



# Industrial Economics

## Dr.Tarek Safwat

كلية التجارة



# CHAPTER 3

## CLASSIFICATION OF INDUSTRIES

# INDUSTRY

- An industry is a group of organizations involved in producing/manufacturing or handling the same type of product and service.
- Industries are part of the secondary activity. Secondary activities or manufacturing converts raw material into products of more value to people.
- Industrial systems are made up of input, processes, and output. The inputs are raw materials, labour, land, power, and other infrastructure.

# INDUSTRY

- Industry refers to the economic activities concerned with the production of goods, extraction of services and provision of services. Hence we can say that Industries are concerned with:
  - Production of good (steel energy)
  - Extraction of minerals (coal mining)
  - Provision for services (tourism)
  - There are also Emerging Industries: 'Sunrise Industries'

## LARGE SCALE INDUSTRIES

- Large scale industries are those industries which require huge infrastructure, manpower and have a influx of capital assets.
- In other words the industries which produce the goods in large amount by using the improved technology, efficient man power and more capital are known as medium and large scale industries.

## LARGE SCALE INDUSTRIES

- For example, All the heavy industries like the Iron and steel industry, textile industry, automobile manufacturing industry fall under the large-scale industrial arena.
- Every country needs exploring of coal, iron and steel, exploring of oil and its purification, heavy machineries, heavy electrical equipments, heavy chemicals, ships and aeroplanes, industries of heavy and basic industries for its development.

## IMPORTANCE OF LARGE INDUSTRY-

- Large scale industries play a significant role in the overall economic development of a nation.
- The importance of medium and large scale industries can be explained as the following points:
- I. Improvement in productivity: In large scale industries, labour division and specialization technique is used.
- In large scale industries, work is distributed among the labour according to their efficiency which save time and improves the productivity.

## IMPORTANCE OF LARGE INDUSTRY-

- 2. Import substitution:-Capital goods and consumer goods which are imported from the foreign countries can be produced inside the country through large scale industries.
- Our country depends upon foreign countries for certain heavy chemicals, heavy electricity, chemical fertilizers and other consumer goods, unless we develop large scale industries.
- Due to the development of large scale industries, all these commodities are produced inside the country and there is no need of import which is known as import substitution.



## IMPORTANCE OF LARGE INDUSTRY-

- **3. Export promotion:** Large scale industries change the pattern of export. Due to the development of large scale industries, we are now able to export engineering products, heavy electric products and other industrial products.
- It means large scale industries have changed the pattern of export and increased the quantity of export.

## IMPORTANCE OF LARGE INDUSTRY-

- 4. Development of basic industries: The industries producing the goods like iron, steel, copper, cement, etc are called basic industries.
- These industries help to establish and promote the other industries. Thus, the establishment of the large industries helps the development of basic industries.

## IMPORTANCE OF LARGE INDUSTRY-

- 5. Generate employment opportunities: Development of large and medium scale industries help to remove the problem of unemployment by creating wide range of employment opportunities to unskilled, semi-skilled and skilled human resource.

## PROBLEMS OF MEDIUM AND LARGE SCALE INDUSTRIES

- Medium and large-scale industries suffer from various problems. Some major problems are as follows-
- **I. Lack of Raw-Material:** Medium and large scale industries require raw materials in large amount in regular way. But most of the raw materials in remote areas and their availability is not at right time.

## PROBLEMS OF MEDIUM AND LARGE SCALE INDUSTRIES

- ▶ **2. Lack of Energy:** Medium and large scale industries require the high level of power energy like coal, petrol, diesel, electricity, etc. But these energy requirements are not available in sufficient amount these industries regularly.

## PROBLEMS OF MEDIUM AND LARGE SCALE INDUSTRIES

- **3. Lack of Technical Knowledge:** High levels of technology and skilled manpower are essential for establishment and operation of these industries. But country doesn't have sufficient technical manpower.
- **4. Lack of Capital:** Large amount of capital investment is required for the establishment and development of medium and large scale industries, but entrepreneurs don't have such sufficient amount to invest.

## PROBLEMS OF MEDIUM AND LARGE SCALE INDUSTRIES

- **5. Limited Market:** The medium and large scale industries produce large amount of goods. Therefore, the market for these goods should be also large. But the domestic market for industrial products is very limited due to the low purchasing power of the people.

## SMALL SCALE INDUSTRIES

- Small scale industries constitute an important and crucial segment of the industrial sector.
- A wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro-processors, mini computers, electronic components, electro-medical devices, etc. are manufactured by small and medium enterprises.
- They make significant contribution in increasing exports, in addition to satisfying domestic demand for several commodities.
- The small scale sector has grown steadily and occupied an important place in the economy. Contribution of the sector in terms of generation of employment, output and exports is quite significant.



## SMALL SCALE INDUSTRIES

- The small scale industries have worked as an engine of growth in both developed and developing countries.
- There has been an increasing realization of a need to introduce the concept of Small and Medium Enterprises (SMEs) in place of Small Scale Industries (SSIs).
- SMEs represent over 80 per cent of the industrial base of most of the developed countries and so most of these countries have a concept of SMEs rather than SSIs.

## SMALL SCALE INDUSTRIES

- All countries do not use the same definition for classifying their SME sector. Nor does universal definition appear to be necessary.
- The definition in use depends on the purpose these definitions are required to serve and the policies which govern the SME sector thus defined.

**TABLE 3.1 DEFINITION OF SMES IN DIFFERENT COUNTRIES**

<b>Country</b>	<b>Category of Industry</b>	<b>Criteria/ Country's Official Definition</b>	<b>Measure</b>
North America USA	Very small Enterprise Small Enterprise Medium Enterprise	< 20 Employees 20–99 Employees 100–199 Employees	Employment
Canada	Manufacturing	Independent Firms having < 200 employees	Employment
Denmark	Manufacturing	<500 employees, production units with more than 5 employees	Employment
France	SME	10–199 Employees	Employment
Germany	SME	< 500 employees	Employment
Greece	Small Enterprises Medium Enterprises	< 50 employees 50–500 employees	Employment
Ireland	SME	< 500 employees	Employment
Italy	Small Enterprises	< 200 employees	Employment
Asia China	SME	Depends on product group usually < 100 employees, investment ceiling 30 million Yuan	Employment And investment
Indonesia	SME	< 100 employees	Employment
Japan	Manufacturing Wholesale Trade Retail Trade and Services	< 300 employees or asset capitalization < 100 million < 50 employees or asset capitalization < 30 million yen	Employment and Asset
Korea	Manufacturing Services	< 500 employees < 20 employees	Employment
Singapore	Manufacturing Services	< S\$ 12 million fixed assets < 100 employees	Fixed Assets Employment
Vietnam	SME	No fixed definition, generally < 200 employees	Employment

## MICRO SMALL AND MEDIUM INDUSTRIES (MSMES)

- MSME play a key role in the industrialization of developing country.
- There is no universal definition of Micro, Small and Medium Enterprises (MSMEs).
- For example, the European Commission considers micro firms to be those with less than 10 workers and with an annual turnover not exceeding EUR 2 million, small firms those with up to 50 employees and an annual turnover of no more than EUR 10 million and medium firms those having up to 250 workers and an annual turnover below EUR 50 million.

TABLE 3.2 WORKING DEFINITIONS OF  
MSMES IN EGYPT, JORDAN, MOROCCO AND  
TUNISIA

Country	Institution	Definition
Egypt	Central Bank of Egypt	Micro: less than 10 employees Small and medium: between 10 and 200 employees Large: more than 200 employees
Jordan	Jordanian Department of Statistics	Micro: less than 5 employees Small: between 5 and 19 employees

TABLE 3.2 WORKING DEFINITIONS OF  
MSMES IN EGYPT, JORDAN, MOROCCO AND  
TUNISIA

		<p>Medium-small: between 20 and 49 employees</p> <p>Medium: between 50 and 100 employees</p> <p>Large: more than 100 employees</p>
<b>Morocco</b>	Maroc PME	<p>Micro: less than MAD 3 million in turnover (less than EUR 270.000)</p> <p>Small: between MAD 3 and 10 million in turnover (between EUR 270.000 and EUR 900.000)</p> <p>Medium: between MAD 10 and 175 million in turnover (between EUR 900.000 and EUR 15.715.000)</p>
<b>Tunisia</b>	Registre National des Entreprises	<p>Micro: less than 10 employees</p> <p>Small: between 10 and 50 employees</p> <p>Medium: between 50 and 200 employees</p> <p>Large: more than 200 employees</p>

## MICRO SMALL AND MEDIUM INDUSTRIES (MSMES)

- MSMEs play a crucial role in economic development, regardless of their various definitions.
- First, they have an important potential to innovate and initiate technological change). Some studies provide evidence that MSMEs are more efficient at innovating than large firms, because they benefit from advantages in terms of flexibility, autonomy and know-how in spurring talent and performance.

## MICRO SMALL AND MEDIUM INDUSTRIES (MSMES)

- Second, MSMEs contribute towards enhancing competition by giving other firms and, in particular established ones, an incentive to cut production costs and boost product quality, ultimately exerting positive effects on national productivity.
- Third, MSMEs are considered as seeds for future large companies. MSMEs account for 60% to 70% of jobs in most OECD countries and are broadly considered an important source of job creation and a major channel for poverty alleviation.



## STRUCTURE OF THE MSME SECTOR IN EGYPT

- **I- SIZE AND SECTORAL DISTRIBUTION OF THE MSME SECTOR**
- In Egypt, firms are considered micro when they employ less than ten employees, small and medium when they employ between ten and two hundred employees, and large above that according to the definition of the Central Bank of Egypt.
- In 2017, micro enterprises constituted approximately 91% of all firms, small and medium ones around 8% of the total and large firms less than 1%.

## STRUCTURE OF THE MSME SECTOR IN EGYPT

- 2- EMPLOYMENT CONTRIBUTION OF THE MSME SECTOR
- MSMEs are usually more labour than capital intensive and, therefore, can play an important role in the development of economies with a sizeable unemployed youth population.
- This is the case of Egypt, where MSMEs contribute to nearly 80% of the national GDP and have a pivotal role in generating employment in both the formal and informal sectors, providing nearly 75% of total employment in the private sector, a share reaching 99% in some non-agricultural sectors.

# MAIN CONSTRAINTS TO JOB CREATION IN THE EGYPTIAN MSME SECTOR

- 1- BUSINESS ENVIRONMENT
- The Egyptian economy is characterised by a number of structural macroeconomic imbalances hindering the development of MSMEs. These include foreign exchange crunch, high levels of inflation and unemployment rates.
- Egyptian MSMEs face a number of challenges and difficulties in their interaction with public administrations over registration, licensing, customs and taxation matters. It is essential for the dynamism of domestic markets to facilitate the entry and exit of MSMEs, but small entrepreneurs in the country are forced to go through a number of procedures and approvals, such as the permit of establishment, the location registration.

## MAIN CONSTRAINTS TO JOB CREATION IN THE EGYPTIAN MSME SECTOR

### • 2- FIRM MANAGEMENT

- In Egypt, the government usually borrows from the domestic financial market at interest rates higher than in international markets, with two notable negative implications.
- First, the burden on the government budget balance of these future commitments. Second, the crowding-out effect for the private sector, as banks reduce their lending to private businesses in order to accommodate the government.

# EGYPTIAN INSTITUTIONS INVOLVED IN THE IMPLEMENTATION OF SME POLICIES

• Table 3.3: Egyptian institutions involved in the implementation of SME policies

INSTITUTION	MAIN AIM
<b>General Authority for Investment and Free Zones</b>	<i>Enhancing the investment climate and facilitating the growth of MSMEs through the establishment of a one-stop shop providing a wide range of services for start-ups.</i>
<b>Industrial Development Authority</b>	<i>Assistance and guidance in relation to establishment procedures and registration plans available to investors in the industrial SME sector.</i>
<b>Egyptian Financial Supervisory Authority</b>	<i>MSME promotion through the establishment of microfinance companies offering products and services to the sector.</i>
<b>Central Bank of Egypt</b>	<i>Creating incentives for banks to lend to MSMEs.</i>
<b>Egyptian Banking Institute</b>	<i>Providing a wide range of capacity building services to SMEs and raising awareness among entrepreneurs about methods and standards to access financing.</i>
<b>Social Fund for Development</b>	<i>Providing a safety net to protect vulnerable groups against the adverse effects of economic programmes and enhancing the development of MSMEs.</i>