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Research Article

The Role of the State in Alleviation of Poverty in South Asia

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Abstract

The market and the state have to play valuable complementary roles in economic development. The government or state is expected to correct and facilitate the market. If the government fails, people cannot lead fine lives. At present, South Asian people have many socio-economic and political problems including poverty. Some of these problems are outcomes of poor performance of the state and are correlated with poverty. Specifically speaking, in South Asia, 32 per cent of the population lives on less than $1.25 a day. Some countries do not concentrate on development. Instead, they are entangled in civil struggles, infringement of human rights and failures of government, such as, corruption. Therefore, this study examines whether the South Asian countries have played the proper role of the state as accepted by economists. This objective is achieved by analyzing selected performance measures of the state, such as, corruption, rule of law, modernization of roads, education, health and governance, over time and comparing their changing patterns between economies. The study is based on secondary data, and in addition to qualitative analysis, many variables are econometrically analyzed. It concludes that in South Asian states poverty is decreasing but states and governments of these countries have to do much more to promote growth and alleviate poverty.

Keywords

Governance, poverty, role of the state

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Introduction

Poverty is a burning problem in current South Asian economies. Millions of people are living without access to adequate food. Thirty-two per cent of the population lives on less than $1.25 a day. It is correlated with many other problems, such as, illiteracy, violence, child problems, health problems and pollution. In the midst of such problems, some countries do not concentrate on development. Instead, they are entangled in civil struggles, infringement of human rights and failures of government, such as, corruption. Even if economists advocate market-based economic policies, they accept that the state has an essential role in economic development. Theoretically speaking, the state (or public) sector is a significant component of the macroeconomic production function. At present, the role of the state has been defined in such a way that the relation between the state and the private sector is optimal in development. With this background, this study examines whether the South Asian countries have been playing the proper role of the state and whether they have been adopting good governing methods as accepted by well-known researchers in order to alleviate poverty. These objectives are achieved by analyzing measures of good governance and selected state-related performance variables of South Asian economies (except Afghanistan), such as, corruption, rule of law, road density, education, health and indicators of governance, over time and comparing these between economies. The whole study is based on secondary data, and in the analysis of data, sometimes econometric models are estimated.

The article consists of five sections. The following section 'Role of the State and Governance: Selected Views and Evolution of Ideas' reviews the role of the state and governance in economic development. The section 'Present Economics in South Asia: Some Basic Issues' reviews some fundamental development indicators of South Asian economies with a view of understanding present economic status in the region. The section 'Performance of the States of South Asian Countries' analyzes the economic performance of South Asian countries. In the same section, child problems and governance are also analyzed under two separate subsections. The final section presents conclusions.

Role of the State and Governance: Selected Views and Evolution of Ideas

A number of economists have analyzed the role of the state. The configuration of states has varied widely across continents and countries, but arguments over the proper roles of the public and private spheres are not. In short, the role of the state in economic development is to correct and facilitate the market. Confirming this idea, Tanzi (2005) states, 'A fundamental role of the state would be to make markets work well by becoming more efficient and more transparent' (see also Tanzi, 2009). Earlier writings, such as, Niccolo Machiavelli's *The Prince*, Kautilya's *Arthashastra*, Confucius' writings and Ibn-Khaldun's *The Muqaddimah*, also reviewed the mutual rights and obligations of states and citizens. However, almost all of them include the provision of public goods as the role of the state. Some past

studies include Pigou (1920), Rawls (1971), the neoclassical economists (see Wade, 1990, p. 11) and Buchanan and Flowers (1987). Their ideas are discussed in World Bank (1997), which suggests a two-pronged strategy to fulfil the role of the state. The first strategy is to increase the state's capability. Under that role, the state is expected to: (a) establish a foundation of law; (b) maintain a non-distortionary .policy environment (e.g., ensuring that growth is shared to reduce poverty and inequality) including macroeconomic stability; (c) invest in basic social services (education and health) and infrastructure; (d) protect vulnerable sections of the population; and (e) protect the environment.

The second strategy of the state is to reinvigorate its institutional capacity, by providing incentives for public officials to perform better, while keeping arbitrary actions in check. To improve institutional capacity, three basic incentive mechanisms, namely, effective rules and restraint (independent judiciary and restraining corruption), greater competition within the government in the provision of public goods and services, and increased citizen watch and partnership (democracy, participation and devolution of power), can be used. The second and third mechanisms to improve institutional capacity are of governance.

Recent literature on the role of the state emphasizes democracy and good governance, sustainable development and equitable development (Stiglitz, 2003; World Bank, 2000). However, these ideas have basically been included in World Bank (1997). As such, functions of the state put forward by the World Bank can be used in the analysis of the empirical evidence in this study. In addition, the World Bank's conception of the role of the state is broader than that of earlier writers. It includes governance also. Whenever necessary, selected indicators of governance, such as, rule of law, quality of governance and corruption, that individually show the efficiency and capacity of the role of the state and/or government are also used in the empirical analysis.

Present Economies in South Asia: Some Basic Issues

As presented by the World Bank, South Asia has experienced a striking economic growth, averaging 6 per cent a year over the past two decades. This growth has contributed to reducing poverty and bringing about improvements in human development. The percentage of people living below the poverty line ($1.25 a day) fell from 61 to 36 per cent during the period 1981–2008. However, South Asia is still a place for many of the poor in the developing world. The World Bank's most recent poverty estimates say that about 571 million people in the region survive on less than $1.25 a day and they make up more than 44 per cent of the developing world's poor. As explained in the *Global Economic Prospects* of January 2013, slow growth in South Asia is mainly due to a sharp slowdown in India. Some reasons for such retarded growth is an outcome of region-specific factors, including subdued investment growth, electricity shortages, policy uncertainties and a weak monsoon (http://www.worldbank.org).

However, when we examine state-related performance variables,[1] it is obvious that the growth also depends on the performance of the state and governance in

these countries. Table 1 shows that per capita income in South Asian countries is still low in absolute terms. Nepal and Bangladesh are the examples which are ranked lowest in terms of per capita income. Even though poverty is decreasing in some countries (e.g., India) the population of the poor is high and significant. Sometimes, the poverty level is fluctuating (Table 2 and Appendix 1). Based on the data presented in Table 2, when a unit root test is done, it can be stated that poverty is non-stationary in South Asian economies.[2] In addition to poverty,

Table 1. Selected Basic Development Indicators of South Asian Countries

Country	Gross National Income (GNI), Per Capita Income 2013 (Constant 2011 Purchasing Power Parity [PPP] $)[1]	Adult Literacy Rate (% Ages 15 and Older) 2005–2012[1]	Income Gini Coefficient (%), 2003–2012[1]	Poor % Less than $1.25 a Day 2002–2012[1]	Working Children between 5 and 14 Years (%), 1999–2007[2]	Life Expectancy at Birth (Years) 2013[1]
India	5,150	62.8	33.9	32.7	12.0	66.4
Pakistan	4,652	54.9	30.0	21.0	8.2	66.6
Bangladesh	2,713	53.7	32.1	43.3	13.0	70.7
Bhutan	6,775	52.8	38.1	1.7	19.0	68.3
Nepal	2,194	57.4	32.8	24.8	31.0	68.4
Sri Lanka	9,250	91.2	36.4	7.0ᵃ	8.0	74.3
Maldives	10,074	98.4	37.4	1.5	NA	77.9
South Asia	5,195	62.9	–	32.9ᵃ	13.0	67.2
World	13,723	81.2	–	–	–	70.8

Sources: [1] UNDP (2014); [2] UNICEF (2009).
Note: ᵃRelated to 2002–2011 period (UNDP, 2013). NA, Not applicable.

Table 2. South Asia: Population below Income Poverty Line (PPP $ 1.25 a Day) (%)

Country	1980–1989[1]	1$ Day (1985 PPP $) (1989–1994)[2]	1$ Day (1993 PPP US$) (1989–1998)[3]	1$ Day (1990–2003)[4]	2000–2009[5]	2002–2012[6]
India	48	52.5	44.2	34.7	41.6	32.7
Pakistan	30	11.6	31.0	13.4	22.6	21.0
Bangladesh	86	28.5	29.1	36.0	49.6	43.3
Bhutan	NA	NA	NA	NA	26.2	1.7
Nepal	60	53.1	37.7	37.7	55.1	24.8
Sri Lanka	NA	4.0	6.6	7.6	7.0	7.0
Maldives	NA	NA	NA	NA	1.5	1.5

Sources: [1] UNDP (1990); [2] UNDP (1998); [3] UNDP (2000); [4] UNDP (2005); [5] UNDP (2011); [6] UNDP (2014).
Note: Poverty line has not been defined during the period 1980–1989.

almost all countries in the region are facing several social–economic problems, that is low literacy (except Maldives and Sri Lanka), child labour (unregistered child births and child marriages are also high) and low health conditions (Tables 1 and 2). Illiteracy, low health conditions and child problems lead to low quality of labour, and therefore, are the causes of poverty.

Performance of the States of South Asian Countries

Economic performance is a joint outcome of both private and public sectors. In other words, the complementary role of both the market and the state is responsible for economic results. The performance of the state can be analyzed in the light of state-related performance variables. Modernization of roads as a key part of infrastructure that is necessary to promote growth, and education and health as a means of empowerment of people or investment in people, can also be used in this regard. In addition, to assess the performance of governance, an analysis of the measurements of governance is also useful.

The famous proverb 'health is wealth' reminds us of the value of health in development. The development of health services promotes labour productivity. Barro and Sala-i-Martin (1995) emphasize that the high-level life expectancy promotes growth. Health services contain special characteristics. First, they extensively create a lot of positive external effects. Second, in the health market, the customer does not know what to buy and how much to buy. Customers have to buy what their medical practitioners prescribed for them. Due to these reasons, economies in many countries provide free health services. In South Asia, public expenditure on health is very low. Recent data reveal that it is absolutely low in all the countries in question other than Bhutan and Maldives. The lowest proportion of expenditure is reported from Pakistan (Table 3).

Education is a source of human capital, a strong weapon that can be raised against poverty, a tool of income distribution and a means to promote peace amongst ethnic groups. It creates a lot of positive external effects, promotes growth and development and enriches protection of human rights. The literacy rate, the basic measurement of education, is still low in absolute terms in some South Asian countries. Examples include Bhutan, Bangladesh and Pakistan. In South Asia, during the past two decades, the rate of change in literacy is also low. In these three countries, it is around 50 per cent. The expenditure on education is also very low in India and Pakistan where it is decreasing over time, while in Bangladesh it remains stagnant. However, in the region, military expenditure is greater than expenditure on health and education (Table 3).

The provision of infrastructure is a role of the state in economic development. Of the basic items of infrastructure, roads are the most important in a national economy, as it is conducive for the development of the market. A road links the consumer and the market as well as the producer and the market. In other words, roads provide easy accesses for both producer and consumer in a number of market transactions. Roads also link the producer with international infrastructural organs, such as, airports and harbours. As such, roads play a key role in domestic as well as in international transactions. In South Asian countries, paved roads are

Table 3. Changing Patterns of Selected State-related Performance Variables in South Asia, Selected Years

Country	Public Expenditure on Health (Percentage of Gross National Product [GNP])			Adult Literacy Rate (Per Cent)		Military Expenditure (as a Percentage of Gross Domestic Product [GDP])			Public Expenditure on Education (as a Percentage of GNP)	
	1960[1]	1987[1]	2010[2a]	1990[1]	2005–2010[2]	1960[1]	1989[1]	2010[2]	1989[1]	2005–2010[2]
India	0.5	0.9	1.2	48.2	62.8	5.5	6.7	2.7	3.2	3.1
Pakistan	0.3	0.2	0.8	34.8	54.9	1.9	3.3	2.8	2.6	2.4
Bangladesh	NA	0.6	1.2	35.3	56.8	NA	1.6	1.1	2.2	2.2
Bhutan	NA	NA	4.5	38.4	52.8	NA	NA	NA	3.7	4.0
Nepal	0.2	0.8	1.8	25.6	60.3	0.4	2.2	1.4	2.8	4.7
Sri Lanka	2.0	1.7	1.3	88.4	91.2	1.0	2.9	3.0	3.0	2.1
Maldives	–	–	3.8	95.0	98.4	NA	NA	NA	NA	8.7
South Asia	–	–	1.2	–	62.8	–	–	2.5	–	3.2
World	–	–	6.5	–	81.3		–	2.6	–	4.9

Sources: [1] UNDP (1992); [2] UNDP (2013).
Note: [a]As a percentage of GDP.

Table 4. Roads Paved in South Asian Economies, 2000–2014, Selected Years (Percentage of Total Roads)

Country	2000–2006[1]	2008[3]	2009[3]	2000–2009[2]	2010[3]	2010–2014[4]
India	47.4	49.5	–	49.5	–	53.8
Pakistan	65.4	–	72.0	65.4	72.2	72.6
Bangladesh	9.5	–	–	9.5	9.5	–
Bhutan	–	–	45.1	–	40.4	34.2
Nepal	56.9	53.9	–	53.9	–	–
Sri Lanka	81.0	–	–	81.0	–	–
Maldives	–	–	–	–	–	–
South Asia	56.9	–	–	53.9	–	–

Sources: [1] World Bank (2009); [2] Word Bank (2012); [3] World Bank (2013, 2014).
Note: Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete or cobblestones, as a percentage of all the country's roads, measured in length. Data are for the latest year available in the period shown.

rare especially in Bangladesh. In some others, such as, India, Nepal and Bhutan, paved roads are proportionately low (Table 4). These countries need to take prompt action to modernize their roads.

Corruption is known as a government failure. The results of corruption are often disastrous. The Centre for Accountability and Rule of Law states that the

11-year-long civil conflict in Sierra Leone was largely attributed to the pervasive corruption in all spheres of governance. The occurrence of corruption in large scale reflects in many areas of development and is intrinsically linked with under-development. Health care facilities remain inadequate and inaccessible (especially for the poor) because most times drugs meant especially for children and women, particularly in provincial clinics and hospitals, they could be easily seen on the shelves of private pharmacies. One of the greatest impacts of corruption occurs when the real development priorities of a country are often neglected in favour of those that generate the greatest personal gains for the decision makers. Many projects have become white elephants and easy routes for personal enrichment. When loans taken by governments on the pretext of undertaking some projects are diverted to private accounts and coffers, the attendant effect is that such loans would have to be paid with interest, which simultaneously increases the debt burden of the country (http://www.carl-sl.org).

Table 5. Values of Corruption Perception Index (CPI) of South Asian Countries, 1995–2014, Selected Years

Country	1995	2000	2002	2005	2008	2010	2011	2014
India	2.78	2.8	2.7	2.9	3.4	3.3	3.1	3.8
Pakistan	2.25	NA	NA	2.1	NA	2.3	2.5	2.9
Bangladesh	NA	NA	1.2	1.7	2.1	2.4	2.7	2.5
Bhutan	NA	NA	NA	NA	5.2	5.7	5.7	6.5
Nepal	NA	NA	NA	2.5	2.7	2.2	2.2	2.9
Sri Lanka	NA	NA	3.7	3.2	3.2	3.2	3.3	3.8
Maldives	NA	NA	NA	NA	2.8	2.3	2.5	NA

Source: Transparency International.
Note: CPI score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

In the presence of corruption even if the government allocates funds, it cannot provide its services as expected. Consequently, the state cannot accomplish its contribution towards growth and development. In South Asia, corruption is rampant. In 2002, Bangladesh was known as the most corrupt country in the world. The rate of decrease in corruption in the area is very low, and it takes much time to come down. In some countries, it is not decreasing but increasing. Nepal, which is the most corrupt economy in South Asia in 2011, is an example. However, by 2014, it has achieved a marginal decrease in corruption. Bhutan can be listed as the cleanest country of corruption in the region (Table 5). This can be corroborated by the data presented in Figure 6.

Child Problems

Unregistration of births, employing for work and early marriage are the major child problems and infringements of child rights (The United Nations Convention on the Rights of the Child 1990, sections 7.1 and 32.1, and the Convention on the

Elimination of All Forms of Discrimination against Women, Article 16.2). The registration of birth should be free and it provides evidence for the age of a child. For a child, it is helpful and necessary to enrol in a school, obtain identity cards and passports, register in the polling registry, get married, prove nationality, claim for parental property (another human right), be employed when he becomes an adult, open bank accounts, be vaccinated properly, etc. Thus, the registration of birth is a requirement for a child for his existence and to exercise his rights as a citizen. However, in 2007, births of around 51 million children were not registered, almost half of them in South Asia (UNICEF, 2009). In the South Asian region, the highest proportion of child birth registration is reported from Sri Lanka and the lowest is from Bangladesh (Table 6), which is the lowest in the world (UNICEF, 2009).

Child marriage has negative effects on families and communities. It impacts adversely on the health and education sectors in a country. In these marriages, girls often have little knowledge about the responsibilities of being a wife and are not familiar with sex and childbirth. Early marriage leads to a number of poor social and physical outcomes for young women and their offspring. Their level of education and social statuses become low; they have less reproductive control; and they suffer higher rates of maternal mortality and domestic violence. It can be assumed that girls who marry before 18 will usually have more children. Early childbearing may be a risk to maternity. When the married girls have a large number of childbearing years, they are more prone to face infant

Table 6. Child Protection Indicators (%)

Country	Birth Registration 2000–2008*	Child Marriage 2000–2007*	Child Labour (5–14 Years Old) 1999–2007*
Bangladesh	10	64	13
Bhutan	–	15ª	19
India	41	47	12
Maldives	73	17ª	–
Nepal	35	51	31
Pakistan	27ª	24	–
Sri Lanka	97ª	12	8
South Asia	36	46	13

Sources: UNICEF (2009); ª UNICEF (2011).
Main data sources: Multiple indicator cluster surveys and demographic and health surveys.
Notes: *Data refer to the most recent year available during the period specified in the column heading.
              Birth registration—percentage of children less than 5 years old who were registered at the moment of the survey.
              Child marriage—percentage of women aged 20–24 years who were married or in union before they were 18 years old.
              Child labour—percentage of children aged 5–14 years involved in child labour at the moment of the survey.

death, malnutrition, cervical cancer, sterility and maternal death (Early Marriage in South Asia: A Discussion Paper, undated and unauthored).

More than 64 million (30 per cent) young women aged 20–24 years in developing countries have reported that they were married or in union by the age 18. The highest proportion, 46 per cent (about half of total marriages), is reported from South Asia. The major reason behind early marriage is poverty (UNICEF, 2009). The highest rate of early marriages is reported from Bangladesh and the lowest is from Sri Lanka (Table 6). According to the descending order of the rate of child marriage, Bangladesh represents the fourth place in the world (UNICEF, 2009).

The destruction of child rights does not allow children to be perfect adults in all ways. Child labour deprives children of education and improvement of their skills, and hence it retards human capital accumulation, which is a major impediment to economic progress (Basu & Tzannatos, 2003, p. 145). Child labour may be harmful in affecting the present and future health of the child (Rosati & Rossi, 2003, p. 283). The major reason of child labour is poverty (UNICEF, 2009). Based on 102 countries, as estimated by UNICEF, 150 million children between 5 and 14 years of age worldwide are engaged in child labour. The new estimates (ILO, 2013) show that 168 million children between 5 and 17 years worldwide are in child labour, accounting for almost 11 per cent of the child population as a whole. Studies reveal that there is a reduction in children's engagement in economic activity in most countries, including large ones, such as, Brazil, India and Mexico. However, in some other countries, the trend is stable or increasing (UNICEF, 2009). In the South Asian region, child labour is reported to be proportionately highest in Nepal and lowest in Sri Lanka (Table 6).

According to accepted roles, the state is to correct and facilitate the market. For development, markets should be competitive. Less competitive markets do not promote growth. The available data on five countries show that Sri Lanka and India are fairly better (Table 7). In these two countries, the competition is increasing. However, in the other three countries, competition is low. They are ranked amongst the less competitive countries. When ranking of countries in Table 7 is

Table 7. Ranking South Asian Countries According to Global Competitiveness Index, 2011–2012 and 2013–2014 (Ranking from Best to Worst)

Country	Ranking amongst 144 Countries (2011–2012)	Score (2013–2014)	Ranking amongst 148 Countries (2013–2014)
India	56	4.21	60
Pakistan	118	3.42	133
Bangladesh	108	3.72	110
Nepal	125	3.81	117
Sri Lanka	52	4.19	65
Bhutan	NA	3.8	109

Source: http://www3.weforum.org/docs/CSI/2012-13/GCR_Rankings_2012-13.pdf; Global Competitiveness Report 2014–15.

considered according to 12 pillars on which global competitiveness index is cal-
culated, it can be observed that labour market efficiency and quality of institutions
in Bhutan, macroeconomic environment in Nepal, have turned desirable. However,
there is no significant change in other pillars of less competitive South Asian
countries (Appendix 3).

Governance

Good governance is also necessary for development. Rousseau (1973, pp. 252–253)
states that 'The question "what absolutely is the best government?" is unanswer-
able as well as indeterminate...The government under which a people wanes and
diminishes is the worst.' As explained at the very beginning, World Bank (1997)
states that democracy, participation and devolution of power need to be ensured
by the state. Regarding good governance, the World Bank defines six indicators
of national governance that are presented in Figures 1–6 to explain the situation in
South Asia. These six indicators are 'Voice and Accountability', 'Political Stability
and Absence of Violence', 'Government Effectiveness', 'Regulatory Quality',
'Rule of Law' and 'Control of Corruption'. Voice and Accountability reflects how
far each country's citizens are able to participate in selecting their government and
the opportunity they have to enjoy freedom of expression, freedom of association
and free media.

'Political Stability and Absence of Violence' reflects the likelihood of the
government to be destabilized or overthrown by unconstitutional or violent
means, including politically motivated violence and terrorism. Government
Effectiveness is utilized to explain the quality of public services, the quality of
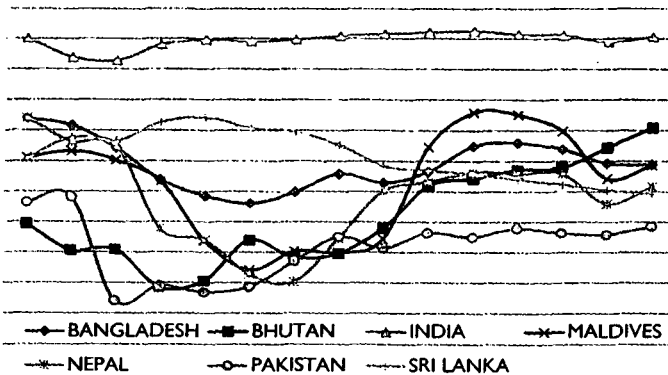the civil service and the degree of its independence from political pressures, the

Figure 1. Voice and Accountability in South Asian Countries, 1996–2013, Selected Years
Source: Basic data—World Bank (http://info.worldbank.org/).

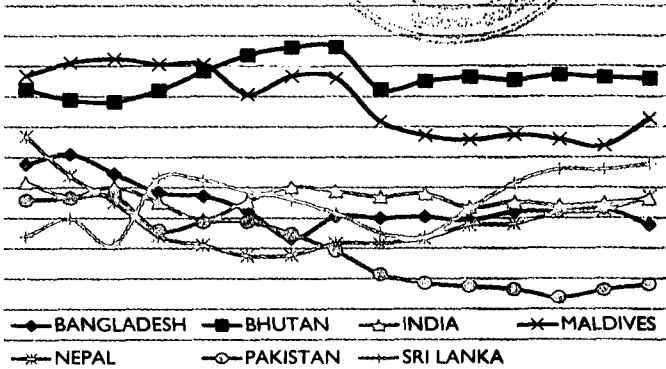**Figure 2.** Political Stability and Absence of Violence/Terrorism in South Asia, 1996–2013, Selected Years

Source: Basic data—World Bank (http://info.worldbank.org/).
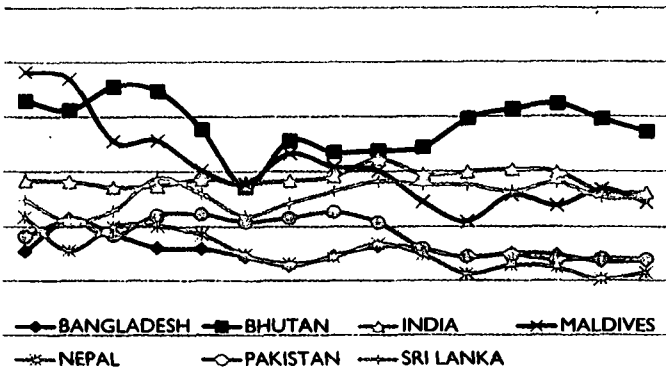

Figure 3. Government Effectiveness in the South Asian Region, 1996–2013, Selected Years

Source: Basic data—World Bank (http://info.worldbank.org/).

quality of policy formulation and implementation and the credibility of the government's commitment to such policies. Regulatory Quality covers the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Rule of Law is the extent to which agents have confidence in and abide by the rules of society, and in particular, the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence. Finally, Control of Corruption explains the extent to which public power is exercised for private gain, including
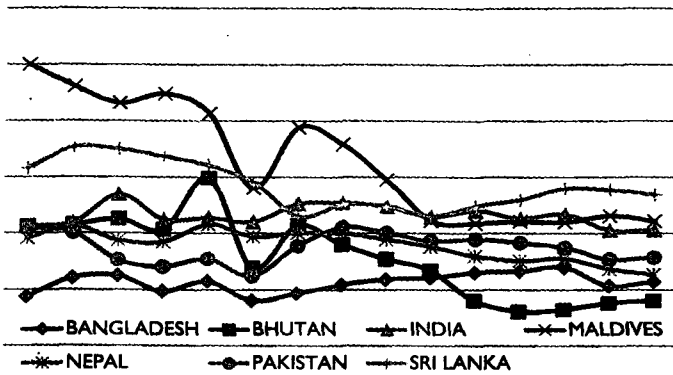
Figure 4. Regulatory Quality in South Asian Countries, 1996–2013, Selected Years
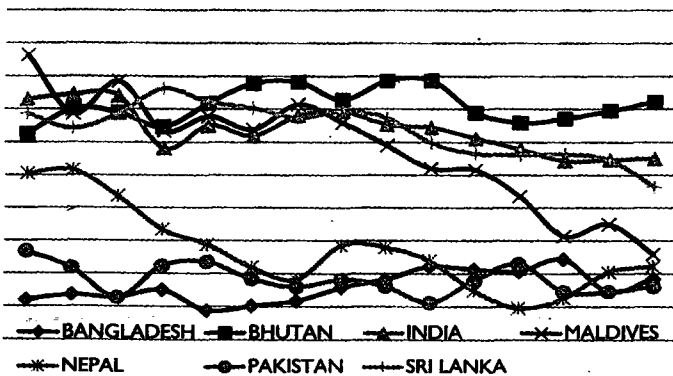**Source:** Basic data—World Bank (http://info.worldbank.org/).

Figure 5. Rule of Law in South Asia, 1996–2013, Selected Years
Source: Basic data—World Bank (http://info.worldbank.org/).

both petty and grand forms of corruption, as well as the 'capture' of the state by elites and private interests.

In individual countries in South Asia, the value of each of above the index remains very low in both absolute and relative terms throughout one and a half decades. When a given index is considered only one or two is/are with positive values and others remain less than unity. The striking feature is that in almost all countries the values of each indicator remain stagnant and sometimes decreasing. An index with significantly growing values is rare. When Values of Voice and Accountability Index is taken into account, they are positive only in India. However, in that country too, it always remains stagnant. In other countries, the
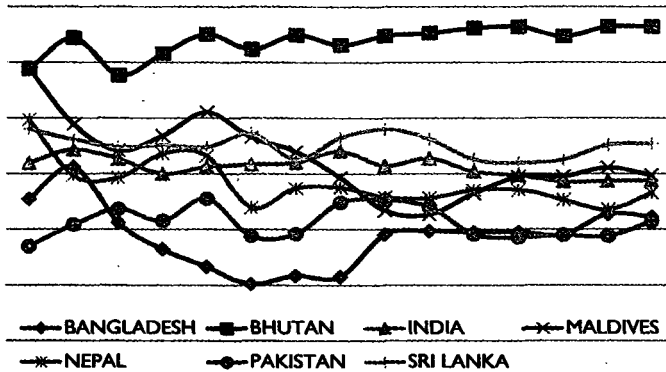
Figure 6. Control of Corruption in the South Asian Region, 1996–2013, Selected Years
Source: Basic data—World Bank (http://info.worldbank.org/).

index is negative all the time. Pakistan can be stated as the worst country in terms of the Voice and Accountability Index (Figure 1). As per Political Stability and Absence of Violence, Bhutan is proceeding with the best achievements. However, the country does not show a significant improvement with the passage of time. Maldives recorded the best performance for some years at the beginning; however, it dropped to a negative state in terms of Political Stability and Absence of Violence later. All the other countries are always running with the negative values, and Pakistan again is recorded as the worst situation which is continually deteriorating during recent years (Figure 2). Bhutan can be listed as the country with the most effective government, but is without significant improvement over time and the others are with non-effective governance (Figure 3).

Figure 4 shows that at the very beginning of the period in question, the Regulatory Quality was positive in Maldives and Sri Lanka. But few years later, both countries turned to negative values. By the second decade of the second millennium, South Asia fell into deteriorated Regulatory Quality (Figure 4). Even though the Rule of Law Index in the region was little positive and greater in four countries since the late 1996, the situation in all of these countries has been gradually deteriorating and has turned into negative values. Pakistan and Bangladesh can be labelled as the worst (Figure 5). Bhutan can be ranked as the cleanest country in the region in terms of corruption, and Pakistan and Bangladesh again are the worst (Figure 6).

Data and Quantitative Analysis

In the qualitative analysis presented so far, public expenditure on health, education and military activities and other state-related variables, such as, literacy rate, length of modernized roads, child problems and competitiveness of market, were

analyzed with a view of determining the relation between performance of the state and poverty. Corruption was analyzed as a government failure, and measures of governance were also analyzed. To confirm the findings of qualitative analysis, an attempt was made to regress poverty on state-related variables. This was accomplished in two steps: first, poverty was regressed on variables on governance and second poverty was regressed on selected variables related to the public sector.

Secondary data on variables related to the public sector of selected seven South Asian countries are available in the publications of World Bank, UNDP, UNICEF and Transparency International. However, regularly unavailability of these data for a sufficient period of time is a constraint in the panel data analysis. Data on governance for six sub-variables were introduced by the World Bank in 1996 and calculated for selected years until 2002, after that they are calculated annually. By 2012, the sample size of these variables goes up to 14. However, it is obvious that such a sample is insufficient to regress poverty by including all six variables on governance in a single model. On this background, general linear model was estimated with respect to Bangladesh, Bhutan, India, Nepal, Pakistan and India, taking poverty as the regressand and all six variables on governance as regressors. Results show that only 'political stability' is the significant variable with proper sign (negative) in Nepal and Sri Lanka. All other variables in these two countries and in other countries show either positive relation with poverty or a level of insignificant. This may be partially as a low degree of freedom. However, when each single independent variable is regressed, results show significant negative relations with the dependent variable. These regressors include 'Control of Corruption' and 'Voice and Accountability' in Bangladesh and Bhutan, again 'Voice and Accountability' in Nepal and 'Political Stability' in Bangladesh, Nepal and Sri Lanka (Appendix 4).

Moreover, the study used eight annual macro-variables related to the government. They are degree of income distribution (measured as Gini value), adult literacy rate, proportion of military expenditure in gross domestic product (GDP), value of road density index, inflation (measured as GDP deflator), health expenditure (measured as per capita in purchasing power parity [PPP] terms), education expenditure (measured as a proportion of GDP) and poverty (measured as head-count ratio at PPP \$1.25 a day). Data regarding these variables are sometimes not continuously available. In such occasions, sample size came down. Therefore, in estimating regression models, the dependent variable was first regressed on all independent variables of each country, if their individual sample size is equal. Later, the regressand was regressed, respectively, on each independent variable of each country. According to results, sometimes parameters are highly significant but regression is spurious (R^2 is greater than the DW statistic). Only significant results are presented in Appendices 5–7. The signs of estimated regression models were expected to be positive for income distribution, military expenditure and inflation, and negative for literacy, road density, health expenditure and education expenditure.

Regression results show that out of independent variables at least one is significant with the expected sign even in a single country. Income distribution,

inflation and education expenditure are individually significant in a single country only. Military expenditure is significant in both India and Nepal. Literacy, health expenditure and road density are individually significant with the relevant signs in three countries (Appendix 8). In Bangladesh, none of the variable is significant. Therefore, states in South Asian region show poor performance.
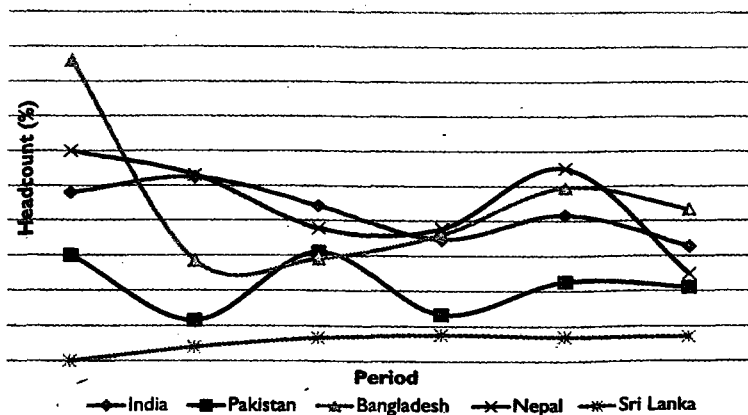

Conclusions

In the global economy, we still have some countries with burning socio-economic problems. Poverty is the biggest one. Illiteracy, violence, pollution and exploitation of child labour and other child problems are some others. Some of these issues are interrelated. For example, illiteracy and less health facilities lead to poverty. Child problems, violence and pollution are also related to poverty. Quick development may be a solution for these problems. However, it is not the sole outcome of the private sector. The state and government (which is in charge of the state) are also responsible for all these problems. Therefore, this study made an attempt to analyze the performance of both the state and government in South Asian countries. The analysis is wholly based on secondary data that were analyzed both qualitatively and quantitatively.

The study examined the present statuses of South Asian economies and the performance of the states and government by analyzing selected state-related variables and indicators of governance. The study emphasizes that there are high rates of poverty still existing in South Asia. Proportions of expenditure on education are considered to be a solution for a lot of economic ills, such as, poverty, ill health and low productivity of labour, and these are considerably low in South Asian region. However, military expenditure in the region is considerably high. Corruption is rampant. No law is properly enforced. Roads are not adequately modernized. Governance is weak in all aspects. Markets are with less competition. With such a background, South Asian economies have not performed individually the role of the state to a significant level so that their growth and development are promoted. These economies need to take prompt actions to correct failures of their state policies and quicken themselves as soon as possible. Finally, it is healthy for South Asian countries to form a forum to get together and review their individual economic experiences and problems on the alleviation of poverty.

The importance of the role of the state has been emphasized a very long time ago. In the Town Hall of Siena, frescoes finished in 1338 by Ambrogio Lorenzetti show the difference between good and bad government. The fresco symbolizing good government shows thriving shops, fine buildings and dancing citizens enjoying their leisure. Bad government is shown as ruin, rape, robbery and murder.

Appendices

Appendix 1. Diagramming Poverty Data Given in Table 2
Source: Based on Table 2.

Appendix 2. Results of Augmented Dicky–Fuller Test for Poverty Data in Table 2

Coefficient	Country			
	Pakistan	Nepal	Bangladesh	India
Constant	10.8 (2.5)	25.2 (2.6)	8.7 (1.2)	12.1 (1.8)
Poverty (–1)	–0.56 (–3.3)	–0.45 (–2.8)	–0.23 (–2.2)	–0.26 (–2.0)
D(poverty(–1))	0.25 (1.4)			
Trend	-7.5×10^{-5} (0)	–0.5 (–2.2)	–0.04 (0.2)	–1.45 (–1.4)
R^2	0.3	0.22	0.18	0.13
DW	2.0	1.7	2.0	1.8
Critical values 1 per cent level	–4.2	–4.3	–4.2	–4.3
5 per cent level	–3.6	–3.5	–3.5	–3.6
10 per cent level	–3.2	–3.2	–3.2	–3.2

Source: Based on Table 2.
Note: *t*-Statistics within parenthesis.

Appendix 3. Ranking South Asian Countries amongst 148 Countries According to Pillars of Global Competitiveness Index, 2013–2014 (Ranking from Best to Worst)

Pillar	Country					
	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan
Institution	131	70	120	123	62	38
Infrastructure	127	87	132	119	75	92
Macroeconomic environment	72	101	37	137	114	119
Health and primary education	102	198	75	129	45	89
Higher education and training	125	93	113	127	72	108
Goods market efficiency	84	95	121	100	39	115
Labour market efficiency	124	112	114	132	135	24
Financial market development	88	51	75	72	47	111
Technical readiness	126	121	128	114	94	124
Market size	44	3	98	30	61	140
Business sophistication	118	57	126	81	39	107
Innovation	129	49	126	88	46	113

Sources: http://www3.weforum.org/docs/CSI/2012-13/GCR_Rankings_2012-13.pdf; http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf.

Appendix 4. Regression Results

Dependent Variable: Poverty
Sample Range: 1996–2012; $n = 14$

Country	Constant	Control of Corruption	Political Stability	Voice and Accountability	Adjusted R^2	DW Statistic
Bangladesh	31.4 (8.9)	−13.9 (−4.4)			0.58	1.2
	35.8 (9.6*)		−8.4 (−2.9)		0.4	0.9
	36.6 (15.3)			−23.2 (−4.3)	0.6	1.6
Bhutan	39.9 (3.6*)	−25.9 (−1.6)			0.12	0.7
	5.6 (1.2)			−20.6 (−3.8)	0.5	1.0
Nepal	27.4 (2.8)		−11.9 (−2.0)		0.2	0.7
	35.0 (4.7)			−17.4 (−1.66)	0.1	0.8
Sri Lanka	3.9 (4.5)		−1.9 (−3.0)		0.4	1.0

Source: UNDP, Human Development reports, various issues. World Bank, World Development Indicators, various issues.
Notes: *t*-Statistic within parenthesis; positive serial autocorrelation is seen.

Appendix 5. Results of Estimated Regression Models

Dependent Variable: Poverty Headcount Rate at $1.25 a day				
Variable	Bhutan	Bhutan	Bhutan	India
Constant	44.0 (4.0)	83.0 (2.1)	44.4 (12.0)	1.9 (0.14)
Inflation				
Military expenditure				3.9 (3.0)
Literacy		(–1.2) (–1.5)		
Health expenditure	–0.11 (–2.1)			
Road density			–1.7 (–6.4)	
Adjusted R^2	0.2	0.1	0.8	0.26
DW statistic	0.75	0.5	1.5	0.6
Sample period	2000–2012	2000–2012	2000–2012	1990–2012

Source: UNDP, Human Development Report, various issues, World Bank, World Development Indicators, various issues.
Notes: *t*-Statistic within parenthesis; positive serial autocorrelation is seen.

Appendix 6. Regression Results

Dependent Variable: Poverty Headcount Rate at $1.25 a day				
Variable	India	India	Nepal	Nepal	Pakistan
Constant	51.9 (25.1)	70.9 (11.9)	22.1 (9.1)	72.9 (4.8)	–38.9 (–2.6)
Gini value					2.1 (4.3)
Military expenditure			16.0 (2.4)		
Health expenditure	–0.14 (–6.9)				
Education expenditure				–7.7 (–1.8)	
Road density		–0.28			
Adjusted R^2	0.8	0.7	0.2	0.12	0.4
DW statistic	0.9	1.13	0.6	0.6	0.7
Sample period	1997–2012	2000–2012	1990–2012	1995–2012	1990–2012

Source: UNDP, Human Development reports, various issues, World Bank, World Development Indicators, various issues.
Notes: *t*-Statistic within parenthesis; positive serial autocorrelation is seen.

Appendix 7. Regression Results

Dependent Variable: Poverty Headcount Rate at $1.25 a day				
Variable	Pakistan	Pakistan	Pakistan	Sri Lanka	Sri Lanka
Constant	49.8 (8.0)	33.7 (9.6)	40.0 (4.9)	90.6 (4.4)	15.0 (7.9)
Literacy	–0.52 (–8.7)			–0.9 (–4.0)	
Health expenditure		–0.14 (–2.6)			–0.06 (–4.1)

(Appendix 7 Continued)

(Appendix 7 Continued)

Dependent Variable: Poverty Headcount Rate at $1.25 a day					
Variable	Pakistan	Pakistan	Pakistan	Sri Lanka	Sri Lanka
Road density			-0.5 (-2.2)		
Adjusted R^2	0.7	0.3	0.3	0.4	0.5
DW statistic	0.9	0.5	0.7	1.0	0.9
Sample period	1990-2012	1995-2012	2000-2012	1990-2012	1995-2012

Source: UNDP, Human Development reports, various issues, World Bank, World Development Indicators, various issues.
Notes: *t*-Statistic within parenthesis; positive serial autocorrelation is seen.

Appendix 8. Countries where Each Regressed Variable Is Significant

Variable	Countries in which the Variable Is Significant with the Expected Sign
Gini value	Pakistan
Inflation	India
Military expenditure	India and Nepal
Literacy	Bhutan, Pakistan and Sri Lanka
Public health expenditure	Bhutan, Pakistan and Sri Lanka
Road density	Bhutan, India and Pakistan
Public education expenditure	Nepal

Acknowledgements

Notes

1. Economists expect from the state to perform accepted roles conducive for economic development. They include (a) establishment of the foundation of law; (b) maintaining non-distortionary macroeconomic policies; (c) investment in basic social services and infrastructure; (d) protection of vulnerable sections of the population and environment; (e) restraining corruption; and (f) promoting democracy, increasing participation, devolution of power and so forth. Successes of the performance of these state activities are measured by performance indicators. Expenditure on education, health and infrastructure, literacy rate and governance indicators are examples. Therefore, in this study, these measures are labelled as state-related performance variables.
2. The computed augmented Dickey–Fuller test (ADF) test statistics given in Appendix 2 with respect to all countries are greater than their corresponding critical values at almost all levels; it is clear that poverty in countries in question is non-stationary. These results are also reliable in terms of Durbin–Watson (DW) statistics.

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