Nigeria, however, where there is considerable overlap between religion and ethnicity, people do mobilise behind religion as well as ethnicity.
3. For example, economic and political inequalities between migrant and non-migrant communities in Northern Maluku eventually led to a religious war, while in West and Central Kalimantan Madurese migration generated significant tensions with local Dayak and Malay people. (Brown)

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