

# Chapter 18 – Sectors of the Economy

**Factors of Production:** The raw materials needed for the production of any good/ service.

## 4 factors of production

1. **Land:** Natural materials used in production: land, mineral wealth, water, timber etc.
2. **Labour:** The Human element in the production process. – Human Resource Depts!
3. **Capital:** Anything man made that helps to produce goods and services: nuts, bolts to machinery/buildings.
4. **Enterprise:** Brings other 3 factors together. It is practiced by the entrepreneur taking the initiative and risk in setting up a new business.

Important that each entrepreneur tries to use as few factors as possible to produce as much as possible to keep costs down and their business more competitive.

## Sectors of the Economy/Categories of industry

3 main sectors: Primary, Secondary and Tertiary.

### 1. Primary Sector

This sector deals with **extractive** industries which extract the produce of nature either from sea or the land.

The sector includes Agriculture, Forestry, Fishing and Mining.

#### Problems of the extractive industries:

##### Agriculture

1. *Climate:* If Bad - output falls. If good – surpluses and possible fines by EU.
2. *Output rising:* When farm output rises due to increased productivity, excess is difficult to sell as there is a limit to the amount of meat and milk consumed.
3. *Disease:* Customer concern over BSE, Foot and Mouth and Growth Hormones.
4. *Environmental Concerns.*

##### Fishing

1. *Pollution*
2. *Overfishing* - EU Fish Quotas to preserve stocks.
3. *Increased Demand*- Following BSE and Foot and Mouth outbreaks.

##### Mining

1. Seen as a '*Dirty Industry*': Community objections due to environmental concerns.

##### Forestry

1. Using up land that could be used for rearing animals
2. Drains nearby soil of vital minerals.

### 2. Secondary Sector (Vibrant in Ireland)

This is the manufacturing and construction sector of the economy. It takes the output of the extractive industries and produces goods and services for sale to customers. Examples include Pharmaceutical Industries such as Pfizer & Glaxo, Electronics industry such as Analog and Brewing Industries such as Guinness.

### 3 main groupings in this sector:

#### 1. **Transnationals(multinationals)**

- Very large businesses with branches in many countries – linked to head office in other.
- The IDA had the role of attracting foreign industries to set up in Ireland.
- Set up branches in many countries because profitable to do so – incentives
- E.g IBM, Coca Cola and Intel have plants in Ireland.

#### 2. **Agribusiness e.g. Kerry Group**

- Firms which turn the produce of the agricultural sector into a range of new products.
- Contributes to 38% of nat. Income and 36% of nat. output (approx).
- Huge range of goods, main focus is on processing of beef and milk products.

#### **Problems of Agribusiness sector:**

- Must seek out **new markets** to sell Irish Products.
- **The multiples** e.g Tesco and Dunnes drive prices down so agribusiness firms must keep costs low.
- The **single market** opens up Irelands market to foreign competition.
- Firms must be innovative and focus on **producing new goods** to stay ahead of competitors.
- **Clean Products** – organically produced products in demand.

#### 3 **Indigenous Firms**

- Firms set up in Ireland by Irish People e.g. Waterford Crystal, Local construction industries, Kerry Group etc Government encourage them.
- Ireland has attracted Transnationals and has become dependant on them but if Ireland had more indigenous firms, it would not be as dependant.
- **Enterprise Ireland** established to help the indigenous sector.
  - Fosters a positive attitude to entrepreneurship.
  - Provides assistance and financial aid to business start ups.
  - Provides a full range of services to kick start small firms.

#### **Benefits of Indigenous firms**

- Loyalty
- Employees who gain experience in these firms will sometimes set up businesses on their own. 'Spin Offs'.
- Repay debt of gratitude to local economy.
- Can stimulate others to be enterprising, leads to a culture of local industrial development.
- Small indigenous firms can get a foothold in the market by supplying transnationals e.g National Linkage program by the IDA.

#### **Problems of Indigenous Firms.**

- Can experience Trading Difficulties if the transnational its supplies with components goes out of business
- Local firms need to export and face to competition from larger more efficient manufacturing units abroad.

#### **Development of Secondary Sector**

Its importance lies in its output which is sold on domestic and foreign markets. Every economy must generate sufficient foreign revenue from exports to cover its imports. Ireland has a Surplus Balance of Payments i.e. total exports > Imports. To ensure continuation of this, the secondary sector must:

- Produce high quality goods to satisfy customers at home and abroad.
- Exploit export markets.
- Continually invest in capital.
- Seek advice from state agencies such as IDA and Enterprise Ireland.
- Continually undertake R&D to cope with foreign competition.
- Adopt WCM, World class Manufacturing to ensure they are as competitive as firms from other countries.

### 3. Tertiary Sector (service sector)

- It is a **support service** for the extractive and manufacturing sectors e.g. provides them with legal, accounting, financial and mgt services which enable them to perform tasks more efficiently.
- **Examples:** Banks, accounting firms, telecommunications companies, tourism.
- Fastest growing sector – jobs increasing 50 times faster than in manufacturing (consists of 60% of Irish labour force).
- Many new services have evolved in recent years due to changes in Technology e.g. Banking :ATM's, 24 hour banking .This has contributed to the growth of the sector.

### Contribution of the Sectors to the economy :(Give examples)

1. **All sectors** produce goods and services for sale at home and abroad. Exports help the economy to expand. This is important to keep a surplus in the Balance of Payments.
2. **All sectors** create employment both directly and indirectly, which means increased wealth and standard of living.
3. **All sectors** generate tax revenue for the exchequer: PAYE, Corp Tax, D.I.R.T, Vat etc.

Also individually:

#### 4.The primary sector

- Provides Raw materials for secondary industry at home and abroad (exports) e.g. agriculture provides hops for brewing in agribusiness.
- Helps develop natural resources.
- This also means a reduced need for certain imports e.g. forestry
- Forestry helps promote tourism.
- Agriculture provides food for the population and also a market for a variety of industrial products e.g. machinery, fertiliser and chemicals.

#### 5. The secondary sector

- Benefits the economy in helping build roads, telephone and mobile networks etc.
- Encourages the development of indigenous firms.
- Often uses Irish Raw Materials and Natural resources in its

manufacturing/constructing.

#### 6. The Tertiary Sector

- This sector enables Irish Firms to trade internationally.
  - Encourages new developments in Information Technology to help do things more efficiently.
  - Provides a vital support service to primary and secondary sectors and also is in turn very important for attracting foreign industry to Ireland.
  - Over 80% of small indigenous firms in Ireland are involved in the service industry.
- Therefore the service industry supports the creation of an enterprise culture in Ireland.