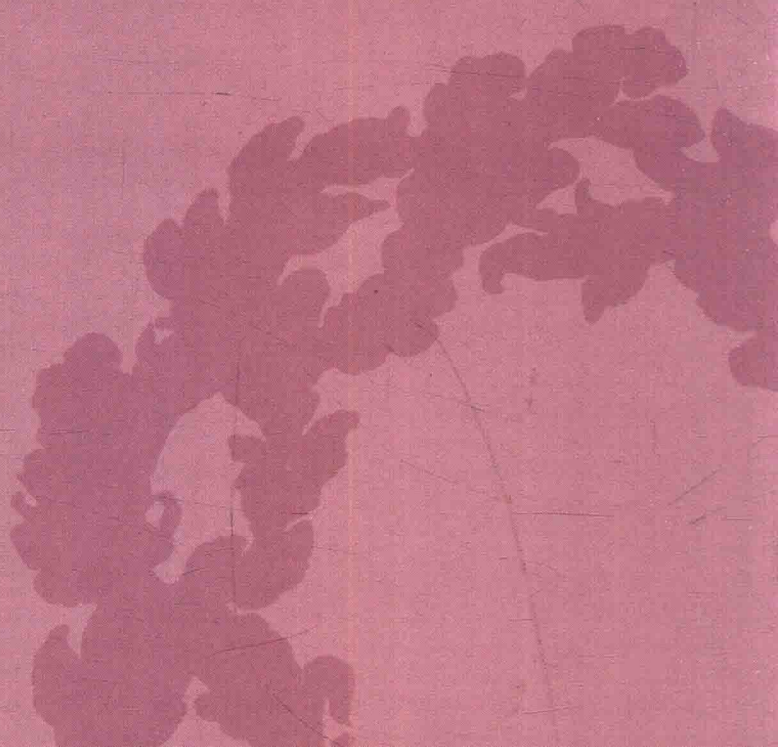


*Development and  
Financial Reform in  
Emerging Economies*

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*Edited by Kobil Ruziev  
and Nicholas Perdikis*



DEVELOPMENT AND FINANCIAL REFORM  
IN EMERGING ECONOMIES

EDITED BY

Kobil Ruziev and Nicholas Perdikis



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DEVELOPMENT AND FINANCIAL REFORM  
IN EMERGING ECONOMIES

# SCEME STUDIES IN ECONOMIC METHODOLOGY

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## LIST OF CONTRIBUTORS

**Alexandr Akimov** is Senior Lecturer at the Department of Accounting, Finance and Economics, Griffith Business School, Griffith University. He holds a PhD in financial economics from the University of New England and a CFA professional designation. His main area of research expertise is in emerging market finance, specializing in post-communist financial developments in the central Asia region. He has published in journals such as *Emerging Market Finance and Trade*, *Comparative Economic Studies*, *Economic Change and Restructuring*, and *Problems of Economic Transition*. His other research is in the areas of energy and carbon markets, and economics of local government. Alexandr has held academic appointments in Australia and Uzbekistan, as well as a financial industry appointment at the National Bank of Uzbekistan.

**Victoria Chick** is Emeritus Professor of Economics at University College London. Her work is to be found in three books, *The Theory of Monetary Policy* (1973 and 1977); *Macroeconomics after Keynes: A Reconsideration of The General Theory* (1983); and *On Money, Method and Keynes: Selected Essays of Victoria Chick* (P. Arestis and S. C. Dow, eds, 1992) and numerous articles on monetary theory and policy, methodology and the economics of Keynes. She has served on the Council and Executive Committee of the Royal Economic Society and on the editorial boards of several journals, and was co-founder of the Post-Keynesian Economics Study Group. She has had visiting appointments at several universities, including the Bundesbank visiting professorship in Berlin. A two-volume festschrift was prepared in her honour, edited by P. Arestis, M. J. Desai and S. C. Dow: *Money, Macroeconomics and Keynes* and *Methodology, Microeconomics and Keynes* (2001).

**M. Jahangir Alam Chowdhury** is Professor in the Department of Finance and the Executive Director of the Center for Microfinance and Development, University of Dhaka. He received his B.Com (Hons) and M.Com in Finance and Banking from the University of Dhaka and received his PhD in banking and finance from the University of Stirling. Prof. Chowdhury's research focuses on microfinance, poverty and entrepreneurship. His research has been funded by the Association of Commonwealth Universities, SANDEE, University of Stir-



ling, Royal Economic Society, Asian Scholarship Foundation, Government of Japan, Bureau of Business Research, Partnership for Economic Policy, and Grand Challenges Canada. Professor Chowdhury has published in various scholarly journals, including *Progress in Development Studies*, *Journal of Small Business and Entrepreneurship*, *Journal of Business Studies*, and *Journal of Finance and Banking*. Prof. Chowdhury has acted as a consultant to national and international agencies including the World Bank, CIDA, DFID, FAO, UNDP and Palli Karma Shahayak Foundation.

**Malay K. Dey** is currently a visiting assistant professor of finance at the University of Illinois at Urbana Champaign and the CEO of FINQ LLC, a diversified financial technology startup. He previously held faculty positions in multiple US universities including Cornell University, NYIT, and Morgan State University. Dey received his PhD (finance) degree from the University of Massachusetts Amherst in 2001. His research focuses on theoretical and empirical issues related to institutional trading and liquidity in equity markets. Dey has published in *Emerging Markets Review*, *Review of Quantitative Finance and Accounting*, *Journal of Trading*, and *Journal of Business Finance and Accounting* and also presented his research at prestigious conferences and workshops including the NBER, INQUIRE Europe, Bocconi University, and IGIDR.

**Dr Khurshid Djalilov** is Lecturer at the Bournemouth University Business School. He obtained his PhD in management from King's College London (University of London) and his MA in economics is from University of Colorado (USA). His research interests are in the areas of strategic management, international business, emerging markets and transition countries. He is also the coordinator of Palgrave Dictionary of Emerging Markets and Transition Economics.

**Alexander Dow** is Adjunct Professor at the University of Victoria in Canada. He was formerly Professor of Economics, Glasgow Caledonian University, and has taught at the University of Manitoba, the University of Toronto and the University of Stirling. Graduating from the University of St Andrews in Scotland in 1968 with an Honours degree in History and Political Economy, he completed an MA in economics at Simon Fraser University in British Columbia then worked as a Research Officer for the Commonwealth Secretariat in London. He earned a PhD in economics at the University of Manitoba. Research interests and publications have included the economic history of Canada, Keynesian economics, British economic performance and Scottish political economy. He is editor (with Sheila Dow) of *A History of Scottish Economic Thought* (2006).

**Sheila Dow** is Emeritus Professor of Economics at the University of Stirling in Scotland and Adjunct Professor of Economics at the University of Victoria in Canada. Her main research interests lie in the history and methodology of

economic thought and the theory of money and banking. Recent books are *Economic Methodology: An Inquiry* (2002), and *Foundations for New Economic Thinking: A Collection of Essays* (2012). She is co-editor of the WEA's online journal, *Economic Thought*, and co-convenor of SCEME. Past roles include chair of the International Network for Economic Method, co-chair of the Post Keynesian Economics Study Group and special advisor on monetary policy to the UK Treasury Select Committee.

**Daniela Gabor** is an associate professor in economics at the University of the West of England, Bristol. Her research explores discourses and practices of central banking through a critical political economy approach; the IMF's conditionality and advice on governance of cross-border financial interconnectedness particularly in relationship to global banks' market-based activities; shadow banking activities through the repo market, and the implications for central banking, sovereign bond markets and regulatory activity, including Financial Transaction Taxes. Her research has been cited in the financial media, and received funding from European and British sources. Daniela has organized several conferences and workshops on critical finance questions. She disseminated her research through active blogging and tweeting activities, alongside traditional academic journal outlet.

**Roy H. Grieve** graduated in political economy and history from the University of Glasgow in the early 1960s. Subsequently became a long-standing member of the Department of Economics at Strathclyde. Now retired. Grieve has been involved in teaching and research also in China (China Foreign Affairs University, Beijing), Pakistan (Government College University, Lahore), Nepal, Bangladesh and Albania. His main interests are in the areas of history of economic thought, macroeconomics and development; in several papers he has argued for the superiority of ideas of the Keynesian and old classical traditions over the mainstream modern focus on the neoclassical or marginalist approach. He remembers Dipak as an esteemed colleague and is also grateful to him for his support and encouragement of his daughter while an undergraduate at Stirling twenty or so years ago.

**Jens Hölscher** is Professor of Economics and Head of Department of Accounting, Finance & Economics at Bournemouth University. Previously he taught at the Universities of Berlin, Swansea, Birmingham, Chemnitz and Brighton. He held visiting professorships at the Universities of Halle (Institute of Economic Research IWH), Perugia, East Europe Institute Regensburg, Danube University, Bonn (ZEI), Bolzano-Bozen, Frankfurt (Viadrina), New Brunswick in Cairo, Almaty (KIMEP and KBTU) and the Centre of Economic Research at the Deutsche Bundesbank. He is interested in institutional and transition economics, both areas in which he published widely. He is the co-editor of Palgrave's (Macmillan's Global Publishing) book series 'Studies in Economic Transition'.

**Prasanta K. Pattanaik** is Emeritus Professor in the Department of Economics, University of California, Riverside. His current research interests include welfare economics and the theory of social choice, decision theory, the measurement of deprivation and living standards, and development of economics. He is a fellow of the Econometric Society, and, in 2006–7, he served as President of the Society for Social Choice and Welfare. In addition to his many papers in journals, he has written or edited ten books, including his most recent book, *Essays on Individual Decision-Making and Social Welfare* (2009).

**Nicholas Perdikis** is Professor of International Business and the former Director of the School of Management and Business at Aberystwyth University. He received his degrees from Cardiff University. He is a research associate at the Estey Centre for International Law and Economics in Saskatchewan and has worked as a consultant for UNCTAD and the UK Foreign Office and the British High Commission in India. His principal research interests lie in the impact of trade policies on firms exports and the international flow of goods as well as their impact on transition and developing economies.

**Kobil Ruziev** is Senior Lecturer in Economics at the University of the West of England, Bristol. He obtained his first degree from the Tashkent Institute of Finance in Tashkent, Uzbekistan where he studied Banking. He studied at Vanderbilt University in Nashville, TN in the USA for his MA in Economics. He obtained his PhD in economics from Stirling University, Stirling, Scotland. His research interests are in the areas of financial development and reform in emerging economies, SME use of formal and informal finance, institutional economics, and economic transformation in the former Soviet Union. Prior to joining the University of the West of England, he worked at various higher education institutions in Uzbekistan, Scotland, and Wales, and also had a banking industry appointment at the National Bank of Uzbekistan.

**Jan Toporowski** is Professor of Economics and Finance at the School of Oriental and African Studies, University of London. He studied economics at Birkbeck College, University of London, and the University of Birmingham, UK. Jan Toporowski is Visiting Professor of Economics at the International University College in Turin, and the University of Bergamo. He has written widely on financial macroeconomics. His most recent book is *Michal Kalecki: An Intellectual Biography. Volume 1, Rendezvous in Cambridge 1899–1939* (2013).

**Radha Upadhyaya** is an economist with extensive research and teaching experience. She is currently a research fellow at the Institute for Development Studies (IDS), University of Nairobi. At IDS, Radha is a member of the SAFIC (Successful African Firms and Institutional Change) research project. This project

aims to understand how successful African firms in the food-processing sector develop. Radha completed her PhD at the School of Oriental and African Studies (SOAS), University of London. Her PhD focused on the Banking Sector in Kenya and the thesis showed how social factors are essential to understanding competition in the banking sector. She is a development economist with unique combination of research, teaching, public policy and private sector experience. The scholar has been involved in policy reform, the restructuring of a failed Kenyan bank, and has also served on the board of the Institute of Economic Affairs. Currently she is a member of the Programme Investment Committee (Board) of the Financial Sector Deepening Trust (FSDK) which is an independent Trust established to support the development of inclusive financial markets in Kenya. Dr Upadhyaya has PhD and MSc from SOAS, University of London, and BA from University of Cambridge. She is also a CFA Charterholder.

**David Vazquez-Guzman** is a tenured professor serving in the Economics Division of the Social Sciences Department of the Autonomous University of Juarez City in Mexico since 2009. He is a former CONACyT fellow, and he got his PhD in economics from the University of Stirling, in Scotland, UK. Professor Vazquez works in areas related to economic development, methodology and microeconomic theory, focusing on issues of welfare and vulnerable groups.

**Chaoyan Wang** received her PhD in economics from the University of Stirling in 2008. She worked as a post-doctoral associate at the Department of Economics, University of York and a senior lecturer in finance at the University of Bedfordshire and a research associate at FINQ LLC. She is currently working as Teaching Associate at the School of Contemporary Chinese Studies of the University of Nottingham. Her research is mainly focusing on market micro-structure and market regulation on emerging stock market.

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## FOREWORD

It is an honour for me to be asked to write the foreword to *Development and Financial Reform in Emerging Economies*, which the editors, Dr Kobil Ruziev and Professor Nicholas Perdikis, have dedicated to the memory of Dipak Ghosh. Dipak was a close friend whom I knew for more than three decades. Like his many other friends and colleagues, I admired him immensely for his scholarship, his passionate belief that economics could be a powerful instrument for improving the life of the poor all over the world, his deep concern for the welfare of his students, and, above all, his compassionate and gentle personality. He was always eager to explore new ideas and ready to share his ideas with anybody who might be interested. Only a few weeks before his death, he wrote to me to ask me whether I would like to join him as a coauthor of a paper that he was planning to write on the implications, for welfare economics, of having individual preferences which might change with a change in the distribution of property rights.

This volume spans some of the major research interests of Dipak. The chapters in Part I explore a number of important issues in development economics. A highly interesting feature of many of these chapters (see, for instance, Chapters 1, 2, 3 and 6) is that they delve into the history of economic thought and highlight insights from the contributions of thinkers such as Smith, Hume, Keynes and Kalecki. The chapters in the second part of the volume study financial markets in many different parts of the world, including Kazakhstan, Uzbekistan, China, India, Bangladesh and Africa. A valuable addition to the literature on economic development and financial reforms in developing and transition economies, *Development and Financial Reform in Emerging Economies* is a fitting tribute to the memory of Dipak.

PRASANTA K. PATTANAİK





## INTRODUCTION

Kobil Ruziev and Nicholas Perdikis

Economic crises, be they large like the 1929 Great Depression or the Global Financial Crisis (GFC) of 2008, or small, are costly in terms of lost economic opportunities. They are also painful as they lead to unemployment and increase personal and social tensions, damaging the lives of millions of ordinary people. Ironically, major crises provide an impetus to challenge orthodox thinking which can lead to new ideas with radically different policy conclusions. The Great Depression, for example, inspired John Maynard Keynes to write *The General Theory* (1936). In this pioneering work, Keynes rigorously explained, in terms of fundamental uncertainty, monetary production and investor psychology, why market-based monetary economies were inherently unstable and proposed measures to tame excessive fluctuations in aggregate demand.

Success, however, often breeds complacency. This is a common trait in academic disciplines and is no less true of economics. The economic success in advanced economies during the post-World War II period and the subsequent 'triumph' of Keynesianism in the 1950s and 1960s led to the detachment of economic theorizing from reality. Economists started treating restrictive formal models, and the results of simulations based on them, as if they represented reality. Unfortunately, the economic problems of the late 1970s and the early 1980s, which could not be explained by the traditional Keynesianism, did very little to change this trend. With the collapse of Keynesianism, the detachment from reality actually widened with the rise and subsequent dominance of the neo-classical orthodoxy during the so-called Great Moderation, which preceded the GFC. Orthodox theories not only failed to predict the scale and the magnitude of the GFC, but, with their insistence (or preaching) of the inherent stability of market-based economies, can also be blamed for indirectly contributing to it.

Although the GFC has been interpreted as the second biggest crisis since the Great Depression in terms of its depth, probably it is the biggest ever in terms of its breadth as it affected almost all countries in the world in one way or another.