



# Adjustment without Transformation? Structural Adjustment Programs (SAPs), Deindustrialization, and Development Traps in Developing and Least-Developed Countries (LDCs)

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## **Abstract**

**Purpose** – This paper examines whether Structural Adjustment Programs (SAPs) have facilitated structural transformation or merely achieved macroeconomic stabilization. Specifically, it investigates how SAP-driven liberalization and fiscal discipline relate to deindustrialization and the persistence of development traps in late-developing economies. The study aims to clarify whether adjustment reforms represent a pathway to productive upgrading or a mechanism of “adjustment without transformation.”

**Design/methodology/approach** – The research adopts a qualitative comparative design grounded in historical political economy and structuralist analysis. It employs process tracing and institutional analysis across selected cases that experienced SAPs, deindustrialization, and persistent development traps. Empirical evidence is drawn from policy documents, international organization diagnostics, and contemporary academic literature (2018–2025). The analysis focuses on sequencing, coordination, and state capacity as mediating mechanisms linking SAPs to structural outcomes.

**Findings** – The study finds that SAPs often replaced state-led industrial strategies without establishing alternative mechanisms for productive upgrading. Liberalization frequently preceded capability accumulation, exposing fragile industries to competition and leading to premature deindustrialization. The resulting structural shifts reinforced low-productivity equilibria and constrained development trajectories, suggesting that macroeconomic stabilization alone is insufficient for structural transformation.

**Research limitations** – The qualitative design limits statistical generalizability and does not isolate causal effects quantitatively. Future research could combine longitudinal quantitative indicators with comparative case studies to test causal mechanisms and explore conditions under which adjustment and transformation coexist.

**Implications** – The findings underscore the need to reintegrate industrial policy, strategic coordination, and state capacity into development strategies and conditional lending frameworks. They also call for reassessing SAP evaluation criteria beyond short-term stabilization.

**Originality** – The paper advances the concept of “adjustment without transformation” by linking SAPs to long-term structural outcomes and development traps using recent empirical evidence and a structuralist theoretical lens.

**Keywords:** Structural Adjustment Programs, Deindustrialization, Structural Transformation, Development Traps.

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## INTRODUCTION

Since the 1980s, Structural Adjustment Programs (SAPs) have been central to economic policy prescriptions in many developing economies, driven by international financial institutions such as the International Monetary Fund (IMF) and the World Bank. These programs typically combine fiscal austerity, market liberalization, deregulation, and privatization with the objective of restoring macroeconomic stability and stimulating economic growth (IMF, 2019). Although SAPs were originally promoted as pathways toward broad structural reform, including strengthening market efficiency and integrating economies into global markets, their long-term implications on economic structure and development trajectories remain a subject of intense debate among scholars and policymakers.

A primary motivation behind SAPs was to correct macroeconomic imbalances and catalyze structural change in economies experiencing crises. However, empirical evidence indicates that the impact of these programs on income distribution, social welfare, and institutional capacity can be mixed. Recent systematic reviews of IMF programs highlight that conditionality associated with structural reform often correlates with widened income inequality, adverse social indicators, and growth in informal economies, reflecting complex socio-economic effects beyond short-run stabilization goals (Demir, 2022).

While macroeconomic adjustment represents one dimension of development policy, *structural transformation* the reallocation of labor, capital, and productivity from low-productivity to high-productivity sectors, particularly manufacturing and technologically sophisticated activities is widely recognized as central to sustainable development. A robust and diversified industrial sector has traditionally facilitated productivity growth and higher wage employment in successful development experiences (Herrendorf et al., 2020). However, a growing body of research documents a phenomenon of premature deindustrialization in developing and middle-income countries, where industrial output and employment begin to decline at income levels much lower than those experienced historically in advanced economies, potentially slowing economic growth and trapping countries in low productivity equilibria (Rekha & Babu, 2022).

Premature deindustrialization has been linked to several structural and policy dynamics, including globalization pressures, trade liberalization, and financial openness without adequate industrial policy support. Recent cross-country evidence suggests that patterns of deindustrialization vary significantly across regions, with some developing economies experiencing sharper declines in manufacturing activity as compared to others, implying that *contextual determinants and global linkages shape structural outcomes* (Özçelik & Özmen, 2023). Consequently, premature deindustrialization is implicated in growth slowdowns and persistent middle-income traps, where economies struggle to achieve sustained income convergence and structural upgrading.

The intersection between SAPs and structural transformation has been understudied in a unified analytical framework. While IMF-supported conditionality seeks structural reforms in a broad sense, evidence remains inconclusive about whether these reforms genuinely foster industrial diversification and long-term productive transformation. Recent econometric assessments of IMF conditionality suggest that the promotion of structural reforms may not uniformly translate into deeper or more resilient industrial capacity in borrowing countries (Stubbs et al., 2020). This raises critical questions about the effectiveness of SAPs in promoting *productive structural change* as opposed to merely adjusting macroeconomic indicators.

**Table 1.** Countries Experiencing Structural Adjustment Programs, Deindustrialization and Development Traps

| Country   | SAP Implementation Period | Evidence of Deindustrialization                                  | Development Trap Classification | Key Observations   | Recent Sources (2018-2025)                   |
|-----------|---------------------------|--|---------------------------------|--|--|
| Ghana     | 1983-1999 (IMF/WB)        | Decline in manufacturing value-added share since the early 1990s | Lower-middle-income trap        | Trade liberalization weakened domestic manufacturing; growth driven by commodities | IMF (2019); Rodrik (2018); World Bank (2024) |
| Nigeria   | 1986–1998                 | Manufacturing employment stagnation; oil-led deindustrialization | Low-productivity trap           | SAP-induced liberalization reinforced resource dependence                          | UNIDO (2022); World Bank (2024)              |
| Zambia    | 1991–2005                 | Sharp contraction of the manufacturing sector                    | Low-income trap                 | Rapid privatization without industrial upgrading                                   | IMF (2020); Oqubay et al. (2020)             |
| Kenya     | 1980s-1990s               | Premature deindustrialization since the mid-1990s                | Lower-middle-income trap        | Weak industrial policy post-adjustment   | Rodrik (2018); UNIDO (2023)                  |
| Brazil    | 1990–2002                 | Deindustrialization from the mid-1990s                           | Middle-income trap              | Financial liberalization and currency overvaluation                                | Nassif et al. (2018); World Bank (2024)      |
| Argentina | 1991–2001                 | Manufacturing decline after trade liberalization                 | Middle-income trap              | SAPs intensified external vulnerability  | IMF (2021); CEPAL (2022)                     |

Furthermore, the concept of *development traps* economic states characterized by persistent low productivity, weak diversification, and stagnating growth has resurfaced in development discourse as a theoretical lens to understand why some economies fail to capitalize on adjustment reforms to achieve broad structural transformation. Development traps are often manifested when structural reallocation fails to generate productivity gains across sectors and when institutional capacities to support innovation, industrial policy, and inclusive growth are weak (World Bank, 2024).

Understanding the interplay between adjustment policies, deindustrialization trends, and development traps is crucial for contemporary development economics. Past frameworks often separated the analysis of macroeconomic stabilization from sectoral structural outcomes, leaving a gap in integrated theory and empirical inquiry. By investigating whether SAPs have facilitated *adjustment without transformation*, this study addresses how policy regimes

emphasizing liberalization and fiscal discipline may inadvertently constrain structural change mechanisms essential for sustainable, inclusive development.

## **METHOD**

This study adopts a qualitative comparative research design grounded in historical political economy and structural transformation theory to examine the long-term developmental consequences of Structural Adjustment Programs (SAPs). Rather than assessing SAPs through short-term macroeconomic indicators, the analysis focuses on how adjustment reforms have reshaped productive structures, industrial trajectories, and development pathways over extended periods of time.

A qualitative approach is particularly appropriate for this research question because the impacts of SAPs on deindustrialization and development traps are structural, cumulative, and path-dependent. Existing scholarship emphasizes that development outcomes cannot be fully understood through econometric estimation alone, especially when policy reforms interact with institutional capacity, global market integration, and historical legacies (Oqubay et al., 2020; UNCTAD, 2021). By privileging interpretive and comparative analysis, this study seeks to capture these complex dynamics.

The study employs a purposeful, theory-informed case selection strategy. Countries are selected based on the coexistence of three analytically linked conditions: (1) sustained exposure to IMF- and World Bank–supported structural adjustment programs; (2) observable patterns of deindustrialization or premature deindustrialization, and; (3) persistence of low-income or middle-income development traps.

This selection logic follows the principle of analytical generalization, where cases are chosen because they illuminate theoretically relevant processes rather than because they are statistically representative (George & Bennett, 2005; extended in contemporary development research by Ocampo, 2023). The final set of cases spans Sub-Saharan Africa, Latin America, and South and Southeast Asia, enabling cross-regional comparison while preserving sensitivity to institutional and historical variation.

## **RESULTS AND DISCUSSION**

### **Results**

#### **Structural Adjustment and Reconfiguration of Development Strategies**

Across the cases examined, Structural Adjustment Programs (SAPs) were associated with a systematic reorientation of development strategies away from state-led industrialization toward market-oriented adjustment. Policy documents and secondary analyses consistently show that adjustment reforms prioritized macroeconomic stabilization fiscal consolidation, trade liberalization, and privatization while relegating industrial development objectives to a secondary role (IMF, 2019; Kentikelenis et al., 2019).

Qualitative evidence indicates that SAPs often involved the dismantling of industrial policy instruments, including tariff protection, subsidized credit for manufacturing, and public investment in industrial infrastructure. While these measures were justified as necessary corrections to inefficiencies and fiscal imbalances, their implementation frequently occurred without the establishment of alternative mechanisms to support productive upgrading. This pattern is summarized in Table 2, which highlights the common reform components observed across cases.

**Table 2.** Core Structural Adjustment Measures and Implications for Industrial Policy

| Adjustment Component     | Typical Policy Action                         | Implication for Industrial Structure                          | Key Sources                |
|--------------------------|---|---|----------------------------|
| Trade liberalization     | Rapid tariff reduction, import liberalization | Increased exposure of infant industries to global competition | IMF (2019); UNCTAD (2021)  |
| Fiscal austerity         | Cuts to public investment and subsidies       | Reduced state capacity to support manufacturing               | Kentikelenis et al. (2019) |
| Privatization            | Sale of state-owned industrial firms          | Fragmentation of industrial coordination                      | UNIDO (2022)               |
| Financial liberalization | Removal of directed credit                    | Limited long-term finance for industry                        | Oqubay et al. (2020)       |

### Deindustrialization as a Post-Adjustment Structural Outcome

A central empirical finding of this study is that SAP implementation coincided with persistent or premature deindustrialization in most cases examined. Manufacturing value-added and employment shares either stagnated or declined following adjustment, often at income levels substantially lower than those observed in advanced economies at the onset of deindustrialization.

Rather than facilitating structural upgrading, adjustment reforms frequently preceded a shift toward primary commodities, low-productivity services, and informal employment. This pattern is consistent with recent evidence on premature deindustrialization, which emphasizes the vulnerability of developing economies to early industrial decline under conditions of rapid liberalization (Rodrik, 2018; Özçelik & Özmen, 2023).

**Table 3.** Indicative Evidence of Deindustrialization Following Structural Adjustment

| Country     | SAP Period | Manufacturing Trajectory                | Income Level at Onset | Interpretation                    | Sources                         |
|-------------|------------|---|-----------------------|-----------------------------------|---------------------------------|
| Ghana       | 1983-1999  | Declining manufacturing share post-1990 | Low-income            | Premature deindustrialization     | UNIDO (2022); World Bank (2024) |
| Nigeria     |            | Manufacturing stagnation; oil dominance | Lower-middle          | Resource-led deindustrialization  | UNCTAD (2021)                   |
| Brazil      | 1990-2002  | Long-term industrial decline            | Upper-middle          | Financialized deindustrialization | Nassif et al. (2018)            |
| Mexico      | 1985-1995  | Manufacturing enclaves, weak linkages   | Middle-income         | Shallow industrialization         | Rodrik (2018)                   |
| Philippines | 1983-1998  | Early manufacturing peak                | Middle-income         | Premature deindustrialization     | World Bank (2024)               |

### Development Traps and the Absence of Structural Transformation

The third major result concerns the persistence of development traps. Despite episodes of growth recovery following adjustment, most countries failed to achieve sustained

convergence with advanced economies. Growth trajectories remained volatile, productivity gains limited, and economic diversification weak.

The analysis shows that deindustrialization and development traps are closely intertwined. Without a dynamic manufacturing sector capable of generating learning spillovers and productivity growth, post-adjustment economies struggled to move beyond extensive growth driven by commodities or low-wage services. This pattern aligns with recent World Bank diagnostics emphasizing the centrality of productive diversification in escaping middle-income traps (World Bank, 2024).

**Table 4.** Summarizes the Relationship Between Post-Adjustment Structural Outcomes and Development Trap Dynamics

| Structural Outcome      | Observed Pattern             | Development Implication | Supporting Literature      |
|-------------------------|------------------------------|-------------------------|----------------------------|
| Weak manufacturing base | Limited productivity growth  | Income stagnation       | Ocampo (2023)              |
| Commodity dependence    | Exposure to external shocks  | Growth volatility       | UNCTAD (2021)              |
| Informality expansion   | Low-quality employment       | Inequality persistence  | UNIDO (2022)               |
| Reduced policy space    | Limited industrial upgrading | Trap persistence        | Kentikelenis et al. (2019) |

## Discussion

### Adjustment Without Transformation

Taken together, the results support the central argument of this study: Structural Adjustment Programs frequently produced adjustment without transformation. While macroeconomic stabilization was often achieved, it was not accompanied by the deep structural changes necessary for sustained development.

This finding fundamentally challenges reform-centric development narratives that equate liberalization, fiscal discipline, and market deregulation with structural transformation. Within this dominant policy paradigm, adjustment reforms are often framed as necessary and largely sufficient preconditions for development, based on the assumption that once macroeconomic stability is restored and market distortions are removed, productive resources will be reallocated efficiently toward higher-value activities. However, the evidence presented in this study suggests that such an assumption underestimates the institutional and structural requirements of sustained development.

Recent development scholarship increasingly emphasizes that structural transformation is not an automatic outcome of market liberalization, particularly in economies characterized by weak productive capabilities, shallow financial systems, and limited technological depth. Empirical studies demonstrate that, in the absence of deliberate policies to support learning, coordination, and investment in productive sectors, liberalization can lead to static efficiency gains without dynamic productivity growth (Nassif et al., 2018; Ocampo, 2023). In this context, fiscal discipline and openness may stabilize economies while simultaneously constraining the very mechanisms required for long-term transformation.

The findings of this study indicate that adjustment reforms frequently displaced state-led development strategies including industrial policy, public investment in manufacturing, and directed credit systems without replacing them with alternative institutional arrangements capable of fostering productive upgrading. While SAPs often succeeded in reducing fiscal deficits and liberalizing trade regimes, they also narrowed policy space and weakened the coordinating

role of the state in structural change (Kentikelenis et al., 2019). As a result, markets were expected to assume functions such as long-term investment coordination and technological learning for which they were often ill-suited in late-developing contexts.

This dynamic is particularly evident in the industrial sector. Rather than catalyzing diversification and upgrading, adjustment-induced liberalization frequently exposed nascent industries to international competition before they had achieved sufficient scale, productivity, or technological capability. Without complementary industrial policies, domestic firms struggled to survive, let alone innovate, leading to patterns of premature deindustrialization and increased reliance on primary commodities or low-productivity services (Özçelik & Özmen, 2023; UNIDO, 2022). In such cases, liberalization did not facilitate Schumpeterian creative destruction but instead resulted in productive contraction.

From a political economy perspective, the erosion of state capacity under adjustment reforms further limited the prospects for transformation. Fiscal austerity often reduced public investment in infrastructure, skills, and technological systems inputs that are widely recognized as foundational for industrial upgrading (Oqubay et al., 2020). Moreover, privatization and financial liberalization frequently fragmented industrial coordination and redirected capital toward short-term or speculative activities rather than long-term productive investment, reinforcing structural weaknesses rather than overcoming them (Nassif et al., 2018).

Importantly, these outcomes do not imply that state-led development strategies were inherently efficient or that pre-adjustment policy regimes were optimal. Rather, the evidence suggests that adjustment reforms often entailed a subtraction of developmental institutions without a corresponding construction of new ones. This institutional void helps explain why many post-adjustment economies achieved stabilization without transformation, experiencing growth recoveries that were volatile, narrowly based, and insufficient to sustain productivity convergence (World Bank, 2024).

This finding aligns with recent calls to move beyond dichotomous debates between “state” and “market” in development theory. Contemporary research increasingly highlights the importance of strategic complementarities between markets and institutions, where liberalization must be embedded within broader frameworks of industrial policy, financial regulation, and capability building (Ocampo & Ros, 2023; UNCTAD, 2021). Without such complementarities, reform-centric approaches risk reproducing development traps rather than resolving them.

In sum, the evidence suggests that liberalization and fiscal discipline, while potentially necessary for macroeconomic stability, are insufficient as standalone strategies for structural transformation. When adjustment reforms replace state-led development strategies without establishing viable mechanisms for productive upgrading, they can inadvertently lock economies into low-productivity trajectories. Recognizing this limitation is essential for rethinking development policy in an era marked by renewed interest in industrial policy, productive resilience, and inclusive growth.

### **Deindustrialization as a Mechanism Linking SAPs to Development Traps**

The results indicate that deindustrialization serves as a key transmission mechanism linking SAPs to long-term development traps. By weakening domestic manufacturing capacity and constraining industrial policy, adjustment reforms reduced opportunities for learning, technological upgrading, and productivity convergence.

This mechanism is closely aligned with recent structuralist and political economy analyses that conceptualize development as a cumulative and institutionally embedded process rather than a spontaneous market outcome. These perspectives emphasize that sequencing, coordination, and institutional capacity are not peripheral considerations but central

determinants of whether economic reforms translate into sustained structural transformation (Oqubay et al., 2020; Ocampo, 2023). The findings of this study reinforce this view by demonstrating how liberalization, when implemented without an accompanying transformation strategy, can entrench rather than overcome structural constraints.

From a sequencing perspective, successful development experiences suggest that liberalization is most effective when it follows, rather than precedes, the accumulation of productive capabilities. Industrialization historically involved periods of protection, learning, and state-supported investment that allowed domestic firms to develop technological competence and scale. When trade and financial liberalization are introduced prematurely before these capabilities are consolidated domestic industries face competitive pressures that they are structurally ill-equipped to absorb (Oqubay et al., 2020; UNIDO, 2022). The evidence examined in this study indicates that SAPs often reversed this historical sequence, exposing fragile productive structures to global competition without adequate transitional support.

Coordination failures further amplify these dynamics. Structural transformation requires simultaneous investments across complementary sectors, including manufacturing, infrastructure, skills, and finance. Markets alone rarely generate such coordinated investments in late-developing economies, particularly under conditions of uncertainty and capital scarcity (Ocampo & Ros, 2023). Adjustment reforms, however, frequently dismantled the institutional mechanisms such as development banks, planning agencies, and sectoral support programs that had previously facilitated coordination. In their absence, private investment tended to gravitate toward activities with quick returns, often in commodities, real estate, or low-productivity services, reinforcing existing structural patterns rather than transforming them (Nassif et al., 2018).

Institutional capacity plays a similarly decisive role. Structuralist and political economy analyses stress that states are not merely regulators of markets but active builders of productive capabilities. This role includes mobilizing long-term finance, managing learning processes, and negotiating integration into global value chains on favorable terms (Ocampo, 2023). The findings of this study suggest that adjustment reforms frequently weakened these capacities through fiscal austerity, privatization, and administrative retrenchment. As state capacity eroded, so too did the ability to design and implement coherent development strategies, leaving liberalization largely unembedded in a broader transformation agenda (Kentikelenis et al., 2019).

The cumulative effect of inappropriate sequencing, weakened coordination, and diminished institutional capacity is the emergence of low-productivity equilibria. In such equilibria, economic activity concentrates in sectors characterized by limited technological dynamism, weak learning spillovers, and low wages. While these sectors may sustain basic growth or export earnings, they do not generate the productivity gains necessary for sustained income convergence. Over time, this structural configuration becomes self-reinforcing, as low productivity constrains fiscal capacity, limits investment in skills and technology, and reduces the scope for policy experimentation (World Bank, 2024).

Importantly, this outcome should not be interpreted as an inherent failure of liberalization per se, but rather as a failure of liberalization without transformation. The evidence suggests that market-opening reforms can support development when they are embedded within institutional frameworks that actively promote productive upgrading. However, when liberalization substitutes for, rather than complements, industrial and institutional development, it risks locking economies into trajectories that are difficult to reverse (UNCTAD, 2021).

This interpretation resonates with recent reappraisals of development policy that call for a renewed focus on productive resilience, strategic diversification, and institutional learning. Rather than treating markets and states as substitutes, contemporary political economy emphasizes their interdependence in shaping development outcomes (Oqubay et al., 2020;

Ocampo, 2023). The findings of this study contribute to this emerging consensus by illustrating how the absence of coordination and institutional capacity under adjustment regimes can transform liberalization from a potential catalyst of growth into a mechanism of structural stagnation.

In sum, the results underscore that development is fundamentally a process of managed structural change. Sequencing, coordination, and institutional capacity determine whether liberalization accelerates transformation or entrenches underdevelopment. Where these elements are absent, liberalization may stabilize economies in the short run while simultaneously locking them into low-productivity equilibria, thereby reinforcing the very development traps that adjustment reforms were intended to resolve.

### **Implications for Development Theory and Policy**

The study contributes to contemporary development debates by reframing SAPs not merely as stabilization tools, but as structural interventions with long-lasting developmental consequences. Evaluating adjustment solely on the basis of inflation control or fiscal balance obscures its deeper impact on productive structures.

From a policy perspective, the findings of this study highlight a pressing need to reintegrate industrial policy, state capacity, and strategic coordination into development strategies, particularly in contexts where adjustment programs have historically reduced the state's role in economic transformation. The observed pattern where stabilization is achieved without structural upgrading suggests that macroeconomic reform alone is insufficient for development. Instead, what is required is a deliberate set of policies aimed at building productive capabilities, managing structural change, and enabling domestic firms to compete and innovate in increasingly complex global markets.

First, the findings suggest that industrial policy should not be treated as a relic of the past but as a central component of contemporary development strategy. Recent scholarship and policy debates have increasingly recognized that productive capabilities do not emerge spontaneously through market forces; they require sustained investment, learning, and coordination (Oqubay et al., 2020; Ocampo, 2023). The evidence presented in this study reinforces this view by showing that the dismantling of industrial policy instruments under SAPs often preceded deindustrialization and persistent development traps. Therefore, industrial policy should be viewed not merely as protectionism but as a set of strategic interventions aimed at building technological depth, diversifying production, and supporting upgrading along value chains.

Second, the findings underscore the importance of state capacity in enabling structural transformation. The state plays a crucial role in mobilizing resources, coordinating investments, and shaping the institutional environment in which private firms operate. Under SAPs, fiscal austerity and institutional retrenchment frequently weakened the state's ability to support long-term investment, provide infrastructure, and facilitate skills development (Kentikelenis et al., 2019). Without such capacity, industrial policy cannot be effectively designed or implemented. This suggests that policy reforms should prioritize rebuilding the state's technical and administrative capacities, including institutions responsible for industrial development, research and development, and public-private coordination.

Third, the results emphasize the need for strategic coordination across policy domains. Structural transformation requires alignment between trade policy, finance, education, infrastructure, and innovation systems. The evidence suggests that SAPs often fragmented this coordination by treating each policy domain as separate and by prioritizing market liberalization over integrated development planning. To reverse this trend, development strategies should adopt a holistic approach in which industrial policy is coordinated with macroeconomic stability,

investment policy, and social protection. This coordination is particularly important in an era of complex global value chains, where upgrading requires not only market access but also institutional support for technology adoption and quality upgrading (UNIDO, 2022).

Fourth, the study's findings support recent calls for a renewed focus on productive capabilities as a central goal of development policy. The World Bank's 2024 report on the middle-income trap emphasizes that countries need to move beyond growth driven by factor accumulation and low-cost labor, toward productivity-led growth supported by diversified and technologically sophisticated production (World Bank, 2024). This perspective aligns with the empirical patterns identified in this study, where deindustrialization and low-productivity equilibria emerge precisely in the absence of capability-building policies. Therefore, development strategies should prioritize investments in skills, technology, and innovation systems, alongside measures that support firms in upgrading their production processes.

Finally, the policy implications of this study extend to the design of external assistance and conditional lending. International financial institutions and donor agencies should reconsider the assumption that liberalization and fiscal austerity are sufficient to promote development. While macroeconomic stability is necessary, it must be complemented by support for industrial capabilities and structural upgrading. Conditional lending programs could incorporate requirements or incentives for capacity building, industrial coordination, and strategic investment, rather than focusing narrowly on budget balance and deregulation (Kentikelenis et al., 2019; UNCTAD, 2021).

In sum, the findings suggest that a viable development strategy requires a balanced integration of macroeconomic stability and structural transformation. This means moving beyond the dichotomy between adjustment and development, and instead designing policies that treat industrial policy, state capacity, and strategic coordination as core, mutually reinforcing elements of growth. The renewed emphasis on industrial policy and productive capabilities in contemporary development debates finds strong empirical support in the patterns documented here, indicating that a return to capability-driven strategies is not only desirable but also necessary for overcoming persistent development traps.

## CONCLUSION

### Conclusion

This study has examined the complex relationship between Structural Adjustment Programs (SAPs), deindustrialization, and development traps, challenging the assumption that macroeconomic stabilization and liberalization naturally lead to structural transformation. By integrating qualitative comparative evidence across multiple regions, the study demonstrates that SAPs have frequently produced "adjustment without transformation": stabilization was achieved, but industrial upgrading and productive diversification were not. Instead, many countries experienced premature deindustrialization, weakened manufacturing capacity, and persistent low-productivity equilibria.

The analysis reveals that SAPs often reoriented development strategies away from state-led industrialization and toward market-based adjustment, while simultaneously dismantling or weakening institutional mechanisms that previously supported industrial development. This process was associated with a decline in manufacturing share and employment, increased reliance on primary commodities or low-productivity services, and reduced policy space for strategic intervention. These structural shifts contributed to the persistence of development traps, where growth remained volatile and insufficiently productivity-led.

The findings underscore the importance of sequencing, coordination, and institutional capacity in development. Liberalization without transformation appears to lock economies into low-productivity trajectories, as the state's capacity to support industrial upgrading is diminished

and private investment tends to favor sectors with quick returns rather than long-term capability building. This outcome aligns with recent structuralist and political economy analyses emphasizing that productive transformation requires deliberate policy interventions, not merely market opening.

From a policy perspective, the study highlights the need to reintegrate industrial policy, state capacity, and strategic coordination into development strategies. Macroeconomic stability is necessary but not sufficient; it must be accompanied by policies that foster productive capabilities, support industrial upgrading, and diversify the economic base. This conclusion resonates with contemporary calls for a renewed emphasis on industrial policy and productive development, as reflected in recent international development diagnostics.

Finally, the study contributes to development scholarship by reframing SAPs not merely as macroeconomic interventions but as structural regimes with long-term developmental consequences. It suggests that evaluating adjustment programs requires attention to their effects on productive structures and institutional capacities, not solely on stabilization outcomes. Future research should further investigate the conditions under which adjustment and transformation can be harmonized, particularly through comparative studies of countries that successfully combined liberalization with industrial upgrading.

### **Limitations**

While the qualitative approach allows for depth and contextualization, future research could extend this analysis by combining qualitative insights with panel-based structural indicators to further test the robustness of the observed patterns. Comparative studies of countries that successfully combined adjustment with transformation would also help refine the policy implications.

### **Research Implications**

This study has several implications for development research, particularly in relation to how Structural Adjustment Programs (SAPs), industrial transformation, and development traps are conceptualized and analyzed. First, the findings underscore the need to broaden the evaluative criteria used in SAP research. Traditional assessments often focus on macroeconomic indicators such as inflation, fiscal balance, and short-term growth. While these measures remain important, the evidence presented here suggests that they provide an incomplete picture of development outcomes. Future research should therefore integrate structural transformation indicators such as manufacturing value-added, employment share, and productive diversification into the assessment of adjustment programs, as these dimensions are more directly linked to long-term development.

Second, the study contributes to theoretical debates by reinforcing the argument that development is not a purely market-driven process but a capability-building and institutionally embedded trajectory. The concept of “adjustment without transformation” implies that liberalization and fiscal discipline are not sufficient to generate structural change unless they are supported by coordinated industrial policies and capable institutions. This insight aligns with recent structuralist scholarship that emphasizes sequencing and state capacity as critical conditions for successful development. Accordingly, future theoretical work should more explicitly integrate these elements into models of structural transformation, moving beyond simplistic assumptions of market efficiency and spontaneous industrial upgrading.

Third, the study has methodological implications for comparative research on development. The qualitative comparative design employed here demonstrates the value of process-tracing and institutional analysis in understanding long-term structural outcomes. While quantitative approaches remain essential for establishing general patterns, qualitative methods

can uncover the mechanisms and historical pathways through which adjustment policies influence industrial structure. Future research could benefit from mixed-methods designs that combine longitudinal quantitative indicators with qualitative case histories, enabling both generalization and causal explanation.

Fourth, the findings encourage researchers to pay closer attention to policy sequencing and timing. Structural transformation is inherently dynamic and path-dependent, meaning that the effects of policy reforms depend on their timing relative to the accumulation of capabilities and institutional readiness. Future studies should investigate the conditions under which liberalization and industrial policy can be complementary, as well as the conditions under which liberalization may precipitate premature deindustrialization. This research agenda aligns with emerging work on premature deindustrialization and productive capabilities, which highlights the importance of context-specific sequencing and strategic coordination.

Fifth, the study points to a need for more research on the interaction between external conditionality and domestic political economy. SAPs are not neutral technical packages; they are embedded in global power relations and institutional frameworks that shape policy choices and domestic bargaining processes. Future research should examine how political coalitions, elite interests, and institutional constraints mediate the effects of adjustment reforms on industrial policy and structural transformation. This line of inquiry is particularly relevant given evidence that conditionality can constrain policy space and reduce the capacity of states to pursue development strategies.

Finally, the study suggests that future research should explore cases where adjustment and transformation were successfully reconciled. Comparative analysis of “success stories” could identify the institutional conditions, policy instruments, and sequencing strategies that enable countries to stabilize their economies without sacrificing industrial development. Such research would contribute to a more nuanced understanding of development pathways and provide practical insights for policymakers seeking to avoid the pitfalls of adjustment without transformation.

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