WHICH IS THE ELIXIR AS A DEVELOPMENT POLICY: WASHINGTON CONSENSUS LIBERALIZATION OR THE RESTRICTIVE BEIJING MODEL? ANALYTICAL REVIEW

Dejene Mamo Bekana
Institute of Tax and Customs Administration, Ethiopian Civil Service University, Addis Ababa, Ethiopia.
Corresponding authour: dejenemamo@gmail.com

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Abstract: The essay argues that the influential Washington consensus neoliberal economic philosophers assume that market and price mechanisms should be promoted to achieve economic development and calls for economic liberalization undermining the role of policy instruments. On the other hand, the Beijing model development policy advocators pronounce economic liberalization in a closed politics. The success of the Beijing model posed profound challenge to the discipline of economics as the reform paths pursued by Chinese policy makers embarked on centralization of politics and decentralization of economic affairs to sub national governments. The essay challenges the presuppositions of these arguments. It maintains that any development model cannot be universally applicable and realistic development policy should emerge out of the economic, historical, social and cultural experiences of a country while learning from the best practices of developed and emerging nations within the framework of its own practical realities. Development should be local choice and development policy must be interpreted in the historical and social context of the society. It then contends a development policy is neither essentially evil nor good. Development policy is better seen as following from recognitions of its deontological processes and teleological perspectives than dictating single universal path to prosperity.

Keywords: Economic Development, Washington consensus, Beijing model, development strategy, contemporary debate

Introduction

The paper brings together issues arising from research and theoretical developments on Washington consensus and Beijing model as a development policy in the disciplines of political philosophy, economic philosophy, economics and the social sciences. It looks particularly at the subjects of contemporary debate among scholars in favor of the Washington consensus and the emerging model of Beijing. Advocators of the former pronounce the importance of liberalization, and of the impact that it brings in the process of economic transformation. Advocators of the Beijing model on the other hand, have been arguing in favor of closed politics and open economy as a principal path for economic transformation and development. In this paper, I present the following argument. *Any development model cannot be universally applicable and realistic development policy should emerge out of the economic, historical, Social and cultural experiences of a country while learning from the best practices of developed and emerging nations within the framework of its own practical realities.* To defend this argument, I first explore the Washington consensus development policy prescriptions in line with interface between the state or politics and economy and assess that relationship exploiting insights from contemporary philosophy of political and economic sciences. I also examine and critique the specific foundations of Washington consensus which is neoliberal economic theory, using contemporary philosophy of political and economic sciences.

The conventional and traditional liberalization theory which was developed as the Washington consensus with the works of John Williamson (1989) calls for strengthening market and price mechanisms subordinating the role of policies for development and economic progress. However, this prescription is hardly workable for developing economies because of institutional and technological problems. The institutional arrangements and their capacity in developing economies are weak to apply the Washington consensus liberalization policy prescriptions. Strong legal, political and economic institutions are essential preconditions for liberalization for the fact that these institutions are important establish and enforce laws, rules and regulations.

Developing economies are not producers of technology and new methods. That is developing economies are poor in innovation because of low human capital development through education and training. For economic development human capital is essential for efficient utilization of other natural resources. In developing economies markets (factor, goods and services and financial markets) are imperfect and financial markets are nonexistent in some of the developing countries. The author critiques this model using contemporary literature in politics, economics and philosophy. The author elucidates the way forward for developing economies to achieve economic transformation and development raising such questions as: *why the Washington consensus which proved the case in western economies failed in most of the emerging economies? What is the interface between politics, state and economy? Is the individual right based capitalist economic policy absolute? Is individual interest based neoliberal development policy compatible with collective interest? What is the Beijing model all about? Is the Beijing model development policy sustainable? Is there single path to economic prosperity? How economic liberalization is related to political liberalization? How social cultural, economic and historical experiences affect development policy?* For spotlighting these ideas, this article reviews the current economic literature on the conventional wisdom of Washington consensus and the Beijing model development policies. The author answered these questions from the perspective of critical argument analysis providing evidences from research, theory and practices.

The focus of a body of research that has been done on economic liberalization and Beijing model has been on debating the superiority of either of the two than on what should be done by developing economies to get people living in absolute poverty out of that evil. Finally, the intent of this paper is not to engage in suggestions of the non interventionist policy of Washington consensus or the interventionist policy of Beijing model or not to praise any of these policies but to explore the changing foundation of economic development methodology; for the aim of this paper is to motivate discussion concerning economics that takes into consideration the social, cultural, historical and economic resource dimensions, in terms of raising awareness about the foundation that informs formal economic development models and not necessarily in terms of developing these models. Thus, the goal of this paper is not to degrade the power or even to deride the importance of the notion of both economic development policy prescriptions or to offer an alternative economic development methodology; rather, it is to review and discuss the recent changes in economic development methodology vis-à-vis contemporary philosophy of political and economic science and the practical realities.

This article is organized as follows: the next section integrate the topic into the philosophical roots of the Current State of debate on Economic development policy and provide an overview of the economic studies dealing with Washington consensus liberalization policy and the Beijing model of developmental state policy. This section examines the philosophical and theoretical foundations of Washington consensus liberalization theory and the Beijing model and provides an analysis of the pragmatic realities in line with the theories. The second section examines in detail the current state of contemporary debate on development policy as a result of Asia's raising economic stars (china, Singapore, Taiwan and Korea) postponing political liberalization which is a departure from the conventional wisdom. This section critically analyzes the justifications for rejecting both models and looking in to once own realities for developing economies policy makers providing thorough and critical analysis of evidences from research and practice. The last section of the article summarizes the discussion and points to a couple of steps which should be undertaken by developing economies to join the path of economic prosperity.

Historical Evolution of the Current State of Debate on Economic Development Policy

The contemporary debate in development literature is whether the Washington consensus model of liberalization could bring economic and social transformation for economies in which millions are living in absolute poverty. The Washington Consensus is a prescriptive set of liberalization, privatization and deregulation measures that the Washington-based institutions (IMF, WB, US Treasury, and Federal Reserve Board) have been imposing on developing countries, beginning in the late 1980s. As summed up by John Williamson (1989), the main ingredients of the Washington consensus liberalization policy are:

1. fiscal discipline (low budget deficits if not balanced budgets)
2. redirection of public spending towards public goods with high social and economic returns like primary education, primary health care, and infrastructure
3. comprehensive tax reform (such as lower marginal rates, broadening of the tax base, and enhancement of tax collection efficiency)
4. interest rate liberalization in conjunction with financial sector liberalization

5. competitive exchange rate
6. capital account liberalization to attract foreign direct investments
7. privatization
8. deregulation (expanding economic freedom by removing barriers to entry and exit)
9. securing property rights

Its origin could be traced back into classical economic thought pioneered by Adam smith's book *"The Wealth of Nations"* published in 1776. This policy model is based on the fundamental assumption of self regulating market through price mechanisms; "*market as invisible hand with individual rational choice"*. Suggested policy tools limit the role of the state to public works, issuing of regulatory frameworks and law enforcement arguing that government intervention in the economy in the form of ownership, production and sale of goods and services leads to inefficiency of economic operation and management.

Neo liberal economic philosophers like Friedrich August von Hayek in the use of knowledge in society (1945), claimed that the price mechanism serves to share and synchronize local and personal knowledge, allowing society's members to achieve diverse, complicated ends through a principle of spontaneous self organization. Hayek coined the term catallaxy to describe a self organizing system of voluntary co-operation. For Michael Polanyi, it was fears of totalitarianism that led him to a belief in the importance of the free market in preserving liberty and exploiting the tacit knowledge of society as a whole (Wittman, P.M, 1999). Like Hayek, he believed that such markets were not conscious inventions but evolved habits, sharing and synchronizing local and personal knowledge in achieving diverse ends among society's members through a principle of self-organization. Hayek viewed the price mechanism, not as a conscious invention (that which is intentionally designed by man), but as spontaneous order, or what is referred to as that which is human action but not of human design.

Milton Friedman's essay; The Methodology of Positive Economics (1953) provided the epistemological pattern for his own subsequent research and argued that economics as science should be free of value judgments for it to be objective. Moreover, a useful economic theory should be judged not by its descriptive realism but by its simplicity and fruitfulness as an engine of prediction according to Friedman. Theses economic thinkers tried to separate politics or state and economics which are in fact according to my view inseparable. Economic policy decisions are ended political decisions and at the same time economic policy affects politics (Ayn Rand 1964, 1982). Political power grants the ability to change economic institutions or undertake redistribution of income and wealth. This power is regulated by political institutions which establish limits of political power and determines how political power changes hands. Political institutions include constitution, electoral rules, constraints imposed on the power of the executive by other branches of the government and political parties. Economic institutions and their policy implications influence the operation of political institutions and therefore linked to political power.

Neo liberal economic thinkers have been preaching demarcation between politics and an economy though that demarcation cannot be observed or implemented in practice. To extent non interventionist policies are pursued markets proved to fail to allocate resources efficiently. This fact has been evident with the major global economic crisis of the recent past (1930's, 1970'ss, 1990's and 2007's) the wave of which begun from the major liberalized economies. Although the first signals of an increased state intervention in economy dates back to World War I (Burlacu, 2004), the first landmark critics against classical liberalization theory was coined by John Maynard Keynes's publication *"General Theory of Employment, Interest and Money"* when the world economy was in the middle of depression in the 1930's. Keynes objected to the classical approach, which viewed individuals engaging in transactions to increase their benefits following rational arguments, and argued that individuals also have non-economic motives and that they are thus not always rational in the pursuit of their economic interest. That is, individual economic rationality may lead to an outcome that is collectively sub optimal in terms of resource allocation. It is seldom possible to have stable society and stable economy with government hands limited as suggested by neo liberal thinkers. Keynesian economic philosophers reaffirmed this fact and suggested interventionism policies as desirable through the manipulation of monetary and fiscal policies for stabilization. The Keynesian argument that refers to a market as not self -regulating has been consistent with the pragmatic economic realities.

When it comes to human rights neo liberal thinkers pronounce equality of human beings but in their economic philosophy the same people advocate inequality which might result in social welfare loss and crisis. *So isn't political action important to at least reduce such welfare loss if not to eradicate?* I answer ended it is not only important but also imperative. Economic inequality and welfare crisis could lead to the prevalence of crime, robbery which is basis of social crisis. If we understand modern state with the camera of Thomas Hobbes and John Locke we might wonder whether we can separate politics from economy. According to these philosophers the state is the product of conflict, war and competition that lead to a social contract by societies to have protection or security from a third party which is the government. A society in natural state according to these philosophers employs physical force to surpass the competition and to win the wars involved. In such a state the power of reason is undermined by the supremacy of physical force in relationship of members of the society. Government therefore, should establish limits to the freedom or rights for protection of public interest through well defined legal jurisdictions to avoid arbitrary action. Rule of law and political reforms are necessary to avoid use of revolution to correct imbalances. Injustice, corrupt practices and partiality in the application and enforcement of laws and regulations are fundamental causes of revolution. Hence, reasonably just system, criminalizing and disciplining corrupt practices and impartial application and enforcement of laws and regulations are essential to avoid revolution.

Debating liberalization theory was further intensified with the works of Marx and Engel (Al Campbell 2010) in their explanations of dehumanizing aspects of capitalist system. The Marxists argued that the inherent contradictions of capitalism would lead to its downfall and replacement by communism (Marx and Engels 1976(1845). In line with this view they suggested state ownership of menses of production as appropriate for equity of human beings. Those economies which subscribed to the Marxist system were being to record enormous improvement though they were not able to sustain because of excessive limit to human freedom (Ayn Rand 1964, 1982). The saga of global dominance between the former USSR and USA was concluded with the victory of the American based capitalist system with complete collapse of the former in the late 1980's. This is the period when the Beijing model development policy laid its foundation because china's communist party refused to accept the policy imposition of the Washington consensus development model in the name of policy advice by the World Bank and International Monetary Fund pushed by the USA and its strong allies. China continued to record historic economic development through its acclaimed Beijing consensus and this reignited the debate on development policy. The irony here is there is no Beijing consensus conventionally agreed up on throughout the world as opposed to the Washington consensus liberalization. The Beijing model is a rationalization of a pragmatic response on the part of the Chinese leadership to economic and political pressures. Ecumenically, the model focuses on consideration of economic liberalization in a closed political system and hence it is restrictive in terms of public participation in the political process towards development of democratic leadership through supporting and organizing alternative political parties. In the economic dimension the model appreciates both state and private capitalism. The role of the private sector development is well recognized with this respect and the political leadership provides the necessary support to the sector. But, in the political arena Chinese model promotes single party rule which significantly restrict the scope of public participation in the political process. Libertarians argue for multi party system as one of the pillars for democracy although there has been controversy whether multi part politics bears inherent values which lead to liberal democracy. The contesting argument is that election financing in multi party system might lead to corruption and democratic rent seeking. Multi party system is nonexistent in the Beijing development model as political leadership in china pursued single party politics.

For Beijing development model uniform and consistent definition is missing in the plethora of development literature about this model. According to Ramo (2004), the Beijing model is composed of three theorems. The first theorem repositions the value of innovation. The second theorem demands a development model where sustainability and equality become first considerations, not luxuries. That is, the model rejects GDP as a measure of growth though China's statistical authority annually reports the growth of China in terms of GDP growth rate. The focus on equality and social welfare is not a new perspective. It has been practiced for years in the west specifically in Europe for decades by political systems which subscribed to the fundamental principles of social democracy. When evaluated in itself the out come of Beijing development model resulted in unequal society in spatial income distribution (Shenggen Fan, 2008) and individual income distribution (Jefferson and etal, 2007; Paul Krugman, 1994). Marc Blecher and Oberlin College (2005) argued that china's economic restructuralization and growth since 1978 lead China to become one of Asia's most unequal societies. Finally, Beijing model contains a theory of self-determination, one that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes. The third theorem seems to discuss the foreign policy dimensions of development and the need for states to remain independent of other states, especially the U.S and its strong allies. However, rejecting standardized policy prescriptions and avoiding bilateral cooperation are two distinct things. Bilateral cooperation based on international agreements and sovergneity of states is important for comprehensive transition within the frame work of domestic development policy.

For Van dijk (ed. 2009) Beijing model development policy is priority given to stability, tied aid, win-win, and a role for the private sector in a government lead development model and less attention given to democracy. The flaw in this definition is that less attention to democracy and sustainability of stability which is a priority in the model are hardly compatible owing to libertarian theories. Incongruously, the Beijing model envisaged stability through undemocratic system of governance. Richard M. Bird and Robert D. Ebel (2005) for political institutions to be sustainable there are only three ways. These have to do with: *a) the creation of common ideology or belief system through which most people may simply share the underlying values committed to maintenance of institutions b) putting into place a series of checks and balances on the legal and institutional systems and c) buying the loyalty of potential territorial dissidents at least for a time.* The third option might have adverse consequences because of granting monopoly privileges or rent to one's supporters in a manner that not only pays for political support but also tends to deter 'shirking' since what has been given can be taken back.

The standard Washington policy prescription claims that without democracy as mode of governance sustaining of stability is very difficult because of the fact that undemocratic leadership inevitably would lead in to revolution against dictatorial rulers. This is the fact evidenced in the recent revolutions in the Arab countries which ignited in Tunisia followed by Egypt and then expanded to the Middle East countries. Purely on economic indicators these countries received complementary reports from international monetary fund and the World Bank. On governance indicators, however, according to transparency international, these countries are identified as having corrupted system where the rule of law is compromised. However, the Chinese model emerged to be a peaceful rise posing critical questions on the conventional economic wisdom. Hence one is not at fault to ask why the Chinese development model emerged to be peaceful rise when it does not comply with the conventional economic thinking. Although china is a unitary state (Chenggang Xu, 2008), sub national governments play significant role purely on economic decisions while the central government controls the politics through personnel control. This implies that economic decisions are highly decentralized and political decisions are centralized. He further argued that sub national governments in china practically have more authority than their federal counterparts around the world. On top of that the Chinese government has significant intervention in businesses even when enterprises are privately owned (North, 1981; Acemoglu and Johson, 2005). This makes the Chinese development model unconventional and complete contradiction to the standard Washington policy prescriptions (Weitzman and Xu, 1994; Rodrik, 2006).

Bruce J. Dickson (2006), "Beijing consensus" suggests that rapid economic development requires active leadership by political elites committed to growth and that authoritarian rule is necessary to sustain these pro-growth policies. On the surface it seems that china's emergence invalidated the hypothesis that economic reform without political liberty is weak. The fact is that china practiced learning from developed economies within its own practical realities. Yasheng Huang (2010) argues that the Washington Consensus view describes the Chinese growth experience better evidencing that the Chinese personal income/consumption growth was strongest when China had in place those policies closer to those standard prescriptions of the Washington Consensus (in the 1980s) and this growth slowed down substantially during the period when the Beijing Consensus policies were adopted (during and after the 1990s). Yashing's evaluation of the Chinese model is based on economic performance ignoring the way in which the political system of china interacts with its economy. A plethora of economic literature on the performance of the Chinese economy confirmed that it is remarkable achievement and unparalleled in the history of development with 9.5 annual growth rate for about 25 years in a row (World Bank, 2002). The paradox to the advocators of the conventional economic development theory is how a country with a communist political system emerges to be dominant in the global political and economic affairs. The regional decentralization in china lead to Sub national governments control over a substantial amount of resources, such as land, firms, financial resources, energy, raw materials(Granick, 1990; Qian and Xu, 1993; Shirk, 1993). Sub national governments are major players to the bulk of the Chinese economy. They can under the supervision of the central government (Naughton and Yang, 2004), initiate, negotiate, implement, divert and resist reforms, policies, rules and laws. This resulted in competition among sub national governments for achievement in economic indicators while the central government oversees the politics through directly appointed leaders and personnel control.

Economic development in China has not been accompanied by political liberalization and hence the future of Beijing model development policy is still debated. The former Soviet Union and Yugoslavia were able to record remarkable economic growth under Leninist system. But we know how that history ended with complete collapse of those political systems. The sustainability of the development of china is a kind we should stay and see in lieu of the degree to which the political system would be opening. As hypothesized by developmental policy advocators it is possible to silence the public with compulsion and force to bring economic progress. *For how long is that possible?* China's policy makers unreservedly and openly declared that Liu Xiaobo, its citizen who has been human rights activist does not deserve Nobel peace Prize award of 2010 to which he was chosen. Chinese government reacted in a similar fashion to the reactions of the Soviet Union to the award of the prize to Andrei Sakharov in 1975 and of the Burmese government to the award to Aung San Suu Kyi in 1991 making it forbidden to travel to Oslo to receive it. Nothing more than this is an indicator of the fact that china is still not willing to accept diversity in thought. Paul T. Zeleza and Philip J. Mc Connaughay (2010) argued that human rights are as much about economic and social rights as they are about civil and political rights. The Hob*b*esian foundations for rights based in social contract theory and ideas of security are rejected by the Chinese model. According to Merry Sally Engle (2006) human rights are deeply compatible with neo liberalism and its emphasis on individualism and free choice assert the radical idea of the equality of every individual and the importance of protecting those individuals from abuses of state power. Merry Sally Engle argued that what human rights actually mean is itself a product of local ideological and political histories. This is the reasoning from Chinese authorities when they are accused of violation of human rights by the international community**.** It is understandable that local ideological and political histories influence the development path of a country. However, the fact that a human rights approach to development (kapadia 2002; Rajagopal 2003, 2005) offers a more balanced understanding of the social costs and benefits of development, appropriating the idea of human rights into the development project itself has been evidenced in contemporary development literature. A human rights approach states that the process of development is as important as the outcome, and that indeed the process largely determines the type of outcomes resulting from development activities. China, which has never been subject to structural adjustment programs (Max Rebol, 2010, Giovanni and Lu Zhang, 2010), achieved the most significant reduction of poverty in history within two decades through a gradual opening up reform process that allowed for many experiments to test its own path. However, when politicians, economists and diplomats talk about China (Paul G. Harris and Chihiro Udagawa, 2004) they express concern about Asian security, economics and trade, and human rights. They also now routinely invoke the potential for economic development in China to do great harm to the natural environment of East Asia and indeed the entire globe.

China's authorities are still not willing to allow the public to exercise freedom of speech, opinion and political participation in alternative political forces. Political pluralism is totally ignored though it is the right project for stable democratic progress. It is through political pluralism that citizens participate in the governance system of a country, and exercise freedom of expression. It is through this approach that the accountability of the government to the public is monitored and outright corruption could be minimized. All matters related to these issues are missing in the Chinese development model. Ideally multiparty democracies would be free of corruption, but in practice it is far from being the case. Indeed the financing of political parties has been a driving force for corruption even in well functioning multiparty democracies. Hence, what could the Chinese model offer is not an alternative development policy but it signals that any country should look in to its own path. If there is something that developing economies can learn from China's experience(Max Rebol, 2010), then it is that there actually is an alternative to conventional wisdom and that each country has to find its own path, leaning on more than one point of reference and genuinely taking into account history and local reality. China's experience would not be the best lesson for developing economies for on the one hand, it appreciates authoritarian leadership of single party system and on the other hand tries to disentangle economy and politics. The fact that the Chinese development model is anti human right is the biggest concern of scholars of politics and economics in contemporary development policy debate. This is the profound reason for those who question the sustainability of china's development model. Generally speaking, what developing economies can learn from china's experience is that they have to look in to their own realities in terms of political, historical, social and cultural experiences to have genuine development path of their own. The Chinese developmental state model is unique when compared with its counterparts such as South Korea, Taiwan, Japan and many others because the model is mainly characterized with authoritarian regime of single party rule plus policies conducive to capitalist development. Though the other developmental states allowed significant intervention of the government in economy through industrial policy, they followed multi party rule in which dominant party emerged through public consent. However, all of them have had periods of authoritarian rule during which the foundations were laid for industrial development. To understand the Chinese development model one must analyze it as a process of experimentation based on domestic realities to identify what to do what not to do instead of maneuvering with it in terms of sets of policy prescriptions.

Commentators of the Chinese development model argue that the rise of china justifies the fall of the standard Washington policy prescriptions. However, it is hasty to conclude that the success of the Chinese development model suffices to justify the death of the Washington consensus development policy. It simply signals that imposition of standardized policy prescriptions may not work for countries with very different economic, historical, social and cultural experiences. The failure of the Washington consensus is rather attributable to its ignorance of the practical political and historical realities of developing economies. The policy prescriptions and reforms were commended not on account of the practical realities of the developing economies. Early 1990's was the period when most of the developing economies lack financial markets, industrial education was poor, and capacities to manage these reforms were missing. Therefore, in the absence of financial markets recommending financial liberalization is ended not compatible with the economic realities of LDC'S and therefore, impractical. It was realistic to suggest how financial markets should be established and properly managed. *What if these economies consider liberalization of financial institutions?* Here allowing foreign banks in LDC'S are meaningful if they could extend credits to the local peasants. But experience proved that these institutions (Stiglitz 1999, 2004) come with foreign investors to exploit cheap labor in developing economies.

The policy prescription of privatization of state enterprises on the surface seems plausible. The practical realities of developing economies demand both privatization and state capitalism. It demands privatization of state enterprises because government hands should go off the economic sectors that could be operated by the private sector. On other hand, those economic sectors which could create large employment opportunity but less profitable to private investors demand government investment resulting in state capitalism. Through this process with increase in the income of the citizens as a result of economic transformation leads to activated demand for industrial and consumable goods and hence an investment sector which was not attractive once to private sector would become the choice of the private sector. The situation would get government hands out of the sector moving it to another sector which is not promising investment sector for private owners. Compliance to the Washington consensus policy prescriptions has been used as conditional parameter by the World Bank and International Monetary Fund for development aid and loan to developing economies through the structural adjustment program. But the conditionality of aid and loan to structural adjustment program for developing countries undermined program ownership (World Bank 1998). It is now almost universally agreed that an appropriate domestic policy environment is a prerequisite for effective use of aid. Conditionality is nothing more than a clear definition of what is meant by appropriate policy environment in specific programs, providing a direct link between policy performance and the continued flow of financial assistance.

The Washington consensus was an effort to universalize political ideologies and development policy perspective which was effective in the United States of America and western European countries. In the process developing economies were forced to accept the policy prescriptions as imposed. They were not allowed to practice the concepts in their own contextual realities. Although the Western model political and economic reforms in developing economies were well-intended and understandable (Max Rebol, 2010), they failed to recognize that developing countries needed some home grown policies that reflect the situation on the ground, rather than a „one-size fits all‟ approach that might have worked elsewhere in the past. The policy prescriptions were derived from the historical, social, cultural, political and economic experiences of western nations. Developing economies experiences were not in parity with those of the western economies. Those countries which adopted a heterodox approach (Brazil, china, Taiwan, South Korea and Vietnam) and practiced the liberalization policy of the Washington consensus within that framework achieved a remarkable economic transformation.

Current State of Debate on Economic Development Policy

Starting from the recent past there has been controversial debate concerning the precedence of political liberalization and economic liberalization another attempt to demarcate politics from economy. China's and Singapore emergence followed by brazil as the economic stars with their policy of market liberalization before democratization, in the early stage of a country's development resulted in the debatable idea of market liberalization preceding political liberalization. Though this policy is opposed to the unpredictable reform path experienced by Central and Eastern European countries of the former socialist bloc, which predominantly chose rapid and simultaneous political and economic liberalization in the 1990's (Claudia Senik and Pauline Grosjean, 2008 and Stiglitz, 2004)have proved to be the most successful emerging economies. According to Claudia Senik and Pauline Grosjean, and Stiglitz, Latin America also illustrated that political liberalization can be an obstacle to the development of the market when leaders need to impose unpopular reforms while being responsible to their constituencies. This theory concludes that the optimal route is to develop market institutions in a first stage of development, and consider democratization at a later stage.

Developmental state policy advocators (Lipset, 1959, 1960; Miller et al.1994, 1996) postpone political liberalization and believed in precedence of economic liberalization arguing that the desire for political freedom and democratic institutions does not arise until countries reach a certain degree of material comfort and market liberalization. They claimed that this sequence also meets citizens' preferences. This is the Lee's Hypothesis of closed politics and open economy for development policy and it worked for the current Asian economic stars. This argument is not acceptable to neo liberal economic thinkers of the Washington consensus who inclined to the parallel liberalization of both politics and economy. For Liberals, ideally development policy should embrace parallel political economic reforms. Their arguments are that promotion of investment both local and direct foreign investment is easy with political liberalization which builds the confidence of investors in the governance system of a state. Neo liberals argue that wealth accumulation if any under developmental state political and economic models is at the cost of human rights and with intimidation. Developmental state governments are viewed as non democrats by the liberal thinkers. It is evident that developmental state principles support state capitalism and strong hands of the government in the economy. The democratic state versus the developmental state is a false dichotomy for Ebrahim Fakir (2005). He argued that the Developmental State on the one hand and the Democratic State on the other hand are not compatible. The debate on these two terms has been cast in largely mutually exclusive terms, with a tendency to confuse managerially, public sector performance and delivery as synonymous with the developmental state. Of course the developmental state is this, but it is much more. A developmental state involves triangular alliance and cooperation between the government, the private sector and the society at large. It is a state in which the politics embeds itself in businesses. On the other hand, there is the tendency to conflate and confuse the idea of the democratic state with the classic notions of democratic indicators – in all their guises, from the liberal to the radical. But as radical as the conceptualization of the democratic state may be, its exclusive focus on rights, responsiveness, representation, consultation, accountability, oversight, participation and voice is perhaps its weakness, as the democratic state is all of these things, but also much more.

In history, there is a long debate on the relationship between democracy and economic development. The link between democracy and development can be explained based on the definition given to both. Huntington(1991) a political system is considered democratic to the extent that its most powerful collective decision makers are selected through fair, honest and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote. Schumpeter (1942) defined democracy as institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote. Working with Schumpeter's definition of democracy Dahl (1971) distilled the following seven key criteria as essential attributes of democracy:

- The right to run for public office
- Freedom of expression
- Access to alternative sources of information that are not monopolized by either the government or any other single group
- Control over governmental decisions about policy constitutionally vested in elected officials
- Relatively frequent, fair and free elections
- Universal adult suffrage
- Freedom of association (i.e. the right to form and join autonomous associations such as political parties, interest groups, etc).

Democratization demands not only transition to formal democracy as suggested by Schumpeter's definition but also consolidation of the holistic system of democracy. This has been evidenced from the difficulties experienced by regimes that have undergone the transition but not proved the case in consolidating the democratic system. Consequently experts turned out to look for a more embracing definition of democracy based on the concept of accountability. From the theoretical debate on what constitutes accountability (Mainwaring and Welna 2003; O'Donnell 1996; Schedler et al. 1999) we can identify three basic dimensions of accountability:

- *Vertical accountability, which enables citizens to hold their political leaders to account through the electoral channel at specified points in time*
- *horizontal accountability, which refers to accountability mechanisms that exist within the distinct bodies of government itself, whereby state institutions are authorized and willing to oversee, control, redress and, if need be, sanction unlawful actions by other state institutions and*
- *Societal accountability, which refers to the (ongoing) watchdog functions of civic associations, other NGOs and an independent mass media over the actions of the state*

The definition of democracy based on the importance of accountability is compatible with the model of liberal representative democracy which entails free and fair electoral process, the respect of basic civil and political rights, and the provision of accountability mechanisms essential to democracy (Diamond 2003; Amartya Sen 1999a). According to Chambers (1996), this model of democracy has been subjected to critics on the grounds of neglecting the ways of participation of the public. Chambers further argued that democracy should focus on inclusion, deliberation and participatory processes. John Gaventa (2006) defined democracy as political project of developing and sustaining more substantive and empowered citizen participation in the political process than what is normally found in liberal representative democracy alone.

Development has been defined in various approaches by scholars in the field of economics, politics and development studies. Amartya Sen (1999b) defined development as freedom which comprises in addition to the economic indicators of development; freedoms like human and political rights, social opportunities, transparency guarantees and protective security. This definition entails that, democracy should lead to development. Besides, the recent debates on a rights-based approach to development (kapadia 2002; Rajagopal 2003, 2005) focus has been on participation, accountability, and other elements which are compatible to those values underlying substantive forms of democracy. Michael P. Todaro and Stephen C. Smith (2005) defined development as multifaceted process of change, where economic, social, political and institutional factors interact with ultimate goal of enhancing the condition of human lives. For Joseph Stiglitz (2003), development is a 'transformation of society' that goes beyond economic growth alone to include social dimensions like literacy, distribution of income and life expectancy. Joseph Stieglitz's definition is inclusive of the variables used in the UNDP's construction of human development index for evaluation of countries' development progress.

The conventional wisdom about the interface of democracy and development claims that democracy is precondition for economic development. Amartya Sen (1999a) argued that democratic process does have intrinsic value on its own right, and it should be expected to arrive at policy decisions in a way that is inclusive, participatory, broadly representative of different societal interests, transparent, and accountable though there has been plethora of evidence that (see: Schmitter and Karl 1996), there is nothing inherent in the nature of a democratic system that should automatically lead to certain outcomes. This implies that it is not always the case that people regard democracy as beneficial for economic development. There has been compelling evidence documented in economic development literature that democracy emerges in a good shape in cases of higher rate of economic growth. The proclamation of the world conference on the Human Rights held in Tehran in 1968 asserted that the "achievement of lasting progress in implementation of human rights is dependent on the sound and effective national and international policies of economic and social development". This assertion seems heavily influenced by the notorious analysis of (Lipset 1959; Almond and Verba 1963; Moore 1966) that democracy was more likely to emerge in countries with relatively higher levels of socio-economic development. Conversely democracy is a luxury that less developed countries cannot afford because weak institutional and structural problems.

The conception in the standard policy prescription is that democracy is instrument of development. But it is viewed as an outcome of development by modernization theorists that argue for emergence of democracy following the satisfaction of material desire. It is only in recent decades (starting from 1990's) that it becomes politically correct to link democracy with development. It is since the middle of the 1990's (P. Alston 1995), that the human rights group began to work more directly and constructively with their development counterparts to promote right based approach to development. Rights based approach to development gained prominence with the move from the then secretary general of the UN Kofi Annan in 1997 in instructing all UN agencies to contribute to the mainstreaming of the human rights based approach to development(eds. P. Alinston and M. Robinson, 2005). Therefore, *what some new light does the Beijing model shed on understanding the relationship between democracy and development?*

The Beijing model development policy rejected the argument for democracy as precondition for economic development as it follows model of political centralization and regional economic decentralization under single party system of governance. Through political centralization policy (Chenggang Xu, 2008), China's regions are politically controlled by the Party and the national government and Political power within China is exercised through the Party and the key of the political control is personnel appointments of sub national governments by the central government. Purely on economic matters the sub national governments in china has enormous control of power and have substantial involvement in the economies within their jurisdiction, including regional firms. The structure of the personnel control extends the central government's to officials of all levels of regions, from provincial to municipal, then to county until the bottom of the hierarchy, township government(Burns, 1994). It provided the central government with a mechanism to make regional officials comply with the central government's policy (Naughton and Yang, 2004) and to achieve some macro control, such as inflation (Huang, 1996). The Beijing model focuses on the idea of state capacity governing the process of economic development and the arrangement of institutions properly matched to the policy objectives than simply dictating standard policy prescriptions.

Liberals argue that investors feel secured in liberalized and democratic political systems. The argument of the liberals proved the case practically for it was the path followed by the current globally known as industrially advanced countries with the forerunner the United States of America and Western Europe. *So what lesson could the least developed countries consider from this experiences? Can we think of single universal path to development?* To find the answer to this questions one should subscribe to the historical school thinking, structuralism and institutionalism. Historical school thinkers argue that policy tools and models that worked somewhere may not prove the case in other social and historical contexts. They questioned the validity of the universal application of economic and governance models paying special tribute to the variability of history, culture and social systems of states. They advise states to look in to their internal affairs when they try to import models and policies the effectiveness of which is tested somewhere else. For structuralism and institutionalism the structural and institutional arrangements as well as institutional capacity are of paramount importance for development of governance and economic development policy models (Michael P. Todaro and Stephen C. Smith. 2005).

According to North (1990), institutions are defined as the "rules of the game in a society, or, more formally, humanly devised constraints that shape human intervention. Among the institutions that are most crucial to economic growth are those that enable a country to allocate capital to its most productive uses. Such institutions establish and maintain strong property rights, an effective legal system, and a sound and efficient financial system. In recent years, the field of economic development has come to the conclusion that ―institutions rule and is critical to economic growth. According to Ramona Frunză (2011), institutions represent a network of formal and informal rules meant to introduce order in the economic and social life and to edify a mechanism of applying and monitoring these rules in view of efficiently using the available national resources. Formal institutions such as property rights, law's authority, free market, and contract has to be established to principally guide the rule of law through ensuring moral political class and independent justice system. On top of the formal institutions, informal institutions composed of customary traditions, life style, cultural inheritances which significantly vary from economy to economy and from individual to individual, being much more difficult to change and having a more reduced influence on development according to Ramona Frunză. In fact countries also vary in terms of the arrangement and quality of their formal institutions. Though the formal institutions have significant impact on development it is impractical to ignore the informal institutions in the short run from development policy making. Traditional and customary institutions dominate the institutional system of least developed economies and radical shift is very difficult because of low level of knowledge and skill to deal with the shift. Infract the degree to which informal institutions influence policy decision must be empirically distilled. Accommodating these institutions in to the development policy system in short run, least developed economies governments should envisage developing the formal institutions in the long run through institutional capacity building. Therefore, the issue of precedence between political liberalization and economic liberalization should be determined case specific based on the reality of economic, institutional, historical, structural and social phenomenon in states.

For institutional thinkers institutional capacity development is the way forward for achievements of remarkable economic growth and development. Democratic leadership also needs the development of institutions capable to deal with the social, economic and legal matters. Therefore, parallel liberalization is possible subject to the scrutiny of the social system. Democratic political system fosters hard work and achievements and mobilization of resources for economic development. Under such leadership style it is easy to promote investment and hence, political liberalization along with economic liberalization can accelerate economic growth and development. Developing countries should protect their democratization process from those nations obsessed with exporting what they call democracy, good governance, and ideal political ideology for themselves. Political ideology, for instance is the matter of thought and intellect that should be developed in a given social system. It does not by any means qualify to be a commodity to be exported by producers of it and imported by consumers.

The neo liberal open market philosophy has in fact contributed to the dominance of the powerful economies enabling them to gain at the cost of developing economies where production technology and skill were far behind those developed economies. This resulted in unjust global trade system where one group (i.e. the developed world) controls the production mechanisms and others (i.e. the developing) remain as huge market for unloading the produce of the others. This is the unintended outcome of the Washington consensus policy prescriptions which most of developing economies policy makers as well as those of developed economies policy makers did not realize for long. The imbalance is far more about developing countries' dependence on commodity exports and their relatively low labour productivity. Here a very plausible counter argument is that LDC'S cannot be a "huge" market unless they are prosperous against. The reality is development policy should emerge from the nation's historical, economic, social and cultural paths while learning from the accumulated experiences of development policies advanced and emerging economies. One possible counter argument in this case is the idea that each country must follow its own development path seems to leave countries open to any nonsense that nationalist leaders may come up with. But the learning effect of the accumulated experiences from success histories can remove the danger of nonsense nationalist policies that may emerge. Policy freedom is fundamental for developing economies to be free from acting as an agent of exporters of democracy and political as well as economic ideologies. Liberal thinkers view market liberalization as a radical shift in policies of regulation to deregulation to bring effective economic development and growth. Such thinkers argue that it is not the benevolent act of stake holders in an economy which brings economic efficiency rather it is the self interest and motive. That is, if everyone has freedom of action would strive to maximize his/her motive and hence maximize common interest. *I would like to raise here the following question: are individual interest and collative interest compatible? If yes how? If not, why not.*

To answer this question firstly one need to understand the nature of individuals and collective interest. Liberal moral theory (utilitarianism and deontology) assumes that human material nature is the seat of desire, and that desire is essentially unsociable. This implies that individual interest driven action may lead to socially desirable outcomes in terms of welfare. Mandeville and Bentham argued that individuals are selfish or egoistic. Hence, their action driven towards maximization of one's interest may be at the cost of the common interest. Epistemological perspective philosophers (Ayn Rand 1964, 1982,) argue that human beings are selfish but rational and therefore they do not destruct collective interest for their action is dependent on reason and only reason. According to my view this may be the case where welfare social thinking and ethical actions of the public are at advanced level and engraved in thinking of members of the society. It may prove the case in a society where ethical actions are standardized and unwritten article in their constitution. Even in such societies people would inevitably try to distort the public interest for personal gain (true for the super egos).

Secondly, *if individual interest and collective interest are compatible why do governments exist?* Political philosophers in their state formation theory argue that existence of government is justifiable for stateless life is characterized by war, competition and conflict which are savage life. Therefore, I argue that individual interest and collective interests are rarely compatible. Government intervention with appropriate policies and tools can make collective interest and individual interest protected. Policy tools that regulate individual behaviors are important for this purpose. Liberal thinkers argue that market liberalization promotes investment both local and foreign direct investment**.** *My question here is does mere market liberalization suffices for attraction of investors? Do inventors need nations to accept neo liberal orthodox theory as political ideology?* The answer is that investors need open economy which is properly managed with stable macroeconomic variables matched with peace and security, political stability, congenial investment policy environment, suitable infrastructural facilities (i.e. transport, communication and power), strong institutions to establish and enforce private property laws and regulations**.** That is the breakthrough the world came to know from the experiences of Asian raising giants. Nonetheless, China's property ownership structure has been criticized on grounds of failure to offer security for private property. This has been one of the vital concerns of scholars and experts. However, the recent move by the Chinese government to secure private property rights is welcoming. In 2007 China has passed a new property law that introduces a wide range of specific improvements for the private sector and, for the first time, recognizes that an individual's private property rights are protected to the same level as that afforded to collective and State property rights.

Huntington (1968) what matters for economic development is political stability, rather than the particular political institutions. Any system of political institutions promotes development as long as it maintains political order. The danger is "political instability." important point at this juncture is, first for nations which are in the take-off and preconditions for take-off in economic development, state action in infrastructure development is imperative. Although dreaming economic development without private sector development is just expecting gold from the sky, Private investors with their intension of making return from their investment are not willing to construct roads, street lights, police protection, and other infrastructures which are key for investment promotion but non excludable by their nature and hence unprofitable to the private investor. For the excludable infrastructural facility development even government cannot force investors to go to the geographical area of government's choice but infrastructure is important. In Such situations, governments may have strong hands in an economy because of investment in to infrastructure development. Secondly, in case demand for goods and services exceed the supply and lack of industrial education may expose the public/consumers to exploitation by few producers that could enjoy monopoly or oligopoly power in production and pricing decisions. Arguably excess demand would induce suppliers to move into the market. The government's role is therefore to ensure that as far as possible markets are contestable. But in situations of undersupply, government intervention through provision of goods and services could reduce the burden of public exploitation by few. I argue here that demand and supply management is critical in such economies until relatively large producers come to the market and the public gain industrial education to the level where producers are compelled to think of social welfare in their business decisions.

Generally speaking, government intervention is important for correction of market failures even in advanced economies let alone in developing economies where the market is imperfect, monopoly power prevails, technological progress is low and weak institutional and structural problems are the essence in their governance and administration systems. Government intervention could alleviate the market imperfection problems Paul R. Krugman and Maurice Obstfeld (2005) but bigger government could lead to inefficiency. Hence, active government in all spheres of government operation is important for economic, social and political transformation.

Neo liberal Economic theory as preached by academics has dissociated itself from economic reality and has been trying to disentangle economy from politics or state. Evidence, however, proved that state and economy cannot be separated and hence comprehensive knowledge of the social system, economic and political conditions is fundamental for economic administration and development policy making. Financial market liberalization opens the local capital markets of a country to foreign ownership and operation. It is well recognized that strong domestic financial markets can play a key role in economic growth and development (Peter B. Henry, 1999).

Theoretical literature proved that liberalization reduces the cost of capital as foreign investors obtain diversification benefits from investing in emerging markets. Consistent with the reduction in the cost of equity, liberalization events are associated with substantial positive abnormal returns that are related to the diversification benefits provided by local stocks (Chari and Henry, 2004). The reduction in the cost of capital provides investors with financial resources at low cost and therefore promotes growth and investment. Well structured, properly functioning sound financial markets provides congenial environment for mobilization and allocation of saving contributing to improved productivity and growth. However there is booming literature with the argument that financial market liberalization may not bring the desired outcome but adverse results. Kwan Chowand. Et al (2007) argued that unless the process of liberalization is properly managed, it could provoke destabilizing capital flows and lead to volatile exchange rates potentially increasing the vulnerability of individual countries to external financial shocks. Frederic S Mishkin (2007) argued that for financial liberalization to be a success it is essential as a precondition to: (1) Improve the quality of financial information and (2) Develop sound, prudential regulation and supervision of the banking system. *What does the mixed outcome of literature about the effects of financial liberalization tell us? Is that mere liberalization which results in adverse effects or the liberalization process and procedures foreword by countries?*

The answer is that it is not liberalization which produces evil results but the failure of the institutional and regulatory processes used and the manner in which institutions are structured. The effectiveness of market mechanisms is dependent on the quality of institutions such as the regulatory framework, enforcement of laws and private property protection mechanisms pursued. Emerging economies that opened their economy to foreign investors has achieved a remarkable improvement in economic growth though not without shocks to their financial markets. The experience of the Asian financial crisis of the 90's proved that strong regulatory framework and independent supervisory agency is mandatory for healthy financial market operations and since then the IMF incorporated this to its policy advice to developing economies though it has advocated liberalization with loose state action for very long period of time (Joseph E. Stiglitz 2004). Official liberalization of local markets, therefore, should be based on critical investigation of the benefits, the costs and its implication on the stability of the economy. Liberalization should be the subject of concern after the development of the necessary regulatory and institutional frameworks accomplishment. This is the case because mere liberalization is not sufficient for economic growth as it would lead to chaos if not properly administered. Proper policy tools and institutional systems should be in place to minimize the financial risk and volatility that could emerge as the consequence of liberalization. Precedence should be given to development of strong institutional and regulatory frameworks in such a way that they can be workable and operational in the process of economic management and administration. Liberalization could lead to domination of foreign firms and investors in local markets at early stages and this would result in failure to develop strong local firms. The former usually engages in profit repatriation and capital flight out of the host country where as this is least likely for the latter. Moreover, local firms often employ domestic workforce while international investors demand right to recruit from the global labor market and this is why the current growth record and investment in Africa is not generating new jobs. Therefore, regulatory provisions that could restrict 50% plus ownership for foreign firms in local financial markets, for instance, are vital for development of local firms and financial markets. This is not because preponderances of foreign firms do inherently create a problem. It is profoundly because the institutional weaknesses and structural problems in LDC'S can not enable them to control, monitor and regulate international investors who are experts in speculative businesses.

Concluding Remarks

Advocators of the Washington consensus model or neo liberal economic philosophers have been preaching non interventionist policy as the way out of poverty and backwardness for developing economies. That is, liberalization of both politics and economy. Pragmatic economic operation, however, proved that government intervention is important for reasons such as correction of market failures and imperfect market operation and, minimization of monopoly power, as well as problems of technological progress, weak institutional and structural systems. It has also been evidenced that market left to itself leads to economic and financial crisis which repeatedly shocked economies of those nations appealing neo liberalists and forced their policy makers to intervene in economic operations.

Neo liberal economic philosophy is based on individual as unit of analysis with the presumption that individual interest driven action produces better result for the whole society. But the reality is that the selfish interest of individuals is not compatible with collective interest. Adam smith the forerunner of free market economic philosophers clearly dictated that moral and ethical disciplines of market actors are of paramount importance for success of free market economic system. Rothschild (2001) and Samuel Fleischacker (2004), Adam Smith himself was aware of the influence of moral sentiments or 'passions' in economic activity and did not always subscribe to market-driven rationality. Neo liberal economic philosophers, however, distorted Adam smith's thought simply picking only the skeleton of his free market hypothesis which is perfect market competition and interpreting it in their own ways. What neo liberal philosophers missed is the fact that human beings are egoistic and could be engaged in economic transactions that are socially sub optimal to gain at the cost of others. The point of neo liberals is that unrestrained individualism can lead to an outcome that we all might agree could be better. But man needs moral limits to its action and that makes government engagement absolutely necessary.

The Beijing model development policy advocators believed in precedence of economic liberalization to political liberalization though empirical evidence is inconclusive so far for the very reason that both paths were proved successful by different countries with different social, economic, cultural and historical experience. But those countries that pursued the path of economic liberalization postponing political liberalization to later periods have recorded economic and social transformation at a faster rate (P. Grosjan and C. Senic 2007, F. Giavazzi and G. Jebellin 2005) than those economies that pursued the path political liberalization first followed by economic liberalization. Hence, the issue of precedence between the two as development policy options should be determined case sensitive on due account of the political, social, economic and historical experience.

The Beijing model development policy of the recent 30 years is mainly characterized with political centralization and economic decentralization. It is a model in which the central government controls sub national governments of a unitary state system through direct personnel assignments and appointment of sub national government leaders. The sub national governments control economic affairs within their constituents and have substantial influence in the Chinese economy. The model promotes political stability through undemocratic governance in which public participation is limited to implementation of policies dictated by single party political decisions through its personnel assignment structure.

To sum up, the origin of development policy should be the nation's historical, economic, social and cultural paths and countries can pursue parallel reforms in economic and political systems if compatibility problem is determined insignificant through empirical analysis. That is, policy makers of developing economies should look for their own specificity and design development strategy which is responsive to their local and national conditions while learning from best practices and success histories of advanced and emerging economies to avoid non sense nationalist policies. That is, development should be local choice. It should not be miracle expected from external bodies as importation of development policy has proved to fail to pull developing economies from object poverty as the experience of the last half centaury revealed.

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