

# CHAPTER 17

## SECTORS: TRADE AND LOGISTICS

*There is lots of it, but it is not much use. Much of the information that*

### Logistical Services

#### Transport

The transport systems in Europe, in North America, in Japan are incredibly efficient. Transport is a very innovative sector in terms of the adoption of technology. This needs to be applied to the “south” where transport infrastructure, roads, rail, ports, have not been developed to the optimum. There is the need for a huge investment by both the public and private sector. Some valuable progress can be made by doing as much work as possible on a small scale in and around communities.

#### Truck fleets

The truck fleets in Iraq have expanded based on the profits of the private operators. The financing associated with the truck fleets is likely a huge cash cow for those that are engaged in the financing.

Truck maintenance is handled by a large a competent workshop sub-sector. Parts are not a problem as long as funds are available. The fuel situation that is often a problem is not a problem in Iraq where refined products are widely available.

#### Air transport

Air transport service operators can be in the private sector. There can be financial support from the government to facilitate the funding.

#### Airport fuel and service

Baghdad airport is international standard and all fuels and services from an international airport are available.

#### Port operations

Port operations are going to be a major issue in the future success of Iraq, and especially the oil and gas sector. A modern port capacity is going to be vital in the handling of energy products exporting product using the largest of the modern supertankers.

#### Pipelines

Pipelines are the main means of transporting petroleum products. They are an easy target for bombers and have not been adequately protected so are not all presently in service.

#### Warehouses

Warehouses are now a critical part of logistics operations. They serve much more than merely to keep stock in a safe place out of the weather. They are now fully equipped so that information about stock movements is facilitated in real time.

The old era warehouse is still needed at the community level ... while the 21<sup>st</sup> century warehouse and integrated logistics system starts to operate in the country.

## **Maintenance**

### **Repair shops, welding and machine shops**

There is an ongoing need to strengthen the national capacity to maintain equipment and do welding and machining. Much equipment, especially in small enterprises, is old, and needs ongoing maintenance. There are a lot of small facilities that do work at a basic level, but few that have the capability to do the higher end work.

### **Access to training**

Training will help improve the sector, and help increase jobs and employment while also providing value for the community. It should be possible and easy for people to upgrade their skills. All maintenance and machine shops of good standing should be encouraged to train people to a higher level of skill.

# Trade

## International trade

International trade has been a key driver in making some countries prosperous. It was the driving force behind a lot of wealth creation during the mercantile and colonial era, and it remains important today. The success of Japan, and then South Korea and now China and others are based on international trade. India's success has been more trade in services than in manufactured goods, but it is still very much international trade.

In the case of Iraq, crude oil is very much a component of Iraq's international trade.

## Wholesale trade

There are parts of the economy where the wholesale functions are still provided by independent organizations. For example, spare parts for automobile maintenance are carried in inventory by wholesalers who provide rapid delivery to auto repair shops in their service area. It is a very efficient sharing of roles.

In Iraq and many countries in the global “south” wholesale is often linked to import / export. Wholesale is also associated with traders and middlemen. Wholesale and distribution in the “south” is often high margin, but it is also often high cost and profits are not as large as they might superficially appear.

The wholesale trade, and import/export are less important in the modern global economy because of a growing tendency of global companies to handle all the logistics from original manufacture on one country to retail marketing in another.

The wholesale trade may not have the same structure that it has had in the past, but the functions of transport, distribution, warehousing, break-bulk, etc. still have to be done. Though a larger part of the modern retail trade goes direct from the manufacturer to the retailer, all the intermediate distribution and wholesale functions are still done, but done in-house.

Wall\**Mart* is a very good example of a modern corporate organization that has brought all the functions from manufacturing through final sale to the customer under its control. While many operational activities are subcontracted, the overall operation is controlled by the Wall\**Mart* logistics system.

### **WalMart**

What is WalMart? Is it a retailer, a wholesaler or a distribution company? Perhaps the best answer is that WalMart is a success. It is also perhaps the best example ever of an organization that has used management information to optimize what it is doing to supply its customers with what they want.

It has been one of the world's leading users of management information for a very long time. It deployed mainframe computers for data analysis long before it was fashionable. They have been ahead of the curve in understanding customer behavior in their stores for years, as well as understanding the detail operations of their organization. They know their business and they know the data associated with their business.

As they grew it was not analytical genius that made them decide to integrate their supply chain backwards to the manufacturers of their products. But they were among the early adopters of integration of operational data near real time into every aspect of the supply chain so that inventory availability to customers at the stores went up and inventory investment as a whole went down.

I thought it was interesting on the second day after the 9/11 disaster to learn in the media that WalMart knew its customer buying activity hour by hour at all its thousands of locations and knew precisely what was being bought by a population in panic. Milk and bread, then guns and ammunition as the hours progressed.

And WalMart was able to divert hundreds of truckloads of supplies to hurricane affected areas in the aftermath of

Katrina days more quickly than government organizations like FEMA.

There is a lot to learn from WalMart. Excellence in the use of management information has been one of its key strengths.

## **Retail sector**

When I was growing up in the UK, the country was referred to as a nation of shopkeepers ... a remark originating, I believe with Napoleon. At the time the UK was still very much a manufacturing country, but the quality of life was increasingly associated with consumption. The UK was probably behind the USA in embracing consumerism, but it was emerging. Today the retail trade ... shopping ... is a huge industry catering to the market in every way imaginable. In the USA, big box retailing epitomized by Wal\*Mart is now the largest employer in the country. But the multi-store malls, department stores and urban shopping centers also are a huge part of the modern US economy.

Arguably shopping is the top entertainment in the rich societies of the world.

And in the “south” shopping is rather more of a challenge. There are much higher distribution costs because of poor transport infrastructure, there are few economies of scale, there are constraining import export and customs procedures and duties and the market demand is limited by peoples' buying power. It is nevertheless a very important part of the economy, and one that can play a great role in establishing sustainable socio-economic progress.

## **Informal trade**

The informal trade in all sorts of merchandise all over the world is remarkable. The prices reflect the costs of getting product from the exporting area to the local market, and the prices sometimes reflect the non-payment of onerous customs and other duties and taxes. The scale of the informal trade around the world is difficult to assess, but it is huge. Markets ... where trade takes place ... help to keep everyone fed, and everyone clothed. They do better when the community is prospering than when it is not.

## **An important sector for income generation**

The services, retail and petty trade sector is one of the largest sources of income for the poor and for women. For many, it is also the starting point for more substantial business enterprise.

## **Regulations ... some are needed, most are not.**

There are few formal regulations that apply to this sector. The sector thrives with a minimum of regulation. In circumstances where the trade is made illegal, as it was in the former communist regimes, the informal trade disappears, and with it a very large part of the foundation of the economy. Though the sector is untidy, it is where most larger businesses start.