Investigating the relationship between the rule of law and economic development in South Asia: A quantitative analysis

Scholar name
Nabil Diyaul Islam

Scholar's affiliation
International Hope School Bangladesh

Date of Submission
10/11/24

Research Question

Can a relationship between the rule of law and economic development in South Asia be established through a quantitative analysis?

Introduction

The rule of law can be defined as the principle that everyone is held accountable under the law. Meanwhile, economic development is the process through which the well-being, standard of living, prosperity, or wealth rises for the people of a particular country. The rule of law is considered one of the most important prerequisites for the development of a nation, South Asia is considered to be lagging in the rule of law. Meanwhile, around 15% of South Asia’s population live below the poverty line, translating to more than 200 million people, highlighting the desperate need for economic development. **[1]** Most research on the topic focuses on a global perspective and ignores the South Asian perspective, while also being outdated, with most research carried out in the 1990s and 2000s, thus ignoring regional developments such as democratic backsliding and erosion of legal institutions in many South Asian countries.**[2]** The aim of the research is to establish a link between rule of law and economic development in the South Asian context.

Literature Review

Quantitative analysis of rule of law and economic development in South Asia provides critical insight into the multiple ways in which the rule of law affects economic development throughout South Asia. Most research in this area studies how the major factors of the rule of law, like judicial integrity, low corruption, and contract enforcement, relate to development indications such as GDP per capita as well as investment rate and poverty reduction. The dominant theme that comes through is that strong legal institutions ensure economic stability which seems to confirm the hypothesis that the stronger the rule of law, the greater the economic growth. Barro's **[3]**, and Knack and Keefer's **[4]** work presents evidence, through cross-country regression models, that countries with higher level of rule of law are the ones with the highest GDP growth because reliable legal structures reduce risks and encourage investments. Theoretical frameworks used for these studies often lean toward neoclassical economic theories that suggest well-defined and well-enforced property rights and effective contract laws are the basic requirements for economic growth. New institutional economists such as North (1990) **[5]**, stress that it is the the legal systems that shape economic exchange in a manner that minimizes transaction costs and promotes growth. Panel data regressions, difference-in-differences, and other econometric techniques with fixed effects have been used in quantitative studies in this domain to isolate the rule of law variables. Chong and Calderón (2000) **[6]** used times-series data across developing countries to control for confounding factors. While these studies provide significant insights, the literature has certain weaknesses and lackings. Much research is outdated because the data they present refer to the 1990s and the beginning of the 2000s, as well as not focusing on the regional perspective of South Asia

Research Methodologies

To quantitatively investigate the relationship between the rule of law and economic development, regression analysis can be used. A Regression analysis is a statistical method used to examine the relationship between one dependent variable and one or more independent variables. Collecting original data on the topic of the rule of law and economic development is infeasible; therefore, data will have to be gathered from reputable sources like the World Justice Project and the International Monetary Fund. The two main data sets required for a regression analysis on the research topic would be the WJP rule of law index score **[7]** of the relevant South Asian countries, as well as their GDP per capita from the IMF **[8]**. To conduct a regression analysis, a statistical software tool such as SPSS will be required. After gathering the data, rule of law will be taken as an independent variable, while economic development will be taken as a dependent variable. To conduct the analysis, key variables such as the coefficient, R-squared, and p-value will have to be calculated. A high positive coefficient and R-squared value, as well as a p-value below 0.05, would indicate a strong and statistically significant relationship.

Project Practicalities

There will be 4 phases in the project plan. These are: gathering data, analyzing data quantitatively, generating insights, and finally report writing. Each phase will take a maximum of one month; therefore, the total project time will be a maximum of 4 months. Data gathering involves collecting data from sources such as the World Justice Project and the International Monetary Fund. Analyzing the data will require members of the research team to be skilled in statistics and experienced in using statistical tools such as SPSS. Generating insights will involve the creation of new links between ideas and concepts after the data has been analyzed through data points such as coefficients. The final step, which is report writing, will require talented writers, strong in the ability to express concepts efficiently through language. The main cost of the project will be for purchasing statistical analysis tools. There are many great options: SPSS, Stata, and Excel. SPSS has powerful regression tools; therefore, it shall be used. A $79 subscription to SPSS will be purchased.

Roadblocks and potential limitations

Any issue regarding the accuracy of source data will certainly impact the accuracy of the research. Furthermore, though regression analysis is powerful, it has limitations. Regression analysis depends on certain assumptions, such as linearity, independence, constant variance of errors, and normality of residuals, which could be invalid. Regression analysis can identify relationships between variables but does not prove causation, as it could be a case of confounding variables or reverse causation. The small sample size of South Asia could lead to a greater chance of being impacted by outliers and thus a greater chance of inaccuracies. However, this is a tradeoff that has to be accepted in order to keep the specificity of being a study upon South Asian countries. Despite these limitations, a regression analysis is still the most powerful method to establish a link between rule of law and economic development

Post-program plan

Upon conclusion of the research program, the findings will be disseminated through the research report being published in academic journals and lectures at academic conferences or be held in a university repository. This research could prove useful for a number of different groups. It could be used by other researchers and economists to conduct further research on the topic, by civil society to justify the need for rule of law and to educate the populace on the topic, as well as by the government and policymakers in the respective countries to draft legislation to strengthen the rule of law. Therefore, if the research establishes a link between rule of law and economic development in Southeast Asia, it could fill the gaps in the literature, such as outdated research, and hopefully help understand and bolster economic development.

Citations

[1] U. Nations, “Can South Asia End Poverty in a Generation? More Inclusive Growth and Faster Human Development Are Key,” *United Nations*. https://www.un.org/en/chronicle/article/can-south-asia-end-poverty-generation-more-inclusive-growth-and-faster-human-development-are-key

[2] “Introduction: Reflections on Democratic Backsliding in Asia,” *Global Asia*. https://globalasia.org/v15no1/cover/introduction-reflections-on-democratic-backsliding-in-asia_aurel-croissantlarry-diamond

[3] R. J. Barro, “Human Capital and Growth,” *American Economic Review*, vol. 91, no. 2, pp. 12–17, May 2001, doi: https://doi.org/10.1257/aer.91.2.12.

[4] S. Knack, “Institutions And Economic Performance: Cross-Country Tests Using Alternative Institutional Measures,” *Economics and Politics*, vol. 7, no. 3, pp. 207–227, Feb. 1995, doi: https://doi.org/10.1111/j.1468-0343.1995.tb00111.

[5] D. C. North, “Institutions, Institutional Change and Economic Performance,” *Cambridge Core*, Oct. 01, 1990. https://www.cambridge.org/core/books/institutions-institutional-change-and-economic-performance/AAE1E27DF8996E24C5DD07EB79BBA7EE

[6] “Chong, A. and Calderón, C. (2000) Institutional Quality and Poverty Measures in a Cross-Section of Countries. Economics of Governance, 1, 123-135. - References - Scientific Research Publishing,” *Scirp.org*, 2016. https://scirp.org/reference/referencespapers?referenceid=1744141

[7] “WJP Rule of Law Index,” *Worldjusticeproject.org*, 2024. https://worldjusticeproject.org/rule-of-law-index/global/2024/ranking (accessed Nov. 10, 2024).

[8] “Report for Selected Countries and Subjects,” *IMF*, Oct. 18, 2024. https://www.imf.org/en/Publications/WEO/weo-database/2024/October/weo-report?c=512