Structural Adjustments in the Global South

***Mains**: GS – II – International Relations*

Why in News?

In a recent paper published in BMJ Global Health, economists and public health researchers argue that the institutions that implemented the structural adjustment programmes now owe reparations.

What about the Structural Adjustment Programmes (SAP)?

- **SAPs** – These are *economic policy reforms* imposed by the International Monetary Fund (IMF) and the World Bank *on developing countries* in exchange for loans, particularly since the 1980s.
- **Objectives**
  - To balance government budgets and reduce inflation.
  - Shift from inward-looking, state-led development to export-oriented, market-driven economies.
  - Improve debt repayment capabilities.
- **Origin of SAPs**
- SAPs emerged during the debt crises of the late 1970s and 1980s.
- **Heavy borrowing –** Many developing countries had borrowed heavily in foreign currencies to finance imports and industrial development.
- **Rise in Interest rate** – When the United States Federal Reserve raised interest rates in the late 1970s, debt repayments became far more expensive for poorer countries, causing decades-long progress to unravel.
- **Dollar dependency & Repayment Burden** – The countries that had borrowed in U.S. dollars suddenly faced expanding repayments in a currency they had no control over.
- **IMF-World Bank Intervention** – To prevent governments in the global South from defaulting on loans owed to American banks, the U.S. used the IMF and World Bank to roll over those debts.
- In return, they imposed strict economic reforms as conditions that would come to be known as structural adjustment programmes, or SAPs.
- **3 SAPs Conditions**
  - **Austerity** – Slash/Cut public spending on healthcare, education, food subsidies, and social security, so that the money saved could flow back to creditors.
  - **Privatisation** – By transferring public services and state-owned industries to private capital.
  - **Deregulation** – By deregulating industrial policy, tariffs, capital controls, and

labour protections.

- **Limited Choice** – Countries had a limited choice to refuse.
- Defaulting on loans was risky, and the institutions pushing these conditions controlled international finance.

What about the historical background of SAPs & its growth globally?

- **Historical Context** – After independence, many Global South nations used industrial policy and public investment to escape colonial economic patterns that *kept labour and resources cheap for Western firms.*
- **SAP Reversal** – The SAPs effectively reversed these gains, lowering wages for southern labour and re-opening vulnerable markets to the global North.
- **The 1960s–70s Growth Phase**
- **Pre-SAP Era (1960–1980)** – The 1970s were a good decade for the global South.
- **Rising incomes** – Between 1960 and 1980, real per capita income grew across Asia, Africa, and Latin America.
- **Post-colonial investments** – Countries that had recently thrown off colonial rule were investing in public healthcare and education, protecting their industries, and organising production around national development.
- **Structural Adjustment Era (1980s onward)**
- Beginning in the 1980s, the International Monetary Fund (IMF) & World Bank began structural adjustment programmes across Asia, Africa and Latin America.
- **Long-term Impacts** – Decades later, many countries in the impact regions continue to struggle with weak public health systems, stagnant incomes and high levels of poverty.

What is the social & economic outlook of global south before & after SAPs?

- **Economic Growth Impacts**
- **Before SAPs** – Averaged annual growth rate was around 3.2%.
- Decline during SAP era – But growth slowed sharply, falling to a mere 0.7% during the era of structural adjustment in the 1980s and 1990s.
- **Income Loss** – The South collectively lost an average of $480 billion per year in potential national income during this period.
- **Regional Effects**
  - **Latin America** – Real income per adult fell nearly 15% after 1980 and did not recover to previous levels until 2006.
  - **Sub-Saharan Africa** – Incomes fell nearly 20% before eventually recovering decades later.
  - **Jamaica** – Trade and exchange-rate liberalisation in the early 1990s caused food prices to rise sharply after currency depreciation.
  - **China** – Extreme poverty rose during a phase of market-oriented reforms linked to World Bank adjustment policies.
- **Health Consequences**
- **Child & Maternal Health Impacts** – A 2017 review found that SAPs imposed by the IMF, World Bank, and African Development Bank had a strong negative impact on child and maternal health.

- **Sub-Saharan Africa** – An additional 85.62 child deaths per 1,000 children and an additional 360 maternal deaths per 1,00,000 live births.
- **In Kenya** – 3,05,000 excess infant deaths occurred between 1986 and 2010 relative to the pre-adjustment trend.
- **Mechanisms**
    - **Cut in government spending on health** – Led to the closure of facilities, and limited the hiring of doctors and nurses.
    - **Currency devaluation** – Made imported drugs and medical supplies more expensive.
    - **Privatisation & user fees** – Reduced access to essential services, and
    - **Wage losses** – Made families more vulnerable to disease in the first place.
- **Financial Outflows**
- Structural adjustment also enabled large financial outflows from the global South.
- **Capital Flight** – The removal of capital controls allowed foreign companies to repatriate profits at up to $250 billion a year.
- **Trade Deregulation** – Enabled further outflows exceeding $1 trillion per year, mostly to evade taxes.
- **Domestic Impact** – Surpluses generated within developing countries that were no longer available for reinvestment in public services or domestic development.

What are the ways used to compensate for the loss that occurred & their challenges?

- **Responsibility for repair** – The IMF and World Bank, as the primary architects of these programmes, should bear responsibility for repair.
- **Ways to calculate compensations**
    - To quantify wage losses, cuts to public services, and capital outflows attributable to SAPs, adjusted for inflation and due interest.
    - To calculate losses to national income against a counterfactual in which the adjustments were never imposed.
    - Focus specifically on welfare impacts, such as poverty & mortality, to provide compensation that restores people to the social indicators they would have reached had SAPs never existed.
- **Obstacles to Compensations**
- **Sovereign Immunity** – The IMF and World Bank enjoy sovereign immunity, shielding them from lawsuits through normal channels.
- **Governance Structure Imbalance** – The Global North, with a mere 15% of the world's population, controls nearly 60% of the voting power in both institutions.
- The *U.S. alone holds a veto*.

What lies ahead?

- **Reforms Beyond reparations** -
    - Must abolish SAPs on all future lending,
    - Democratise both IMF/World Bank governance, and
    - End their immunity to ensure accountability and prevent recurrence.
- If such transformative changes cannot happen from within, these institutions should

be replaced entirely.

- **Alternatives** – Including the *BRICS New Development Bank & Asian Infrastructure Investment Bank*, established by and for the global South - *neither attaches* structural adjustment conditions to finance.

References

1. The Hindu | Toll of structural adjustments on the global South and a case for accountability
2. Investopedia| Structural Adjustment Programs

