

Breaking through the ethnic growth trap

SUMMARY

I highlight how mutual negative feedback between ethnic divisions, under-investment in public goods and violent conflict imply the presence of ethnic growth traps in many developing societies. I then identify important directions for how developing societies can break out of such ethnic growth traps and instead leverage the gains that can often be had from ethnic diversity. To do this requires deepening our social science understanding of a number of key questions: the roots of ethnic divisions and mobilization, the strengthening of governance institutions and capacity, both formal and at the level of communities, and the understanding of individual-level policies for mitigating polarization and conflict. Drawing on broader empirical patterns and specific examples from sub-Saharan Africa, South Asia and Japan, I highlight directions for promising areas of research into policies for breaking out of the ethnic growth trap.

—Saumitra Jha

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Breaking through the ethnic growth trap

Saumitra Jha^{1,*}

¹Graduate School of Business, Stanford University, Stanford, California, USA

*Corresponding author: Graduate School of Business, Stanford University, 655 Knight Way, Stanford CA 94305, USA. E-mail: saumitra@stanford.edu

1. INTRODUCTION

Around the world, a key question policymakers must address is how to build prosperous and peaceful societies in the face of increasing ethnic diversity. 123.2 million people around the world were forcibly displaced due to persecution and conflict at the beginning of 2025, even as falling transportation and communication costs have tended to also greatly enhance the flows of economic migration.¹ Richer countries encounter increasingly polarized debates revolving around immigration and openness, even while poorer countries contend with managing both pre-existing and emerging ethnic differences. These are not easy challenges. In fact, as I describe below, poorer societies often confront an *ethnic growth trap*: many

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1 Source: United Nations High Commissioner for Refugees www.unhcr.org, accessed July 2025.

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poor ethnically—divided societies arguably remain poor precisely *because* they struggle to overcome political challenges that are accentuated by their ethnic divisions.

Yet, these are also old challenges, and, around the world, some societies have proven successful at overcoming them throughout history. What can theory, empirical analyses, and the experiences of these societies tell us about how to build prosperity and peace in societies riven by ethnic divisions? In this article, I first discuss the existing cross-country evidence on the links between ethnic polarization, conflict, and lack of public investment and development, and how the feedback between these may engender the ethnic growth trap. I then discuss existing research and open areas which may help us to develop more nuanced and actionable policies on how to overcome the ethnic growth trap: emphasizing the need for a deeper understanding of the roots of ethnic divisions and mobilization, the strengthening of governance institutions and capacity, both formal and at the level of communities, and the understanding of individual level policies for mitigating polarization and conflict.

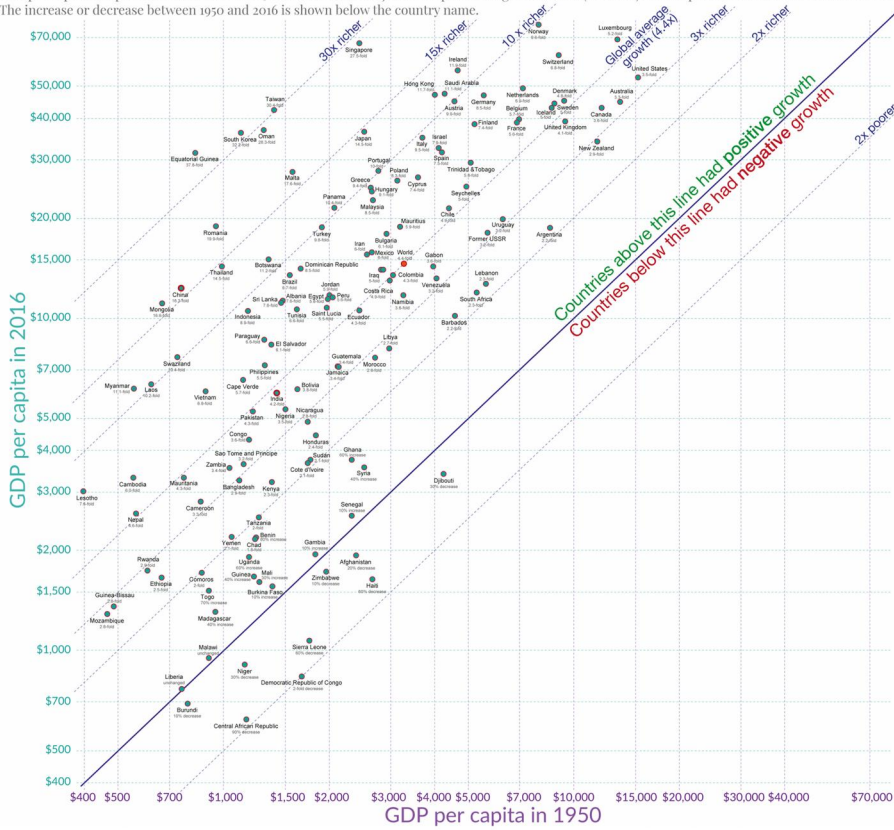
2. BROAD PATTERNS

The last fifty years have seen dramatic advances in technology, knowledge, and economic development around the world. Yet, the beneficiaries of these gains have been very uneven (Fig. 1a). While global GDP per capita rose 4.4 times between 1950 and 2016, and some states, particularly in Asia, have been successful at bringing many out of extreme poverty, elsewhere, mainly in Asia and sub-Saharan Africa, economic growth has languished. As Fig. 1a shows, a troublingly large set of countries have witnessed, not just a lost decade of economic growth, but lost half-centuries, being left behind even while other countries at the same level of GDP per capita in 1950 made huge strides, in some cases raising their GDP per person thirty-fold. The average citizens of a number of states—Afghanistan, Burundi, the Central African Republic, the Democratic Republic of Congo, Djibouti, Haiti, Niger, Sierra Leone, and Zimbabwe—are even considerably poorer than they were in 1950.

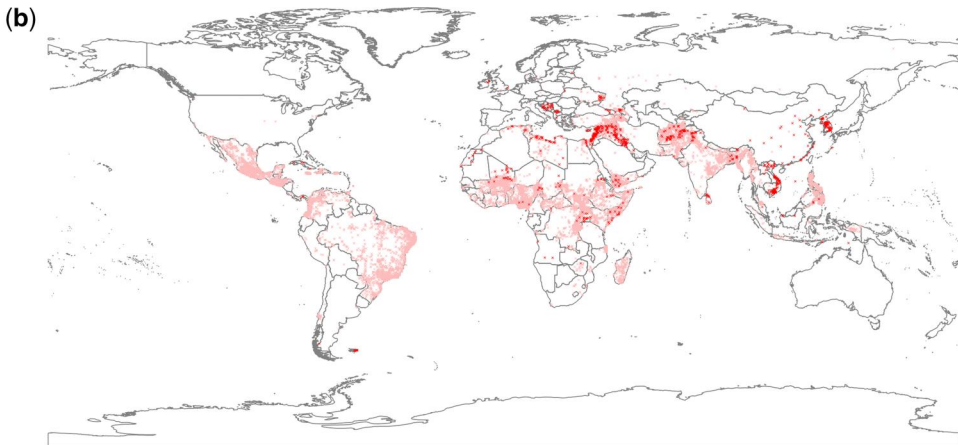
It is not coincidental that many of the countries that have failed to grow have undergone severe conflict in this period as well, often along ethnic lines (Fig. 1b). Such conflict remains all-too-common. Since the Second World War, two out of every five independent countries experienced at least one civil war that took at least a thousand lives (Fearon and Laitin 2014: 1). The total dead in all wars after 1945 is approaching ten million and all civil wars is approaching six million (Lacina and Gleditsch 2005; Pettersson 2021). de Groot, et al. (2022) estimate that global GDP in 2014 would have been, on average, 12% higher if there had been no violent conflict after 1970, corresponding to gross costs of conflict of \$12 Trillion and foregone gross benefits of \$2.3 Trillion. They attribute about three-quarters of those losses to civil conflict rather than wars between states.²

2 de Groot et al. use panel fixed effects regressions, estimating both direct effects on countries involved in conflict and spillovers to others as well. They are aware that conflict is not randomly assigned and thus their measures may be biased. However, they find it reassuring that their figures yield similar ballpark numbers to those employing synthetic controls and other estimation methods.

(a) GDP per capita is expressed in international-\$. This means it is adjusted for price changes over time (inflation) and for price differences between countries. The increase or decrease between 1950 and 2016 is shown below the country name.



GDP per capita in 1950 vs 2016



Major Battles and Other Conflicts, 1945-2020

Figure 1. Post-war economic growth, stagnation and violent conflict.

Sources: (top) Roser (2019), based upon the Maddison Project Database. (bottom) in dark red: contains major land battles with a definite location from Jha (2024). This combines Kitamura 2021, World Historical Battles Database, V.11, 2021, Jaques, Dictionary of Battles and Sieges 2007, Dincecco, et al. 2021—for India; 1815–1945: Brecke, Conflict Catalog 1999, Fenske and Kala 2017 for Africa; 2018–2020: all battles in the Armed Conflict Location and Event Data (ACLED) project (in light pink).

Though it is true that places that have experienced conflict in the past tend to be more likely to experience subsequent conflict (see, e.g., Besley and Reynal-Querol 2014; Fearon and Laitin 2014; Dinicco, Fenske, and Onorato 2019; Jha 2024), it is important to recall that history is not fate. In contrast to the pre-World War 2 era, major battles have been relatively rare in Europe and North America after World War 2 (with notable exceptions in the ethnically-divided former Yugoslavia and, more recently, Ukraine). In Latin America, too, large-scale battles have become relatively uncommon, replaced instead by extensive Cold War proxy insurgencies and later by drug-related violence (e.g., Dube and Vargas 2013; Dell 2015; Castillo and Kronick 2020; Jha 2024). Yet, Asia and Africa, in contrast, have continued to witness conflict both in old well-trodden faultlines and places that have hitherto been at peace.

Even within Asia and Africa, societies and states have shown remarkable diversity in their handling of ethnic divisions and past conflict. Relatively ethnically homogeneous states, like South Korea and Vietnam, despite having experienced extensive spells of bitter war since 1945, have both proven exceptional in their economic growth and have not faced a legacy of subsequent low-level civil violence. Still other ethnically-diverse states like Indonesia, and those of South Asia, the Middle East and sub-Saharan Africa, continue to experience repeated bursts of violence along ethnic fault-lines related to culture, language, race, religion, and caste. Yet, here too, there are exceptions. Japan, among the most politically fragmented in the world in 1868, with strong caste and clan identities, also ceased to experience waves of civil conflict, even while its caste divisions have almost disappeared over time (Jansen 2000; Jha 2012; Jha, Mitchener and Takashima 2025). As we describe below, part of this can be ascribed to the foresighted efforts by Japanese reformers to engineer financial opportunities for members of different former castes, including samurai warrior clans, to co-invest in local and national development, forging a financial revolution that also led Japan to subsequently lead the world in GDP growth (Jha, Mitchener, and Takashima 2025).

3. THE ETHNIC GROWTH TRAP

Could the lost half-centuries of economic development in some poor states, and the stagnant growth of others visible in Fig. 1 be related to their ethnic divisions? In particular, could there be an *ethnic growth trap*: i.e., do feedback loops exist in societies with ethnic divisions that reduce the returns on different types of investment such that poor, ethnically divided societies become more likely to remain persistently poor and ethnically divided? As with the important ongoing debate in development economics and among proponents and opponents of foreign aid with regard the presence or absence of *poverty traps* (see, e.g., Moyo 2009; Banerjee and Duflo 2011; Kraay and McKenzie 2014; Banerjee, et al. 2019), this question is crucial for determining what kinds of policies are likely to be helpful—rather than ineffectual or even harmful—in supporting development. For instance, if ethnically diverse countries or communities are poor because their citizens lack access to credit or physical capital, then a simple policy that



Figure 2. The ethnic trap.

provides such credit and capital should be highly effective. However, it could be that poor communities are poor because they are subject to the threat of violent expropriation whenever their members do invest or reap windfall gains. Then, an external agency providing expanded credit or capital might actually increase the incentives for violent expropriation and *exacerbate* conflict. Yet, while it may be tempting to conclude that development policymakers should therefore not intervene and do nothing, as is sometimes argued (e.g., [Moyo 2009](#)), what we need is instead a deeper appreciation of the mutual feedback through which poor ethnically-divided societies can remain poor, particularly taking into account these political-economic interactions, so we can tailor more nuanced and robust solutions to each specific context.

[Figure 2](#) summarizes the main channels that link ethnic divisions, conflict, and low public goods provision suggested by the existing literature, illustrating the potential mutual feedback that could engender an ethnic growth trap. As we discuss in more detail below, around the world, and particularly in sub-Saharan Africa, societies divided along ethnic lines are more prone to violent civil conflict ([Montalvo and Reynal-Querol 2005](#); [Blattman and Miguel 2010](#)).³ Ethnically-divided societies also provide fewer public goods to their citizens, and tend to be poorer and grow more slowly (see, e.g., [Alesina and La Ferrara 2005](#)).

3 In fact, in an influential overview, [Blattman and Miguel \(2010\)](#) note: “*Ethnic nationalism is popularly viewed as the leading source of group cohesion and inter-group conflict*” (italics theirs, see also [Jha 2023](#)).

Further, and crucially, all three of these channels are likely to show mutual feedback. Increased ethnic conflict not only is likely to directly destroy physical capital, but it also reduces the expected returns on both private and public investment towards productive ends and thus economic growth. Under-investment in public goods in particular reduces investment in dimensions with potential beneficial spillovers and increasing returns. Instead, societies in conflict are more likely to develop institutions and incentives for perpetuating such conflict and maintaining the salience of ethnicity rather than enhancing growth (Brass 2003; Esteban and Ray 2008; Jha 2013). Such patterns of mutual feedback make apparent the different ways an ethnic growth trap could emerge. As a focal example, poor societies facing pre-existing ethnic divisions may face increased potential for conflict and thus reduce investment in public goods and other productive dimensions that might pull societies out of poverty and ameliorate ethnic strife. So, absent careful intervention, poor, ethnically-divided societies may indeed remain poor and ethnically-divided.

Figure 2 also highlights two important nuances that can allow us to already make some progress towards better understanding the ethnic growth trap and what policies may help to break free of it. The first is that both conceptually and empirically, the form by which individuals are distributed into ethnic groups, and thus the manner by which we measure the extent of ethnic divisiveness in society, can matter very differently depending on the channel that we are most interested in and our conception of how it is affected by ethnicity. As we describe, the recent literature has focused mainly on two types of measures: fractionalization and polarization. The second is that there are a number of mechanisms through which ethnic divisions operate that may help sustain an ethnic growth trap—including differing preferences that ethnic groups may have for public goods, incentives for economic and political competition along ethnic lines, and differing organizational structures and incentives for mobilization along ethnic lines.

3.1. Measuring ethnic divisiveness

The first generation of research in the literature on ethnic divisions in economics focused on the ethno-linguistic fractionalization index (ELF).⁴ This has the intuitive interpretation as measuring the probability that two randomly chosen members of a population belong to different ethnic groups. Indeed, Alesina and La Ferrara (2005) show that, comparing countries in the same World Bank region and with the same initial levels of income and schooling, going from perfect homogeneity (an ELF of 0) to perfect heterogeneity (ELF of 1) correlates with lowered GDP per capita growth of 2 percentage points every year. Related to this, a robust literature has also shown that both across countries, and in cities and other jurisdictions in the US (Alesina, Baqir,

4 See, e.g., Easterly and Levine (1997). The ethno-linguistic fractionalization index is 1 minus the Hirschmann-Herfindahl Index of concentration. Formally it is: $1 - \sum_{i=1}^N s_{ij}^2$, where s_{ij} is the share of ethnic group i in country j .

and Easterly 1999), Africa, and Asia, public spending and public goods provision tends to be lower in ethnically fractionalized societies. For example, Alesina, Glaeser, and Sacerdote (2001) show that the share of government social spending and transfers in GDP falls in ethnically fractionalized communities, with ethnically-fractionalized countries also showing lower educational attainment, literacy and infrastructure quality (Alesina, et al. 2003) (see also Miguel and Gugerty (2005) comparing communities in Kenya, Banerjee and Somanathan (2007) and Chaudhary (2009) in India, and Artilés (2022) in Peru).

A common reason put forward for why such a negative relationship exists is that different ethnic groups are likely to also differ in their preferences over policies. That is, compared to a more homogeneous society, individuals from different ethnic groups may be more likely to disagree about public good priorities and thus be less supportive of funding them on average. Indeed, Ban, Jha, and Rao (2012) show that villages in South India with exogenously greater caste heterogeneity tend to have greater disagreement on public goods priorities, as does Guarnieri (2025) among culturally distant groups on the fringes of the Bantu migration in sub-Saharan Africa.⁵ Individuals in heterogeneous societies may also be less altruistic to members of other ethnic groups, and not internalize the gains to others as much as they would to members of their own group (e.g., Enke 2019). They may even perceive that public goods, rather than benefiting all, are zero-sum (see, e.g., Chinoy, et al. 2023).

Yet, despite these potential differences in policies, the shares of ethnicities that actually engage in violent civil conflict with other groups are small. Fearon and Laitin (1996) estimate that in thirty-six African countries between independence and 1979, there were twenty incidents of violence (or 0.03 incidents per country per year) between two subordinate ethno-linguistic groups. This implies a ratio of actual incidents of ethnic violence to all potential pairs of ethnic groups that could be in conflict in a country of 0.0005. However, while conflict between two subordinate ethnic groups tends to be rare, larger ethnic groups are more likely to try to contest control of the state. Fearon (2008) observes that of 709 minority ethnic groups around the world that exceed 1% of the population,⁶ at least 14.1% had engaged in “significant rebellion against the state on behalf of the group” between 1945 and 1998.⁷ These shares are higher in Asia (30%) and the Middle East and North Africa region (27.1%) than in sub-Saharan Africa (11.8%) or the Latin America and Caribbean region (6.1%) (Fearon 2008).

5 However, Desmet, Ortuño-Ortín, and Wacziarg (2017) use survey evidence to point out that there often can be large variation in preferences and cultural differences even within ethnic groups.

6 Fearon (2003) compiles a list of ethnic groups worldwide. Inclusion criteria include membership reckoned primarily by descent; members conscious of group membership; members holding distinguishing cultural features (e.g., language, religion); cultural features held to be valuable by the group; group having or remembering a “homeland”; a group sharing a collectively represented history; and the group being “stand alone” in the conceptual sense.

7 Similarly Fearon and Laitin (1996) find that there were 27 rebellions, 29 acts of irredentism and 52 civil wars in their sample of African countries, aimed at a government often controlled by one dominant ethnicity.

In a classic paper, [Fearon and Laitin \(2003\)](#) examine the determinants of the onset of civil wars between 1945 and 1999. They find that these wars are most common in poor, large, newly independent states with rugged terrain and access to natural resources. These patterns, they argue, are factors that likely proxy for low state capacity and which also allow for easier insurgency. Strikingly, and in contrast, they find that the extent to which countries are fractionalized, as measured by ELF, is *not* related to the probability of civil war, once one controls for income.

However, the incentives for mobilization for ethnic conflict may be different in a way not well-captured by indices of fractionalization. In a series of papers, [Esteban and Ray \(1994\)](#), [Esteban and Ray \(2011\)](#) and [Esteban, Mayoral, and Ray \(2012\)](#) take a useful axiomatic approach to this problem. They develop alternative sets of measures of *polarization* based upon all potential *antagonisms* that individuals in a society might have with one another. These polarization measures incorporate a set of three features. First, they argue that polarization should be higher the greater the distance or dissimilarity between groups, which they call *alienation*. Second, groups should be more cohesive and *identify* more with one another when they are more similar to one another. Third is that *size* should matter: individuals or small groups should not matter for conflict as much as larger, significantly sized groups.⁸ Thus, countries with many small ethnic groups, such as Tanzania, which score highly on the ELF measure, do not score as highly according to these polarization measures (see [Fig. 3](#)). Indeed, in related work, [Montalvo and Reynal-Querol \(2005\)](#) create a measure of ethnic polarization (henceforth RQ) that puts a strong weight on group identification and is maximized in countries with two similar sized ethnic groups.⁹ They find that their measure does correlate with ethnic conflict, even though ELF does not.

[Esteban and Ray \(2011\)](#) further consider the incentives for individuals from different groups to “invest” in conflict. They suggest that winning a battle to control the state gives the dominant ethnic group two types of benefits: control over public goods and pure redistribution of resources. Public goods may have different benefits for different groups, but no group can be completely excluded. This contrasts with other ‘spoils’ type resources that can simply be stolen by and shared within the ethnic group in charge.¹⁰

8 Formally, [Esteban and Ray \(1994\)](#) define total polarisation in society as the sum of all effective ‘antagonisms’. $P(\pi, y) = \sum_{i=1}^n \sum_{j=1}^n \pi_i \pi_j T(I(\pi_i), a(\delta(y_i, y_j)))$ where $I: \mathbb{R}_+ \rightarrow \mathbb{R}_+$: is *identification* $a: \mathbb{R}_+ \rightarrow \mathbb{R}_+$: is *alienation*; a function of the distance between individuals y, y' : $\delta(y, y') = \|y - y'\|$ and $T(I, a)$ is an “effective antagonism” that is increasing in identification, alienation. Thus polarisation is a Bergson-Samuelson type addition of everyone’s antagonisms. They show that the Polarisation measure P satisfies their features if and only if it has the form: $P(\pi, y) = K \sum_{i=1}^n \sum_{j=1}^n \pi_i^{1+\alpha} \pi_j |y_i - y_j|$ for some constants $K > 0$, $\alpha \in (0, \alpha^*]$, where $\alpha^* \sim 1.6$. The measure would be a Gini coefficient if, instead, $\alpha = 0$. The measure would be ELF if $\alpha = 0$, $\delta = 1 \forall i \neq j$, 0 otherwise, suggesting that ELF is important if alienation is large and identification does not matter.

9 Their measure, which puts a strong weight on group identification ($\alpha = 1$): is $RQ = \sum_{i=1}^m n_i^2 (1 - n_i)$, where n_i is the share in group i .

10 Formally: individual k in a group i (of m groups) chooses resources $r_i(k)$ to maximise: $\pi_i(k) = \sum_{j=1}^m p_j \lambda u_{ij} + p_i \frac{(1-\lambda)}{n_i} - c(r_i(k))$ where $n_i \equiv N_i/N$ (is the population share), λ is the *public* proportion of budget- the rest can be privately divided; u_{ij} : *public good utility* to member of group i if group j chooses

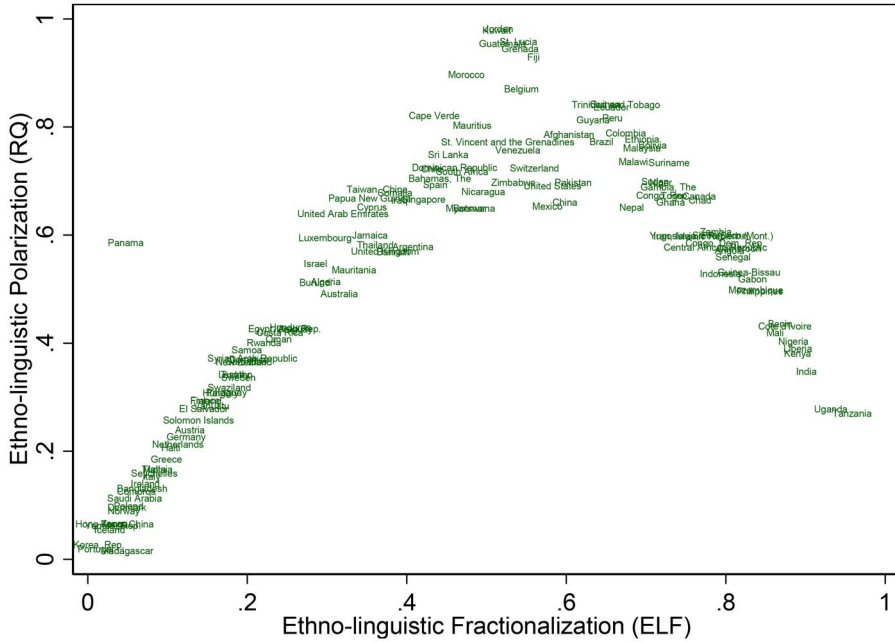


Figure 3. Ethnic fractionalization vs ethnic polarization.

Notes: Source: data from Montalvo and Reynal-Querol (2005).

Their framework yields a set of important and testable results. First, they show that when a country’s population is large, income inequality (as measured by the Gini coefficient) ceases to be a crucial driver of conflict, provided that groups have some sense of ethnic cohesion. Instead, the level of conflict will be determined by a convex combination of ethnic polarization and ethnic fractionalization. Further ethnic polarization should matter more when the state is mostly responsible for dealing out public goods, while ethnic fractionalization should matter more the more expropriable the resources of the state, and thus the more it can be privately seized and shared (Esteban and Ray 2011).¹¹

In important recent work, Guarnieri (2025) builds on this framework. She creates a measure of cultural distance between (politically active) ethnic groups and the central government, where the cultural distance is measured by how early languages split off



public good. $c(r_i(k))$: cost of contributing to conflict. $p_i = R_i/R$: probability that group i wins conflict based on share of resources expended, where $R_i \equiv \sum_{k \in i} r_i(k)$.

11 Specifically, they show that, if there is no deviation between a group’s win probabilities and its population shares, they can construct a linear relationship between a ‘proxy’ for conflict and other factors. The proxy \hat{p} for equilibrium per-capita conflict is determined by a combination of the Gini (G), Polarization (P) and ELF (F) measures as follows: $\hat{p}'(\hat{p}) = \omega_1 + \omega_2 G + \alpha[\lambda P + (1 - \lambda)F]$ where $\omega_1 = (1 - \lambda)(1 - \alpha)(m - 1)/N$, $\omega_2 = \lambda(1 - \alpha)/N$ and α is a measure of group ‘cohesion’, and the ‘distances’ used to calculate P and G are the public goods utility losses $\delta_{ij} = u_{ii} - u_{ij}$. Notice for N large, the Gini term disappears, and the conflict depends only on $\alpha[\lambda P + (1 - \lambda)F]$, and thus the ‘publicness’ of the prize λ .

each from other. She then exploits transitions of different ethnic groups into and out of political power in sub-Saharan Africa to show that as the cultural distance with incumbent governments increases, culturally distant ethnic groups are more likely to engage in civil conflict aimed at ‘power’—i.e., changing the direction of public policies, rather than expropriation. These effects occur immediately after a change in leadership and are large—a one standard deviation increase in cultural distance increases the prevalence of conflict over government power by 0.4 standard deviations (Guarnieri 2025). This appears consistent with the idea that cultural differences in preferences (i.e., what Esteban, Mayoral, and Ray (2012) call *alienation*) may be an important component of the ethnic growth trap.¹²

3.2. Mechanisms

These approaches are very useful and informative in providing clues into the proximate causes of ethnic conflict, and civil conflict more generally. However, they also raise some key questions. If ethnic divisions are so pernicious for economic development, why do ethnic groups choose to co-locate? To what extent are these driven by historical circumstances and to what extent by choice? Similarly, to what extent are differences in ethnic preferences forged by deep history, and to what extent are they malleable? Why do some ethnic groups become politically active? Under what conditions can ethnic divisions actually mitigate conflict instead of only yielding potential antagonisms? Which ethnic groups are better able to organize themselves and why? When and why do individuals choose to contribute to and fight for a nation or their ethnicity and caste instead of their class? Figure 2 highlights a set of mechanisms, beyond ethnic preferences, that can link ethnic divisions, conflict, public investments, and lack of economic growth into an ethnic growth trap. These include mechanisms operating both through *informal* and *formal* institutions.

As I describe below, it is important to understand the reasons why antagonisms emerge, and the incentives for inter-ethnic competition—as opposed to inter-ethnic complementarity—can exist. The role of organizations is also much less understood—including the incentives and structures in place that encourage *mobilization* along ethnic lines. Finally, formal institutions and state capacity are often seen as central in shaping different countries’ ability to respond to the challenges of maintaining ethnic cohesion.

It is to address these questions that much more research needs to be done. These questions also motivate three pillars of research that are particularly fruitful to focus upon: ((1) Diagnosis: Understanding the Roots of Ethnic Divisions and Mobilization, (2) Strengthening Formal Governance Institutions and State Capacity, and (3) Fostering

¹² Relatedly, Desmet, Ortuño-Ortín, and Ozak (2024) examine secessionist conflicts around the world. They estimate that removing ethnolinguistic identity differences reduces the average support for secession in populations from 10.1 per cent to 0.2 per cent, while removing income differences would have little effect on such conflicts.

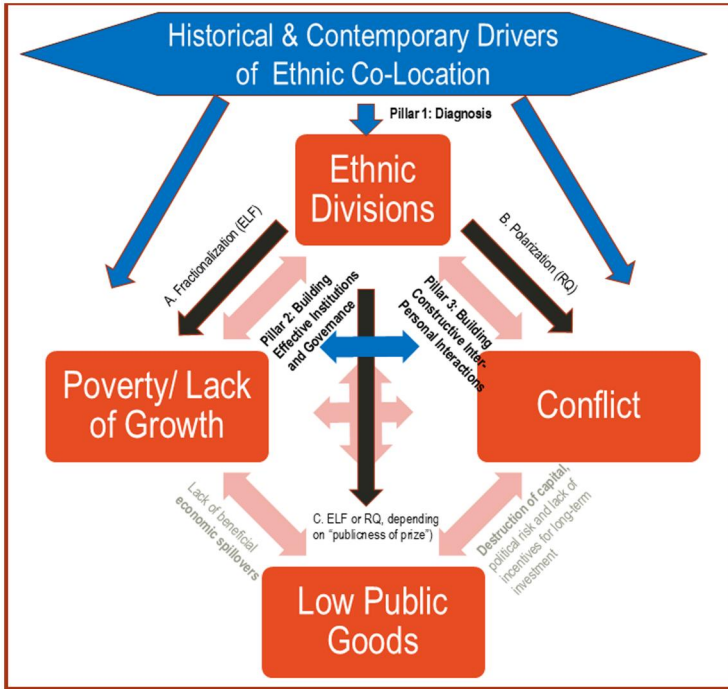


Figure 4. Pillars of research into breaking the ethnic growth trap.

Informal Institutions and Constructive Inter-Personal Contact for Mitigating Polarization and Conflict (see Fig. 4).¹³

4. DIAGNOSIS: THE ROOTS OF ETHNIC DIVISIONS AND ETHNIC MOBILIZATION

As we have seen, much of the literature on ethnic divisions focuses on competition between ethnic groups, either in the sphere of politics or on the field of battle, over control of resources or policies. However, ethnic groups may also complement one another, both in their economic endowments, leading to gains from trade, and politically as well (Jha 2013, 2018, 2024). Understanding the nature of realized and potential complementarities can be a crucial lever for policymakers seeking to promote ethnic cohesion and peace. Further, to understand how to address the economic and political challenges associated with diversity, including violent conflict, we need to diagnose why different societies have remained ethnically diverse, despite the potential costs of conflict and poverty that may exist. Different root causes of ethnic diversity—whether it be related to geographical conditions, incentives for trade, migration and identity formation,

13 Though important, to keep the discussion focused, we do not delve further into the non-ethnicity-related links between poverty and low investment in public goods, and between conflict and the underprovision of public goods.

historic legacies of colonization or more recent political incentives (see, e.g., Nunn 2008; Nunn and Wantchekon 2011; Fearon and Laitin 2014; Michalopoulos and Papaioannou 2016; Jha 2018)—can interact with modern policies aimed at development in very different ways, with some providing opportunities—such as those related to trade or common cross-cutting beliefs and norms—that can be leveraged even while others may yield legacies of distrust that may require different tools to manage. Here I provide a series of illustrative examples.

4.1. Political competition vs complementarity

One important source of ethnic divisions in the developing world is, of course, the legacy of colonialism. Michalopoulos and Papaioannou (2016) examine the effects of ethnic partitioning in Africa, due to the locally (somewhat) arbitrary borders determined by the Congress of Berlin in 1885 as part of the *Scramble for Africa*. They show that compared to non-partitioned ethnicities, those that were divided are more likely to experience political violence, military interventions from neighbouring countries as well as civil conflict and under-development.

Yet, these grim patterns are not uniform among such partitioned groups. Posner (2004) provides a very useful example of how the same pair of ethnic groups can assimilate culturally and have similar preferences in Zambia, but be highly polarized a few kilometers away, on the other side of (a fairly arbitrary) border with Malawi. Using a novel survey of members of the Chewa and Tumbukwa ethnic groups in paired villages on either side of the border, he shows that in villages on the Malawian side, respondents report being less likely to vote for a presidential candidate from the other ethnic group, less likely to marry a member of the other group, and to report that others would also be more against both these arrangements. In contrast, on the Zambian side of the border, members of these groups are more likely to say “*we are the same*” (Posner 2004: 534).

Posner interprets this result as being reflective of two reinforcing phenomena. The first is indeed related to ethnic polarization: Chewas and Tumbukwas are large ethnic groups in Malawi, representing 28% and 12% of the national population, and considerably smaller (7% and 4% respectively) in Zambia. Former Life-President of Malawi, Hastings Banda, was himself a Chewa. However, Posner argues that political competition in Malawi between the two groups is also likely a *reason* for the animosity between them. And further, in Zambia, the two groups have aligned and arguably *complementary* political interests, working together to draw government investment to their otherwise peripheral region, which has in turn led to greater cultural closeness and social interaction. Thus, rather than being entirely primordial, ethnic and cultural differences can be greatly shaped by the political incentives and context, and may even diminish over time.

The political malleability of ethnic identity and preferences is arguably a more general phenomenon. Languages, common or otherwise, can be learned and forgotten, or imparted to the next generation. Ethnic distinctions can be reified through segregation

or mitigated through interaction (e.g., [Bisin and Verdier 2001](#)). Thus treating ethnolinguistic distinctions between groups at any particular point of time as given, may miss key root causes and incentives that could alter the impact of policies. Among these, [Greif and Laitin \(2004\)](#) highlight the importance of relative *status* in important for driving conflictual ethnic identification versus assimilative processes. In Estonia, they argue that the relatively high status of Estonians led ethnic Russians to assimilate and learn Estonian, reducing inter-ethnic fractionalization. In Nigeria, in contrast, oil shocks that affect the relative wealth of various ethnic groups, in combination with the lower status of the Hausa ethnic group, led different ethnicities to reassert their ethnic distinctions.¹⁴

More research in this vein, which takes context seriously and traces out the political incentives for complementarity and competition and how they interact with ethnic preferences and local conditions, including status considerations, is essential for developing tailored policies for breaking out of ethnic growth trap.

4.2. Ethnic mobilization: cultural factors and external shocks

Even when such potential ethnic divisions exist, the question of which groups mobilize and develop organizational structures along ethnic lines that make them becoming politically and economically relevant remains less well-understood (see, e.g., [Jha and Wilkinson 2012](#); [Moscona, Nunn, and Robinson 2020](#); [Jha 2023](#); [Moscona and Seck 2024](#); [Jha and Wilkinson 2025](#)). Indeed, such organizational capacity may stem from deep cultural practices but can also emerge from recent shocks as well.

Organizational legacies may be sustained over long periods of history. For example, [Moscona, Nunn, and Robinson \(2020\)](#) compares the incidence of ethnic conflict among sub-Saharan African ethnic groups that are organized around *segmentary lineages* to nearby groups that are not.¹⁵ They find ethnic groups with segmentary lineages experience more civil conflicts between 1997 and 2014. Further, these conflicts tend to be longer in duration, larger in scale, and more likely to be influenced by fluctuations in rainfall. Similarly, ties within age-sets can provide a potent source of both cross-cutting cohesion ([Moscona and Seck 2024](#)) but also potential for conflict.¹⁶

Organizational capacities can emerge from more recent exogenous shocks, including war deployments and colonial practice, as well. [Jha and Wilkinson \(2012\)](#) study the shock to the capacity of different groups to organize in South Asia that came with the

14 See also [Shayo \(2020\)](#) for a general model of status and identity, and [Atkin et al. \(2021\)](#) who document how political events, including conflict, can affect cultural preferences, such as over taboo foods. Ethnic identification also appears to be heightened prior to elections ([Eifert, Miguel, and Posner 2010](#)).

15 They define segmentary lineages as satisfying all the following conditions: an *origin story*: recognized unilineal (male only or female only) descent system from common ancestor, an *decentralized hierarchy*: sub-units of an ethnic group that affect administrative functions and political positions, and *segregation*: lineages influence one's location of residence.

16 For example, a key aspect of the *itwika* ceremonies that initiated a particular age-set into leadership in some ethnic groups like the Maasai, was to be blooded through a successful raid.

Second World War, and how it impacted the ethnic cleansing that would occur during the Partition of South Asia.¹⁷

In the crisis environment of the Partition, the war that had just occurred had an important impact in shaping the ability of different groups to mobilize along ethnic lines. [Jha and Wilkinson \(2012\)](#) present a simple framework to understand the relationship between ethnic shares, organizational capacity, and the nature of ethnic cleansing in this environment. The framework suggests first that there will be less ethnic cleansing or co-ethnic immigration in two types of districts: those with very small minorities and those with unorganized majorities. In the former case, the minority poses little political threat, and gains to the majority from immigration or cleansing in terms of securing future political control or personal spoils are low. Larger minority groups make for more attractive targets of violence, and particularly when they face organized majorities, the chances of widespread ethnic cleansing rise commensurately.

However, the framework suggests that even if the majority is organized, relatively large but organized minority groups may escape violent ethnic cleansing. These groups can not only deter violence through organization, they can also mobilize and move in its anticipation. Facing greater costs of violence in such cases, majorities might be more likely to foster co-ethnic immigration than engage in ethnic cleansing. The tragic bottom-line prediction of the framework is that the worst environment for violent ethnic cleansing is those where *organized majorities encounter large but unorganized minorities*.

It turns out that British recruitment and deployment practices made this setting all-too-common during the Partition of South Asia. [Jha and Wilkinson \(2012\)](#) exploit a shock to the organizational capacity of different groups due to the Second World War. Though recruited from specific caste groups in different districts, the battalions of India's line infantry were, by design, trained and equipped to be interchangeable when assigned to combat. Each additional month of average combat experience of troops increased both the ethnic cleansing of targeted minorities (by around 17,000 people per district) and the fostering of co-ethnic immigration (by around 8,150 people per district). Further, both of these effects increase with the pre-war initial minority share, and when members of the religious majority received the combat experience. In contrast, districts where the minority received combat experience witnessed less ethnic cleansing and fewer Partition-related deaths.¹⁸

17 Undivided India mobilized 2.5 million troops, the largest volunteer army in world history, and 3% of its adult male population. Its 268 infantry battalions would serve in fronts as diverse as the jungles of Burma, the deserts of north Africa and the mountains of Italy. Indian veterans would return home to a subcontinent on the brink of Independence and the prospect of Partition. One of the greatest forced migrations in world history, it saw the displacement of close to 14.5 million individuals. 3.4 million individuals went 'missing' - unaccounted for in the 1951 censuses due to death or religious conversion ([Bharadwaj, Khwaja, and Mian 2008](#)).

18 Importantly, the organizational capacity derived from war also had different effects in districts with a history of inter-ethnic complementarity as well. Districts with medieval ports not only witnessed significantly less ethnic cleansing during the Partition, those that received a positive shock to organizational capacity from the war were even more likely to retain their vulnerable minority populations.

Similarly, Fearon and Laitin (2014) examine whether “contemporary armed conflict has deep historical roots”. They compare the incidence of conflicts in countries after World War 2 to the nature of conflicts in the nineteenth and early twentieth centuries. Fearon and Laitin note that within regions, specifically Asia, the Middle East and Africa, groups that were mobilized to fight the colonial powers were more likely to fight against other groups after independence. Given that the British transplanted their martial race theories of recruitment to their African colonies as well, the organizational legacies of war visible in South Asia may have played an important role in shaping patterns of violence among Africa’s independent states as well. In a related vein, Besley and Reynal-Querol (2014) examine if conflicts in Africa between 1400 and 1700 are predictive of post-Independence conflict at the country and 120 km² grid cell level. They find that there is indeed persistence.¹⁹

A mapping of the organizational potential of different ethnic groups, based upon both cultural factors and recent shocks is long-overdue and would be very helpful for assessing the danger of future ethnic conflicts. Figure 5 takes a first step towards this in the African context, mapping the homelands of ethnic groups, considered *martial races* and mobilized by the British in World War 2, groups with segmentary lineages, and colonial era battles and post-colonial conflict in both West Africa (from which the British raised the West African Frontier Force) and East Africa (from which the British mobilized the King’s African Rifles). These units (and their system of military ethnic preferences) were later inherited by the successor states. Though work remains to be done to establish this conclusively, the maps are suggestive that, along with segmentary lineages, conflict does indeed cluster at the boundaries of the ethnic homelands of those that received the shock of British wartime military mobilization as well.²⁰

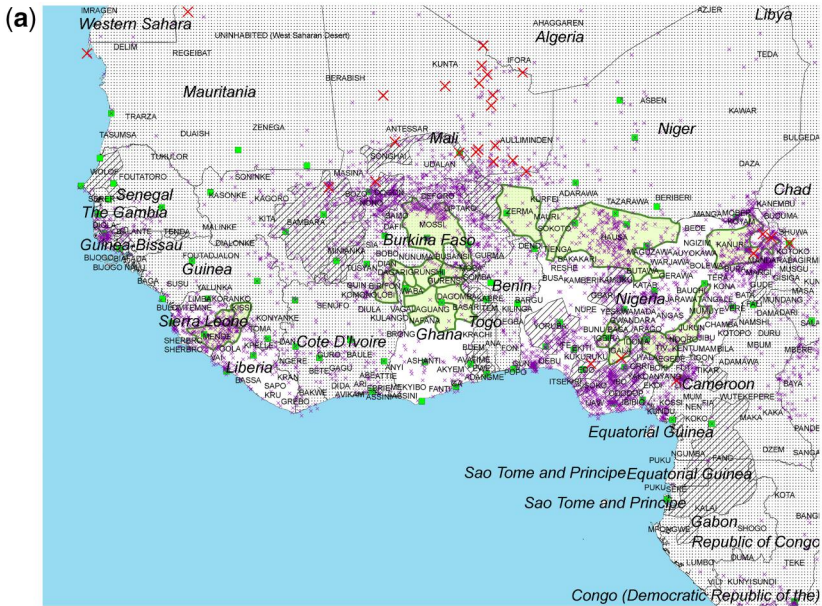
More broadly, the bottom line here is that for understanding the ethnic growth trap, we need to be aware, not just of existence of ethnic divisions, but also to what extent groups have existing or potential capacity for mobilizing along particular ethnic lines. This is arguably crucial for understanding the contingencies under which different policies aimed at peacebuilding or economic development may succeed or fail. Further, as I illustrate in the case of the Ismaili community in East Africa below, such ethnic organizational capacity can both be a source of potential violent escalation, but can also be exploited to mobilize community resources *towards* local public goods provision, development, and peace.

Understanding the root causes of ethnic divisions and ethnic mobilization in different environments can be crucial for understanding the scope conditions under which

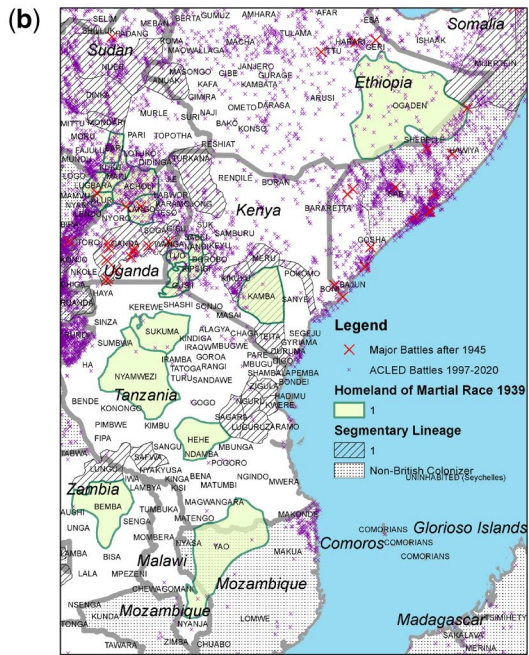
Despite the great blood-lettings experienced by mixed populations in many districts of South Asia during the Partition, these medieval port towns, the focus of institutions of tolerance born from centuries of inter-ethnic complementarities, remained oases of peace.

19 Though at the country level it is driven by two extreme outliers- Angola and Ethiopia). See also Dincecco, Fenske, and Onorato (2019) and Jha and Wilkinson (2025).

20 The French in contrast tended to favor universal mobilization.



West Africa



East Africa

Figure 5. Martial races, segmentary lineages and conflict in Africa.

Sources: Jha and Wilkinson (2025), Brooks (2019), Moscona, Nunn, and Robinson (2020), Kitamura (2021), Jha (2024) and ACLED

certain policies will be successful in different contexts and for developing new policy ideas. But given these root causes for ethnic divisions, what policies can be most effective at supporting development and mitigating conflict in specific contexts? The next two pillars of the theme focus on two particular domains through which this can occur—through informal institutions and through formal governance.

5. INFORMAL INSTITUTIONS AND CONSTRUCTIVE PERSON-TO-PERSON POLICIES FOR MITIGATING POLARIZATION AND CONFLICT

A large literature in social psychology and increasingly in economics and political science, has considered the role of *contact* between members of different ethnic groups in potentially reducing biased impressions, building trust and thereby reducing conflict. For example, [Mousa \(2020\)](#) experimentally encouraged the formation of mixed teams of Christians and Muslims in post-ISIS Mosul, Iraq. She finds that those on the mixed teams were more likely to be willing to play alongside (successful) players of the other religion, but there was no change in behaviors and interactions off the field.²¹ [Okunogbe \(2024\)](#) examines the effects of national policy in Nigeria which led some participants to serve in ethnic regions outside their own. She finds that seven years later, the participants assigned externally are five times more likely to live elsewhere in the country, to express national pride and to report more inter-ethnic romantic relationships.²² However, there is also a strengthening of local ethnic identities as well, and more favorable attitudes to co-ethnics. [Weiss \(2021\)](#) examines a hospital setting in Israel where incoming Israeli patients happened to be assigned to Arab care providers. He finds that this exposure reduces prejudice towards Arabs more generally.

Overall, the evidence, however, remains mixed and often specific to the domain of the contact itself ([Paluck, Green, and Green 2019](#)). More research needs to be done into the intensity of the treatments needed and what is required to have such interventions lead to empathy and a reduction of ethnic divisions beyond specific domains, what is needed for scale and for durable effects.²³

21 See also [Lowe \(2021\)](#) who created mixed caste cricket teams in India

22 This seems to jibe with the increased empathy for disadvantaged citizens found by [Mo and Conn \(2018\)](#) in the United States. They compare those who were just above the threshold for acceptance to the Teach for America program in the United States to those who just missed that threshold.

23 There is already some evidence that these types of exposures can have effects at grand scale. For example, the Ujamaa policies implemented by Julius Nyerere between the big push of 1973 until 1982 were a far-ranging set of policies that included first voluntary, and later forced resettlement, attempted collectivization of agriculture, education reforms as well as industrial policy. [Carlitz et al. \(2024\)](#) compares Afrobarometer responses related to national vs ethnic identity for 862 individuals within 54 ‘high villagization’ Tanzanian districts born between 1948-1959, before the ‘villagization’ and political education programs introduced by *Mwalimu* (teacher) Julius Nyerere in 1970 to those that were born between 1960-1971 and thus, were exposed to the program (the program was introduced in 4th grade (and was stopped in 1982 due to backlash and program failures)), or those that lived in low ‘villagization’ districts. They find that those more exposed report being more willing to report a preference for a national identity in the 2005 and 2008 Afrobarometer surveys. [Schindler](#)

5.1. Economic competition vs complementarity and investments in informal institutions

While contact approaches may change individual attitudes, much less is known about how durable these will be over long time horizons, as means to build long-term peace, absent further investments. Further a key element of understanding the role of ethnicity is that ethnicity is not just a label or category that leads to antagonism but, for different groups, one's ethnicity has often been associated with particular economic and social endowments and opportunities. Historically, economic specialization by ethnic groups has been common in many societies, with some forming endogamous units within which to transmit skills or endowments. This is often true of immigrant groups that bring economic and cultural links with their home regions and countries that can complement local communities (e.g., [Rauch 2001](#); [Rauch and Casella 2002](#); [Ottaviano and Peri 2005](#); [Posch et al. forthcoming](#)).

However, even in societies where immigration is limited, vocational opportunities and choices often shape and are shaped by group identities. These traditional links between ethnic identity and economic endowments create the possibility for more enduring *inter-ethnic economic complementarity*—the possibility of gains from exchange between ethnic groups—that can weaken the incentives for conflict. However, it also generates another possible reason for ethnic conflict beyond the political ones already mentioned that can also make close contact counter-productive as means of mitigating conflict—economic competition.

Between nations, comparative advantages are often assumed, (see, e.g., [Polachek and Seiglie 2007](#)), and the extent to which trade mitigates the incentives for war between two countries is shaped by how easily the bilateral trading relationship between the two can be substituted for by others ([Martin, Mayer, and Thoenig 2008](#)). However, within countries, when individuals are geographically proximate and thus share many endowments, sustaining inter-group trade is often even more fragile. Particularly over long time horizons, individuals may face incentives to violently seize or, over long time periods, replicate one another's production processes. This fragility of the gains from trade is accentuated when members of one group are more *vulnerable* in the sense that they are less capable of organizing violence. Under what conditions then can market exchange support peaceful coexistence and prosperity for vulnerable groups over time?

[Jha \(2018\)](#) proposes a simple framework for understanding these conditions. He considers an environment where individuals from two groups occupy a specific location.²⁴ Members of these groups differ along two dimensions: their *vulnerability* (their capacity to

and [Westcott \(2020\)](#) find that places in the UK that happened to receive more African American soldiers in World War 2 are less likely to vote for far-right parties and residents show less prejudice towards Blacks. [Grosjean, et al. \(2025\)](#) show that within the high stakes environment of World War 1, urban and rural soldiers assigned to the same regiment converged in the political attitudes and voting behavior, with messaging related to redistribution being particularly effective.

24 See also [Jha \(2007, 2013, 2024\)](#) and [Diaz-Cayeros, Espinosa-Balbuena, and Jha \(2022\)](#).

organize violence) and their *mobility* (the quality of their outside options if they choose leave). For example, indigenous groups, with their knowledge, skills and networks concentrated locally, may find leaving a location more costly than for immigrant groups, who may have retained endowments and ties elsewhere. Every period, individuals from these groups can choose to leave. If they stay, they can choose to produce a good and to target another with violence to seize their profits. In the case of vulnerable immigrant groups, Jha shows that over long time horizons, a *peaceful co-existence equilibrium*—a subgame perfect equilibrium with mixed populations, no agent having an incentive to leave, full production and no violence—*exists if and only if* locals and non-locals engage in economic activities that are weak complements, and for small populations, if and only if they engage in activities that are strong complements.

If not, and instead the groups are in economic competition with one another, then over long time horizons, the strong will have an incentive to engage in violence against the vulnerable, not just to expropriate them, but also to induce them to leave, thereby reducing the future economic competition they face. In fact, for a strong local, for whom violence is cheap, a member of an immigrant group that competes economically will be a preferred target of violence relative to similarly weak individuals that compete from one's own ethnic group, precisely because the better outside options make immigrants easier to induce to leave. Thus there is likely to be not just expropriative violence but *ethnic* violence.²⁵

Over long horizons, in particular, the source of complementarity for vulnerable group members has to be robust in the sense of being costly to expropriate or replicate, otherwise, others will have incentives to do just that. Such robust complementarities often exist for middlemen minorities, whose complementarity stems from access to external trading networks. Trading networks are intangible, thus impossible to expropriate, and when the networks are large, become difficult to replicate. Further, not only may there be incentives for reduced violence, there will also be incentives to invest in further complementary 'institutions' that may further reduce these incentives. These institutions may involve business, religious, and philanthropic organizations that facilitate coordination and transfers within and between groups, or cultural norms and beliefs supporting trust, trustworthiness, and continued complementarity in new areas. These can survive

25 In the United States, for example, patterns of economic competition by different ethnic groups has been linked to race riots (e.g., Olzak 1992; Christian 2017). Esteban and Ray (2008) provide an alternative but potentially complementary argument for why ethnic conflict is often salient over class conflict: there is complementarity between wealth and numbers in organizing violence. Rich members of an ethnic majority then prefer to invest resources to mobilize poor members of their community against minority members than face the alternative of redistributive class conflict. Relatedly, Glaeser (2005) presents a model where pro-redistribution politicians may send messages inciting hatred against ethnic minorities when the minorities are relatively rich, while anti-redistribution politicians may do the same when the minorities are relatively poor. More generally, given these incentives, media, particularly the radio but more recently social media as well, has proven effective at coordinating and mobilizing violence and ethnic hatreds (e.g., Adena, et al. 2015; Yanagizawa-Drott 2014; Müller and Schwarz 2020; Wang 2021).

even if the initial complementary inter-ethnic relationships have been undermined over time.

But beyond this, over long time horizons, vulnerable group members need to be able to credibly threaten to withhold their complementary production in order to deter coercion of production or expropriative violence. For less mobile vulnerable indigenous groups occupying valuable economic niches, this has often proved difficult. And too often in Latin America, the Caribbean and sub-Saharan Africa, new access to trade has led to violence and forced labour instead (e.g., Numm 2008; Dell 2010; Bobonis and Morrow 2014; Diaz-Cayeros, Espinosa-Balbuena, and Jha 2022). In contrast, vulnerable outsider groups, such as trading minorities, tend to be relatively mobile. By being so, they can also often credibly threaten to leave.²⁶ A useful example of this is Muslim trading communities in the Indian Ocean region. Though a vulnerable minority group in many settings, these traders provided access to non-Muslims to markets across the Middle East, particularly those coordinated by Muslim pilgrimage routes, such as the Hajj. They could also credibly threaten to leave any specific port for others, cutting off its trade, should they be targeted with violence (Jha 2013, 2018). Both locals and traders faced incentives to develop further organizations and norms that would reinforce trust and trade between groups. Jha (2013) documents how these organizations and norms of tolerance have persisted into the modern period, making these towns “*oases of peace*” and mitigating inter-ethnic conflict to this day.²⁷

Africa has been a focus of much of the literature on ethnic conflict. But here too, there appears to be evidence that inter-ethnic complementarities and their legacies may play a role in mitigating local violence. Montalvo and Reynal-Querol (2021) examine

26 Jha 2018 describes how, when their outside options are good, such as occurs with falls in barriers to immigration elsewhere, vulnerable outsiders that enjoyed robust complementarities, such as trading minorities in Indian Ocean ports, Europe and elsewhere, have been able to deter acquisitive dictators and others by threatening to leave and deny future trade. However, when the costs of leaving were high, these communities were more likely to see waves of pogroms instead. See also Diaz-Cayeros, Espinosa-Balbuena, and Jha (2022).

27 In South Asia, Jha (2013) shows former medieval trading ports that were the locuses of such inter-ethnic complementarity experienced five times fewer Hindu-Muslim riots between 1850-1950. They were also less likely to experience ethnic cleansing of their Muslim populations during the Partition (Jha and Wilkinson, 2012) and continued to show less violence after Indian independence as well, including during the Gujarat riots in 2002 (Jha, 2013, 2014). For cases of ethnic complementarities mitigating violence and competition enhancing it in Europe see also Johnson, Koyama, and Jedwab (2017), Voigtländer and Voth (2012) and Becker and Pascali (2019) on Jewish communities in Germany, and Grosfeld, Sakalli, and Zhuravskaya (2019) in the Pale of Settlement. Benbassa and Rodrigue (2000) point to the complementarity between the Sephardic Jewish migrants to Ottoman Salonica as a reason that it remained the most tolerant place for Jews for centuries. See also Mazower (2005) and Jha (2018). In Latin America, Diaz-Cayeros, Espinosa-Balbuena, and Jha (2022) use a rich set of primary sources, including Aztec tribute rolls and early 16th century censuses, to reconstruct the fate of 1,093 indigenous settlements (*altepeme*) that existed in the historic core of Mexico. They show that the extent of the complementarity and non-replicability of goods produced by indigenous communities at the time of the Spanish Conquest of the Americas can explain which communities were more likely to survive the subsequent coercive violence and pandemics that led the average population to fall by 95% between 1548 and 1646.

the relationship between economic growth (as measured by changes in nightlight luminosity) and ethnic fractionalization when one varies the size of the grid-cells at which these are calculated. They find a positive relationship between growth in nightlight intensity since 2013 and fractionalization for grid cells that extend up to 1.5° . The positive relationship between the two for small grid cell sizes is remarkably robust, and appears to correlate strongly with the presence of markets for trade at the intersection of ethnic homeland boundaries. However, the beneficial effects of fractionalization diminishes, and disappears, as the cell sizes get large. The paper argues that these patterns reflect the presence of the enhanced growth potential generated by local ethnic specialization and inter-ethnic complementary exchange at interfaces between ethnic groups. This potential upside of diversity becomes less pronounced over large geographical space, where other factors may have offsetting effects.²⁸ McGuirk and Nunn (2024) find that previous inter-ethnic complementarities can break down with climate change. Pastoral groups in sub-Saharan Africa would previously arrive on agricultural lands after harvest, providing valuable services by feeding on stubble and providing manure. However, climate shocks have led them to arrive prior to harvest, breaking these complementarities and leading to increased conflict.

5.2. Harnessing complementarities for peacebuilding

A useful concrete example of inter-ethnic complementarity in Africa, that also provides valuable leads for future research, is provided by Penrad (2000), who studies the Ismaili community. Though a commercially oriented community originally from the Middle East, the Ismailis, a Shia Muslim group with the Aga Khan as its Imam, had over time become predominantly South Asian in their ethnic makeup. Consistent with the theory above, Penrad describes the trajectory of three Ismaili traders, Taria Topan, Sewa Haji Paroo and Allidina Visram, as they developed business enterprises and emerged to prominence in East Africa. They each focused on areas of inter-ethnic complementarity—including both previously unavailable *services*—mainly credit, changing their *dukas*

28 Relatedly, Rustagi (2024) uses a natural experiment on market location and emergence in Ethiopia, comparing individuals from the same clan who attend the same market, but vary in the distance between their settlement and the market. He argues that the asymmetric information at the heart of the livestock trade drives the direction of the response to market exposure, that is resolved by the emergence of civic values and rules to facilitate gains from trade. To shed light on this mechanism, he relies on vignette studies providing hypothetical questions about cheating in local livestock exchange, as well as a falsification test using distance from two alternative markets where products of verifiable quality are exchanged (and thus asymmetric information concerns are more muted), proximity to which does not yield effects. He concludes that in the presence of asymmetric information and absence of third-party verification due to weak state capacity, market exposure leads to the emergence of civic values and rules to mitigate or overcome the cooperation problem these features otherwise imply. On the broader effects of market access more generally, specifically in Africa, see Jedwab, Kerby, and Moradi (2017), Jedwab and Moradi (2016) and specifically its cultural effects, including diffusion of religion (Michalopoulos, Naghavi, and Prarolo 2018) and the development of ethnic identities and social hierarchies, see Athey, Calvano, and Jha (2021).

[stores] into banking enterprises (Penrad 2000, 224–228), and exploiting their overseas networks to source *goods*—“*new commercial products*”—such as sesame, wax, peanuts, cotton, and other items “*so far absent from the market* (Penrad 2000: 229).”

Also consistent with the theory above, an important distinguishing feature of not only these traders, as individuals, but also the Ismaili community as an organized group, is their emphasis on philanthropy and maintaining inter-ethnic complementarity. For example, as early as 1860, Taria Topan, who emerged as the *mukhi* (treasurer) of the Ismaili community of Zanzibar, founded Zanzibar’s first hospital. This tradition has continued ever since in the region. As Penrad writes how a common feature of the traders in his study is “*how much they contributed to education and welfare. In fact, each participated according to his means, not only for the development of the community, but also for the creation of harmonious relations with other social groups of the African national identities. A number of associations were created to coordinate and control religious and socio-cultural interventions at all levels of social life. The creation and management of schools, hospitals and libraries were henceforth in conformity with a policy defined by the Ismaili authorities ...* (Penrad 2000: 234)” Indeed, through its various arms, including those led from the top of the community organization, like the Aga Khan Development Network and the Aga Khan Foundation, to the work of local *jamaats* (communities), the Ismaili community has become well-known in the region for its role in local development. Though more research needs to precisely quantify the effects, such local philanthropy likely falls into the category of enlightened self-interest as well, as it allows the sharing of the gains from trade, provides enduring points of complementary contact in new spheres, as well as increasing the local gains from peace and reduced political risks over expropriative violence. In this way, ethnic divisions are *contributing* to public goods provision, rather than hindering it.

Another domain in which the Ismaili community in East Africa provides a useful example that is crying out for more rigorous research is the creation of a business incubator that explicitly seeks to match Ismailis and non-Ismailis in new complementary business activities: the *Industrial Promotion Services*. As (Penrad 2000: 235) describes: “*this society, founded in 1963, with headquarters in Nairobi, set up a research department which analysed the feasibility of certain industrial projects and proposed financial arrangements with investors that it planned on bringing together while encouraging their association with non-Ismaili partners. Its role in the development programmes of countries where Ismailis resided was far from negligible. Over one hundred enterprises were thus created in sectors of activity as varied as construction materials, textiles, mines and tourism.*” (see also Jha (2018) who describes how the *Business Alternatives for Peace and Reconciliation* (BAPAR) initiative in South Asia also incorporated explicit incubation of inter-ethnic complementarity to reduce conflict in tribal Northeast India, home to the longest running insurgencies in the world).

On the policy side, such inter-ethnic business incubators seem like a highly promising approach to leveraging ethnic diversity to break out of the ethnic growth trap. On the research side, a rigorous evaluation of the effectiveness of these and similar business

incubators, that are cognizant of the political economic challenges in ethnically divided societies, seems like a very valuable next step in this literature as well.²⁹

6. STRENGTHENING GOVERNANCE INSTITUTIONS AND CAPACITY

To break out of the ethnic growth trap, we also need to study institutions that can best accommodate and even leverage ethnic divisions. Ethnically diverse societies face unique challenges and opportunities that make them different than their homogeneous counterparts when it comes to governance institutions. As mentioned above, public goods provision may suffer if members of one group do not internalize the gains of others (Alesina, Glaeser, and Sacerdote 2001). Power-sharing and federalism may be effective at reducing secessionist civil conflict in certain settings while enhancing it in others (e.g., Francois, Rainer, and Trebbi 2015; Mueller and Rohner 2018; Rohner and Zhuravskaya 2023). Both centralized and decentralized governance structures may also become captured by particular groups depending on their demographics (see, e.g., Mansuri and Rao 2012).³⁰ More research is needed to understand how and when this can occur.

One key challenge of governance unique to ethnically divided societies is that of *ethnic cronyism*. In many communities that lack the strong internal organizational structures of the Ismaili community, members of politically vulnerable ethnic middlemen minorities, instead of investing in local philanthropy and joint business ventures, often have incentives to *buy protection* from those in power, fostering corruption and undermining democratic accountability (Jha 2018). Indeed, in sharp contrast to the Ismaili community, other South Asians in East and South Africa, have, for example, been implicated in prominent *apex corruption* scandals, involving the highest level leaders, such as Kenyan President Daniel Arap Moi, and South African President, Jacob Zuma, to name just two.

Rivera, Seira, and Jha (2025) show using a randomized control trial, that such apex corruption scandals not only reduce voter turnout and support for democracy in favor of authoritarianism, they also can lead to the propagation of norms of stealing and theft more generally.³¹ The results of Rivera, Seira, and Jha (2025) also however point to the possibility of *apex honesty*—that focal examples of leaders exemplifying sacrifice and honest dealings could potentially coordinate societies on new equilibria that *reduce* the overall levels of corruption that individuals believe are acceptable. More research needs to

29 One exciting initiative that has this flavor has been proposed by Altindag, et al. (2025), who propose to create a matchmaking service between Syrian refugees and Turkish firms in Gaziantep, Turkey.

30 Interestingly, ethnic groups in power do not always favor their own in all state policy dimensions. Kasara (2007) shows that the co-ethnics of state leaders sometimes face *higher* tax rates in some dimensions, as they are core supporters and thus less likely to change their vote in response to such tax policies.

31 On the contagion of local corruption in Mexico and Italy, see also Ajzenman (2021) and Gulino and Masera (2023).

be done in this domain as well, particularly in the context of societies riven by ethnic divisions.

6.1. Harnessing finance to build states and break out of ethnic growth trap: Japan

One potentially very promising and still under-studied area is to understand how *financial innovations* can simultaneously mitigate ethnic conflict and stimulate development. One of the core elements of finance is to provide means to credibly share in mutual gains and in risks; in fact, one basic principle of finance is that because of the incentives to diversify in order to hedge idiosyncratic risk, in principle, all citizens should hold the market portfolio of risky assets if it is costless to do so. This naturally, should mitigate political conflict, as it aligns individual incentives with one another and against the economic costs and the political risks associated with conflict (Jha 2012).

A natural first order concern with this approach is that, it is of course, not costless, in many settings to invest. However, in many developing countries, financial technologies (i.e., *fintech*) are making extremely rapid advances, dramatically reducing the costs of building broader access to investments and *democratizing finance* (see, e.g., da Costa 2024). A second concern particularly germane for the ethnic growth trap is that markets are incomplete for “ethnicity” and human capital—we cannot of course “sell” ethnicity or caste, so one may be concerned about whether it is truly possible to insure such risks. However, both historically, and in contemporary settings, it has proven possible to use novel financial exposures to *share in the risks associated with an individual’s ethnicity* (Jha 2012).

A key motivating example for this is provided by Jha, Mitchener and Takashima (2025) who analyze how Japan was able to overcome political and caste fractionalization, breaking out of the ethnic growth trap within a single generation, despite two key ingredients that, as we have seen, might have otherwise presaged failure: strong ethnic divisions and strong existing mobilization capacity along ethnic lines. Why was Japan the first non-European state/off-shoot to industrialize? In the mid-nineteenth century, this prospect looked remote indeed. Attempts by the United States and colonial powers to *open Japan* beginning in 1853 precipitated a large-scale civil war in Japan in 1867–68 that led to the fall of the Tokugawa Shogunate. Japan at the time was highly politically fractured into a set of feudal domains that commanded strong clan loyalties and often high degrees of autonomy. Though fought to ‘expel the foreigners’ and “restore” the rule of the Meiji emperor, the Boshin War was largely an inter-clan conflict between Tokugawa feudatories in the northeast and an alliance of domainal clans, mainly from the Southwest. It was unclear whether the Meiji restoration would simply replace the Tokugawa-led shogunate with a shogunate led by the victorious Satsuma and Choshu clans, or whether Japan would once again disintegrate into further civil conflict (Jansen 2000). Japan was not only politically fractured, it also had arguably a more strongly entrenched hierarchical caste system than that of India. At the bottom of the hierarchy, ritually unclean professions were the exclusive domain of an untouchable caste. At the top

of the hierarchy were the clans of samurai, a warrior caste whose members had ruled Japan for over seven hundred years. As of 1872, samurai numbered 1.94 million (426,473 households), or about 5–6 per cent of the total population. Samurai enjoyed special privileges, including a monopoly over administration and military professions, and were legally and custom-bound not to accept other professions or to inter-marry with commoners (*heimin*) (Jansen 2000).

Having returned from victorious action in the Boshin War, many samurai expected to be rewarded. Instead, reformers in the Meiji government took a series of steps to abolish both the feudal domains to which the samurai owed their traditional allegiance and traditional stipends of rice (*koku*), as well as the social and economic privileges of the samurai as a caste. In 1873, the government announced general conscription, abolishing the exclusive rights of the samurai to participate in the armed forces, and leaving large numbers of samurai retainers unemployed. At the same time as they removed this monopoly over violence, the government was imposing other very visceral changes to undermine the unique identity of the samurai caste. The Danpatsurei edict of 1871 led the samurai to lose their distinctive warrior hairstyle—the topknot—while the Haitorei edict of March 1876 banned them from wearing the traditional two swords that denoted their samurai status. Perhaps it is not surprising that soon afterwards, former samurai began a series of armed rebellions against the state. The largest of these, the Satsuma Rebellion of 1877–78, attained the scale of a civil war, absorbing ¥42 million, or 80% of the government's budget. The Rebellion required 68,000 government troops to be mobilized and led to the loss of life of 20,000 ex-samurai and 6,000 government soldiers (Vlastos 1989).

Yet, despite the presence of a caste of elite and militarized potential losers and despite its strong regional cleavages, Japan did not disintegrate. Instead, as the historian Marius Jansen (2000: 335) concludes: “*Japan, which began the Meiji period as one of the modern world's most fractured polities, emerged within a generation as one of its most centralized states*”. Japan's extreme caste distinctions have also diminished rapidly over time.

Jha, Mitchener and Takashima (2025) analyze the role played by a series of financial reforms in aligning the incentives of the most dangerous potential losers to reform with that of the Meiji state: the declassed samurai. In 1871, the central government abolished the domains, pensioning off their feudal lords, and, took over responsibility for paying the samurai stipends. These stipends absorbed close to a third of the government's budget. Amidst the period of violent samurai protest, the government responded by an innovative package of reforms. First, the samurai's rice stipends were compulsorily commuted into interest-bearing bonds in 1876.³² Starting in 1878, 310,971 ex-samurai received public bonds worth ¥113 million (Harootunian 1960), bearing coupons that could be clipped bi-annually to yield interest rates that ranged between 5% to 10%. This was done in a progressive manner, so that the poorest samurai received the highest (10% rate) of interest.

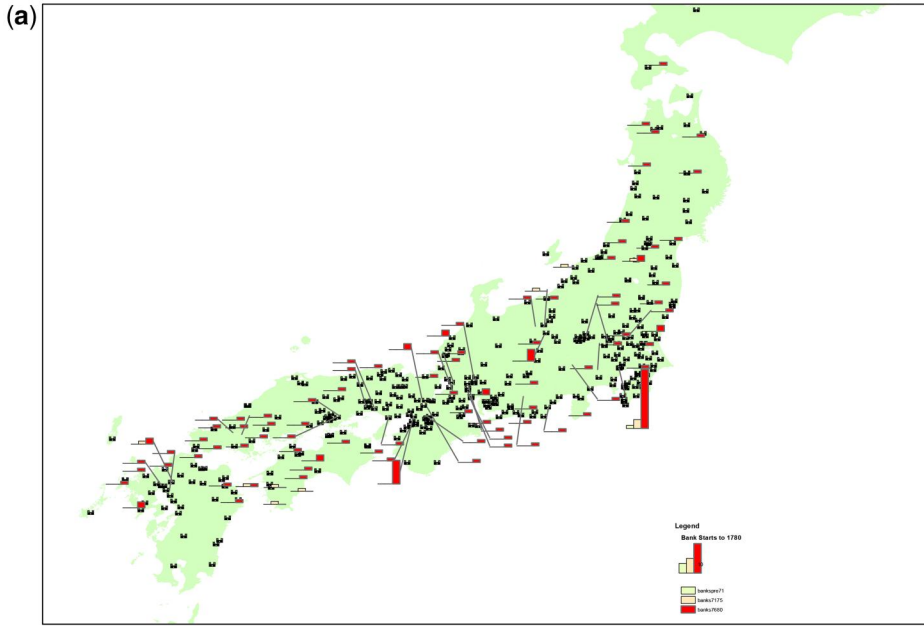
32 Starting in 1873, the government had attempted to encourage the samurai to accept voluntary commutation of their rice stipends into bonds, by taxing the stipends of those that refused. However, 30 per cent complied.

Fearful that the samurai, unaccustomed to these assets and their value, might sell them off too cheaply, the government banned their resale, except in one crucial domain: the National Bank Regulations were modified so that samurai bonds could be exchanged for stock in national banks (Schalow 2003). In fact, bank owners were required to capitalize these banks using 80% government (i.e., samurai) bonds. The remaining 20%, in currency, could come from the *heimin* (commoner) class. The change in banking regulations in 1876 led to a dramatic expansion of national banks, increasing from 7 to 150 new banks within two years—so many, in fact, that the government called a halt to future expansion (Yamamura 1967). By 1878, 29,360 ex-samurai and nobles controlled ¥30,580,000 in bank stock, compared to ¥8,870,000 held by 4,730 commoners (Harootunian 1960)[pg.440]. Many banks were concentrated in the *castle towns* in which samurai had previously been forced to reside, and having once dominated their feudal domains, now required—and acquired—a new economic purpose in order to survive (see Fig. 6).

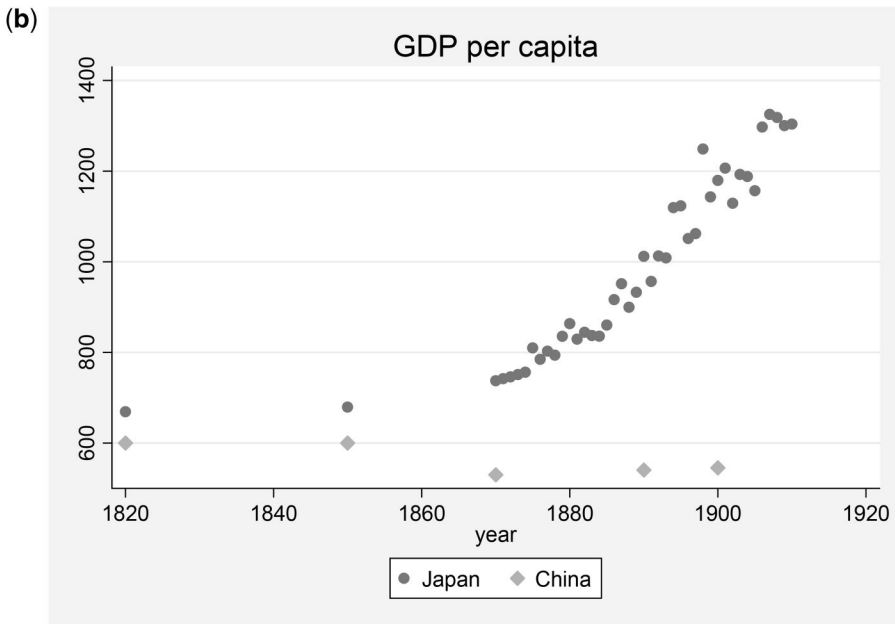
As Jha, Mitchener and Takashima (2025) describe, like many other ethnically-divided settings, the Meiji reformers, including Okuma Shigenobu and Matsukata Masayoshi, had to deal with two margins of potential civil conflict. The first was the local, decentralized, incentives of samurai to reassert their cultural identity and privileges through violence, in a manner potentially similar to how the Ku Klux Klan, built around returning ex-Confederate soldiers, had engaged in a terror campaign in the United States that same decade. The second was that given that the samurai had strongly militarized clan organizational structures, these clans might seek to break away or threaten control of the state (as indeed occurred during the rebellion of the Satsuma clan).

Providing incentives for individual samurai to co-invest with commoners in local banks lending to local merchants credibly gave them opportunities to gain from local peace, aligning the incentives of individual samurai with local development. Simultaneously, on a more macro scale, in 1877, a special bank, the 15th National Bank, was created exclusively for investment by the former samurai clan leaders (daimyo), who joined the traditional court nobility in what became called the *Kazoku* (Noble) Bank. This bank dwarfed the others, with ¥17,826,100 capitalization, comparable to all other national banks combined (Schalow 1987). Further, in its early years, it was used to mobilize capital for two specific purposes, both of which aligned the incentives of its potentially secessionist shareholders with national integration instead: to provide loans to the Meiji government to finance the suppression of the Satsuma Rebellion, and to invest in the Japanese railway network.³³

33 Notably, the former daimyo of Satsuma, Shimazu Tadayoshi was the largest investor in the 15th Bank, holding ¥767,300 worth of shares, and neither nor his father Hisamitsu (holding ¥218,500) became active in the Satsuma Rebellion orchestrated by their former retainer, Saigo Takamori (Jha, Mitchener, and Takashima 2025).



(a) Samurai Castle Towns and the Spread of Banks



(b) Japanese vs Chinese GDP per capita

Figure 6. Breaking through the ethnic growth trap: a financial revolution in Meiji Japan.

Sources: top: [Jha, Mitchener, and Takashima \(2025\)](#), bottom: Maddison Project.

The latter aligned the incentives of the shareholders with a country, integrated and at peace.³⁴

As [Jha, Mitchener and Takashima \(2025\)](#) document, and as one might expect among a class of newly-minted bank owners, political risk in the form of violent samurai rebellions appear to have ceased. Instead ex-samurai played a central role in peaceful political protests, first in favor of ex-samurai rights (*shizoku minken*) but increasingly in favor of broader constitutional rights (*jiyu minken*) that helped propel Japan towards the framing of a constitution and its first national elections in 1890. Caste conflict ceased and indeed caste distinctions diminished over time. Within a generation, Meiji Japan transformed from one of the world's most decentralized states facing the grave threat and reality of caste conflict to a state, at peace, which would achieve the first successful industrialization of a non-Western state. The reformers at the time were clearly aware of the threat to the Meiji state posed by the declassed samurai even after the failure of the Satsuma Rebellion. As Matsukata Masayoshi, who would become Finance Minister and later Prime Minister of Japan, noted in 1883, “*If the government remained an onlooker to the plight of the samurai, it would have certainly meant that the government did not understand the relationship between peace and rebellion.*”³⁵

Japan was the first non-Western state to apply this approach, and do so in a manner that undermined ethnic divisions and conflict. But Japanese reformers could look to past policy experiments elsewhere as well, including Alexander Hamilton's financial reforms, which also used the banking system, and the debts owed revolutionary war veterans, to help unify the nascent United States, and England, where the introduction of joint stock companies created new political coalitions in favor of both representative government during the English Civil War and investment in key public goods, including the Royal Navy, that proved critical for England's subsequent development ([Jha 2012, 2015](#)). It is worth noting that in all three of these conflictual states—seventeenth century England, eighteenth century United States and nineteenth century Japan—that would subsequently lead the world in GDP growth, their financial revolutions *preceded* their economic growth, and in the latter two cases, their financial systems were arguably intentionally designed to simultaneously reduce civil conflict while simulating economic development ([Sylla 2002; Rousseau and Sylla 2008; Jha 2012](#)).

34 Though commoners would play an increasing role in the banks ([Yamamura 1967](#)), in 1882, samurai still owned three-quarters of the stock of Japan's banks ([Harootunian 1960](#)). Subsequent to these reforms, Matsukata Masayoshi was appointed to the post of Finance Minister in September 1881. He reversed a long-period of inflation that had eroded the value of the 7% samurai bonds to less than two-thirds of their face value by instead implementing a dramatic period of monetary and fiscal tightening known as the “Matsukata Deflation”, with 36% of paper yen taken out of circulation ([Vlastos 1989; Jansen 2000](#)). This macro policy led to a transfer of wealth from debtors (mainly farmers) to bondholders (mainly samurai). The reforms and the Deflation was not without losers—‘debtor's parties’ emerged, and there were 108,850 bankruptcies in 1885 alone ([Vlastos 1989](#)). However, these initiatives were succeeded with price stability and an economic boom (see also [Bassino et al. 2019](#)).

35 See Masayoshi, Matsukata (1883) ‘Memo Explaining the Way to Eliminate Bank Notes’, cited in [Harootunian \(1960: 440\)](#).

Could Japan's success at breaking through the ethnic growth trap through financial innovations, harnessing fintech, work in modern settings too? Inspired by the example of Japan and the others, [Jha and Shayo \(2019\)](#) perform the first study to experimentally assign individuals incentives to trade in financial assets and examine the effects on their political choices. A few weeks prior to Israel's elections, they randomly assigned financial assets from Israeli and Palestinian companies to likely voters and gave them incentives to actively trade for up to seven weeks. They find that this financial market exposure had substantial effects on vote choices and increased support for peace initiatives. They delineate the mechanisms for this change and find evidence that financial market exposure led to learning and reevaluation of the economic costs of conflict. Further, [Jha and Shayo \(2024\)](#) show that this treatment was also individual empowering: it increased financial literacy, stock market participation and confidence, and did so for even more women, who have historically lagged in these dimensions. [Jha, Shayo and Weiss \(2025\)](#) further demonstrate that the intervention also raised generalized trust, and did so particularly for individuals who were initially more politically polarized.

Newer work has shown that these effects are highly portable as well. [Jha \(2025\)](#) finds that a similar intervention in the UK increased support for Remain during Brexit, again focusing people's attention on the effects to the common good as reflected in Britain's economy over more emotive, divisive issues, including over new immigrants. As mentioned above, [Rivera, Seira, and Jha \(2025\)](#) implement a randomized control trial testing the link between apex corruption and the decline of democratic values among indigenous and non-indigenous communities in Mexico. They find causal evidence that, unlike poor performance in general, exposure to direct evidence of corrupt political behavior reduces prosocial political behaviors, including donating for political causes and voting. However, financial exposures, that gave participants a share in the Mexican stock market index, again show some promise for offsetting these declines. [Hanlon, et al. \(2025\)](#) find that providing Americans with exposure to trade in stocks in green energy and fossil fuel companies significantly raised beliefs in human-driven climate change, support for government and business action to mitigate climate change, as well as personal donations to support climate action. Once again these were empowering interventions, that increased individuals' long-term financial literacy, stock market participation and focus on financial news rather than social media or more politically slanted new outlets.

Taken together, these studies suggest that financial market interventions, designed to facilitate learning and allow the aligning of interests and sharing of risks across communities and ethnic groups, could be a very potent, and scalable approach for breaking through the ethnic growth trap, and for reducing political polarization and conflict more broadly. While the past policy experiments suggest that these approaches can be effective not just at the individual level, but at the macro-level as well, more research needs to be done to establish the scalability of the approach, and the extent to which it can be rendered more effective in specific contexts, particularly in developing countries

where the financial and technological infrastructure may be more nascent, and rapidly changing as well.

7. CONCLUSIONS

This article delineates the mutual feedback patterns that can generate ethnic growth traps, what the existing literature has to tell us about to address such a trap, and potential promising directions going forward. While much of the literature has been very useful and informative in providing clues into the proximate causes of ethnic conflict, and civil conflict more generally, it is important to understand the reasons why antagonisms emerge. The role of organizations is also much less understood—including the incentives and structures in place that encourage *mobilization* along ethnic lines. Finally, formal institutions and state capacity are often seen as central in shaping different countries' ability to respond to the challenges of maintaining ethnic cohesion.

Understanding the root causes of diversity in different environments can be crucial for understanding the scope conditions under which certain policies will be successful in different contexts and for developing new policy ideas. Above all, however, a key take-away of this article is that, though ethnic divisions and political economy challenges can make the process of bolstering development and peace difficult, and less amenable to magic bullets or one-size-fit-all solutions, these problems have been addressed successfully in societies in the past, and can be again. As described above, there are a number of very promising avenues that are particularly worth pursuing. Can we leverage fintech and other financial innovations to align incentives against political violence, leverage inter-ethnic complementarity in existing or new economic sphere through the fostering of inter-ethnic business incubators (see, e.g., [Jha 2013](#); [Jha and Shayo 2016](#); [Jha 2018](#); [Jha and Shayo 2019](#))? Can we facilitate new cross-cutting national identities through education, information provision or positive contact (see, e.g., [Mousa 2020](#); [Okunogbe 2024](#))? Can we leverage traditional leadership structures or social networks to support such endeavours (see, e.g., [Acemoglu, Reed, and Robinson 2014](#); [Acemoglu and Jackson 2015](#); [Alatas, et al. 2024](#)). To what extent does climate change limit or even enhance the potential of these approaches (see, e.g., [McGuirk and Nunn 2024](#); [Hanlon et al. 2025](#))? It is to address these questions that much more research needs to be done. These questions also motivate three pillars of promising research going forward: the step of diagnosis: understanding the roots of ethnic divisions and mobilization, and the twin approaches of fostering informal institutions and strengthening formal governance in particular contexts in light of, and leveraging, these sources. It is time to get started.

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