Stabilisation and Structural Adjustment in Developing Countries: The Case of Jordan and Malawi

Jane Harrigan
Hamed El-Said

ABSTRACT. This paper analyses and compares World Bank structural adjustment programmes and International Monetary Fund (IMF) stabilisation programmes in Malawi during the 1980s and Jordan during the 1990s. Both are small aid-dependant economies with a narrow export base making them vulnerable to exogenous shocks. The article pays particular attention to the political economy environment in which reform programmes are implemented and to the role of exogenous shocks, both adverse and favourable, in determining the outcome of the programmes. The sequencing of reforms is also assessed in both countries. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: <getinfo@haworthpressinc.com> Website: <http://www.haworthpressinc.com>]*

KEYWORDS. Malawi, Jordan, World Bank, International Monetary Fund, structural adjustment, stabilisation, economic reform

INTRODUCTION

Over the past two decades, the sphere of influence of the International Monetary Fund (IMF) and World Bank (WB) has left no devel-

---

Jane Harrigan, BA, Oxford, MPhil, Cambridge, PhD, Manchester, is Senior Lecturer, School of Economic Studies, University of Manchester, Oxford Road, Manchester, UK, M13 9PL (E-mail: Jane.Harringan@man.ac.uk).

Hamed El-Said, MA, Manchester, PhD, Manchester, is Lecturer, Faculty of Management and Business, The Manchester Metropolitan University, Aytoun Building, Aytoun Street, Manchester, UK M1 3GH (E-mail: H.Elsaid@mmu.ac.uk).

oping region untouched. Developing countries from the Middle East to Africa to Latin America and former Communist regimes of Central and Eastern Europe have all resorted to the IMF and WB financial support. Even some of the Newly Industrialising Countries (NICs), once seen as being immune from the external influence of international agencies, have recently found themselves in desperate need of IMF and WB financial support.

But this support is not unconditional. Recipient countries must carry out certain reform measures, known as stabilisation and structural adjustment lending programmes (SALPs) designed by the IMF and WB officials. The general aim of these programmes, according to the IMF, is the "restoration and maintenance of viability to the balance of payments in an environment of price stability and sustainable rates of economic growth" (Cook and Kirkpatrick: 1990: 170). Between 1978 and 1996, developing countries in different regions implemented more than 200 such programmes (Jaradat: 1994: 111).

This article analyses the experience of adjustment and stabilisation in Malawi and Jordan. Malawi was one of the earliest adjusting countries undertaking an extensive reform programme in the 1980s. Particular attention is paid to the WB supply side programme under the three SALs, which ran from 1980-86. Jordan, by contrast, was a late adjuster initiating its programme a decade after Malawi and placing more emphasis on IMF-guided demand side stabilisation policies. Hence we analyse stabilisation and adjustment in Jordan over the period 1990-96. Despite differences in their per capita income and the level of development, both of these countries suffered from similar external and internal imbalances that necessitated negotiations with the IMF and WB, albeit at different times. Both are also small economies with a narrow export base making them highly vulnerable to exogenous shocks. But the outcome of policy measures was totally different. The unfavourable outcome in Malawi was explained by a WB official "as simply an unfortunate case of promising reforms, bad luck" (Gulhati, 1989). The more favourable outcome in Jordan was explained by an IMF senior official as a case of a "government totally committed to continue implementing faithfully the arrangement concluded with the IMF, noting that in many respects Jordan has gone beyond IMF prescriptions" (Al-Fanik, March 1997: 3).

We challenge these views in this article, paying particular attention to the role of the political economy and the role of exogenous shocks in determining the outcome of reform. We argue that Jordan has not gone beyond either the IMF or WB prescriptions, nor can commitment and faithfulness explain its favourable outcome to IMF/WB policy prescriptions. Jordan's felicitous outcome, like Malawi's unfortunate upshot, was also largely a case of luck, in this case, good luck in the form of favourable exogenous shocks. Malawi, on the other hand, was afflicted by bad luck in the form of unfavourable exogenous shocks. To some extent, outcomes in both countries were also influenced by inappropriate policy prescriptions by the IMF and WB, which wrongly regarded both economies as non-interventionist and free market, and by policies undertaken by their governments which were quite independent of IMF and WB policy reform conditions.

The next section looks at what the literature says about the effectiveness of the IMF and WB programmes in developing countries. Then, the main implications of reform in developing countries for international business managers are discussed. This is followed by a presentation of the economic cycles (boom to bust) of Jordan and Malawi respectively that necessitated co-operation with the IMF and WB. Next, the international institutions diagnosis and reform prescriptions in each country are analyzed. Finally, the impact of the reforms are presented and conclusions drawn.

LITERATURE REVIEW

Stabilisation and SALPs, as mentioned earlier, aim at the restoration of external and internal balances in an environment of price stability and sustainable rates of economic growth. In the 1970s and 1980s, many developing countries experienced problems in each of these economic areas, and therefore implemented, mostly in conjunction with the IMF and WB, more than 200 such programmes to restore their macroeconomic equilibrium. But what difference did these programmes make to the recipient countries' economies?

The first real attempt to evaluate stabilisation programmes was undertaken by two IMF staff, Reichman and Slillso, in 1978. They compared the behavior of the balance of payments, inflation and growth rates in the two-year period before the programmes started with the two-year period after the programme ended. Their study, which included seventy-nine IMF supported programmes implemented during the period 1963-72, found that a significant improvement in the Balance of Payments (B of P) had taken place only in one fourth of all programmes evaluated, the rest of the cases experienced no significant change. The impact on growth rates and inflation were mixed, both increasing in some cases and decreasing in others (quoted in Khan, 1990, p 1990).

The "before versus after" approach was also used by Connors (1979), Killick (1984), and Pastor (1987) to evaluate the effects of the IMF programmes in a number of developing countries which implemented stabilisation programmes during 1965-81. These studies came more or less to the same conclusion: IMF programmes had no discernible effect on growth rates, current account deficits, and inflation. The only exception was Pastor's study which found that IMF programmes were associated with higher inflation rates. Corbo (1990) also used the "before and after" methodology to examine the effect of the WB SAPs in a number of developing countries. Corbo observed an improvement in GDP growth and saving rates in the post-programme period accompanied by a decline in the investment/GDP ratio.

However, the performance of an economy is influenced not only by the IMF and WB programmes, but also by other important, exogenous factors, like changes in weather conditions, world demand, terms of trade, capital inflows and an end or start of a war. The "before versus after" approach cannot isolate the effects of the IMF and WB programmes from the effects of these external factors, and, therefore, is only "useful to show what happened in programme countries, but not why it happened" (Mosely et al: 1991: 184).

To overcome the weaknesses of the first approach, some analysts have used the "plan versus target" test. In this approach, targets set by the donor at the inception of the programme are compared with the actual performance or outcome under the programme period. The difference between target and actual performance, either negative or positive, is attributed to the programme itself.

This test was used by Reichman in 1978 and Zulu and Nsouli in 1985. Reichman's study examined twenty-one programmes implemented in eighteen countries during 1973-75. He found that the B of P targets were met or exceeded in nearly two-thirds of the programmes. The targets for inflation were exceeded in over half of the programmes, and that 62% of the programmes met their growth targets. Zulu and Nsouli study, which examined a number of IMF programmes implemented in Africa during 1980-88, observed that the current account targets were met in 38% of the programmes, inflation targets in about 48%, and growth targets in only 20%.

Despite its attractiveness, the "plan versus target" approach is no better than the "before versus after" approach in predicting the influence of exogenous factors on the performance of an economy. Correlation does not mean causation, and no association can be found between performance and targets.

Mosely et al. (1991: 184) argue that the only approach which can provide any hope to isolate the impact of the IMF and WB programmes from other exogenous factors is the "with versus without" test. Here, the behavior of major macroeconomic indicators in programme countries during the programme period is compared with the behavior of the same macroeconomic indicators in non-programme countries, i.e., a control group, over the same period. The difference in economic performance between programme and non-programme countries is attributed to the programme itself. Donovan was the first to use this approach in 1981 and 1982 to evaluate the effects of a number of IMF programmes in developing countries. Comparisons were made in both studies over one and three-year horizons. Donovan found that the performance of exports and inflation in programme countries was better in the first study irrespective of time comparisons. Growth performance was ambiguous, being higher in programme countries during the one-year comparison but worse during the three-year comparison. In the 1982 study, Donovan found that inflation rate, current and B of P deficits were all lower in programme countries. However, growth performance was worse in programme countries, which also experienced a decline in investment/GDP ratio, irrespective of time comparison.

However, Donovan's studies simply compared the macroeconomic performance of countries which implemented IMF-supported programmes with that of the control group but without taking into consideration the differences between and among these countries: programme countries generally have larger imbalances in their economies which lead them to introduce these programmes in the first place. Therefore, they are unrepresentative of developing countries as a whole. Moreover, not all programme countries have the same degree of compliance with the IMF and WB conditionalities. Some simply comply more than others. Failing to isolate the influences of these two points is likely to give misleading results.

To avoid these problems, Mosely et al. used a more sophisticated "with versus without" test in 1991 to examine the impact of the WB programmes in twenty-five developing countries during 1980-87. They carefully chose a control country to pair with each adjusting country ensuring that the paired countries were as similar as possible in terms of economic structure and exposure to exogeneous shocks, differing only in that one undertook an adjustment programme and the other did not. Adjusting countries were also broken down into two sub-groups–high and low compliance countries. Their results were remarkably similar to the results of a study by the WB published in 1988, which used almost the same approach. Both sets of results suggested that programme countries had better current account performance, worse investment performance and little difference in growth rates in relation to non-programme countries. However, the authors admitted that even in this approach they could not isolate the effect of the IMF and WB programmes from the effect of other injections of finance, including aid, workers remittances and other lendings (Mosely et al.: 1991: 186 and 204).

The final approach used to evaluate the effectiveness of the IMF and WB programmes is "comparison of simulations" approach, which requires an econometric model and extremely accurate data that are difficult to find in most developing countries. Khan (1990) favours this approach, and used it twice in 1981 and 1985. The first study found that IMF programmes were associated with lower growth rates and higher inflation rate. The second study found that although the B of P improved, this was at the expense of higher inflation rate and lower growth rates.

In summary, the available empirical evidence suggests that the IMF and WB programmes have had a positive impact on the B of P of adjusting countries, negative effect on investment, varied effects on the current account and no discernible effect on inflation and growth rates (Table 1). However, all of the above studies are highly aggregated analysing groups of countries and failing to isolate individual country experiences. Any effective and successful assessment of these programmes requires a comprehensive country by country analysis of both the internal and external economic and political environments. This paper aspires to achieve this objective.

TABLE 1. Assessment of IMF and WB Programmes in Developing Countries, 1963-1988

Study	Date of study	Time period	No of Progs.	No of countrs	Method	Effect				
						BOP	CA	I	IV	G
Reichman & Slillso	1979	1963-72	79	–	Before-after	0		0		0
Connors	1979	1973-77	31	23	Before-after		0	0		0
Killick	1984	1974-79	38	24	Before-after		0	0		0
Pastor	1987	1965-81	18		Before-after	+	0	–		0
Corbo	1990				Before-after				–	+
Reichman	1978	1973-75	20	18	Plan-target	+				+
Zulu & Nsouli	1985	1980-81	35	22	Plan-target		–	0		–
Donovan	1981	1970-76	12	12	With-without				–	0
Donovan	1982	1971-80	78		With-without	+	+	+	–	–
WB	1988				With-without		+		–	0
Mosely et al.	1991	1981-86		25	With-without		+		–	0
Khan & Knight	1981				Simulation			+		–
Khan & Knight	1985				Simulation	+		–		–

+ Positive change. – Negative change. 0 No effect. BOP means balance of payments. CA means current account. I means inflation. IV means investment. G means growth.

IMPLICATIONS FOR INTERNATIONAL BUSINESS

Stabilisation and SALPs have a profound effect on the economic and political environment within which the private sector, both domestic and international, does business in developing countries. Markets, prices and in many cases foreign trade have been liberalised, the role of the state in the economy reduced, privatisation and deregulation introduced, monetary policy tightened, and the financial sector reformed. Measures to facilitate and attract more foreign investment have also been part of these reforms, including the introduction of new investment laws, regulations to protect property rights and relaxation of restrictions pertaining to foreign ownership. Many sectors which were five or ten years ago preserved for domestic investors are only now open for foreign competition.

These changes and policies, to the extent they were implemented, have important implications for international business managers and the way they choose to serve the markets of developing economies. Most importantly, they provide these managers with new opportunities to advance the rapid globalisation of production process by allowing them to disperse the activities of their corporations to locations that offer the greatest cost and efficiency gains. It is important to note in this respect the increasing tendency for international investment to be directed at developing rather than developed countries. The total amount of foreign direct investment (FDI) going to developing countries rose from US$25 billion in 1990 to more than US$90 billion in 1995, almost 40 percent of total FDI in 1995 (Table 2). The distribution of this international investment, however, has been largely uneven. Most private capital flows have gone to countries which made the greatest progress in macroeconomic stabilisation, improving the investment climate and financial sector reform and at the same time have a relatively large market and a good record of sustained economic growth. Table 2 adds details by listing the largest FDI recipient regions in recent years.

Privatisation programmes in many developing countries, particularly in transition economies and Latin America, have been the main source of FDI flows. Between 1990 and 1995, they attracted more

TABLE 2. Net FDI in Developing Countries, 1990 and 1995 (US$ billion).

Region	1990	1995
All developing countries	**25**	**90.3**
Sub-Saharan Africa	**0.9**	**2.2**
East Asia & the Pacific	**11**	**53.7**
South Asia	**0.5**	**2.0**
Europe and Central Asia	**2.1**	**12.5**
Latin America & the Carribbean	**7.8**	**17.8**
Middle East & North Africa	**2.8**	**2.1**

Source: World Bank, World Debt Tables 1996, p. 17.

than US$40 billion in FDI. International investment associated with ''greenfield'' operations involving the creation of new facilities from scratch has been very small, ranging from 10 to 20 percent of total FDI over the same period (UNCTD: 1997: 31). The 1996 WB World Debt Tables report predicts privatisation to continue to be the main source of FDI flows to LDCs over the coming few years. International managers that move quickly to take advantage of these opportunities are in a better position to achieve a first mover advantage.

FDI, either via privatisation or ''greenfield'' operations, is not the only approach available for international firms to penetrate the markets of developing countries which have embraced reform measures. Trade liberalisation and deregulation can facilitate international trade and therefore enhance the attractiveness of exports as an entry strategy. Indeed, exports, facilitated by large reduction in tariffs and non-tariff barriers in many countries in the region, and joint ventures, have been the most popular approaches used by international firms to establish a presence in the Middle East and North Africa (MENA) during the 1990s (Strange: 1995). This trend, however, has been at the expense of FDI in the region, which declined slightly between 1990 and 1995 (Table 2).

Many countries in the MENA signed agreements with the IMF and WB to reform their economies, like Turkey, Jordan, Egypt, Tunisia, Morocco and recently Algeria. The extent and pace of reform varied considerably within and among these countries. In Jordan, for example, despite large reductions in tariff and non-tariff barriers, privatisation and property rights regulations are still non-existent despite more than ten years of reform efforts. Many other measures which aimed at promoting foreign investment in the country (like licensing system or one-stop-shop) have either not been implemented or have been made even more complex (WB: 1997: 4). This made it difficult for foreign investors to establish wholly owned productive facilities in Jordan or to buy privatised state enterprise. Therefore, foreign investors opted for exports and joint ventures with a domestic partner to overcome administrative difficulties and to enhance their access to the market. The absence of property rights regulations and clear dispute settlement mechanism, by increasing the costs of conducting international business, have also reduced the attractiveness of licensing and franchising agreements as a way to serve the Jordanian market.

Even in many countries where the pace and extent of market-oriented reform has been stronger and quicker than in Jordan, international managers need to be aware of the significant cultural, social, religious and political differences that exist between their own country and the recipient state. Hill (1997: 31) has provided numerous examples of some American firms that incurred losses of millions of dollars in many Eastern European countries for ignoring such differences.

In addition, international managers need to be aware of the fact that signing a reform agreement with the IMF and WB does not mean that the recipient government will implement or sustain all of the reforms. The WB itself (World Bank: 1988) estimated that only around 60 percent of the policy changes agreed as conditions of SALPs were fully implemented, with implementation differing between policy areas (McCleary: 1989: 32). Mosely et al. (1991: 139) based on a detailed study of nine countries estimated average compliance to be lower at only 54 percent.

To sum up, although recent changes and reforms in many developing countries offer international firms new opportunities, they also involve high risks and new challenges. Signing an agreement with the IMF and WB, on the one hand, and implementing the conditions recommended by these agreements, on the other, are two completely different things. Many developing countries lack the capacity to enforce rules and regulations that are necessary to reduce risks and challenges of conducting international business. The way in which international business is conducted in developing countries is more likely to differ from that in Western, industrialised, rich countries. Managers who ignore these differences and issues do so at their own peril.

JORDAN: FROM BOOM TO BUST

In the 1950s and 1960s, ''Jordan's economic performance was by any standard successful. . . . exceptional as compared with both the Arab and international standards'' (Al-Quaryoty: 1989: 164-5). Between 1952 and 1966, gross domestic product (GDP) at market price grew by an annual average of 6.9% whilst gross national product (GNP) grew at 7.5%. These were not bad rates for a country that not only has limited natural resources and arable land, but also whose potential looked extremely grim according to a WB mission to Jordan in the mid-1950s (World Bank, 1957). However, by the 1980s the Jordanian economy lost its exceptional performance. Instead, the economy was suffering from very low growth rates, large trade and fiscal deficits in addition to a heavy debt burden that made the country, in terms of debt per capita, among the most indebted in the world.

Many analysts believe that the role of the state in the economy during the 1950s and 1960s was limited, confined to the provision of physical and social infrastructure, in addition to investment in capital-intensive and risky projects, which the private sector would not finance (Sha'sha: 1991). The government's strategy in the post-independence period focused on import-substitution industrialisation (ISI), particularly in simple manufactured products to reduce the heavy dependence of the country on imports. However, it is often argued that ISI in Jordan was neither hostile to private sector concerns nor was it based on large public sector involvement, unlike ISI strategies implemented by many other Arab states at that time (Richards and Waterbury: 1996: 173-220). The private sector in Jordan remained the leader, responsible for initiation of most projects in both industry and agriculture. Although tariffs and direct restriction on imports were used to protect domestic industry, the former was generally low while the latter was kept at a minimal level (Sha'sha: 1991). Export-expansion focused on the country's mining sector in order to exploit Jordan's main resources of phosphates, cement and fertilisers (Jawhary: 1993: VII-24).

Accordingly, and mainly due to the analysis of the role of the state in the economy during the 1950s and 1960s, many observers and international institutions, including the IMF and WB, have viewed Jordan as a free market economy, based on private enterprise, and with a general economic environment that is receptive to the kind of policies promoted by the IMF and WB. Therefore, it was felt that a reform "programme prescribed by the international financial community under adjustment programmes–privatisation, austerity measures, and a free market economy–. . . . would not be painful" or difficult to implement following the economic crisis in the late 1980s (Brand: 1992: 180).

However, the classification of Jordan as a "free market" economy, based mainly on the immediate post-independence period, obscures important development in Jordan's political economy since the early

1970s, which make the "free market" view of Jordan at best misleading.

Faced with declining popularity during the 1950s and 1960s, King Hussein imposed martial law in the late 1950s and suspended the parliament in the 1960s (Yorke: 1989: 3-86). When external inflows rose in the early 1970s, Hussein seized the opportunity to enhance and consolidate his domestic power base. This was to be done by promoting "the role of the state . . . making Jordanians dependent on the state largess . . . [and] buying acquiescence in Hashemite rule" (Fathi: 1993: 226). Two strategies, not uncommon to other developing countries, were pursued by Hussein to retain and enhance his power base. The first was a popular, patrimonial appeal based on preserving and protecting the interests of all Jordanians regardless of their origin. Hence, on the "grounds of protecting consumers" from the inflationary spiral of the 1970s, the state established a monopoly over the importation and distribution of certain essential commodities like wheat, flour, sugar, rice, meat, poultry and olive oil and fixed and subsidised their prices and the prices of 40 other items (Anani: 1987: 134).

The public sector institutions and enterprises (PSEs) became an important vehicle for patronage. Public sector employment was used by the regime as a major tool in building political support in the Kingdom (Daves: 1997: 3). The number of PSEs rose from 1 or 2 in the early 1950s to 31 in the late 1980s. But this number largely underestimates the extent of state's involvement and share in the economy. The state invests indirectly in public shareholding companies through the Jordan Investment Corporation, the government's investment arm, and Social Security Corporation. The WB estimated that in the late 1980s and early 1990s, the state controlled shareholding companies accounted for over 85% of the assets of all listed services companies, and over 60% of the assets of all listed manufacturers (WB: 1993: 73).

The second strategy through which Hussein sought to enhance his power base was through a network of relationships with certain private clients, known in Jordan as members of the "old merchant class" (Amawi: 1994: 162-86). The latter was dominant in the services sector, with large diversified interests in industry, finance and agribusiness. This relationship resembled the classical feudal model, whereby clients provided the regime with political support in return for selective economic benefits. Hence, monopolies, licensing and permit systems were also introduced for the first time in the early 1970s to preserve and protect the interests of certain groups from domestic and foreign competition (Jawhary: 1993; and El-Said: 1996).

Unlike many of the NICs (see Mosely et al.: 1991: 41), the political coalition which became dominant in Jordan in the 1970s and 1980s was not built around the export sector. Rather, it was built on the conferment of rents to certain barons concentrated mainly in services, simple consumer goods, agribusiness and finance. These rents included not only higher tariffs and non-tariff barriers, but also large subsidies for electricity, water and energy; tax exemptions and other financial incentives and largess. As Brand (1992: 169) wrote: ''Such rent payments have been critical to the regime's consolidation and survival'' and enabled it ''to buy legitimacy through distribution.''

However, the detrimental effects of these policies were disguised by the favourable influence of several exogenous factors during the 1970s and early 1980s, which helped to sustain the momentum of relatively high growth established in the preceding decades. Four such factors deserve special attention; the drastic increase in foreign assistance and grants, mostly from Arab oil-rich states; the rapid increase in Jordan's agricultural exports as a result of regional oil boom in the early and late 1970s; increased remittances from Jordanians working in the Gulf oil-rich states; and finally, the outbreak of the Iran-Iraq war in 1980 which increased Iraqi demand for Jordanian manufactured products. By 1982, Iraq became Jordan's major trading partner, replacing Saudi Arabia (Jreisat: 1989).

The deterioration in the external environment beginning in 1982-3, in the form of a decline in grants, remittances and demand for Jordanian exports, revealed the principal weaknesses of the Jordanian economy. A decade of prosperity was followed by 6 years of severe recession, culminating in a crisis in 1989. The main features of this crisis, like elsewhere in the developing countries, were large and consistent balance of payments deficit, including trade deficit, fiscal deficit, high inflation and large public internal and external debt. The trade deficit was aggravated by a slight appreciation for the already artificially over valued exchange rate of the Jordanian Dinar, and by domestic industries' failure to reduce their excessive dependence on imports of intermediate and capital goods with no corresponding ability to increase export earnings. Inflation and fiscal deficit were magnified by the massive losses of the PSEs facing ''soft budget constraints'' (Smadi: 1993: 116).

The response of the authorities to the deterioration in the external environment was to follow an expansionary policy based on both foreign and domestic borrowing in addition to running down reserves. Total value of external debt rose from almost $1 billion in 1979 to $9.5 billion in 1989, while internal borrowing rose to $1.1 billion in the same year (CBJ: 1990 Report: 44-7). Foreign reserves plummeted to $68 million in August 1988, equivalent to about 10 days of commodity imports, down from $1.2 billion in 1979-81 (Kanovsky: 1989: 1). It was Jordan's inability to meet her external commitments for the first time in the country's recent history that precipitated the 1989 crisis.

MALAWI: FROM BOOM TO BUST

At independence in 1964, Malawi, like Jordan, lacked capital and skilled labour, had a small domestic market, limited mineral resources and depended heavily on arable land (McCraken: 1983). The outlook for the country was grim. Agriculture accounted for 55% of GDP, 90% of domestic employment and the bulk of exports. The sector was sub-divided into estates producing 43% of merchandise exports (mainly tea and tobacco) and smallholders producing for subsistence, providing a marketed surplus of food and producing export crops amounting to 50% of merchandise exports.

In contrast to Jordan, post-independence Malawi pursued an export-orientated agro-based development strategy with import substituting industrialisation playing a secondary role and restricted to a narrow range of consumer goods already afforded protection by the country's land-locked position. The overriding aim of the trade regime was to stimulate agricultural exports. Tariffs were generally low, direct restrictions on imports minimal and exchange rate competitiveness was maintained. A wages and incomes policy ensured the estate sector had access to cheap labour and remained competitive. Foreign capital was attracted in the form of direct foreign investment in estate agriculture and manufacturing and in the form of donor grants and loans. This inflow of capital contributed to the government's ability to pursue conservative fiscal and external payments policies through to the mid-1970s.

It is on the basis of the above type of summary description of the post-independence development strategy that many commentators have described Malawi as a free-market, non-interventionist, capitalist economy (Acharya: 1978, 1981a,b; Agarwala: 1983; World Bank: 1983a). As with Jordan, therefore, the WB and IMF regarded Malawi as a fertile ground for their neo-liberal pricist and state minimalist stabilisation and adjustment programmes. We argue, however, that in both Jordan and Malawi, the Washington institutions misinterpreted the political economy, leading to inappropriate reform prescriptions. In both countries the state played a larger role than many commentators believed and the resulting outcome can best be described as a mixed economy.

Both countries were centralised, efficient, personal dictatorships in the form of Life President Banda in Malawi and King Hussein in Jordan, both of whom adopted their individual brand of patrimonial populism appealing to all strata of society. The strength of Banda's regime enabled him to avoid the post-independence legitimacy crises so common in Africa and allowed him to pursue his own vision of development (Sandbrook: 1985; Short: 1974: 175).

In his mixed economy approach Banda used parastatals and large holding companies, including his own giant Press Holdings, to promote estate agriculture and his populist political platform, resulting in a wide range of state economic activity. Although often indirect and difficult to detect this activity was pervasive. It was particularly prevalent in the agriculture sector where the state induced a severe bias towards estate agriculture at the expense of smallholders. ADMARC, the agricultural state marketing board, taxed smallholder production and channeled the resulting surplus into the estates (Harrigan: 1988: 418). The state-led estate bias was also promoted by the complex relationship between the corporate, parastatal and financial sectors of the Malawian economy. The President's Press Holdings had equity interests in virtually every sphere of the economy, including majority share holdings in the country's two commercial banks. Two important parastatals, ADMARC and the Malawi Development Corporation, also held shares in the banks. Through the structure of these organisations' interlocking directorates in which final authority resided in the President (Mhone: 1987: 67), both ADMARC and the banks' surplus was channeled into estate agriculture with politicians and those loyal to Banda given easy access to cheap loans to establish tobacco estates.

Intervention was also prevalent in other parts of the economy. The Government possessed considerable regulatory powers over all sizes of enterprises and landholders facilitated by licensing arrangements, which it used to stifle competition with Press Holdings. The non-transparent system of foreign exchange allocation was also used to favour Press and the parastatals, which grew to become large holding companies with extensive share holdings in Malawi's supposedly private sector. These hybrid organisations were expected to operate according to commercial criteria and yet at the same time were expected to carry out a range of developmental activities to bolster Banda's populist appeal. ADMARC, for example, was expected to maintain an extensive network of rural markets providing subsidised inputs and offering pan-territorial producer prices to all smallholders. Finally, as in Jordan, the Government controlled the prices of over 60 goods in a bid to maintain its populist appeal.

Banda's export-orientated agricultural strategy, combined with his personal brand of patrimonial populism, has resulted not in a paradigm free market economy, but an economy which is so mixed that it is often difficult to distinguish the private and public sectors. In the words of a USAID mission analysing the private sector: "Malawi's private sector is alive, doing well, and owned by the Government" (Harrigan: 1991: 207).

In both countries patrimonial populism was combined with a classical feudal model incorporating clientelism and rent-seeking, although the latter was more prevalent in Jordan. Favoured producers were protected from competition, loyalists were provided with employment in state enterprises and parastatals, and politicians were given favourable access to loans. The difference between the two countries was that in the case of Malawi the system was built around the agricultural export sector whilst in Jordan it revolved around an import substituting manufacturing sector.

Malawi, like Jordan, enjoyed a rapid rate of growth through to the late 1970s. A large rise in investment and domestic savings was accompanied by a real GDP growth rate of 5.5% per annum between 1967 and 1979. This growth was led by the favoured estate agriculture whose output grew at over 17% per annum whilst the smallholder sector remained sluggish. As a result, smallholder contributions to export earnings declined and export revenues became increasingly dependent on estate production of tobacco and tea.

Performance in terms of government accounts was also satisfactory with the central government deficit remaining below 10% of GDP throughout most of the period (Table 3). Balance of payments performance also gave little cause for alarm prior to 1977 with exports buoyant on the trade account, substantial remittances from migrant labour working in the mining and commercial agricultural sector of neighboring countries supporting the factor and non-factor service account and inflows of donor grants and loans boosting the capital account. As a result foreign currency reserves grew.

By the late 1970s, however, a series of severe adverse exogenous shocks eventually brought growth to a halt and exposed structural weaknesses of economy. This took the form of a dramatic deterioration in the terms of trade (particularly in tobacco prices which accounted for 54% of export earnings by the late 1970s), drought conditions in 1979-80, and disruption of the traditional trade route to the sea due to civil war in Mozambique.

The response of the Malawian authorities to the adverse external environment was remarkably similar to the response of the Jordanian authorities. Both countries followed expansionary fiscal policies based

TABLE 3. Malawi Key Macroeconomic Indicators, 1970-80

Pre-reform Analysis

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
GDP growth rate	0.47	16.23	6.22	2.29	6.13	4.18	5.83	9.07	6.99	5.11	0.23
Total investment as % of GDP	26.10	19.40	24.70	22.70	24.00	28.40	16.40	21.90	37.30	30.70	21.80
Domestic savings as % of GDP	13.30	9.30	12.20	13.70	13.60	10.10	10.70	17.60	20.90	15.10	10.90
Central government budget deficit as % of GDP	15.46	9.17	9.44	7.97	8.99	12.64	9.88	6.63	8.52	9.89	12.58
Net government borrowing from domestic banks (MK millions)	n.a.	5.50	7.30	-1.00	-3.30	18.00	17.20	□ 9.30	25.00	27.20	62.60
Balance-of-payments current account deficit as % of GDP	10.22	7.88	10.53	7.84	7.04	12.88	9.82	6.71	16.81	19.61	16.77

Source: World Bank (1982) statistical appendix, Tables 2.01, 2.02, 2.04, 9.10; IMF, Government Finance Statistics Yearbook, various issues.

on foreign borrowing and running down foreign reserves. Economic controls, in the form of tariffs and quotas, were also intensified in both countries in a vain attempt to protect the balance of payments and to protect local producers from recession whilst the real exchange rate was allowed to appreciate. This only encouraged extensive and inefficient use of high cost imports, hence, worsening the position of external accounts. A similar response to the adverse international environment occurred in many other developing countries (Mosely et al.: 1995).

The most indicative signs of the economic crisis in Malawi were burgeoning external and internal imbalances. External current account deficits reached 19.6% of GDP in 1979 (Table 3). Government expenditures, used to protect the population from recession and also to subsidise increased losses of parastatals, rose considerably in this period, resulting in a budget deficit of 15.6% of GDP in 1981 (Table 4). As

TABLE 4. Malawi Key Macroeconomic Indicators, 1980-6

Post-reform Analysis

	1980	1981	1982	1983	1984	1985	1986
GDP growth rate at 1978 factor cost of which:	−0.4	−5.2	2.7	3.6	4.4	4.3	−0.3
Agriculture total	−6.5	−8.1	6.4	4.4	5.4	1.1	0.1
Smallholders	−8.5	−8.9	2.5	3.7	7.2	1.2	0.4
Estates	3.3	4.9	22.4	7.1	0.8	0.6	−1.1
Manufacturing	0.3	3.6	−0.3	7.1	2.4	0.5	5.3
Central government revenue as % of GDP	18.9	20.0	19.6	19.9	20.7	21.9	21.4
Central government expenditure as % of GDP	34.3	35.6	32.2	30.1	29.5	31.8	34.6
Central government deficit as % of GDP	−13.9	−15.6	−12.5	−10.2	−8.8	−10.0	−13.2
Exports	21.6	0.5	−13.3	2.8	23.2	−19.3	−2.6
Imports	9.1	−19.6	−11.8	−0.9	−11.5	1.0	−0.1
Balance-of-payments current account deficit as % of GDP	−24.3	−15.5	−12.6	−11.8	−1.4	−8.2	−6.9
Debt service ratio	21.9	n.a.	23.3	21.5	21.4	29.5	40.1
Gross domestic investment as % of GDP	24.5	17.7	21.5	22.8	13.9	17.9	10.1

Source: Government of Malawi, 'Economic Report, 1987'.

revenue failed to keep pace with the growth in expenditures, the government resorted to both domestic and international borrowing. Between 1977-80, Malawi's publicly guaranteed debt more than doubled and the debt service ratio increased from 7% to 19%.

Moreover, Press Holdings, ADMARC and the Malawi Development Corporation, all undercapitalised, faced a liquidity crisis which threatened the viability of the domestic banking system, the government budget and the country's external creditworthiness (Gulhati, 1989: 17). The viability of the banking system was also threatened by bad debts in the poorly managed and highly geared tobacco estate sector following the 1979 collapse of tobacco prices.

The severe internal and external imbalances afflicting the Malawian economy in the late 1970s rapidly translated into declining investment levels and growth rate. By 1981 gross fixed capital formation had fallen to half the 1979 level and was substantially below the level needed to maintain the country's capital stock. The downturn in investment, particularly in the private sector, had a marked impact on GDP growth, which declined from 5.1% in 1979 to −0.4% in 1980 (Table 4). It was under these circumstances that the Government approached the IMF in 1979 and World Bank in 1980 for a series of stabilisation and structural adjustment loans.

JORDAN: THE IMF AND WB DIAGNOSIS AND PRESCRIPTIONS

Jordan's negotiations with the IMF started in March 1989. One month later, a short-term stand-by agreement, lasting 18 months and worth SDR 60 Million, to stabilise the macro-economy was concluded. This was followed by a medium-term, 1989-93, structural adjustment lending programme (SALP) with the WB for the value of $150 million. However, the Gulf crisis caused interruption of the programme implementation which was, therefore, terminated in 1990 (CBJ: 1990 Report: 71). Negotiations with the IMF and WB resumed in late 1991. In February 1992, a new short-term stabilisation programme, lasting 24 months for the amount of SDR 44.4 million, and a WB medium to long-term SAL for 1992-8 were announced. The Jordanian authorities' efforts at structural reform were further supported by two other short-term, 18 months each, Extended Fund Facility (EFF) programmes, usually provided to lower-income developing countries, in 1994 and 1996 for the amount of SDR 189 million and SDR 200 million, respectively. At the same time, the WB extended, between 1992 and 1998, three general structural adjustment loans and eight sector loans SECALs totaling more than $1.57 billion; only Turkey ever qualified for such a huge financial support when it received $1.6 billion from the WB between 1980-84 (CBJ: Annual Reports between 1992 and 1998; Al-Fanik: September 1997: 5; for Turkey, see Kirkpatrick and Onis: 1991: 14). Clearly, Jordan, for reasons discussed later in this paper, had been given "a special treatment by the IMF" and WB (Al-Fanik: 1992: 8).

The IMF and the WB rightly diagnosed the main structural weaknesses of the Jordanian economy to include the following: limited resource base and weak productive structure; high dependence on imports leading to chronic trade deficit, the latter being exacerbated by narrow export base, dominated by phosphates, fertilisers and potash; dominance of services sector, particularly government services which accounted for more than two-thirds of GDP at factor cost in 1992 leading to a chronic fiscal deficit; and geographical concentration of exports in the region, particularly in Iraq and Saudi Arabia, which together accounted for more than 65 percent of Jordan's total value of exports since the late 1970s (Maciejeski and Mansur, 1996: 2; WB: 1993: 44).

Policy prescriptions involved a close working relationship between the IMF and WB. A clear understanding of the division of responsibilities between the two institutions appeared to be a significant feature of the Jordanian reform programme. The IMF's conditionalities focused on monetary and fiscal policy and public sector financial management. This implied mainly reducing fiscal deficit via both expenditure-reduction, particularly subsidies for production and consumption, and revenue-enhancement. The latter would include reforming both direct and indirect tax systems, and introduction of a new general sales tax (GST) that would broaden the tax base, increase its elasticity and efficiency and reduce excessive dependence on trade related taxes. To control inflation and improve domestic savings and quality of investment, credit ceilings on government borrowing in addition to achieving positive domestic interest rates in real terms were among key requirements of the IMF's conditionalities.

The WB was more concerned with improving domestic and foreign competition and institutional efficiencies. Therefore, it focused, first and foremost, on trade liberalisation, which was seen as the main key to promote foreign competition long blocked by high tariffs and non-tariff barriers. Financial and banking sector reform and deregulation ranked second in the list of the WB SALP. This, it was hoped, would enhance access of small business to capital and credit which is impeded by bias in favour of large, politically connected businesses. Public sector reform, including retrenchment, commercialisation and privatisation of PSEs was the third and lowest priority of the WB SALP (Maciejewski and Mansur: 1996: 10-12; WB: 1993: X-XI). This sequence stemmed mainly from the WB's vision and classification of Jordan as non-interventionist, based on limited public sector involvement in the economy. Hence, public sector reform was not the immediate concern and priority, an assumption, which actually undermined reform efforts as will be seen later. The government of Jordan, however, ''promised to implement these policies and measures through a specific period over the duration of the programme'' 1992-98 (Jaradat: 1994: 56).

The general objective of reform in Jordan did not differ much from their objective in other developing countries, namely, restoration of ''balance of payments viability at an early date while attaining satisfactory growth performance in the context of stable domestic prices and increasing the role of the private sector in the economy'' (Maciejewski and Mansur: 1996: 10). No reference whatsoever was made to the social aspects of reform, a factor which undermined reform measures, as will be demonstrated later.

MALAWI: THE IMF AND WB DIAGNOSES AND PRESCRIPTIONS

Malawi opened negotiations with the IMF in 1979, exactly ten years before Jordan. Just as Jordan's first stand-by loan of 1989 was disrupted by exogenous shocks, namely the Gulf War, so Malawi's was suspended due to exogenous shocks in the form of drought and civil war in neighboring Mozambique, which disrupted access to the sea. Malawi's negotiations with the IMF resumed in 1980. Between 1980-90 the IMF disbursed three stand-by loans, one Extended Fund Facility (SDR 100 million) and one Enhanced Structural Adjustment Facility (US$75 million). In the same period the WB disbursed three SALs (totaling US$253.5 million including bi-lateral co-financing) and two Sector Adjustment Loans to the trade and industry and the agricultural sectors (totaling US$235 million including bi-lateral co-financing). Like Jordan, Malawi was a favoured recipient of WB loans. In the first half of the 1980s only Turkey exceeded Malawi's three consecutive SALs.

The WB and IMF identified six structural weaknesses in the Malawian economy, several of which were identical to the Jordanian diagnosis. Identical diagnoses included the narrowness of the export base, in particular the increased reliance on tobacco in the case of Malawi, and an over-extended government including increasing budget deficits, deterioration in parastatal finances and an inflexible system of government administered prices and wages. Other problems unique to Malawi were the slow growth of smallholder exports and dependence on imported fuel and declining stocks of domestic firewood.

The WB's policy reform conditions were targeted at five general objectives: improving the balance of payments; adjusting price incentives and incomes policy; strengthening resource management; rationalising the government investment programme; and institutional improvements. Under the balance of payments heading most of the emphasis was placed on increasing smallholder export crop production to be achieved by increasing ADMARC's purchase prices to export parity level. To improve the government budget subsidies were to be removed, including the subsidy on smallholder fertiliser. Other reform conditions included consumer price decontrol, measures to increase government revenue and the restructuring of Press Holdings and ADMARC.

In some respects the WB's reform conditions differed between Malawi and Jordan. Unlike Jordan, the Malawian programme did not place great emphasis on trade liberalisation to increase competition neither did it focus on financial sector reform. Both programmes, however, had similar objectives: to restore balance of payments viability in the context of growth and a stable macro-environment. Both also had a common weakness: the neglect of social aspects of the adjustment programme. This was a fairly universal feature of adjustment programmes like Malawi's in the early 1980s (UNICEF, 1987) but was atypical of the Jordanian experience in the 1990s by which time social considerations were generally incorporated into WB adjustment programmes.

The IMF prescriptions for Malawi were almost identical to those introduced in Jordan a decade later. They consisted of a range of short-term demand management measures: government expenditure restraint; measures to increase government revenues including increased excises, import and petroleum duties; increased interest rates and ceilings on total domestic credit, including ceilings on government credit and on external borrowing. The next section looks more closely at the main weaknesses and deficiencies of the IMF and WB programmes in Malawi.

JORDAN: PERFORMANCE OF THE ECONOMY UNDER REFORM MEASURES

The agreements with the IMF and WB were accompanied by a marked improvement in the Jordanian macroeconomic indicators, at least until 1995: Real GDP at market prices improved rapidly, registering an average growth of 7.8% between 1992-95, before declining to a paltry 1.5% in 1996-7. Gross fixed investment averaged more than 32% of GDP at market prices between 1992-97; current and trade deficits along with inflation declined rapidly over the same period. External debt also followed suite, declining from 193.5% of GDP in market prices in 1990 to almost 92% in 1997 (Table 5).

According to the IMF and WB, which expressed satisfaction with Jordan's commitment level and implementation of their conditionalities, all the policy actions contemplated in the programme were implemented, leading to this ''remarkable success'' of stabilisation and structural adjustment (Maciejewski and Mansur: 1996: 2 and 7). The IMF Managing Director, Michael Camdessus, went further to state ''Jordan had gone beyond the conditions set by the IMF'' (Al-Fanik: August 1997: 2). A Jordanian source stated that ''Jordan was successful in achieving over 90% of the objectives'' (Al-Fanik: June 1997: 2).

However, correlation does not mean causation. The fact that the IMF and WB programmes were accompanied by an improvement in Jordan's macro economy does not mean that they caused this improvement. Although Jordan implemented many of the conditions stipulated by the IMF and WB, empirical evidence suggests that this implementation neither amounted to over 90% of the total conditionalities nor has it been solely responsible for the overall improvement in the economy. There are also important independent government policies

TABLE 5. Jordan: Key Macroeconomic Indicators, 1989-97

	Pre-reform analysis			***During and post reform analysis***					
INDICATOR	1989	1990	1991	1992	1993	1994	1995	1996	1997
Real GDP Growth rate at Market Price %	□ 3.9	1.7	4.7	1.12	5.8	8.5	5.9	0.8	2.2
AS % OF GDP AT MARKET PRICE									
Fiscal Deficit	□ 15.6	□ 9.9	□ 7.7	□ 1.4	□ 3.1	□ 6.1	□ 5.5	□ 7.7	□ 6.8
Expenditure	38.8	39.5	39.6	36.4	37.3	34.0	34.0	37.5	35.0
Current	□	□	□	□	□	29.7	29.8	30.4	28.9
Capital	□	□	□	□	□	6.5	7.2	7.6	6.5
Revenues	23.2	29.5	31.9	37.8	34.1	29.5	31.4	30.0	28.5
Gross Invest.	25.8	28.8	24.0	32.1	30.1	33.0	31.8	3.4	33.6
Private	15.0	15.0	16.0	24.2	23.0	□	□	□	□
Public	□	□	8.0	7.9	7.1	□	□	□	□
Current Account	4.1	□ 10.0	□ 8.4	□ 23.6	□ 19.6	□ 12.0	□ 8.8	□ 9.4	□ 5.5
Trade Deficit	22.9	38.6	33.8	42.5	44.1	32.3	29.1	36.8	32.1
Internal debt ($M)	941	868	858	262	341	1675	1414	1459	1457*
External debt	6611.0	7615.5	7346.0	6624.6	6008.0	6288.0	6472.3	6844.6	6637.7
% GDP	148.6	193.5	179.9	139.1	115.8	102.9	96.7	99.2	91.6
Inflation **	25.8%	16.1%	8.2%	4.0%	3.3%	3.6%	2.3%	6.5%	3.0%
Reserve ($M)	52	221	825	769	595	438	439	716	1740

□ Not available. * First ten months of 1998. ** Measured by price index
Sources: CBJ: October 1994; Jaradat: 1994:177-81; CBJ: Annual reports between 1994-7.

and other more significant exogenous factors, which contributed largely to this marked improvement in economic performance. On the other hand, the government had taken a number of counterproductive steps, neglected by the IMF and WB, perhaps deliberately, which actually undermined reform measures altogether.

In fact, improvement in macroeconomy was dramatic and immediate, starting in 1990-1, before the second agreement of 1992 was signed and during the period when the first agreement of 1989 was terminated (Table 5). This immediate improvement contradicts the general experience of such programmes, which usually, according to the WB itself, take two to three years before their positive effects emerge (WB: 1993). A number of factors occurred in the late 1980s and early 1990s that largely contributed to this favourable outcome. These factors are the subject of the following sub-sections.

Growth and Investment

In 1990 the Gulf crisis broke out, following Iraq's invasion of Kuwait. The crisis had major effects on Jordan, particularly the expulsion and return of more than 300,000 Jordanians from Kuwait and other Gulf States as the latter were unsatisfied with Jordan's handling of the crisis. However, the returnees brought back with them their life savings, estimated by domestic sources at $3-4 billion (Daves: 197: 13).

With little hope left for the returnees to go back to their previous jobs in the Gulf, they invested their savings in Jordan, mostly in constructing houses and offices, causing a construction-led boom. The 1992 Central Bank of Jordan Report (p. 14) admitted that "the return of the huge numbers of expatriates and their demand for housing spurred this growth." As the construction boom came to an end around 1995, growth rates deteriorated rapidly, registering 0.8% in 1996 and 2.2% in 1997 (Table 5). High growth rates were also stimulated by resumption in foreign grants and loans in the early 1990s, as will be seen later.

However, high growth in the early 1990s, not unlike high growth rates in the 1970s and early 1980s, "has been achieved with little growth in total factor productivity . . . Past growth has been the result of a mere increase in inputs, capital and labour" at the expense of resource efficiency which declined most rapidly in the post-1990 period (WB; 1993: 15; and McDermott: 1996: 17). The country's past experience has clearly shown that high growth rates cannot be sustained without efficiency improvements.

The low productivity of the economy is also evident in the unusually high level of investment with low growth rates in 1996-7. Total investment exceeded, on average, 32% of GDP in market prices between 1992-97, including 1996 and 1997 when the real GDP registered zero and low growth rate of 2.2%, respectively. This finding is confirmed by a WB study which found that the efficiency of investment and of resource use in Jordan, as measured by the Incremental Capital-Output Ratio, was much lower in the early 1990s than it had been during the 1950s and 1970s through to the early 1980s (WB: 1993: 25-38). Growth in the latter period, it is worth noting, was still higher than growth achieved under the IMF and WB programmes during 1989-97.

It is also important to note here that the improved investment performance in Jordan during 1992-97 contradicts the general experience of the IMF and WB programmes in many other developing countries as discussed earlier. Higher investment levels in Jordan came mostly from domestic private investors, stimulated mainly by the returnees' savings and investments, rather than by the IMF and WB programmes.

Trade and Public Sector Reforms

The WB, as argued earlier, gave reforming the trade sector a top priority. A programme of gradual tariff reform was launched in 1989. The maximum tariff rate (MTR) was reduced from more than 300% for all non-luxury imports to 60% in 1990 and to 50% in the second phase of tariff reform in 1994. Also, the percentage of imports subject to quantitative restrictions was reduced from 40% in 1988 to 7% in August 1990. Export promotion polices were enhanced, including drawback system, bond warehouses, enhanced access to credit and free zone areas (CBJ: Annual Reports between 1990-97; and Maciejewski and Mansur: 1996: 9 and 11).

On the surface, these reforms may suggest that Jordan had made enormous progress with regard to liberalising and improving competition in the domestic economy. But a more in-depth analysis of trade developments suggests that other factors lay behind trends in the external accounts.

First, a large part of improvement in the trade deficit in Jordan in 1989 came from almost 50% nominal devaluation of the JD by the authorities in late 1988 and early 1989, prior to signing SALPs with the IMF and WB (Kanovsky: 1989: 2). Export growth was also stimulated by resumption of exports to Iraq after a short interruption during 1990-2, not due to Jordan's ability to penetrate new markets. Iraq today continues to be Jordan's major trading partner as it was just prior to the Gulf crisis.

Growth in exports, however, has been more than offset by larger growth in imports, particularly following the return of more than 300,000 Jordanians between 1990-93, hence increasing the trade deficit during this period. The deficit declined temporarily between 1994-95, "due to disappearance of the impact of increase in imports due to returnees and anticipation of tariff reduction" following SAL II in mid-1994 (CBJ: 1994 Report: 7). Domestic producers used accumulated stocks from previous years. However, trade liberalisation increased the trade deficit by facilitating more imports in 1996-7.

SALPs, to the dismay of the IMF and WB, also failed to diversify exports. Traditional exports, particularly phosphates, fertilisers, cement and potash, continue to dominate Jordan's export structure, comprising 68.5% of total exports in 1996. Arab countries also remain the major recipients of Jordanian exports (CBJ: 1996: 95).

Finally, and most importantly, tariff reduction occurred only where "domestic output is virtually non-existent . . . import competing goods still enjoy considerable tariff protection through higher tariff on final goods . . . In many cases, tariff reduction took place in areas where there had been plenty of 'water' in the system, and many manufacturers are still producing goods under the protection of tariffs in excess of 50.2%" (WB: 1993: 53, 58 and 64).

As a result, the trade system continued to be biased in favour of the domestic market, despite export promotion measures aimed at terminating this bias. Before signing SAL II in 1994, the WB demanded a "down payment" before further funds were disbursed, that is, an implementation of certain reform measures before the agreement was signed (CBJ: 1993 Report: 107). But in April 1994, the US began to re-qualify its support for the Jordanian regime, following the 1994 peace treaty with Israel. The US government had openly played a role in assembling the financial package which accompanied SAL II in 1994 and SAL III in 1996, particularly at a time when the government's performance was clearly going off track. Following his unprecedented visit to the country in October 1994, President Clinton finished his address in the Jordanian Parliament by the strong words "we shall not let you down" (Al-Fanik: February 1998: 2). After the peace treaty, grants and loans became less conditional, with some being disbursed in advance of reform. The US also interceded with other creditors to provide Jordan with easier access to foreign market assistance, including Japan and the EEC. Since 1995, Jordan has received the highest amount of development aid per capita worldwide. This "peace dividend" not only "softened" the conditionality of aid and loans, but also "crosscut reform efforts such as deregulation," liberalisation and privatisation (Wils: 1998: 1-2 and 7). Since 1994, the trade sector has undergone only very minor changes and, therefore, continues to be biased in favour of the small domestic economy at the expense of exports.

One of the main weaknesses of the WB liberalisation programme is that it focused on increasing foreign competition through trade liberalisation without simultaneous attempts to reform the public sector, which actually represented the main obstacle to domestic and foreign competition in the economy. As Daves (1997: 18) noted: "no other area of the Jordanian economy needs reform more than the. . . . state sector."

Rather than deregulation and opening up the economy, the latter was actually being subjected to an even higher degree of state restrictions and controls. This was mainly carried out through the intensification of licensing and permits systems, in addition to continuation of monopolies in certain sectors and undue red-tape measures that continue to protect certain powerful interest groups and hence limit competition (WB: 1997). The upshot here was that the inflow of Foreign Direct Investment (FDI) into Jordan remained small, limited and even declined from 8.5% of GDP in 1990 to 5.5% in 1995 (WB: 1997: 3; Daves: 1997: 4-5).

Progress with public sector reform has been the slowest of all reforms, successfully blocked by what Niblock (1993: 56-7) called the "bourgeoisie-bureaucratic state in Jordan," with no interest in reforms along the lines prescribed by the IMF and WB. Privatisation, for example, remains almost non-existent, limited to the establishment of a Ministerial Committee and to selling government shares in the Jordan Holiday Inn Hotels Company. Rather than retrenchment, the public sector actually grew bigger in terms of both employment and share of ownership in the domestic economy (Daves: 1997: 3 and 18; and CBJ: 1996: 26). Even the IMF Managing Director, Michael Camdessus, admitted recently that "We were a little disappointed with the slow pace in the privatisation process" in Jordan (*Jordan Times*: 1997: 7). This lack of privatisation and the increased role of the public sector has limited the scope for international business managers to penetrate the Jordanian economy.

Fiscal and Monetary Reform

There is a general agreement among observers and officials from the IMF and WB that reforms in the monetary and fiscal sectors have been strongest. Substantial progress has been made in this area. The Jordanian authorities followed a tight monetary policy since 1992. This included a policy of credit rationing through high and positive interest rates and requiring banks to maintain high reserve ratios on deposit with the central bank. It also included measures to contain public expenditure, and credit ceilings on internal and external public borrowing (Maciejewski and Mansur: 1996).

However, the improvement in the fiscal deficit, which accompanied these measures, did not come mostly from a reduction in expenditures. Fiscal spending, especially current spending, remained high, exceeding on average 35% of GDP at market prices between 1989-97 (Table 5). To be fair, the government did reduce, reluctantly and gradually, direct subsidies on a number of basic food items and raised the prices of public utilities, particularly energy, water and electricity. But it also took measures to protect losers from these policies, which were in stark violation of agreement with the IMF and WB. For example, a series of increase in wages and salaries for both in service and retired government officials, civil servants, and military personnel was implemented in 1993, 1995, 1996 and January and October 1998 (CBJ: 1993 Report: 5; 1995 Report: 24-5 and 76; 1996 Report: 79; and Al-Ra'i: 1998: 1).

In addition, the government resorted to indirect subsidies, through the National Aid Fund (NAF), which provides direct cash assistance to the needy families. By 1997, the NAF increased its direct assistance to JD 23 million, a sum which is almost equivalent to the savings made from reduction in direct subsidies since 1992. The prices of rice, sugar, bread and powdered milk, particularly for the poor families, continue to be subsidised indirectly through the coupon system introduced in 1990 (CBJ: 1996 Report: 79; Mansur: 1996: 62).

These measures should be understood in terms of the IMF/WB programmes' failure to address the social aspect of reform. The latter hurt most the main supporters of regime, located in the public sector institutions, civil service and the army. An IMF official admitted that reforms actually worsened the unemployment situation, and increased both inequalities and the number of people living under the poverty line in Jordan (Mansur: 1996: 56-65). It was not surprising therefore that the regime, after the 1989 riots which followed agreement with the IMF, promised more subsidies and compensation (Kanovsky: 1989: 65).

Nor can the increase in domestic revenues, which was mainly responsible for improving the fiscal deficit, be attributed solely to the IMF/WB programmes. The GST, which was a key stipulation by the IMF, was introduced in June 1994, after being blocked by domestic industrialists for more than two years (CBJ: 1994 Report: 82; El-Said:

1996: Chapter Seven). Improvement in domestic revenues occurred mostly between 1990-93, and the introduction of the GST in 1994 was actually followed by a reduction in the share of domestic revenues, reflecting continuation of exemptions and privileges.

Domestic revenues increased mainly as a result of independent government policies aimed at addressing domestic crisis in 1988-9, which included new taxes on restaurants, air tickets and departure, sales of real estate, and permit fees for foreign workers; higher registration fees for cars and allowing exemption from national service in return for cash payments of JD 5000 (Jaradat: 1993: 81-6; Kanovsky: 1989: 26-7). A 10% increase in the total population between 1990-93 as a result of the return of more than 300,000 Jordanians following the Gulf crisis also increased domestic revenues rapidly. In 1990, the government imposed a new tax on the cars of the returnees and their furniture, which, according to the Central Bank, contributed largely to the rise in domestic revenues in 1990-2 (CBJ: 1992 Report: 4).

Public Debt Management and Reserves

The most striking feature of Jordan's adjustment efforts is its ability to reduce both external and internal debt levels and at the same time increase foreign reserves within a very short period of time (Table 5). There is little doubt that the tight monetary policies implemented by the authorities during 1989-94, including ceilings on public debt, played an important role in preventing public debt from increasing to higher levels. They also helped in bringing down the budget and current account deficits, and, therefore, helped the government not to resort to inflationary policies. A series of debt rescheduling in conjunction with the 1989 and 1992 programmes helped avert the drainage of the CBJ's foreign reserves.

However, debt rescheduling alone does not reduce the level of debt. It only delays payments to some point in the future when the country is, hopefully, in a better position to resume repayments. Rather than waiting for that point to arrive, a "shift in overall debt strategy" occurred in Jordan. The authorities moved to take advantage of the opportunity presented to it during 1992-3, particularly following the international financial crisis of the early 1990s. This was the ability of commercial banks to dispose of their claims on Jordan at substantial discounts. In early 1993, Jordan was able to buyback a total amount of $600 million owed to commercial banks at a cost of only $115 million.

In 1992, financially starved Russia also accepted a similar buyback arrangement which enabled Jordan to extinguish a total of $614 million of Russian debt for only $88 million cash and some installments in the form of commodity exports (Alonso-Gamo: 1996: 52-2).

Jordan's ability to finance its debt buyback agreements was enhanced by the resumption of soft loans and grants in the early 1990s, particularly from the Gulf Crisis Financial Co-ordination Group (GCFCG), including the USA, Japan and EEC. It was estimated that between 1989-92 alone, Jordan received almost $1 billion in soft loans and grants from the GCFCG, Saudi Arabia, and the WB (CBJ: 1990: 68: Jaradat: 1993: 58; Kanovsky: 1989: 66).

Another debt rescheduling agreement took place in 1994, following the peace treaty with Israel and the IMF EFF. Under this agreement, creditors granted Jordan even more favourable terms than under either the 1989 or 1992 agreements. In fact, "These terms were being applied for the first time to a lower middle-income country" (Alonso-Gamo: 1996: 51). These exceptional terms reflect strong backing by the US, which also wrote off $700 million of Jordan's debt in 1994 following the peace treaty with Israel (Al-Fanik: February 1998: 2).

It is important to note here, however, that both public internal and external debt has been rising steadily since 1994 in absolute terms. It seems that the monetary and fiscal discipline of the earlier period has been lost. The government has increasingly resorted to internal and external borrowing to finance increase in current and fiscal deficits caused mainly by a rise in current expenditure.

MALAWI: PERFORMANCE OF THE ECONOMY UNDER REFORM MEASURES

Compliance and Macroeconomic Performance

Compared to many other SAL and IMF programme recipients Malawi was fairly compliant with the Washington institutions' conditionality. The exception was the Malawi government's violation of agricultural price conditions in the early and mid-1980s. In both Malawi and Jordan compliance was facilitated by a number of factors, including the highly centralised nature of a dictatorial political regime; close working relationship between the WB and IMF, including the use of cross conditionalities; and, in the case of Malawi, by the lack of strong interest groups and the fact that Banda's regime was not highly dependent on a rent-seeking political economy, except in the estate sector which was largely ignored during adjustment.

Like Jordan, the early years of adjustment in Malawi were also associated with improved macroeconomic performance. Between 1982-84, for instance, there was a significant recovery in GDP growth rates and exports and a decline in both the balance of payments current account deficit and the fiscal deficit (Table 4). Malawi's recovery was not sustained into the mid-1980s. There was a sharp decline in GDP and export growth rates, a failure to permanently reduce the government budget deficit, a chronic decline in investment levels and a deterioration of the debt service ratio. Table 4 shows that in terms of most macroeconomic indicators, with the exception of the balance of payments current account deficit, performance in 1986 was no better than at the start of the adjustment programme in 1980. Of particular concern was the decline in overall investment, which fell to 10% of GDP in 1986 compared to 25% in 1980. This is in clear contrast to Jordan where, contrary to many adjustment experiences elsewhere in the developing world, investment remained high during the reform period.

Not unlike Jordan, external factors, government independent policies and inappropriate prescriptions by the IMF and WB have also affected the macro performance of the Malawi economy. The following sub-sections look at these factors in more detail.

Agriculture

The WBs reform programme in Malawi placed heavy emphasis on smallholder agriculture and paid much more attention to the agricultural sector than in Jordan. This is in keeping with more general observations, which show that agriculture sector conditionality under SAPs was much more prevalent in Sub-Saharan Africa than elsewhere in the developing world (World Bank: 1987). The WB's Malawian reforms focused heavily on agricultural pricing policies with conditions to increase smallholder export crop prices towards export parity levels whilst suppressing the relative producer price of maize. Fertiliser and other input subsidies were also to be removed.

The WB's policies in this area can be faulted in five respects. Firstly, the exclusive emphasis on smallholder export crops failed to appreciate and reconcile the direct conflict with the government's food self-sufficiency objective. As a result compliance with these conditions was erratic. In direct violation of SAL I conditionality maize producer prices were raised by nearly 70% in the 1981-82 season and by 36% in 1987-88. This was a major factor in the temporary recovery in smallholder growth rates with improved farmer incomes also leading to buoyancy in the manufacturing sector. Drought in neighbouring countries in the early 1980s enabled Malawi to temporarily increase its maize exports, hence, improving the performance of the economy.

In the interim period WB conditionality was complied with–export crop prices were significantly increased while the real and relative producer price of maize was allowed to fall and fertiliser subsidies were gradually removed until the government U-turn of 1987. As a result of these pricing policies sales of export crops (tobacco, rice, groundnuts and cotton) to ADMARC more than doubled. ADMARC's purchase of maize, however, fell by 59% confirming government fears and necessitating costly food imports. Adverse exogenous shocks in the mid-1980s, namely a renewed decline in the terms of trade, drought, inability to secure further debt service rescheduling, external transport disruption and an influx of Mozambican refugees, aggravated Malawi's economic malaise.

Secondly, the WB's excessive emphasis on export crop prices and subsidy removal exacerbated the food crop versus export crop conflict. The emphasis on pricing instruments ignored the need for non-price policies to support smallholder production and to increase the productivity of food crop production, included in the subsistence sector, to ensure that land could be released for export crops without jeopardising food self-sufficiency. The WB was over-optimistic that price policy alone could stimulate an increase in *aggregate* smallholder production. Rather, what was needed was complimentary non-price policies to help overcome the prevailing technological, land, and credit constraints in order to elicit an aggregate supply response rather than simply displacing food crops with export crops (Harrigan, 1988 and 1995; Lipton 1987; Streeton, 1987). The WB's pricing policies also bypassed the large number of subsistence farmers who did not produce for the market and yet were essential to the country's food security drive. The adverse effect of SAL price policies on smallholders was felt not only in terms of the contribution to declining growth but also in terms of adverse balance of payments effects in the form of the need for maize imports.

Thirdly, the SAL conditionality, particularly the fertiliser subsidy removal programme and the relative suppression of maize producer prices, conflicted with what the WB was trying to achieve in its more conventional project lending to Malawi; namely, to encourage smallholder up-take of improved, fertiliser responsive, high yielding maize varieties in order to increase the productivity of food production. Between 1983-87 fertiliser prices increased by 87% and the gross margins on maize declined.

Fourthly, policy reforms were inappropriately sequenced contributing to the food crisis and the collapse of the ADMARC marketing system that occurred in 1986-7. Liberalisation of input prices occurred in advance of maize price liberalisation resulting in declining production. Moves towards export price liberalisation also occurred in advance of market liberalisation contributing to the collapse of ADMARC's marketing capacities. At the same time as being asked to pay higher prices for most crops ADMARC was also expected to carry-out a number of developmental activities in an otherwise unliberalised smallholder market. This included maintaining an extensive network of markets and employment, defending pan-territorial prices, cross-subsidising maize and defending subsidised consumer prices which had previously been financed by the implicit tax on smallholder crops which were priced at below export parity. As a result of this poor sequencing the financial strain on ADMARC created a marketing crisis with ADMARC unable to purchase maize or distribute adequate inputs. This crisis was superimposed on the disappointing pattern of smallholder maize production compounding the country's food deficit problem. Following the crisis of 1986-7 the WB tried to persuade the Malawian authorities to introduce an ADMARC divestment programme and to encourage more private traders in the smallholder sector. However, the government was reluctant to implement these hastily devised reforms at a time of acute maize shortage (Harrigan 1995: 231-33).

Finally, the WB's agricultural reforms can be criticised for their failure to address estate agriculture and the relationship between estate and smallholder production patterns with the latter providing land, labour and food for the former. Estate owners were provided with little incentive to diversify and the disruption of traditional export routes continued to depress the profitability of new crops. Agro-industry was also neglected in the adjustment programme such that Malawi's export base, like Jordan's, remained heavily concentrated. By the late 1980s agricultural commodities still provided 90% of exports, 80% of which consisted of tobacco, tea and sugar.

By 1987 it was clear that WB policies in Malawi's agricultural sector had failed. Maize production and procurements had declined, maize stocks were depleted, ADMARC's cash-flow position had failed to improve, the objectives of project aid had not been achieved, export diversification had failed, and the net contribution of smallholders to the balance of payments had declined (Harrigan, 1997). These results were partly due to inappropriate and poorly sequenced WB policy prescriptions. But they were also partly due to a series of adverse exogenous shocks. Civil war in Mozambique resulted in the complete closure of Malawi's traditional trade routes in 1984 and in the influx of over 700,000 Mozambican refugees. Whilst population increases in Jordan in the form of the return of overseas workers and their savings during the Gulf war boosted the economy's construction boom, Malawi's population increase had adverse effects resulting in increased demands on ADMARC's scarce food resources. Drought in the southern half of the country also exacerbated the crisis.

As a result of the above failures the government abandoned SAL agriculture conditionality in 1987, increasing the producer price of maize and reintroducing fertiliser subsidies. In retrospect it is clear that what was needed in Malawi was a complete reappraisal of the relationship between smallholder and estate agriculture including: a reduction in idle estate land through both a return of land to smallholders and land taxes in the estate sector; tax incentives for estate diversification; and removal of restrictions on smallholder production of high value crops which had traditionally been preserved for the estates. That the WB shied away from such reforms was partly due to the weakness of their diagnostic work but also due to the political difficulties of implementation. Such reforms would have encountered considerable political opposition from Malawi's powerful estate interests–Banda, politicians, civil servants and military personnel all of whom had strong interests in the estate sector. Just as in Jordan the powerful manufacturing elite acted as a block to sustained liberalisation, so in Malawi powerful interest groups represented a considerable obstacle to genuine structural reform.

The Corporate and Parastatal Sector

In contrast to agricultural reforms, SAL reforms in the corporate and parastatal sector, with the exception of ADMARC, were fairly successful. Most notable was the restructuring of Press Holdings.

Although a private company owned solely by the President, Press played a pivotal role in the economy. It had 45 subsidiaries and large shares in the country's two commercial banks. Its activities extended to most areas of the economy and it was virtually monopolistic in export trade, retail and wholesale trade, energy and transportation. In 1980 Press faced a severe financial crisis due to the collapse of tobacco prices and poor management. This threatened the viability of the two commercial banks and ADMARC, all of whom had lent heavily to Press. The WB's decision to tackle Press arose from the acknowledgment that " . . . structural adjustment of Malawi could not be separated from the restructuring of Press Holdings Ltd." (World Bank 1987: 82). The reform of Press involved a dramatic reduction in the President's interest in the company, an overhauling of senior management, share sales and asset rationalisation, including selling shares to ADMARC, and new corporate guidelines to ensure Press operated commercially. Government took over some of Press's bad debts. The restructuring was largely completed by 1984 and resulted in a rapid improvement in Press's operational, management and financial position.

There have, however, been criticisms of the Press reforms. Press simply passed on many of its bad debts to government and ADMARC. True restructuring of the Malawian economy required extensive share purchases by the private sector in addition to share swapping with public enterprises. The failure to divest to private sector businesses threatened to jeopardise the strengthening of Malawi's entrepreneur class. As the WB itself has asked, "Has this commercial and industrial giant been perpetuated to the permanent detriment of local private enterprise and Malawian entrepreneurship?" (World Bank 1987: 25). The WB and IMF's general neglect of Malawi's emerging indigenous private sector is a marked feature of the adjustment programme.

Within the parastatal sector an important restructuring of the Malawi Development Corporation (MDC) took place under the SAL programme. The objective was to return this government-owned holding company to its original role as a development bank. Reforms took the form of debt to equity conversions, share swaps and divestment. As with the restructuring of Press, a major problem facing the WB and IMF was the lack of a dynamic private sector to facilitate MDC's divestment and to enable it to promote medium and small-scale enterprise in association with the private sector.

As in Jordan, the adjustment programme did little to stimulate domestic private sector businesses and failed to attract any significant direct foreign investment. Both countries failed to improve competition in the domestic market. Privatisation was also slow in both countries, blocked by powerful interest groups in the bureaucracy.

Trade and Industrial Reforms

Policies directed at the trade and industry sector were accorded a low priority in Malawi's adjustment programme and mainly consisted of a programme of consumer price decontrol. By the late 1970s most manufactured goods fell under the ambit of formal or informal control with particular emphasis on components of low-income household expenditures. Price controls were implemented using a cost-plus criterion often with extensive delays in processing applications. In an inflationary environment this created severe disincentive effects on firms. Such price control played an integral part in the government's development strategy. Due to the smallness of the domestic market and its oligopolistic structure consumer price control was used as part of Banda's populist platform to prevent consumer exploitation. It was also an essential part of the government's wages and incomes policies, which helped to maintain the competitiveness of the estate export sector. The WB failed to realise the role that consumer price control played in Banda's political economy and as such adopted inappropriate bargaining strategies with the government (Harrigan, 1995: 242). Although the Government complied with conditionality and removed formal price controls on most products a system of informal controls remained in place. As with Jordan's continuation of indirect subsidies through the coupon system, Malawi was also unwilling to remove price protection from the regime's supporters.

Poor sequencing was also a feature of trade and industry reform. There was a failure to integrate consumer price decontrol with an appropriate wages and incomes policy and there was no attempt to sequence price liberalisation with effective trade liberalisation. To stimulate competition and to avoid consumer exploitation and inflation in the context of the oligopolistic domestic market, price decontrol should have been accompanied by encouragement of more local production and competing imports. Effective structural reform of the industrial sector required much more than price decontrol and the restructuring of Press and a few parastatals. But in contrast to Jordan, trade liberalisation was accorded a low priority in Malawi's reform programme. If anything the late 1980s witnessed an increase in controls with licensing arrangements, quantitative import controls and foreign exchange allocations used to restrict imports in the context of growing foreign exchange shortages. This parallels the Jordanian experience where, in the mid-1990s, state restrictions and controls were intensified to protect rent-seekers.

Public Sector Finance Reforms

Public sector financial reform was accorded a high priority throughout the adjustment and stabilisation programme of the 1980s. The public sector, as in Jordan, was targeted to bear much of the expenditure disabsorption required to reduce external payments pressures. The programme focused on reducing the government deficit whilst at the same time improving the selection of public investments and maintaining adequate recurrent outlays–during the 1970s donor-funded capital expenditures had outstripped the government's ability to provide the associated recurrent expenditures and this was detrimental to the productivity of public sector investments.

WB conditionality consisted of the formation of a public sector investment programme to prioritise capital expenditures, increased recurrent outlays along with revenue enhancing measures and expenditure cutbacks to reduce the deficit. Initial attempts to increase revenues took the form of ad hoc tax increases, which had severe disincentive effects and discouraged saving and investment (Harrigan, 1995). Other measures included increased cost recovery. Although revenues more than doubled during the first half of the 1980s they failed to keep pace with expenditure growth and, in contrast to Jordan, there was little improvement in the fiscal deficit. Much of the deficit increase can be attributed to exogenous shocks, namely, disruption of trade routes, influx of refugees, increased debt servicing costs and the need for maize imports.

The fiscal reform conditions can be criticised on several grounds. The desire to reduce the overall deficit whilst increasing recurrent expenditures meant that revenues needed to be increased and/or development expenditures cut. As a result, development expenditures in the first few years of 1980 more than halved. This level of reduction could not be sustained without severely jeopardising growth and as a result the WB and IMF revised their conditionalities. In the mid-1980s development expenditures were targeted for increase and moves were made to broaden the tax base, and to shift taxes from external trade to domestic transactions and from production to consumption. Another criticism of the WB was its failure to review the recurrent cost implications of its own extensive project portfolio in Malawi, particularly in the agricultural sector, and its failure to increase taxes in the estate sector. The WB addressed neither of these issues until the end of the 1980s.

Fiscal reforms were, however, successful in bringing about institutional improvements. A public sector investment programme was introduced, budget preparation was improved, a debt monitoring system put in place, scrutiny of parastatal finances improved and a belated reform of the tax system was introduced.

CONCLUSION

The experiences of Jordan and Malawi suggest that for small aid dependent countries with a narrow export base, exogenous factors, particularly deterioration or improvement in terms of trade, change in the weather, population changes and inflow of capital, are important factors affecting economic performance.

In the post-independence period Jordan pursued an ISI strategy whilst Malawi adopted an estate-led agricultural export strategy. In both growth was extensive rather than intensive with little improvement in total factor productivity and the development process was highly import dependent. In the pre-adjustment period structural weaknesses were, however, disguised by a favourable external environment–good weather and buoyant export prices for Malawi and in the case of Jordan the Iran-Iraq war which increased Iraqi demand for Jordan's manufactures, the oil boom which brought grants and demand for exports from the oil-rich states, and remittances from migrant workers.

In both countries the weaknesses of the post-independence development strategies were exposed by a series of exogenous shocks–drought, the Mozambican civil war, and deterioration in the terms of trade in the case of Malawi in the late 1970s and early 1980s and a decline in grants and remittances and in export demand in the case of Jordan. Both countries also suffered from a sharp increase in international interest rates. In both, the authorities' initial refusal to adjust and the pursuit of expansionary policies exacerbated the crisis.

When adjustment and stabilisation programmes were launched, in the early 1980s for Malawi and the early 1990s for Jordan, the two suffered from similar structural weaknesses–a narrow export base, import intensive production, an over-extended government sector and an inflexible system of administered prices. The IMF and WB prescriptions were also similar–government expenditure reduction and revenue increases, domestic credit ceilings and interest rate increases, liberalisation and efforts to boost the supply side of the economy.

In the two countries exogenous factors, i.e., luck, played a significant role in determining the outcome of the reform programme. In the case of Jordan good luck in the form of the return of 300,000 Jordanians from Kuwait and other Gulf states in 1990 who brought with them their life savings and prompted a major construction boom which spurred growth as well as a significant increase in the flow of overseas grants and loans. A resumption of exports to Iraq after 1992 also helped. In Malawi there was a brief spurt of growth in the early years of adjustment, i.e., 1982-84, but again this was largely due to favourable exogenous factors–improvement in the terms of trade and drought in neighbouring countries enabling maize exports. Bad luck, however, meant that Malawi's recovery was not sustained. In the mid-1980s the terms of trade declined, drought occurred, and the civil war in Mozambique disrupted trade routes and led to a massive influx of refugees.

Independent government policies in both countries, rather than the IMF and WB reform programmes, also affected economic performance. Malawi's spurt of growth in 1982-84 was prompted by the government's increase in the maize price and government efforts to restructure tobacco estates. In Jordan improved performance was helped by the government's pre-adjustment devaluation and independent tax increases.

The important role of luck–good luck for Jordan and mainly bad luck for Malawi–is not to say that the IMF and WB programmes have no significance at all. They have been important in the case of Jordan in rescheduling foreign debt, reducing discrimination in tariff rates, creating a more uniform tariff structure and reducing distortions in the economy, compared to the situation before reform. In Malawi they saved Press Holdings and led to improvement in government budget management. But these programmes alone are not enough. In order for their desirable effects to emerge, they need to be complemented by a favourable external environment. This is particularly the case in lower and lower middle-income countries, like Malawi and Jordan, who are heavily dependent on external factors such as aid and the international price of one or two commodities.

The experience of Morocco and Tunisia, the only other two countries in the Arab World, in addition to Jordan, cited by the IMF and WB as successful examples of adjustment, is also consistent with this line of reasoning. There too, favourable outcome "was sheer luck . . . Growth was possible because of good weather," increase in remittances, improvement in world prices and substantial increase in financial assistance resulting from association agreement with the European Union (Richards and Waterbury: 1996: 235 and 239).

In the case of Malawi, the IMF and particularly the WB have shown strong awareness of the significance of hostile and rapidly changing external environment in affecting the country's aid dependent economy. This realisation was translated by the WB in the late 1980s into a move towards SECALs, the first of which were in trade and industry in 1988 and agriculture in 1990 and the disbursement of more funding along with greater flexibility in approaching the government. The latter included the acceptance of Banda's food security objectives, the need for some input subsidies in the agricultural sector, the need to co-ordinate project and programme lending, the need to tax the estate sector and remove restrictions which in the past prevented smallholders from growing certain high value crops such as Burely tobacco (Harrigan: 1991).

Higher funding and greater flexibility of the IMF and WB in Jordan were motivated more by geopolitical factors. Although it became evident by SAL II in 1994 that the reform process was proceeding less rapidly and more unevenly than anticipated, there was no delay in disbursing further funding. A general lesson can be drawn here, although not for the first time (Mosley et al., 1991). Unconditional, "politically irresponsible aid" and excessive relaxation of conditionality may encourage slippage on reform implementation, which in turn may undermine the programme.

Not only were Malawi and Jordan favoured recipients of IMF and WB loans enabling some slippage they also demonstrate an important relationship between general financial flows and compliance. Between 1981-85 Malawi suffered a severe decline in financial inflows making her more dependent on IMF and WB loans. As a result, compliance increased. This was reversed in 1986 when a sharp increase in bi-lateral flows made the government less reliant on the Washington institutions giving them less policy leverage and hence enabling a higher level of slippage. In Jordan the increase in financial flows, particularly from the USA, and debt rescheduling following the peace treaty with Israel in 1994 also reduced compliance with IMF and WB programmes leading to the re-emergence of fiscal indiscipline. On the other hand, compliance with the reform programmes in both countries was facilitated by the centralised nature of their political regimes and by the close co-operation between the IMF and WB.

It is clear that, in spite of some economic achievements, the Jordanian experience with reform is not an unqualified success. Distortions in the economy remain, particularly in the form of monopolies, licensing and permits, price controls and complicated red-tape measures which counteracted adjustment efforts. Progress in public sector reform has been extremely disappointing and the export base has not been diversified. Neither has there been a significant up-turn in private sector activity or improved competition in the domestic market. The loss of monetary and fiscal discipline in 1994 has been accompanied by increase in fiscal and trade deficits. There is also the persistence of large level of foreign debt, on the rise since the mid-1990s, and the inflow of direct foreign investment in response to the programme has been disappointing. The social aspects of reform have also been neglected. Most of these criticisms also apply to Malawi at the end of the 1980-86 reform period analysed.

Another general theme, which emerges from this comparative study, is the need for the Washington institutions to fully understand the political economy environment in which their reform prescriptions are implemented. We argue that reforms in both Malawi and Jordan yielded less than promised because they were mischaracterised as free-market private sector dominated political economies. In reality both relied on interventionist patrimonial populism and, particularly in the case of Jordan, extensive rent-seeking clientelism. In Jordan powerful interest groups blocked reform. The manufacturing elite blocked effective trade liberalisation whilst the bureaucracy blocked privatisation. Interest groups were less prevalent in Malawi but it is likely that the WB shied away from fundamental structural reform of the agricultural sector because it would have involved confronting Banda and his cronies' vested interests in the estate agriculture. Failure to understand Banda's patrimonial populism as reflected in a strong food security objective also led to inappropriate agricultural reforms.

The experience of Jordan and Malawi also brings to the fore an important point regarding the sequence of reform. Price and trade liberalisation are not to be treated in isolation if domestic and foreign competition is to be strengthened to avoid monopolistic exploitation in the face of price liberalisation. In countries where state officials and bureaucrats have strong, detrimental links with prominent members of the private sector, as in Jordan, public sector reform and retrenchment also need to be closely sequenced with trade sector reform. A weakness of Jordan's reform sequence was that it concentrated on increasing competition through trade liberalisation rather than on reforming a public sector, which prevented competition. Poor sequencing in Malawi took the form of agricultural price liberalisation before market liberalisation, and consumer price decontrol before trade liberalisation, and more general efforts to stimulate competition.

A final point relates to the distributional and social impact of reforms. The latter in Jordan has been accompanied by a significant increase in inequalities and poverty, the alleviation of which has become a pre-occupation of authorities. This took the form of indirect subsidies for basic items, via the coupon system, cash assistance to poor families and increase in wages and salaries. Evidence is yet to emerge on the effectiveness of these measures in alleviating poverty and reducing inequalities. They have, however, increased the fiscal deficit and public debt. In Malawi likewise the adjustment and stabilisation programmes of the 1980s were accompanied by deterioration in social welfare (Pryor, 1990; Sahn et al., 1990). The failure of reform to design countervailing measures to minimise the adverse social effects of adjustment present the greatest challenge to the sustainability of the structural adjustment process in both Malawi and Jordan.

REFERENCES

Acharya, S. N., ''Perspectives and Problems of Development in Low Income Sub-Saharan Africa,'' *World Bank Staff Working Paper,* 300, 1978.

______ , ''Perspectives and Problems of Development in Sub-Saharan Africa,'' *World Development*, Vol. 9 No. 2, 1981a.

______, ''Development Perspectives and Priorities in Sub-Saharan Africa,'' *Finance and Development*, Vol. 18, No. 1, 1981b.

Agarwala, R., ''Price Distortions and Growth in Developing Countries,'' *World Bank Staff Working Paper* 575, 1983.

Al-Fanik, F., *Jordan Economic Monitor* (Monthly Bulletin), Amman, Al-Fanik Press, March 1997.

______ , *Jordan Economic Monitor* (Monthly Bulletin), Amman, Al-Fanik Press, June 1997.

______ , *Jordan Economic Monitor* (Monthly Bulletin), Amman, Al-Fanik Press, August 1997.

______ , *Jordan Economic Monitor* (Monthly Bulletin), Amman, Al-Fanik Press, September 1997.

______ , *Jordan Economic Monitor* (Monthly Bulletin), Amman, Al-Fanik Press, February 1998.

______ , *The Jordanian Structural Adjustment Programme 1992-89*, Al-Fanik Press, Amman, 1992.

Alonso-Gamo, P. ''Liberalisation of Trade and Exchange Systems'' in Maciejewski, E. and Mansur, A. (eds), *Jordan: Strategy for Adjustment and Growth*, IMF, Washington DC, 1996.

Al-Quaryoty, M., ''Prospects for Privatisation in Jordan,'' *Journal of Arab Affairs*, Vol. 8, No. 2, 1989.

Al-Ra'i (Newspaper), Amman, 25 October 1998.

Amawi, A., ''The Consolidation of the Merchant Class in Transjordan During the World War'' in Rogan, E. and Tell, T. *Village, Steppe and State: The Social Origins of Modern Jordan*, London, British Academic Press, 1994.

Anani, J., ''Adjustment and Development: The Case of Jordan'' in El-Naggar, S. (ed), *Adjustment and Development Strategies in the Arab World*, IMF, 1987.

Brand, L., ''Economic and Political Liberalisation in a Rentier Economy: The Case of the Hashimte Kingdom of Jordan'' in Harik, I and Sullivan, D. (eds), *Privatisation and Liberalisation in the Middle East*, Bloomington, Indiana University Press, 1992.

Central Bank of Jordan, *Yearly Statistical Series 1964-94*, Amman, 1994.

______ , *Annual Reports,* Between 1990 and 1997.

Connors, T. ''The Apparent Effects of Recent IMF Stabilisation Programmes'' in International Discussion Paper No 135, Washington, Board of Governors of the Federal Reserve System, April 1979.

Cook, P. and Kirkpatrick, C., *Macroeconomics for Developing Countries*, London, Harvester, 1990.

Corbo, V. and Webb, S., ''Adjustment Lending and the Restoration of Sustainable Growth,'' Washington, World Bank, August 1990.

Daves, B., ''Biting the Hand that Feeds You: The Dilemma of Economic Reform and

Regime Stability: Jordan'' in *Comparative Perspective*, Institute Du Monde Arabe, Paris, 24-25 June 1997.

Donnovan, D., ''Macroeconomic Performance and Adjustment Under Fund Supported Programmes: The Experience of the Seventies,'' Washington, IMF staff papers, Vol. 29, June 1982.

El-Said, H., *The Political Economy of Industrialisation in a Rentier Economy: The Case of Jordan*, a PhD thesis, Manchester University, 1996.

Faini R., de Melo, J., Senhadji, A. and Stanton, J., ''Growth-Orientated Adjustment Programmes: A Statistical Analysis,'' *World Development*, Vol. 19, No. 8, 1991.

Fathi, S., *Jordan–An Invented Nation? Tribe-State Dynamics and the Formation of National Identity*, PhD thesis, Hamburg University, 1993.

Gulhati, R., ''Malawi: Promising Reforms, Bad Luck,'' *World Bank EDI Development Policy Case Series*, No. 3, 1989.

Harrigan, J., ''Malawi: The Impact of Price Policy on Smallholder Agriculture 1971-88,'' *Development Policy Review*, 64, 1988.

______ , ''Malawi'' in Mosely, P., Harrigan, J., and Toye, J. (eds), *Aid and Power*, Routledge, London, Vol. 2, 1991 (second edition 1995).

______ , ''Modelling the Impact of World Bank Policy-Based Lending: The Case of Malawi's Agricultural Sector,'' *Journal of Development Studies*, Vol. 33, No. 6, 1997.

Hill, C., ''International Business: Competing in the Global Marketplace,'' London, Irwin, 1997.

IMF, *Government Financial Statistics Yearbook*, Various issues.

Jaradat, H., *International Monetary Funds Programmes: Jordan's Experience*, MA Dissertation, University of Jordan, 1994.

Jawhary, M., *The Structure of Manufacturing in Jordan: Analysis of the Policy and Institutional Framework*, 1993.

Jordan Times, January 9-10, 1997.

Jreisat, J., ''Bureaucracy and Development in Jordan,'' *Journal of Asian and African Studies*, XXIV, 1-2, 1989.

Kanovsky, E., *Jordan's Economy: From Prosperity to Crisis*, Tel Aviv, Tel Aviv University, 1989.

Khan, M., ''The Macroeconomic Effects of Fund-Supported Adjustment Programmes,'' Washington, IMF staff papers, Vol 37, 1990.

Killick, T., ''The Quest for Economic Stabilisation: The IMF and the Third World,'' New York, St. Martin's, 1984.

Kirkpatrick, C. and Onis, Z., ''Turkey'' in Mosely, P., Harrigan, J., and Toye, J. (eds), *Aid and Power*, Routledge, London, Vol. 2, 1991.

Lipton, M., ''Limits of Price Policy for Agriculture: Which Way for the World Bank?,'' *Development Policy Review*, No. 5, 1987.

Maciejewski, E. and Mansur, A. ''Overview of Macroeconomic Performance and Structural Reforms'' in Maciejewski, E. and Mansur, A. (eds), *Jordan: Strategy for Adjustment and Growth*, IMF, Washington DC, 1996.

Mansur, A. ''Social Aspect of the Adjustment Programme: Strengthening the Social Safety Net'' in Maciejewski, E. and Mansur, A. (eds), *Jordan: Strategy for Adjustment and Growth*, IMF, Washington DC, 1996.

McCleary, W. ''Policy Implementation Under Adjustment Lending,'' *Finance and Development*, 26, March 1989: 32-4

McCracken, K., ''Planters, Peasants and the Colonial State: The Impact of the Native Tobacco Board in the Central Province of Malawi,'' *Journal of Southern African Studies*, 9, 1983.

McDermott, C. ''Macroeconomic Environment and Factors Underlying Growth and Investment'' in Maciejewski, E. and Mansur, A. (eds), *Jordan: Strategy for Adjustment and Growth*, IMF, Washington DC, 1996.

Mhone, G., ''Agriculture and Food Policy in Malawi: A Review,'' in Mkandawire, T. (ed.), *The State and Agriculture in Africa*, 1987.

Mosely, P., Harrigan, J., and Toye, J. (eds), *Aid and Power*, Routledge, London, Vol. 1, 1991 (second edition 1995).

Niblock, T. ''International and Domestic Factors in the Economic Liberalisation Process in the Arab Countries'' in Niblock, T. and Murphy, E. (eds), *Economic and Political Liberalisation in the Middle East*, London, British Academy Press, 1993.

Pastor, M., ''The Effects of IMF Programmes in Third World: Debate and Evidence from Latin America,'' in World Development, Vol. 15, No. 2, 1987.

Pryor, F., *The Political Economy of Poverty, Equity and Growth: Malawi and Madagascar*, Oxford University Press, 1990.

Reichmann, T. ''The Fund's Conditional Assistance and the Problems of Adjustment: 1973-75,'' *Finance and Development*, Vol. 15, December 1978.

Richards, A., and Waterbury, J., *A Political Economy of the Middle East*, Oxford, Westview Press, 1996.

Sahn, D., Arulpragasam, J. and Merid, L., *Policy Reform and Poverty in Malawi: A Survey of a Decade of Experience*, Cornell Food and Nutrition Policy Programme Monograph 7, 1990.

Sandbrook, R., *The Politics of Africa's Economic Stagnation*, Cambridge University Press, 1985.

Sha'sha, Z., ''The Role of the Private Sector in Jordan's Economy'' in Wilson, R., (ed), *Politics and the Economy in Jordan*, London, Routledge, 1991.

Short, P., *Banda*, Routledge, London, 1974.

Smadi, T., *Privatisation and the Jordanian Economy*, MA Dissertation, University of Jordan, 1993.

Strange, S. ''European Foreign Investment in North Africa: The Investors' Perspective'' in Ayubi, N. (ed), *Distant Neighbours: The Political Economy of Relations in Europe and the Middle East/North Africa*, Reading, Ithaca Press, 1995.

Streeton, P., *What Price Food?*, Macmillan, London, 1987.

UNCTAD, *Trade and Development Report*, 1997.

UNICEF, *Adjustment with a Human Face*, Oxford University Press, 1987.

Wils, O., ''Foreign Aid Since 1989 and Its Impact on Jordan's Political Economy: Some Research Questions'' in *Jordanies*, Amman, No 5/6, July 1998.

World Bank, *The Economic Development of Jordan*, Baltimore, Johns Hopkins Press, 1957.

______ , *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, World Bank, Washington, DC, 1981.

______ , *Malawi: Growth and Structural Change*, World Bank, Washington, DC, Report No. 3082a–MAI, 1982.

______ , *Report and Recommendation of the President of the International Bank for Reconstruction and Development on a Proposed Credit of SDR 51.9 Million to the Republic of Malawi for a Second Structural Adjustment Project*, World Bank, Washington, DC, Report No. P-3663-MAI, 1983.

______ , *Project Performance Audit Report: Malawi–Structural Adjustment I, Structural Adjustment II and Technical Assistance I*, World Bank, Washington D.C., Report No. Sec M87-699, 1987.

______ , *Report on Adjustment Lending*, document R88-199, Country Economics Department, World Bank, Washington, DC, 1988.

______ , *Jordan: Country Economic Memorandum: Consolidating Economic Adjustment and Establishing the Base for Sustainable Growth*, Washington, DC, December 1993.

______ , *World Debt Tables 1996*, Washington, WB.

______ , *Promoting Foreign Direct Investment in Jordan: Policy, Strategy and Institutions*, Washington, DC, 1997.

Yorke, V., *Domestic Politics and Regional Security: Jordan, Syria and Israel, the End of an Era?* Sydney, Gower, 1989.

Zulu, J. and Nsuli, S. ''Adjustment Programmes in Africa: The Recent Experience,'' Washington, IMF Occasional Papers, No 34, 1985.