7 Structural Changes During Adjustment: Heterogeneity Based on Industry

7.1 Introduction

In Chapters 5 and 6, the themes of heterogeneity and structure were explored from the perspective of firm size and ownership. Examination of these themes continues in this chapter with an evaluation of the effect of policy changes over time looking at variation based on industry. This evaluation is discussed in section 7.2. Section 7.3 presents a summary of the results, and conclusions follow in section 7.4.

7.2 Variation of Structural Factors by Industry

Based on type of industry, this analysis explores differences between firms by looking at structural factors such as the degree of indebtedness, raw material and interest expenses, and so forth. The aim is to see if there are any implications for the impact of adjustment based on the industry to which a firm belongs. Features contributing to differences on an industry basis include export orientation/market focus, capital/labour intensity and dependence on imported raw materials. The institutional bias in lending by commercial banks against small/medium firms is a feature that cuts across industries contributing to the dualistic nature of these industries relative to the mode of production, use of credit and so forth.
The inward orientation of the industrialization thrust and the high dependence on imported raw materials can lead to differences in the impact of adjustment. An added significance of the examination of heterogeneity by industry is that this characteristic also embodies differences relative to technology/capital intensity and scale of operation. Thus, the distinction based on industrial activity is fundamental to understanding the dynamics of adjustment. This chapter is specifically concerned with the analysis of the patterns of structural changes during adjustment in three manufacturing sector industries: food processing/ drink/tobacco, assembly and related, and textiles/garments.

7.2.1 Leverage use

All three industries displayed different responses to macroeconomic changes as shown by the data on the use of leverage during the initial period, which followed the oil boom (Figures 7.1 and 7.2). Assembly increased its use of leverage until 1987. Textiles initially decreased its leverage between 1983 and 1984, followed by an increase from 1984 to the pre-adjustment year of 1987. In the food processing sector, leverage use declined from 1983 to 1987.

There was little change over time in leverage use for the food processing/drink activity throughout the entire period of the data, except for a decline in the pre-adjustment period. The fluctuations in leverage use in this industry were within a relatively small range. Assembly and related also showed minor fluctuations apart from the increase in leverage use in the early period. The fluctuations in leverage use for the assembly industry were at this higher rate for the rest of the period in comparison to 1983: from about 58% liabilities to total assets in 1983 to approximately 64–73% for the years after 1983. In the textile/garments sector, there are more obvious differences in leverage use over time as shown in Figures 7.1 and 7.2.

The positioning of the high outliers, firms with high leverage use, shows that these are concentrated between the years 1984–90 for the food processing sector and between the years 1988–92 in the assembly sector. The greater variation over time for the textile/garments sector reflects problems that this sector has traditionally experienced (even before the adjustment period) relative to its ability to compete with im-