INDIAN JOURNAL OF LEGAL REVIEW

VOLUME 6 AND ISSUE 2 OF 2026

INSTITUTE OF LEGAL EDUCATION

INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN - 2583-2344

(Open Access Journal)

Journal's Home Page – https://ijlr.iledu.in/

Journal's Editorial Page - https://ijlr.iledu.in/editorial-board/

Volume 6 and Issue 1 of 2026 (Access Full Issue on - https://ijlr.iledu.in/volume-6-and-issue-1-of-2026/)

Publisher

Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 73059 14348 - info@iledu.in / Chairman@iledu.in

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 6 AND ISSUE 2 OF 2026

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

THE IMF AND WORLD BANK'S ECONOMIC REFORMS: HOW THEY RAVAGED DEVELOPING ECONOMIES IN ASIA, AFRICA AND LATIN AMERICA AND LESSONS TO BE LEARNED

AUTHOR - SAMHITA RAJESH, STUDENT AT SCHOOL OF LAW, CHRIST (DEEMED TO BE UNIVERSITY)

BEST CITATION – SAMHITA RAJESH, THE IMF AND WORLD BANK'S ECONOMIC REFORMS: HOW THEY RAVAGED DEVELOPING ECONOMIES IN ASIA, AFRICA AND LATIN AMERICA AND LESSONS TO BE LEARNED, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (2) OF 2026, PG. 877-886, APIS – 3920 – 0001 & ISSN - 2583-2344.

ABSTRACT

This article critically examines the Bretton Woods Institutions economic reforms introduced in the developing countries of Latin America, Africa and Asia and how they had a detrimental impact on these regions. While these reforms were introduced as conditionalities for debt relief and bailouts in these countries they only ended up causing political instability, increasing poverty and causing economic stagnation. The reforms primarily examined are in the form of conditionalities and Structural Adjustment Programs. The case study of Latin America shows how these IMF reforms led to the lost decade, in Africa it exacerbated the poverty, unemployment and social discontent and in Asia it failed to manage the Asian financial crisis in an effective manner. The article advocates for a more localized approach while introducing trade and economic reforms and is a broader lesson in international trade law to incorporate local needs while integrating domestic economies with international economies and criticises neo-liberal policies which focus more on macroeconomic reforms, privatization, increased taxation, reduced role of the public sector, slashing wages and employment of public servants. There is a need for better representation, equitable and sustainable policies in the IMF and World Bank and the article elaborates on the same through the three cases. The article recommends a tailor-made approach to each individual economy with recommendations from local policy makers and civil servants to better suit domestic economies. The article essentially emphasizes that a one size fits all approach cannot be adopted while trying to reform diverse economies.

RESEARCH PROBLEMS

1. Why did IMF and World Bank structural adjustment programs (SAPs) and conditionalities often worsen economic instability in developing countries instead of resolve it?
2. How effective is a "one size fits all" model of neoliberal reforms used by the Bretton Woods institutions when applied across diverse political, social, and economic contexts?
3. Did IMF and World Bank policies prioritize debt repayment and investor protection of the developed countries over poverty reduction and sustainable development in the developing countries?
4. How does the imbalance of decision-making power in the IMF and World Bank, favouring developed economics affect policy design and outcomes in developing nations?
5. To what extent did the reforms neglect long-term developmental needs such as

healthcare, education, employment, environmental sustainability and how?

Research Objectives

1. To analyze the reasons for the failure of IMF and World Bank reforms in achieving economic stability in Latin America, Africa, and Asia.
2. To assess the limitations of uniform neoliberal reforms and to discuss whether localized, context-specific approaches are better
3. To critically evaluate the socio-economic consequences of these reforms, particularly regarding poverty, unemployment, and inequality in the long-run in these developing countries.
4. To investigate the imbalance of representation and decision-making power within the IMF and World Bank and its influence on reform outcomes and how it affected the developing countries.
5. To examine the broader social, political, and environmental costs of IMF and World Bank reforms and propose inclusive and sustainable alternatives.

Research Methodology

The research uses secondary sources including scholarly publications, case studies, reports, and statistical data from international organizations employing both a qualitative and analytical methodology. In order to assess the effects of IMF and World Bank reforms, a comparative case study approach is used, concentrating on three main continents which during their development have been subject to IMF and World Bank SAP's: Asia, Africa, and Latin America. Using a doctrinal perspective, the study examines economic policies in the context of political economy, development studies, and international trade law. In order to determine if reforms were successful, why they failed, and what alternative frameworks might be suggested for just and sustainable economic development, the process also includes a critical review of the body of current literature.

Key Words

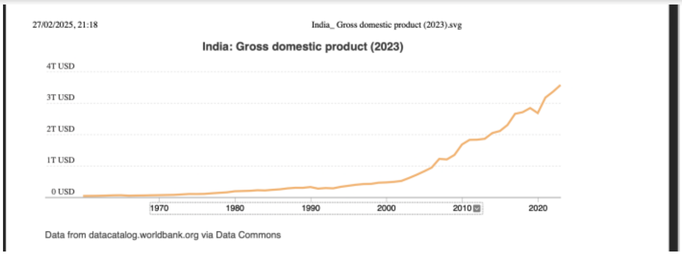
IMF, World Bank, Structural Adjustment Programs (SAPs), Developing Economies, Neoliberal Reforms

Introduction

Every Indian student since 1991 has been taught about the great economic reforms bought about in 1991. The "Liberalisation, Privatisation and Globalisation" policy introduced by then Prime Minister Narasimha Rao and Dr. Manmohan Singh saved the Indian economy which was in major debt and had run out of foreign reserves. By "structurally reforming" and opening up the Indian economy as conditions for the bailout loan, the IMF and World Bank changed the trajectory of economic growth in India. The license raj was abolished, tariff barriers were removed or relaxed, new players from other countries could enter the market and the government control over the market was loosened. In other words, the economy was liberalised, privatised and globalised. All this has led to a massive increase in GDP, FDI, per capita income, employment, innovation, etc. India's GDP in 1991 was 270 billion dollars and has seen a mostly upward growth (as seen in the graph attached below) since, and currently in 2025 stands at 4.27 thousand billion dollars[2454]. However, this has not been the case for many other developing economies which the IMF and World Bank tried to reform. This article examines a few of these economies and why they were not as successful is adopting the economic reforms, the faults in the economic reforms and the changes that could have been made to make them more successful in these countries.

[2454] INTERNATIONAL MONETARY FUND (OCTOBER 2024), https://www.imf.org/external/datamapper/profile/IND accessed 15th March

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 6 AND ISSUE 2 OF 2026
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in



Source: Data Commons, India - Data Common, https://datacommons.org/place/country/IND?utm_medium=explore&mprop=amount&popt=EconomicActivity&cpv=activitySource,GrossDomesticProduction&hl=en accessed February 27, 2025.

THE IMF AND THE WORLD BANK

The IMF and the World Bank collectively are called the Bretton Woods institutions and came into force in 1944 by a meeting of 43 countries in Bretton Woods, New Hampshire, U.S.[2455] The aim of these institutions was to rebuild postwar economies and promote international trade and economic cooperation. These institutions came into existence mainly on the advice of key U.S. and British policy experts. The IMFs main goal was to create a stable international environment for trade and commerce to thrive in and to help any developing countries with financial assistance. The World Bank was to help improve the capacity of countries to trade and would help in loaning money to countries requiring it.[2456]

The Bretton Woods institutions provide policy changes often along the same lines of privatisation, globalisation, self-regulating markets, austerity measures, increased taxation, cuts in wages and lay-offs of public servants, devaluation of currencies and an overall policy of ensuring the economies of the developing countries more integrated into the international mainstream economy to ensure their growth despite the fact that none of the developed economies currently, including the U.S. or European economies, achieved development by following such policies. Rather they developed their economies by following policies quite the opposite- closed economy policies with emphasis on domestic production and higher import duties.

A point to be noted about the IMF and World Bank is that the members of these groups contribute to it monetarily at different rates and there is not fixed amount however it is often noted that the members contribute according to the size of their economies meaning that bigger economies like the U.S., European economies and Japan have been seen historically to have more say in the decision making process while countries which contribute at lesser rates may not have that much influence over the happenings of the institutions. This points at the political inclinations of the policies imposed by the Bretton Woods Institutions and how they can help promote and protect the interests of the Western economies.

WHAT ARE "CONDITIONALITIES" AND "STRUCTURAL ADJUSTMENT PROGRAMMES"?

Conditionalities are adjustments to a country's economy that the IMF deems necessary to ensure that the reason the country had to approach the IMF for financial assistance does not repeat. They are policy adjustments to the country's economy. It helps the country's economy but it also acts as security for the IMF to ensure that it does not waste its resources and money on a country where the same crisis could happen again. The main aims of these conditionalities are to maintain balance of payments, macroeconomic stability, sustained and high-quality growth and other objectives like reducing poverty[2457].

In the 1990s the IMF began lending heavily to low-income countries and imposed many conditions which included structural conditionalities making the economy more

[2455] Bretton woods Project, 'What are the Bretton Woods Institutions?', (1 January 2019), < https://www.brettonwoodsproject.org/2019/01/art-320747/> accessed 15th March
[2456] Ibid

[2457] INTERNATIONAL MONETARY FUND, 'IMF Conditionality' , March 2023 <https://www.imf.org/en/About/Factsheets/Sheets/2023/IMF-Conditionality> accessed 27 February 2025.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 6 AND ISSUE 2 OF 2026

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

liberal and privatising markets[2458]. State ownership was actively discouraged and policies were geared towards a more liberalised economy as a way of improving economic growth. There have been wide criticisms that such policies increase income inequality by moving money away from the poor[2459], allowing international corporations from developed economies to exploit the cheap raw material and labour, reducing states right to exercise control over its own economic policies, etc.

A common problem conditionalities face is compliance. Many papers have found that compliance with conditionalities may be low especially when it comes to privatization reforms[2460].

Structural Adjustment Programmes (SAP's) are also conditions which the IMF and World bank attach while providing loans to countries. They are the programmes that are undertaken to "reform" the economy of the loanee country. SAP's usually require governments to cut public expenditure by reducing subsidies in key areas such as medical, food, education, raising interest rates, reducing or eliminating tariffs and flexible barriers to trade to encourage foreign investment[2461]. These are imposed with the aim of attracting foreign investment which would rejuvenate the domestic economy by injecting some much needed cash as well as foreign exchange. However, the true results of these SAP's and conditionalities are not so positive.

Latin America

Latin American countries followed an import-substitution industrialisation (ISI) strategy, which means producing goods domestically which they previously imported. However, this policy faced many problems. High capital for developing industries was required which developing countries could easily obtain loans for. The easily available loans led to an overflow of money which eventually led to a chain reaction of effects ending in debt crisis and capital flight in the 1980s. Most of the debt was to American banks which had given loans too freely to these countries. Another problem the region faced in the period of the' 60s and '70s was the political instability and different economic models and policies were imposed with changing dictatorships. The political issues of this time was focused on the problem of wealth accumulation and rights of the working class. The Latin American countries approached the IMF to alleviate this problem.

It is important to note the influence of the U.S. on the IMF reforms and the amount the IMF loaned because of its share in its funding. Given the geographical closeness of the regions, the U.S. is a key player and took special interest and tried to help reform the region several times and often failing to do so. Also considering that the U.S. banks were the ones with the most amount of money invested in the region they had a keen interest in seeing the economies and banks of the Latin American countries reformed and the money repaid. Hence, it can be seen that the conditionalities that are placed on these loans are often the ones that favour the United States the most.

The IMF granted loans to the banks in Latin American "Least Developed Countries" (LDC's) on the imposition of austerity conditions and structural reforms to their economies including budget deficits with the aim of increasing exports and generating trade surplus to get foreign exchange to pay off the debt. The focus of the IMF was to bring stability to this region rather than focusing on development through policies such as structural reforms to reduce market distortions and ineffectiveness of capital control[2462]. These reforms may have alleviated

[2458] Philip Abbott, Thomas Barnebeck Andersen, Finn Tarp, Volume 50, Issue , IMF And Economic Reform In Developing Countries, (2010), The Quarterly Review of Economics and Finance, 17

[2459] Ibid

[2460] Biglaiser, DeRouen, 'How soon is now? The effects of the IMF on economic reforms in Latin America', The Review of International Organisations, (2011), 189 https://doi.org/10.1007/s11558-011-9123-8 accessed 15th March 2025

[2461] Asad Ismi, 'Impoverishing a Continent: The World Bank and IMF in Africa 1 Impoverishing a Continent: The World Bank and the IMF in Africa', (2004), <https://policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/africa.pdf> accessed 15th March 2025.

[2462] James M. Boughton, Case by Case: A Retrospective on the Debt Strategy, IMF eLIBRARY, (9th October 2001), <

short term issues but in the long-term it disrupted these economies so much leading to negative growth and the "lost decade" of the Latin American economies. Countries cut spending on key aspects such as infrastructure, health and education, reduced wages and laid off State employees which in turn led to high unemployment, decline in per capita income and stagnant or even negative economic growth in some cases in the 1980s. [2463]

The private American Banks were eventually forced to establish loan loss provisions when it became clear that the Latin American Banks would not be able to repay the loans despite many efforts. Citibank was the first in 1987 to extend a $3.3 billion loss provision[2464]. Eventually the Brady plan by the U.S. was proposed which involved the exchanging of old debts with new ones and Mexico was the first to adopt it in 1989 followed by Argentina, Brazil, Costa Rica, Ecuador, Mexico, Panama, Peru, the Dominican Republic, Uruguay, and Venezuela[2465]. This gave respite to the economies to a certain degree. However, the problems during the "lost decade" were not limited to only economic and monetary but also political and social with many countries losing autonomy and increasing class struggle with wage workers protesting against their abrupt layoffs.

An important case after this was in Argentina in the 1990s when implementing the Western Neoliberal policies once again backfired worsening regional problems. Argentina implemented all the recommendations of the Washington Consensus which are a policy changes including market determination of interest rates, competitive exchange rates, liberalisation of trade, deregulation of barriers to entry and exit, most extensive property rights, etc.[2466]. These reforms eventually led to over-indebtedness and the economic and social crisis the likes of which the country had never before seen. In 2001 Argentina declared a partial default on its external debts once again proving the ineffectiveness and even detrimental effects of these neoliberal policies by the IMF, World Bank and U.S. Treasury. The economist who coined the term "Washington Consensus", John Williamson argued that the Washington Consensus was never intending to imply "quintessentially neoliberal ideas" and defended the reforms but could not deny that the Washington Consensus failed to achieve its goals in these Latin American Countries[2467].

The main lesson to be learned here is that economic reforms are not one size fits all and must be considered in the regional and economic contexts of the country they're being applied to. Applying neoliberal reforms only led to economic and social disruptions for decades however, in the beginning of the 20th century when neoliberal policies and its shift away from State investment in public sector was abandoned there was finally a rise in wages, reduction of unemployment and poverty. There was a major distaste for the IMF and its policies and ideas in this region for a long period after as witnessed by the rejection of the Free Trade Area of the Americas in 2005. The IMF even started rebranding itself. A political consequence which arose was the emergence of new right-wing and ultra-right wing parties and their popularity, these too were financed by the United States[2468]. Political disruptions in developing countries were not considered by the IMF while making policies and conditionalities which led to their failure because of resultant policy instability and non-compliance with IMF conditionalities. Another mistake to be noted here is the focus on merely

<https://www.elibrary.imf.org/display/book/9781557759719/ch012.xml> accessed 15th March 2025.

2463 Jocelyn Sims, 'Latin American Debt Crisis of the 1980s | Federal Reserve History', Federal Reserve History, <https://www.federalreservehistory.org/essays/latin-american-debt-crisis> accessed 13 March 2025.

2464 Ibid

2465 David Barkin, 'The IMF and Class Struggle in Latin America: Unveiling the Role of the IMF', *Monthly Review*, (May 2024) <https://monthlyreview.org/2024/05/01/the-imf-and-class-struggle-in-latin-america/> accessed 13 March 2025.

2466 Douglas A Irwin, Oliver Ward, 'What Is the "Washington Consensus?"', *Peterson Institute for International Economics*, (8 September 2021) <https://www.piie.com/blogs/realtime-economic-issues-watch/what-washington-consensus>.

2467 John Williamson, 'Did the Washington Consensus Fail?', Peterson Institute for International Economics, (3 March 2016) <https://www.piie.com/commentary/speeches-papers/did-washington-consensus-fail>.

2468 Ismi (n 8)

macroeconomic readjustment without change in structural reforms to promote sustainable growth. The focus of IMF reforms was on ensuring the developed world and banks therein do not lose their invested money and the development of Latin American economies was sidelines consequently leading to ineffective economic policies. This instance is also a cautionary tale of allowing a single country to invest too heavily in your economy and giving too much power to developed countries to take decisions for developing countries and their economies.

Africa

Many authors argue that Africa has been one of the worst affected by the SAP's of the IMF and the World Bank. Many countries in this region approached the World Bank and IMF in the 1980s and 1990s for reasons similar to the Latin American countries. Having recently gotten their freedom from colonisation, many countries were now struggling to meet the needs of their already impoverished citizens and economies, rising debts and borrowings from foreign countries, weakening of currency and even the overall impact of the global recession in the 1970s were few of the factors for imposing SAPs in the African countries.

The impact of these SAPs in terms of the figures was showing astounding growth. But critics are of the opinion that export expansion and increasing foreign investment in Africa has not increased overall growth and addressed issues such as poverty, unemployment and point out the qualitative issues that these numbers failed to account for[2469]. Research shows that growth during this period was slower than the 20 years before the 1980s, poverty increased exponentially with more than half of the population of Africa in 2002 living below the poverty line (350 million), stagnancy in per capita income in some countries while per capita income fell in others, and many more social and humanitarian problems such as low life expectancy, increased debt burdens, decrease in quality and quantity of health care and increase in spread of communicable and other diseases such as HIV/AIDS, decrease in education levels, lack of clean drinking water, etc[2470]. The very problems that a more stable and efficient economy would not face was being faced by these countries due to the implementation of the SAPs by the World Bank and IMF. The quantitative figures of this period show an increase in trade, foreign direct investment, portfolio investment, increase in debt service as a percentage of exports[2471]. These contrasting results only proves that while the changes that the Bretton Woods Institutions thought would be best for the region were made, the region only fell deeper into underdevelopment. The IMF and the World Bank failed the continent. The introduction of the Highly Indebted Poor Countries (HIPC) initiative did not alleviate the crisis. It continued with the ideas and policies of the SAPs and the debt relief provided was not adequate to make an impact. Moreover, introduction of conditions such as countries must successfully complete six years of SAPs to be eligible for HIPC made accessing them difficult. The HIPC made a negligible impact on reducing the debt in the African continent and was once again a failure for the IMF and the World Bank.

Though to give the institutions a fair chance the author must examine the Poverty Reduction Support Papers (PRSPs) introduced in 2000 because the IMF and World Bank themselves realised the failure of the SAPs. PRSPs were meant to be different from SAPs and have more local involvement by local governments, legislative organs, NGOs, involvement of civil servants and other such measures. PRSPs were unsuccessful in Ghana where the political instability, lack of coordination and implementation and problems with the policy such as its restriction to merely restructuring the aid system[2472] and ignoring long-term poverty

2469 Ismi (n 8)

2470 Ismi (n 8)

2471 Ismi (n 8)

2472 'What Has Been the Impact of PRSPs in Africa?', Danish Institute for International Studies, <https://www.diis.dk/en/research/what-has-been-the-impact-of-prsps-in-africa> accessed 14 March 2025.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 6 AND ISSUE 2 OF 2026
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

alleviation and economic reform were hurdles too difficult to overcome by just a rebranded SAP. PRSPs were compulsory for the countries to receive loans from the IMF and World Bank and Western developed nations so inevitably, just like with SAPs, African countries were forced to adopt PRSPs too. Another country where the non-performance of the PRSPs can be observed is Uganda. In Uganda the IMF and World Bank disappointed by the people by not delivering on promises of public consultation for restructuring and re-examining monetary and fiscal policies and not inviting Ugandan NGOs to provide input on the nature of the poverty alleviation goals[2473]. The same pattern and cycle of failed SAPs, PRSPs, HIPC initiative can be seen in almost every African country including Ghana, Sierra Leone, Zimbabwe, Cote d'Ivoire and many more. It is sad to see the economies and rich resources of these countries being exploited and wasted away because proper debt-relief and support was not provided to them at the right time.

Asia

The main focus of this section will be on the Asian economic crisis and the role of the IMF and World Bank in helping control the same. In 1997 the Asian economies specifically Thailand, Korea, Vietnam, Philippines, Malaysia, Singapore experience a period of extreme economic instability involving currency devaluations, stock market crashes and economic recession. Many factors led to this crash including the fixed exchange rates amongst these countries and with other countries, external deficits, stock and property market decline, low quality of bank loans being some of the most notable[2474]. In this case though the IMF was not the cause of the crisis bur rather failed to mitigate its effects and even worsened it. The IMF stepped in and introduced programmes starting with Thailand and further extending to Indonesia and Korea[2475] focusing mainly on macroeconomic adjustment. The IMF took action by devaluing currency, tightening interest rates, reducing current account deficits and other structural policies. With regard to the structural policies the IMF attempted to address the weak banking and financial institutions. Another problem to be considered was whether these countries should be allowed to default on their loans and whether this would create a moral hazard by setting a precedent that the IMF would bail out any country in a difficult position leading to members making risker moves[2476]. Another argument on moral hazard is that a market cannot function efficiently and sustainably if the IMF keeps bailing out every country that defaults. It reduces the risk of the investing private parties and gives a cushion of safety to the countries receiving such loans. Hence, private parties do not exercise caution and prudence and do not learn from their mistakes. Had they learnt from the crisis in Latin America and the Lost Decade such a situation may not have even occurred in Asia because they would not have considered it wise to invest in markets with certain warning indicators[2477].

Mistakes Made And Lessons Learned

A common theme that this author has observed in the three different case studies of Latin America, Africa and Asia is the lack of consideration of the social and political settings of each of these regions. The IMF and World Bank reforms are often termed as left-wing and neoliberal because they put an emphasis on free market, foreign investment, lack of government interference but the countries in which these are imposed often socially frown upon such policies and may even be completely against them. Further, some of these countries having gained independence in the 20th century have problems related to labour to deal with. But the IMF and World Bank once again fail to understand this angle of the local

2473 Williamson (n 14)
2474 Stanley Fischer, 'The IMF and the Asian Crisis', (1998), International Monetary Fund, <https://web.uncg.edu/dcl/courses/global/pdfs/The_IMF_and_the_Asian_Cri.pdf> accessed 14 March 2025.
2475 Ibid
2476 Danish Institute for International Studies (n 19)
2477 Allan H. Meltzer, 'Asian Problems and the IMF', (1998), Cato Institute, 264, <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1998/1/cj17n3-4.pdf> accessed 15 March 2025.

problems and use a universal and common policies and measures. The institutions should have focused on the local customs, practises and problems and found diverse solutions depending on the country rather than throwing something at the wall and hoping it sticks. This problem essentially stems from a lack of representation of the countries seeking a loan from the IMF in the IMF. Those who have the most amount of decision making power are not those who are going to be forced to implement this decisions to get a bailout. Voting power in the IMF remains imbalanced even till date with the U.S., Europe, China and Japan having more power because of their economies and funding. Further, the United States still retains veto power[2478]. The IMF and World Bank also lack representation by civil society organisations who do real ground level work and know the reality of the situations. They are more equipped and well-suited to provide diverse reforms based on each countries requirements and their national customs, practises, social and political environment, problems faced uniquely by them. However, despite many criticisms the system followed by the IMF and World Bank remains alive and well.

Another drawback of these policies observed by the author is the over interference in debt repayment which does not allow for the market to function normally and does not teach investors to make investments wisely. When the IMF and World Bank bail out every country that defaults investors become careless and do not heed warning signs from the markets. The Bretton Woods institutions preach market self-regulation but in this case they themselves do not practise it. This was seen in Latin America where despite seeing many warning signs that the debt levels in these countries were unstable and investing U.S. banks were overexposing themselves to debt the players in the market did not recognise the problem and pull out of the market until it was too late[2479]. The IMF and World Banks bailouts act as a safety net making investors take risking money in certain countries too lightly. This creates a problem of moral hazard[2480].

In the 21st century where global warming and climate change are major problems it would be amiss of this author to not address the role of the IMF in exacerbating environmental problems and degradation. The World Bank Chief Economist Sir Nicholas Stern in 2007 notes "Climate change is a result of the greatest market failure the world has seen."[2481] The model of economic growth is often seen as unsustainable and causes immense environmental consequences which tend to be ignored in the haste for fulfilling the IMFs conditionalities to get debt relief and bailouts. Another aspect that must be addressed is the human rights issues caused due to the policies of the Fund and the Bank. The institutions policies of austerity, privatisation of public services, extreme taxation policies, labour cuts, etc.[2482] have only pushed these countries further into poverty and caused many to lose their jobs. It also deepens inequality the gap between the rich and the poor widens. Further by allowing for large-scale global investments and forcing privatisation the need for local businesses and employment disappears. Small scall businesses, self-employed workers and entrepreneurs become jobless. Labour uprisings have been often seen in countries where the IMF and World Bank have imposed their policies such as in Latin America. The policies of the IMF and World Bank have been put under the critical lens for allowing the developed countries to only get richer by exploiting resources of the developing countries where the policies are imposed. They widen the divide between the developed and developing world too. This further harms the developing country and

2478 Isabel Alvarez, 'What Are the Main Criticisms of the World Bank and the IMF? - Bretton Woods Project' , (4 June 2019), Bretton Woods Project, <https://www.brettonwoodsproject.org/2019/06/what-are-the-main-criticisms-of-the-world-bank-and-the-imf/#_Toc10127390> accessed 15 March 2025.

2479 Jocelyn Sims, 'Latin American Debt Crisis of the 1980s | Federal Reserve History' , Federal Reserve History, <https://www.federalreservehistory.org/essays/latin-american-debt-crisis> accessed 15 March 2025.

2480 Meltzer (n 24)

2481 Alvarez (n 25)

2482 Alvarez (n 25)

disproportionately damages the marginalised and poor sections[2483].

The IMF and World Bank have also not been able to provide empirical and statistical data to prove that they have helped growth in the countries where they have implemented their policies. In fact, as seen in the three case analysis, the impact of their policies has been largely negative in the long run especially when it comes to the qualitative aspects of growth. They have not done much to reduce poverty and inequality and the reduction in poverty over the past 40 years has often been attributed to China which did not follow any of its neoliberal policies[2484]. The reduction in poverty has been minimal as seen in Africa where the World Bank has reported that the number of people living in extreme poverty has grown substantially since 1990, between 1990 and 2012 the number of people living in poverty in Africa fell from 56% to 43% which is not substantial enough to justify the reforms[2485]. In Latin America after the IMF and World Bank restructuring in the 1980s poverty had in fact risen to 41% of households (35% in 1980), the region did not show a major recovery with 39% of households still in poverty in 1994[2486].

A few changes the author feels would have made the policies more effective, undoubtedly there was a need for reform of these economies, include consulting national policy-makers and economists of the countries where the SAPs and conditionalities were to be implemented to make them more effective. Local experts are aware of how the economy works nationally and problems faced which must be addressed before integrating these economies with the international economies. Further, they can advocate for labour rights and environmental issues to be taken into account rather than having the IMF and World Bank merely see these economies as numbers and statistics. Also, as evidenced in China, these economies should have been allowed to heal domestically by keeping their economy closed rather than allowing international players into their economies during times of crisis when the economy is already weak. Keeping a closed economy does not mean that these countries should not follow any trade practises with other countries but rather focus on domestic production than relying on imports and focus on making their local currencies stronger, all of which were not considered by the IMF and World Bank. What did end up happening was that the investors from foreign countries did not bear any losses and further as a result of restructuring and SAPs even got easy access into new markets where they could sell their imports for cheap and acquire cheap resources and raw material. Also focus should be on improving qualitative standards such as standard of living, reduction of poverty, unemployment, increasing literacy rates and education, healthcare, etc. to ensure citizens are catered to first and are capable of working to keep the economy functioning smoothly. Nationals of these country's should be given employment and encouraged to start businesses and generate revenue within the country rather than trying to increase GDP by inviting foreign investors and dollars. Of course, international trade will benefit the economy but when a domestic economy is unable to stand on its own two feet it is important to teach it to do so first instead of fitting it with permanent crutches, which is what too much dependence on external aid has done. These are only few of the numerous lessons than can be learned from the failure of the IMF and World Bank and should be considered while making new international trade agreements and laws and also dealing with current financial crisis' such as the Sri Lanka economic crisis. The policies of the IMF and World Bank have been seen to be desirous

2483 Alvarez (n 25)
2484 Alvarez (n 25)
2485 World Bank Group, 'While Poverty in Africa Has Declined, Number of Poor Has Increased', (19 January 2021), World Bank <https://www.worldbank.org/en/region/afr/publication/poverty-rising-africa-poverty-report#:~:text=According%20to%20latest%20World%20Bank,data%20are%20taken%20into%20consideration.> accessed 15 March 2025.
2486 Oscar Altimir, 'Growth, Poverty in Latin American Countries -Long-Term Trends', UNDP <https://hdr.undp.org/system/files/documents/oscaraltimir.pdf> accessed 15 March 2025.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 6 AND ISSUE 2 OF 2026

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

of spreading capitalism worldwide but capitalism may not be the solution to the problems of every economy. Hence, a local and domestic approach is absolutely vital while considering any new trade or economic crisis that emerge. The international trade order is built on a system of capitalism and it is not without faults.

Conclusion

The failures of the IMF and the World Bank can function as a warning sign to the world to heed domestic requirements and warning before opening up their economy. While international trade is essential for the economic growth and development of the world economy at large as well as the domestic economies it must be done keeping in mind the local circumstances of each country. The nationals of each country must be kept at the forefront while formulating international trade laws. Each country should produce and trade as per their comparative advantage rather than following a uniform trading process. Considering the diversity and uniqueness of the problems as well as resources of each country it would be amiss of global legislative organs to follow a solely left-wing or neoliberal approach during reforming and restructuring. Further, the world can learn much about risk taking and investment from the failure of the Bretton Woods institutions in these many countries. This author does not deny the necessity of these institutions in ensuring international economic stability however reform in the way these institutions function is necessary and the developing world economies need to take charge of the same. A one size fits all approach for economic reformation must be abandoned and a case to case approach for each economy must be adopted with maximum participation and input by local authorities. It is high time the IMF and World Bank become more inclusive, equitable and diverse in both membership and policies.