

BUSINESS
LANDSCAPE

Iraqi Industrial Overview

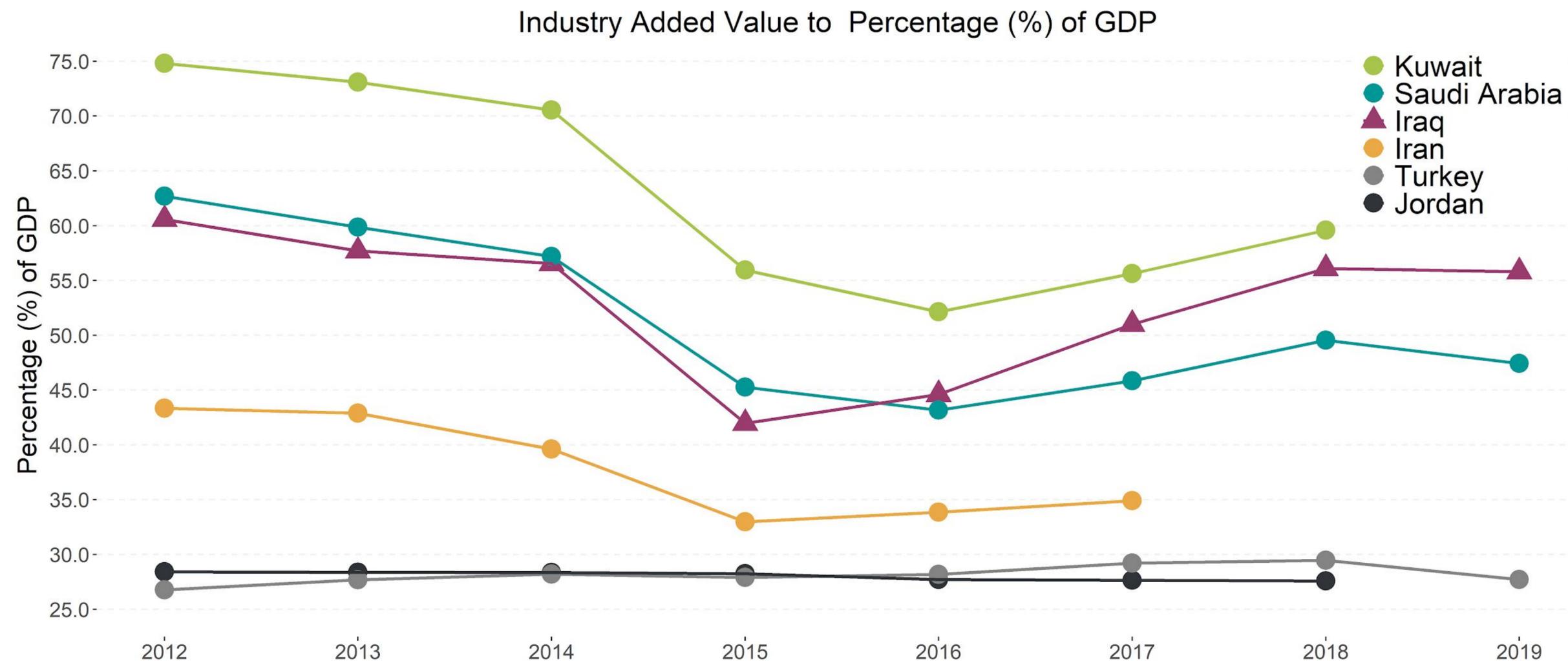


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Introduction

The Industrial sector has been proven to be one of the main indicators for the economic growth of a country. A more advanced industrial sector leads to greater GDP value, higher salaries, and better services provided by efficiently-trained labor. Improving the industrial sector in a country encourages indirect improvements in other primary sectors such as the service sector and the agriculture sector (economywatch, 2010). The industrial sector by itself is a secondary sector, as it uses the output of primary sectors as input or raw material and, in turn, produces finished products (economywatch, 2010). There has been huge negligence of the industrial sector from the government over the years as most of the focus was on the petroleum industry. Iraq is known to be an extremely oil-dependent country that lacks other developed sectors, this led the industrial sector to become highly dependent on the money generated from the oil. Moreover, the oil prices are beyond the control of the government which led to the poor development of the industrial sector. However, the great potentials that Iraq has as a country ranges from being a wealthy nation that lacks services to the availability of natural resources gives an optimistic future to Iraq's industrial sector.



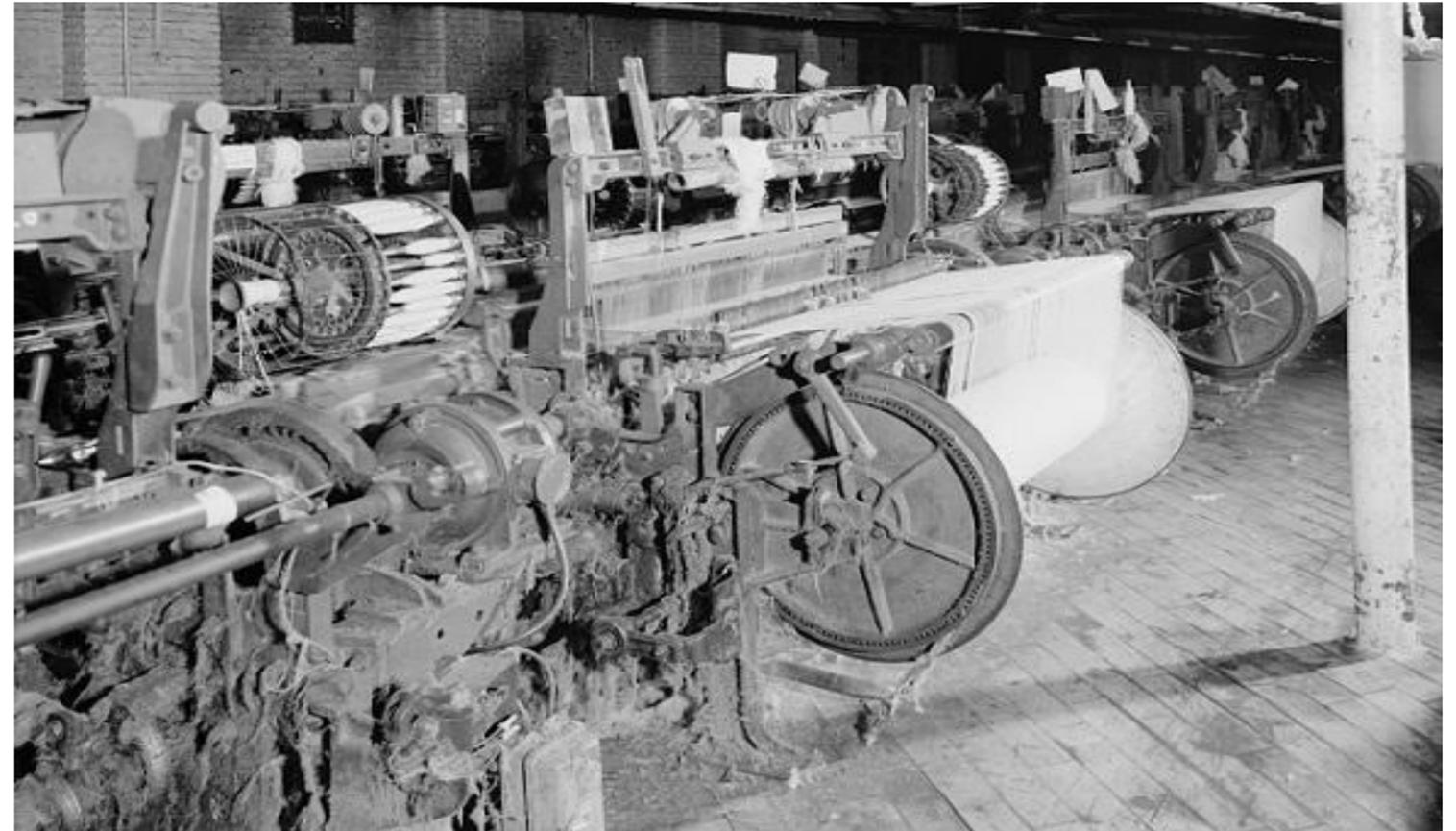
Note: Oil's added value is included in the graph
Data Source: World Bank Open Data



Historical Overview

The industrial sector in Iraq has gone through numerous phases in recent history. During the 1920s, the industrial activities in Iraq were consisting of cotton gin, grain mills, hand weaving workshops, and small craft making. In 1927, the first law the Iraqi kingdom mandated to encourage the industrial sector was to cancel the customs fees for importing industrial machinery and tools, this law was followed by other laws in 1929 and 1935, collectively aimed to improve the industrial sector at that time, as well as opening the industrial-agricultural bank. During the forties and fifties, the private sector in Iraq was leading the industrial sector, this later changed after the 1964 law of Nationalization (Abdulshawi, 2011).

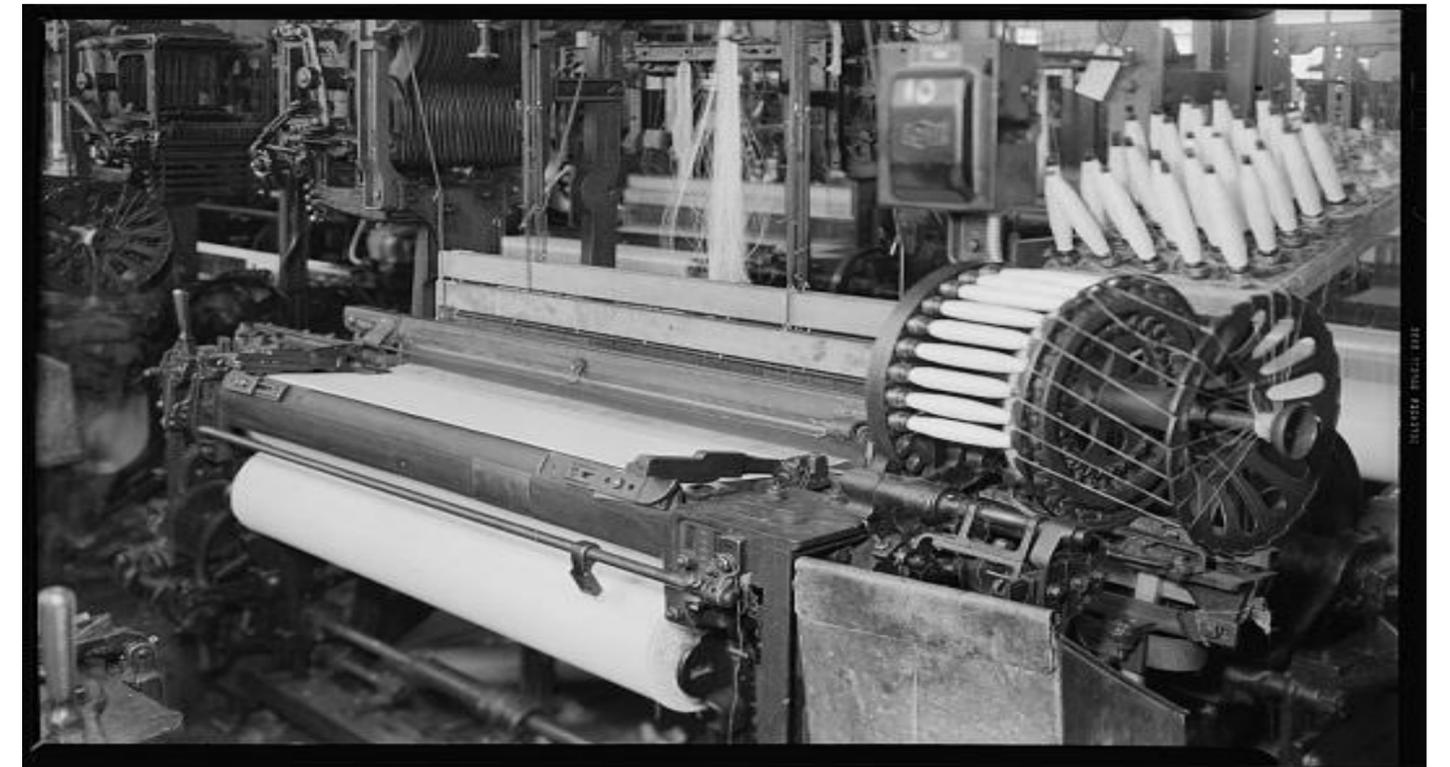
Before the nationalization law, the private sector had 84% of the added value in the industrial sector in 1960, but this percentage dropped to 65.4% in 1970. In 1964, 58.2% of the added value to the manufacturing industries was coming from food manufacturing, drinks manufacturing, cigarette manufacturing, clothes and shoe manufacturing, and oil refining. There was an observed development in the transformative industrial sector during the 1970s, and although there were fewer factories producing goods but local production was well protected from the government, this led to an attempt to monopolize some of the local products. As a result, the government introduced governmental prices to regulate the market. During the 1980s, the industrial sector started heading into the military-controlled industry, this was due to the Iraq-Iran war at that time (Abdulshawi, 2011).



One of the earliest factories in Iraq during the 1920s.
(Al gardenia 2015)

Historical Overview

These many years of industrial development came to an end in 1990. The siege that was imposed on Iraq in August 1990 changed the whole economic situation in the country. The aftermath of the siege led to industrial sector failure with many factories shutting down. Lack of raw materials coupled with import/export restrictions left most workers unemployed with other portions heading to neighboring countries to find jobs. This siege lasted until 2003 invasion of Iraq, after which, Industrial activities came back, gradually recovering after 2003. However, new challenges surfaced, like security instability and lack of governmental laws, becoming the new obstacle in the years after the war, and not until recently has the Iraqi industrial sector with the great market potential started seeing serious attempts to recover, as the security situation is stabilizing (Abdulshawi, 2011).



One of the earliest weaving factory in Iraq during the 1930s.
(Al gardenia 2015)

Industrial Sector Limitations after 2003

- Factories, machines, and industrial tools are outdated and couldn't follow the technological advancements in this sector.
- Negative outcomes of the 13 years of economic siege such as lack of experienced workers, and lack of new industrial activities.
- Poor electricity services that led to unstable production and losses for factories.
- Security instability after 2003 that led to the closing of many factories, and robbing of many others.
- Large quantities of imported materials and a lack of governmental laws to protect local products.
- 66% of workers got released from their jobs, and many higher education graduates left the country.
- Lack of local raw materials for industrial factories and the inability to import from outside.
- Reduction in salaries (down to as low as 2.5 USD per month) coupled with high inflation.

(aljazeera 2004)

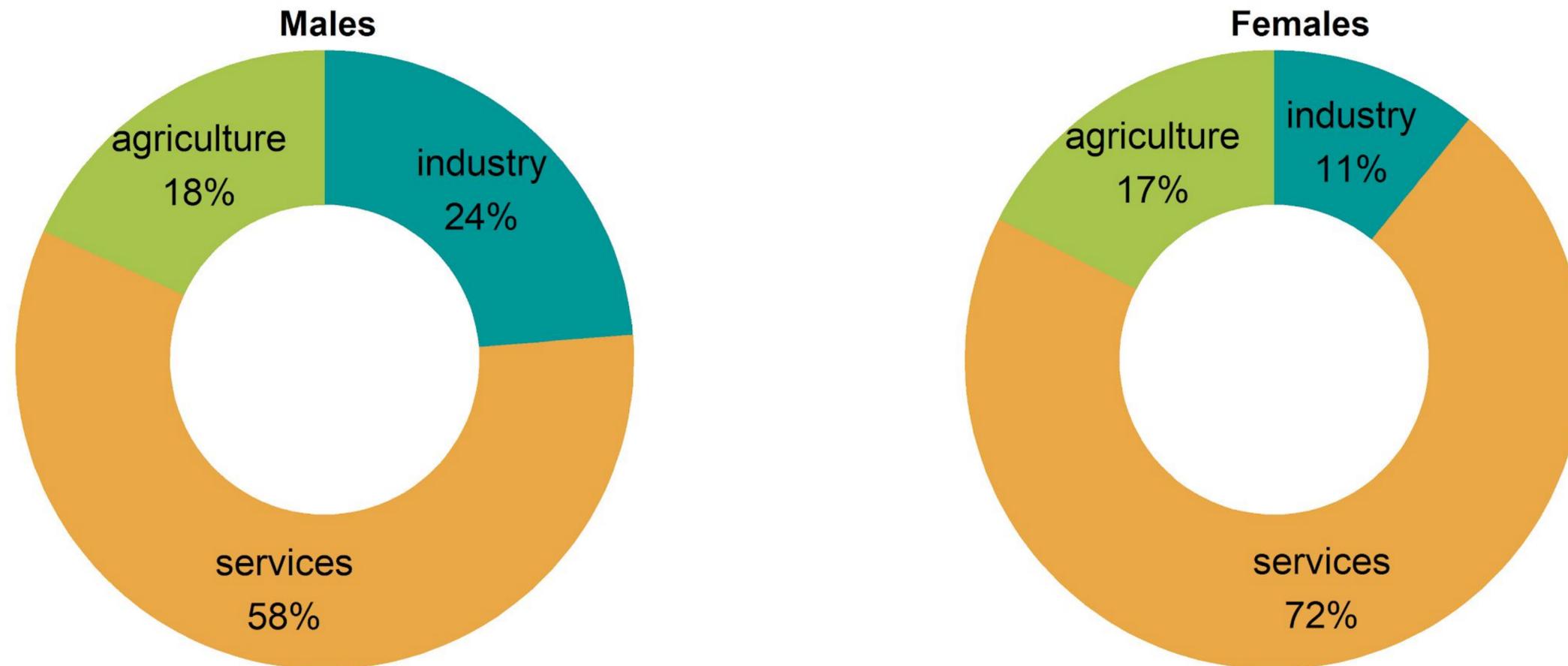


One of the border access points between Iraq & Iran used to import goods from Iran after 2003
(NRT TV)

Employment Percentage in Industry

Employments in the industrial sector is low compared to that of other sectors in the country. The industrial sector covered only 22.3% out of the total employments in Iraq in 2019 (World Bank Data). In terms of gender ratios in the industrial sector, Iraq is not different than the rest of the middle east; females are less involved in industry than males. In 2019, the industrial sector had the lowest percentage of female employees compared to other sectors with only 11% of total working females within the industrial sector, giving the service sector the highest percentage of 72% followed by the agriculture sector with 17% of the female employments. On the other hand, males working in the industrial sector covered 24% of the total working males in 2019 (World Bank Data).

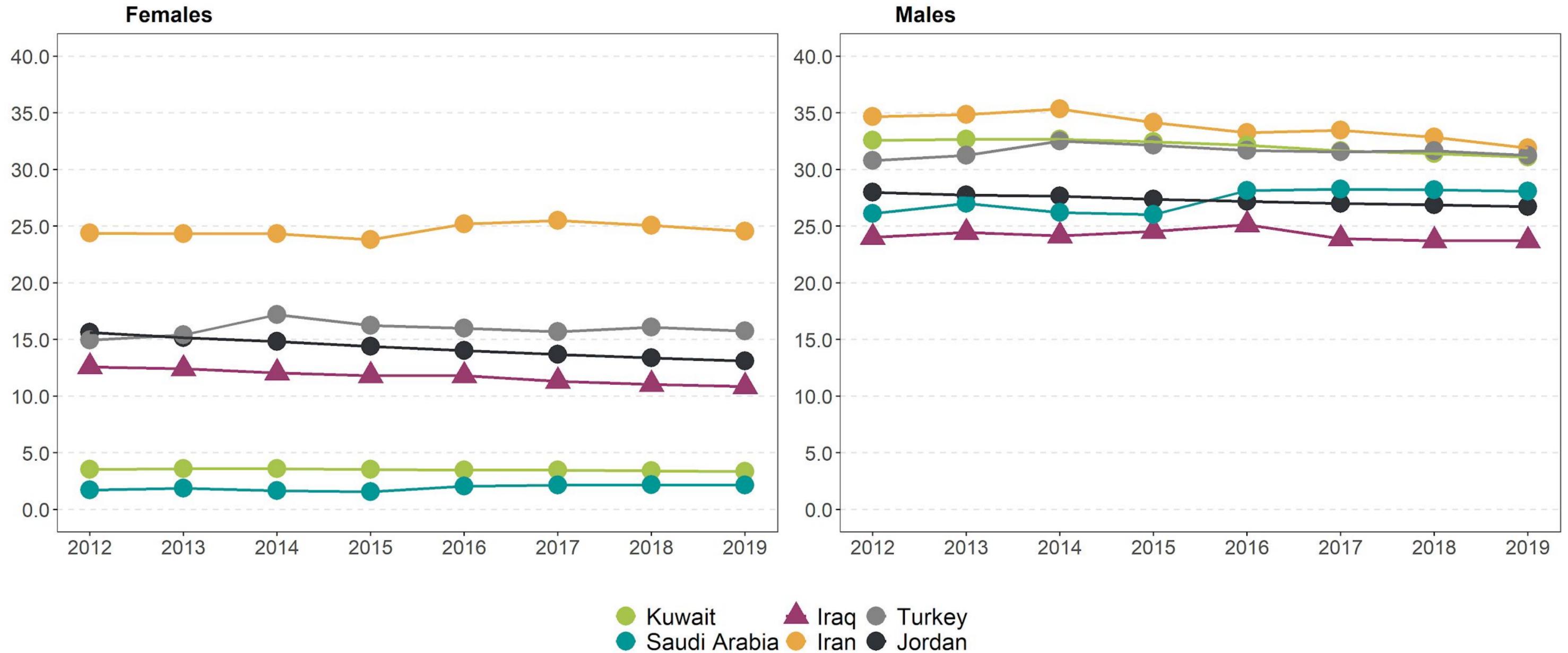
Employment Percentage of Iraq in 2019



Data Source: World Bank Open Data

Employment Percentage in Industry

Employment in the Industrial Sector (Percentage %)



Data Source: World Bank Open Data



Industrial Establishments Overview

Due to the way the data from the Central Statistical Organization is formatted and to better understand the industrial sector, establishments within the industrial sector have been divided into three parts:

1. Small Establishment consisting of 1-9 workers
2. Medium Establishment consisting of 10-29 workers
3. Large Establishment consisting of more than 30 workers



Data Source: Central Statistical Organization Iraq



Industrial Establishments Numbers

As of the year 2018, Iraq has 25,747 small establishments, 198 medium establishment, and 627 large establishments both in private and public sectors (Central Statistical Organization, 2018). Small Establishments are providing more working opportunities than medium size establishment. This large number of small establishments allows for a diverse market without a monopoly presence, especially that the majority of these establishments are within the private sector. 81% from the 25,747 small establishments are bakery products industry, construction metal works, furniture industry, and clothing industry. The total number of workers in the small establishments in 2018 was 83375 and these formerly mentioned four industries cover 78% of the total employees working in the industrial sector, contributing to 73% of the total production rate (Central Statistical Organization 2018).

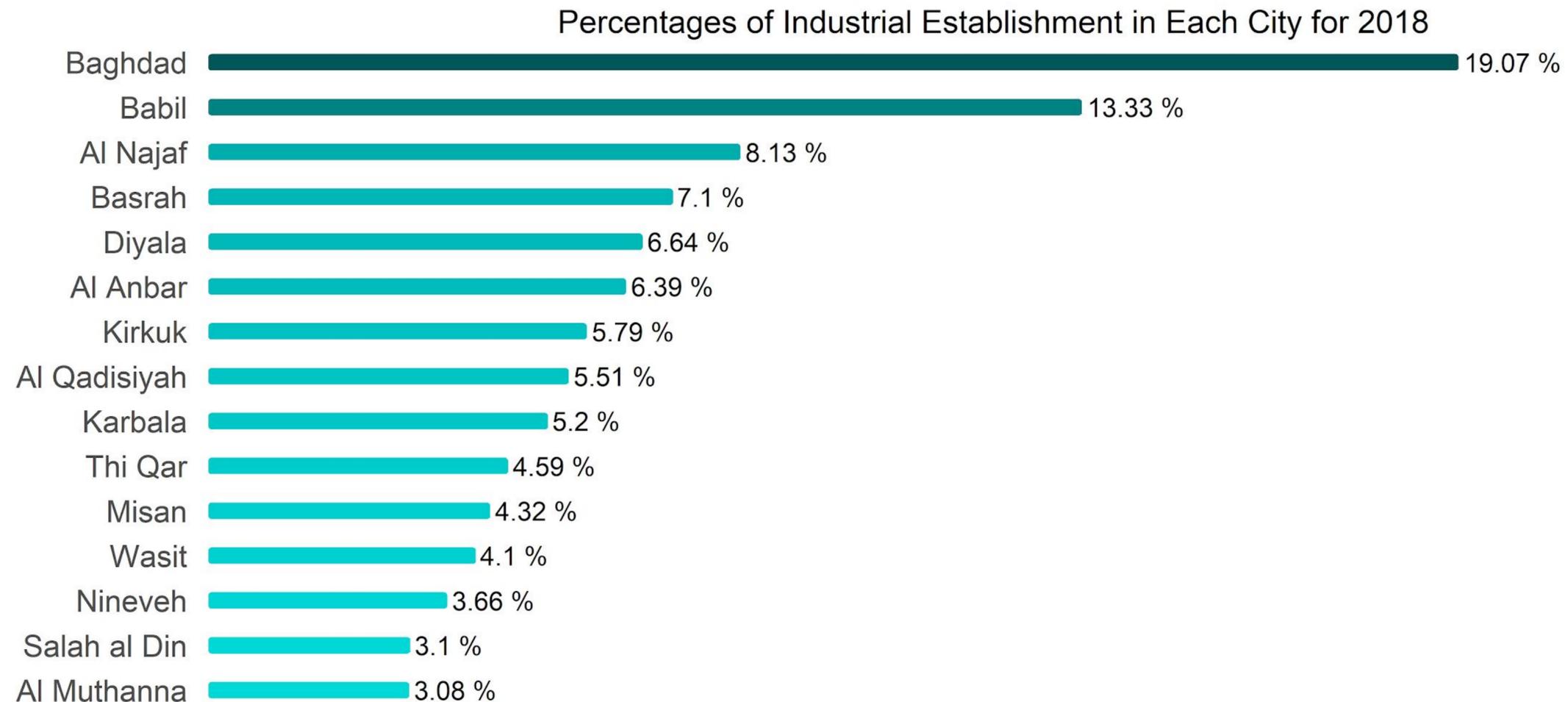
Percentages of Industrial Establishment Sizes in 2018



Data Source: Central Statistical Organization Iraq

Location of Industrial Establishments

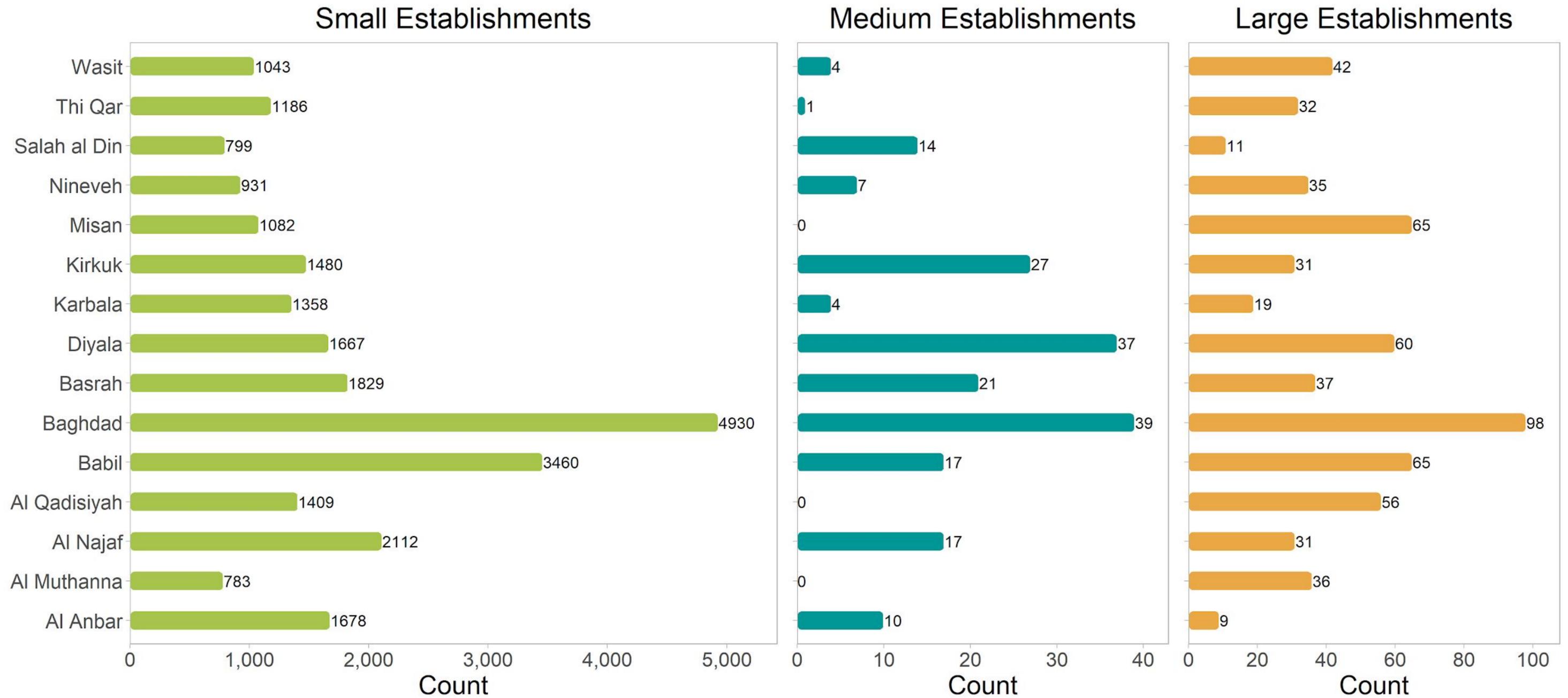
The industrial establishments were spread differently in different cities. Baghdad covers 20% of the total small industrial establishment in the country with 14281 total workers (Central Statistical Organization 2018). Regardless of the size of the establishment, we can see that Baghdad has the greatest number of establishments with a total of 5067 establishments followed by Babil with 3542 establishments. While Al-Muthana had one of the least numbers of establishments with a total of 819 following Salah Al Din with 824 establishments, as second and third to last, respectively. Many factors can affect the location of establishments, some of which could be linked to the political and security situation, services provided at that city, and the nature of the city in terms of availability of raw materials.



Data Source: Central Statistical Organization Iraq



Location of Industrial Establishments



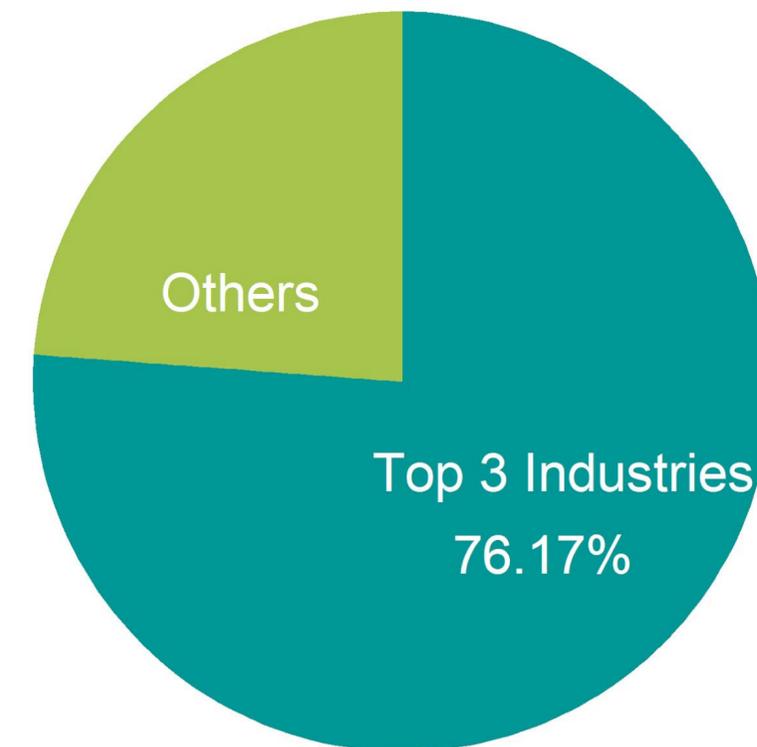
Data Source: Central Statistical Organization Iraq



Number of Establishments in Each Industrial Activity

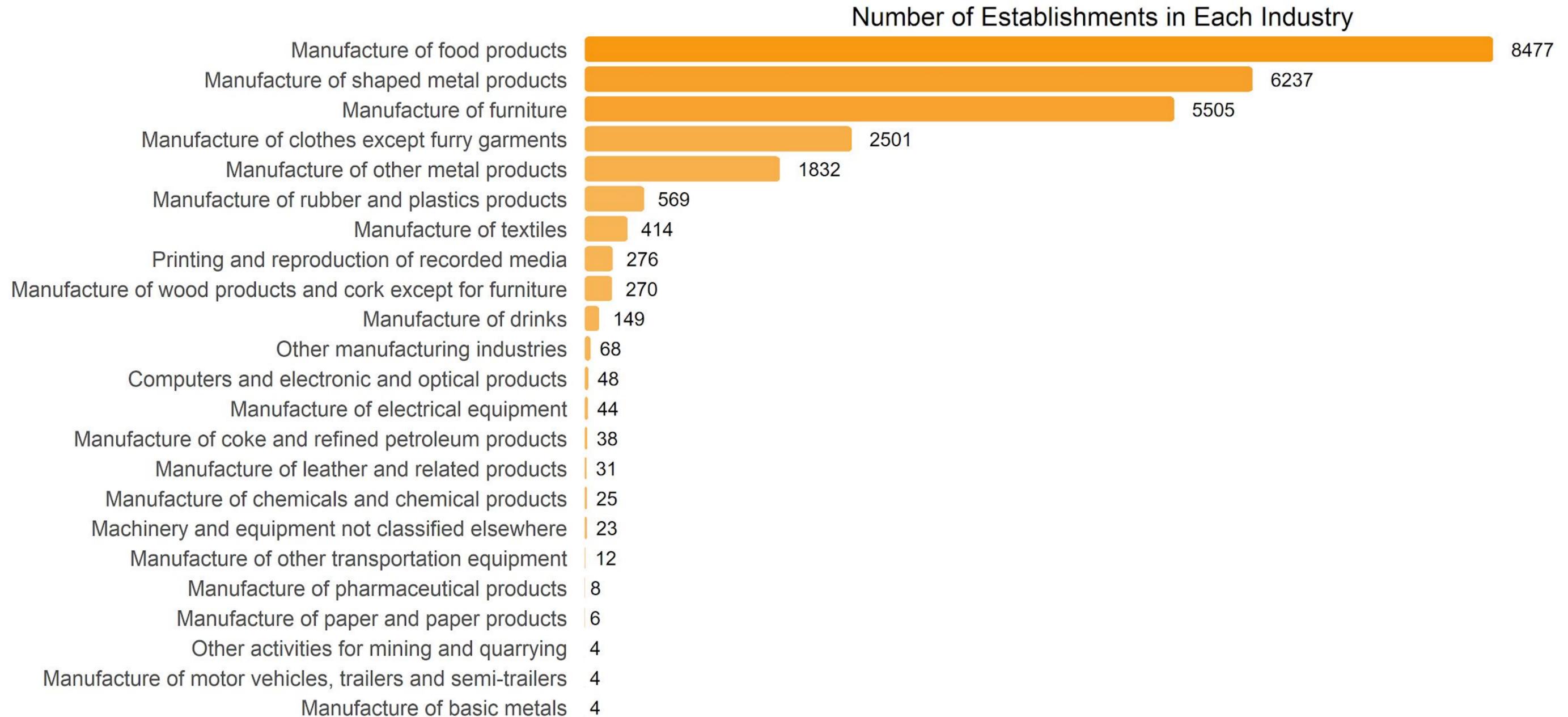
The leading industrial establishment in Iraq is the food and beverage industry (31.9%) distributed as 8229 small establishments, 66 medium establishments, 182 large establishments, followed by metal processing industry except for the machinery (23.5%) distributed as 6234 small establishments, 3 large establishments, and manufacturing of furniture (20.7%) distributed as 5500 small establishments, 2 medium establishments, and 3 large establishments. On the other hand, the lowest industrial activities were the manufacturing of motor vehicles (0.015%) distributed as 2 small establishments and 2 large establishments, mining activities (0.015%) distributed as 2 small establishments and 2 large establishments, and manufacturing of paper (0.023%) distributed as 3 small establishments, 1 medium establishment and 2 large establishments (Central Statistical Organization, 2018).

Top Three Industrial Activities
Manufacturing of Food, Manufacturing of Shaped Metals, Manufacturing of Furniture



Data Source: Central Statistical Organization Iraq

Number of Establishments in Each Industry



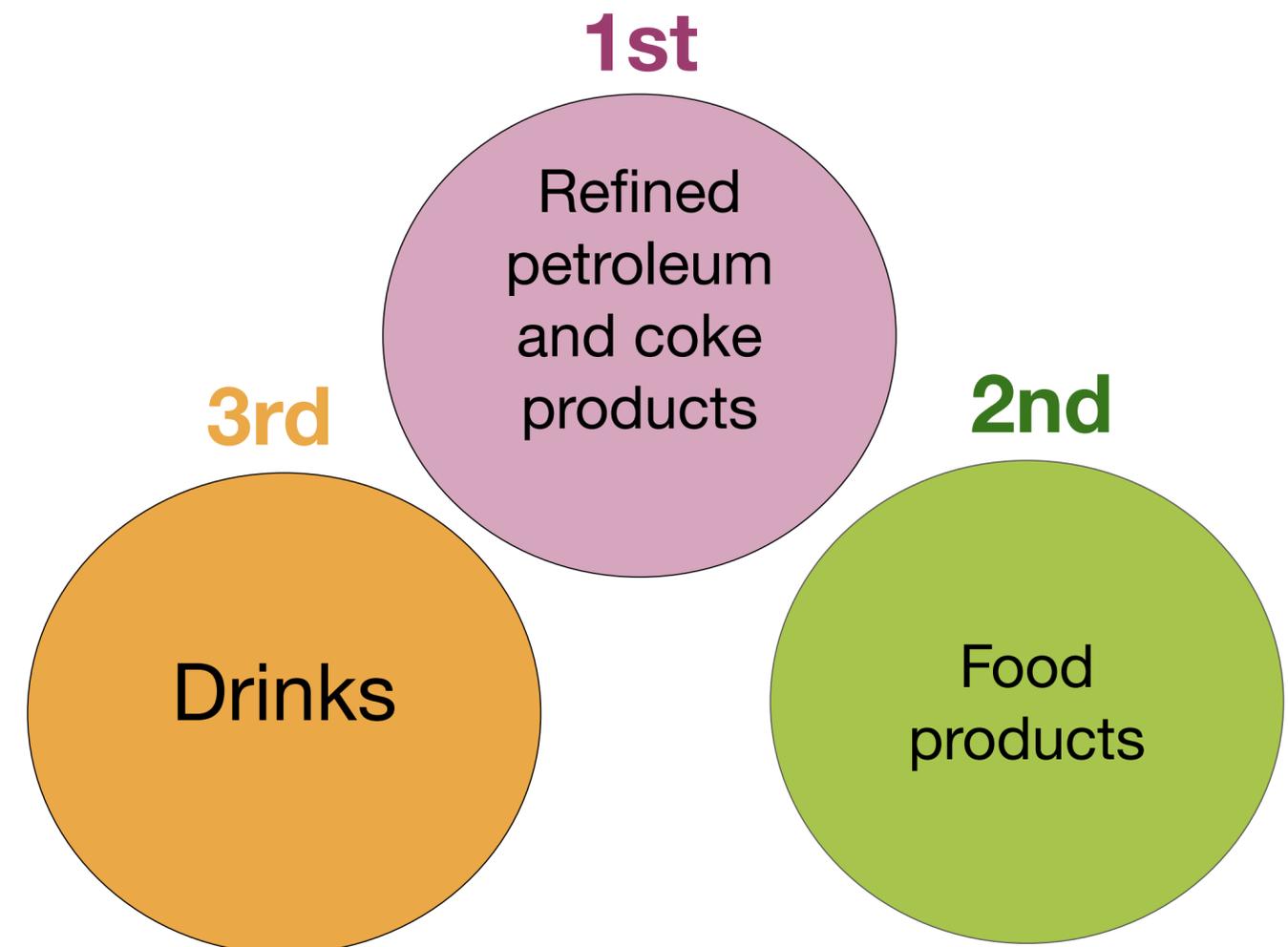
Data Source: Central Statistical Organization Iraq

Cost and Production Value

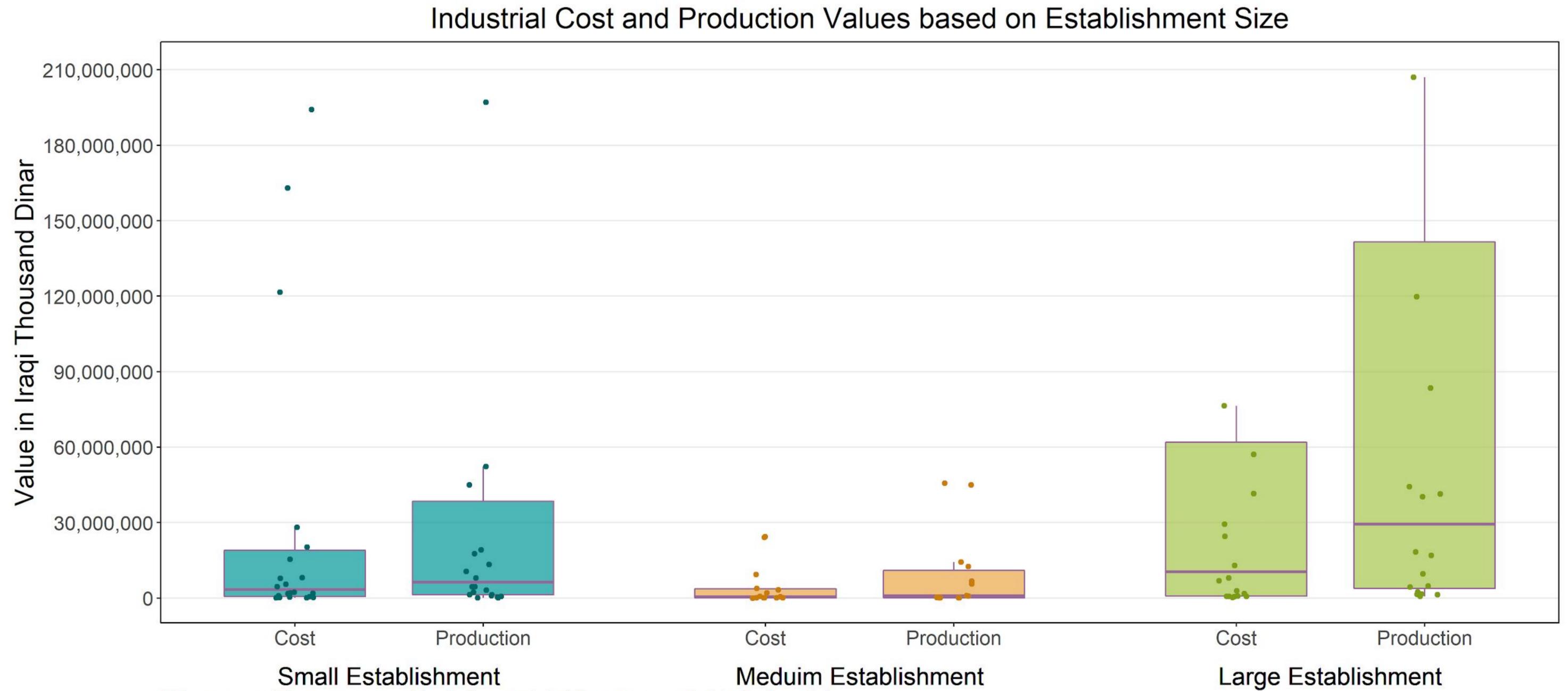
Distribution of the main 23 industrial activities has been presented below to observe the cost and production value in Iraqi thousands dinar for the year of 2018. The four industries of bakery products, construction metal materials, furniture, and clothing are providing 73% of the total production value in the small industrial establishments. In fact, the food and beverage industry products had the greatest production values in small and medium establishments with values of 849,353,193 million IQD and 45,628,939 million IQD, respectively, while the cost values were 448,809,436 million IQD, and 24,441,207 million IQD, respectively. food and beverage industry products had the second greatest production in large establishments with 1,568,339,621 million IQD. The greatest production and cost values for the large establishments was the manufacturing of refined petroleum and coke products with a total of 3,740,948,584 million IQD and 1,482,721,281 million IQD ,respectively (Central Statistical Organization, 2018).

Due to the large number of small establishments, it can be seen that the median cost and production for the small establishment is higher than that for medium establishment. Unfortunately, due to the huge different sample sizes between different establishments, we cannot conduct a direct comparison between the three establishment sizes.

Top Three Industries in Production



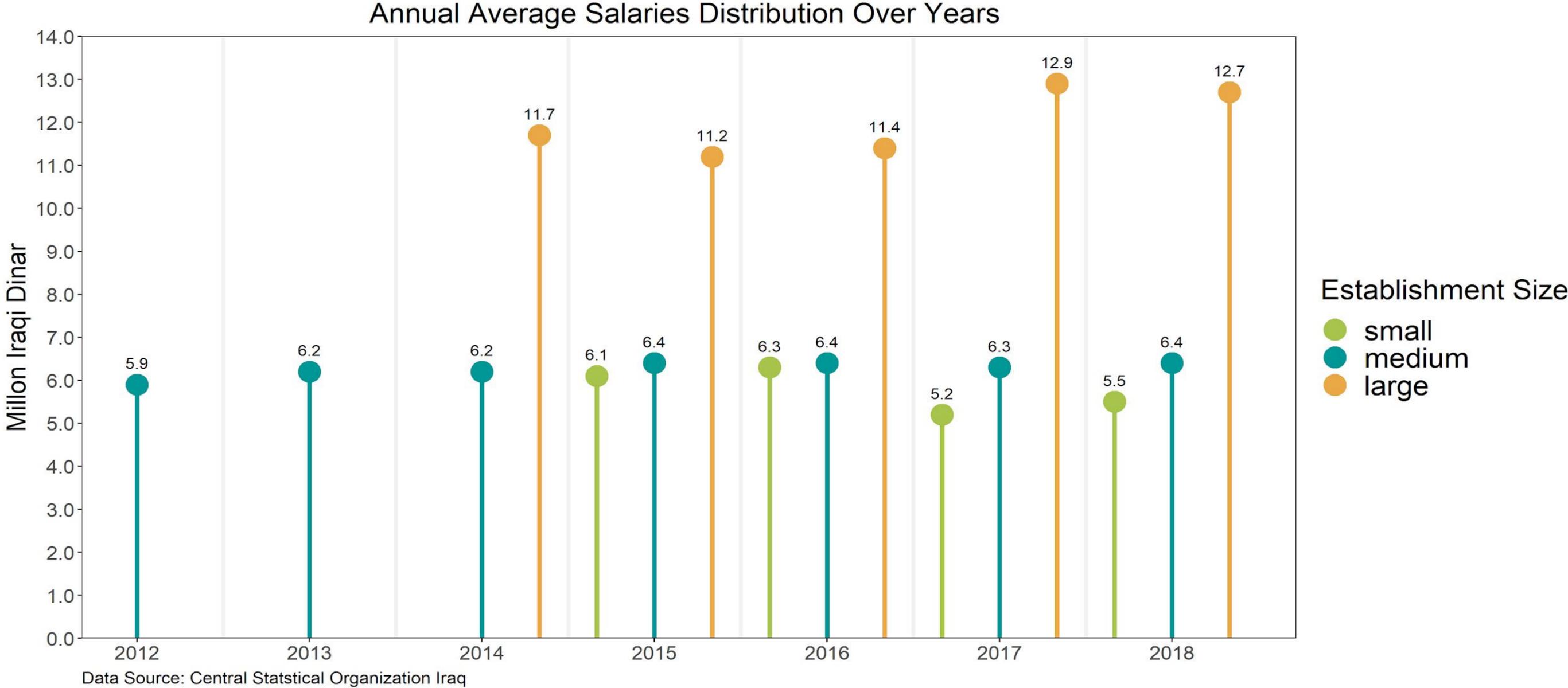
Cost and Production Value in 2018



Note: some points were removed for better graph but they were counted in the box plot
Data Source: Central Statistical Organization Iraq



Annual Average Salaries



Annual Average Salaries

As can be seen from the annual average salaries, there is a significant difference between employees working in large establishments compared to the ones working for small and medium establishments. Additionally, we can observe that the number of employees in the large establishments has decreased between the years 2015 to 2018 with 11.1% reduction rate which was accompanied by an increase in total salaries and average salaries for the same years. It is interesting to see that the medium size establishments showed an increase in both total salaries and number of employees while keeping the same average salaries, this indicates an organic, stable growth, unlike the small establishments that witnessed a decrease in the average salaries despite the increase in both total salaries and employees number.

	Small Establishments		Medium Establishments		Large Establishments	
	2015	2018	2015	2018	2015	2018
Total Salaries (mln ID):	261,492	298,801	10,000	17,000	1,447,000	1,449,000
Employees Number (paid & not paid) :	67,157	83,375	1,491	2,624	129,024	114,762
Average Salary (mln ID):	6.1	5.5	6.4	6.4	11.2	12.7



Government Policies

→ Industrial Cities Law (2018)

Objective:

- ◆ To organize industrial activities in appropriate manners.
- ◆ To encourage the participation of local and international private sector to invest in industrial cities in Iraq and cooperate with the public sector.
- ◆ To promote the usage of industrial cities for industrial developments.
- ◆ To encourage the currently existed factories to move into the industrial cities.

Methods:

Working on establishing the Industrial Cities Commission in Baghdad that is associated with the Ministry of Industry and Minerals. This commission will work on following up on the implementation of the strategies aim for developing industrial cities in Iraq, conducting feasible studies, and implementing development plans for the selected industrial cities, and organizing the process of establishing, developing, and managing industrial cities.

→ Ministry of Industry and Minerals Law (2011)

Objective:

- ◆ To establish strategies and economic policies to work in the market economical environment
- ◆ To foster the development of industrial and minerals activities
- ◆ To increase the added value of industrial production to the total Iraq production
- ◆ To increase the added value of mineral extraction and processing sector production (non-oil processes) to the total Iraq production

Methods:

Encouraging, developing, and organizing the industrial sector in the field of transformative, synthetic, and mining industries. Additionally, working on establishing, implementing, and financing industrial research and development plans to reduce the cost of products and services, improve their quality, adopt international standards, develop production processes, and introduce new technologies to increase competitiveness and sustainable growth.



Government Policies

→ Investment Law (2006)

Objective:

- ◆ To promote investment and transfer modern technologies in order to contribute to the process of developing and enhancing Iraq, and expanding and diversifying its production and service base.
- ◆ To encourage the Iraqi and foreign private sector to invest in Iraq by providing the required facilities for establishing investment projects and enhancing its competitive capacities in the local and foreign markets for projects included in this law.
- ◆ To protect the rights and properties of investors.
- ◆ To develop human resources based on market demands and provide work opportunities for the Iraqis.
- ◆ To expand exports and improve the balance of payments and the balance of trade of Iraq.

Methods:

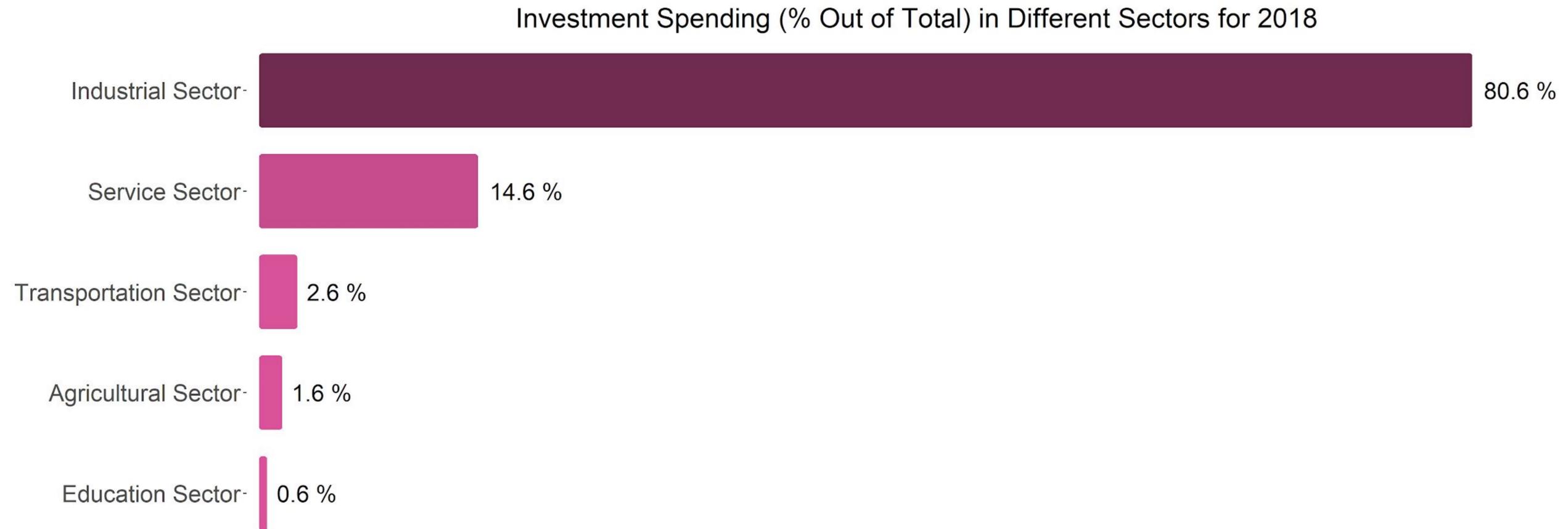
Following this law, a commission called (The National Investment Commission) shall be formed. This commission shall be responsible for establishing the national investment policy, establishing the guidelines for it, monitoring the implementation of these guidelines in the field of investment, and shall be specialized in the strategic investment projects on a federal level. Projects that obtained an investment license from the Commission should be given additional facilities and exemptions from taxes and fees by the stipulations of this law.

→ Other Laws Such as :

- ◆ Companies Law (1997)
- ◆ Mineral Investment Law (1988)
- ◆ Law of Trademarks (1957)

Investment Spending

The industrial sector took the lead in investment spending with 80.6% out of the total investment spending in all sectors in 2018. However, investment spending was 14,204 billion IQD in 2017, this value got reduced to 11,134 billion IQD in 2018 with a 21.6% reduction. The agricultural sector witnessed the highest percentage change between the years of 2017 and 2018 with an increase of 452.9 % and spending values of 41.2 billion IQD in 2017 and 227.8 billion IQD in 2018. While the transportation sector witnessed an increase of 58.1 % and spending values of 227.8 billion IQD in 2017 and 360.1 billion IQD in 2018. The service sector also showed a 6.3% increase with values of 1901.8 billion IQD in 2017 and 2021.6 billion IQD in 2018, and the education sector showed a reduction of 14.9% with values of 90.1 billion IQD in 2017 and 76.7 billion IQD in 2018 (Central Bank of Iraq, 2018).

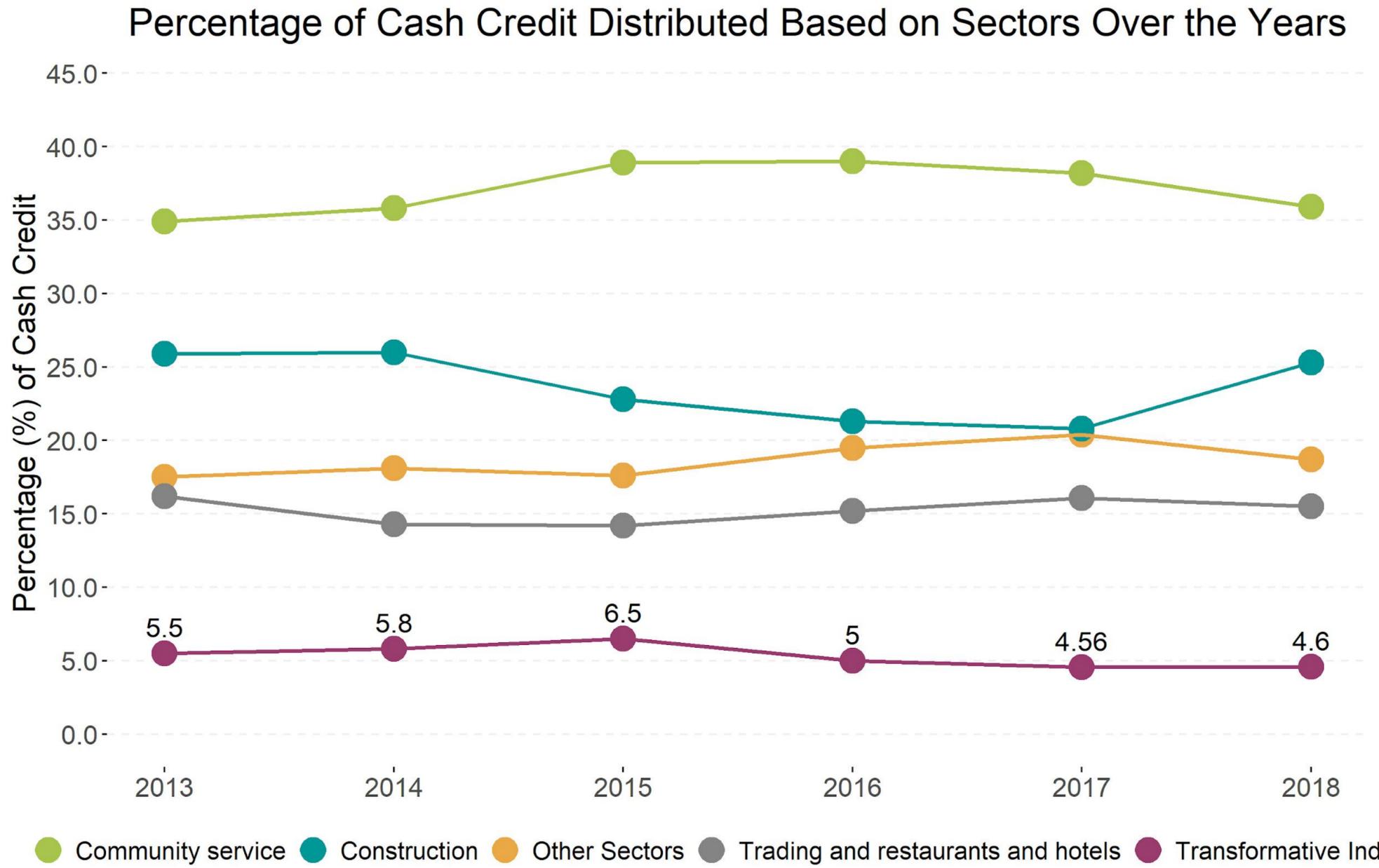


Data Source: Central Bank of Iraq



Cash Credit Over the Years

We can observe that the transformative industrial sector is one of the lowest in receiving cash credits over the years. The cash credit of the transformative industry in 2017 and 2018 was 1,734,325 and 1,787,083 million IQD, respectively, while the Pledge Credit for the same years was 193,819 million IQD and 106,113 million IQD, respectively. According to the central bank of Iraq, this low percentage is due to the low guarantees in return and the limited activities in the sector.



Other Sectors Include: Agriculture, Mining, Water, Electricity, Gas, Transportation, and Finance.
 Data Source: Central Bank of Iraq



Trading Volume in Industrial Sector in Million Iraqi Dinar

With 12 industrial companies available to be traded, the trading volume in the industry sector has dropped significantly after the sudden rise it had in 2011, and 2012. The highest market value in 2019 was to **Baghdad Soft Drinks** with 583,427 million IQD followed by **National Chemical & Plastic Industries** with 28,856 million IQD and the lowest was **Iraqi Engineering Works** With 1,230 million IQD followed by **Iraqi Carton Manufacturers** with 2,049 million IQD (Iraqi Securities Commission, 2019).

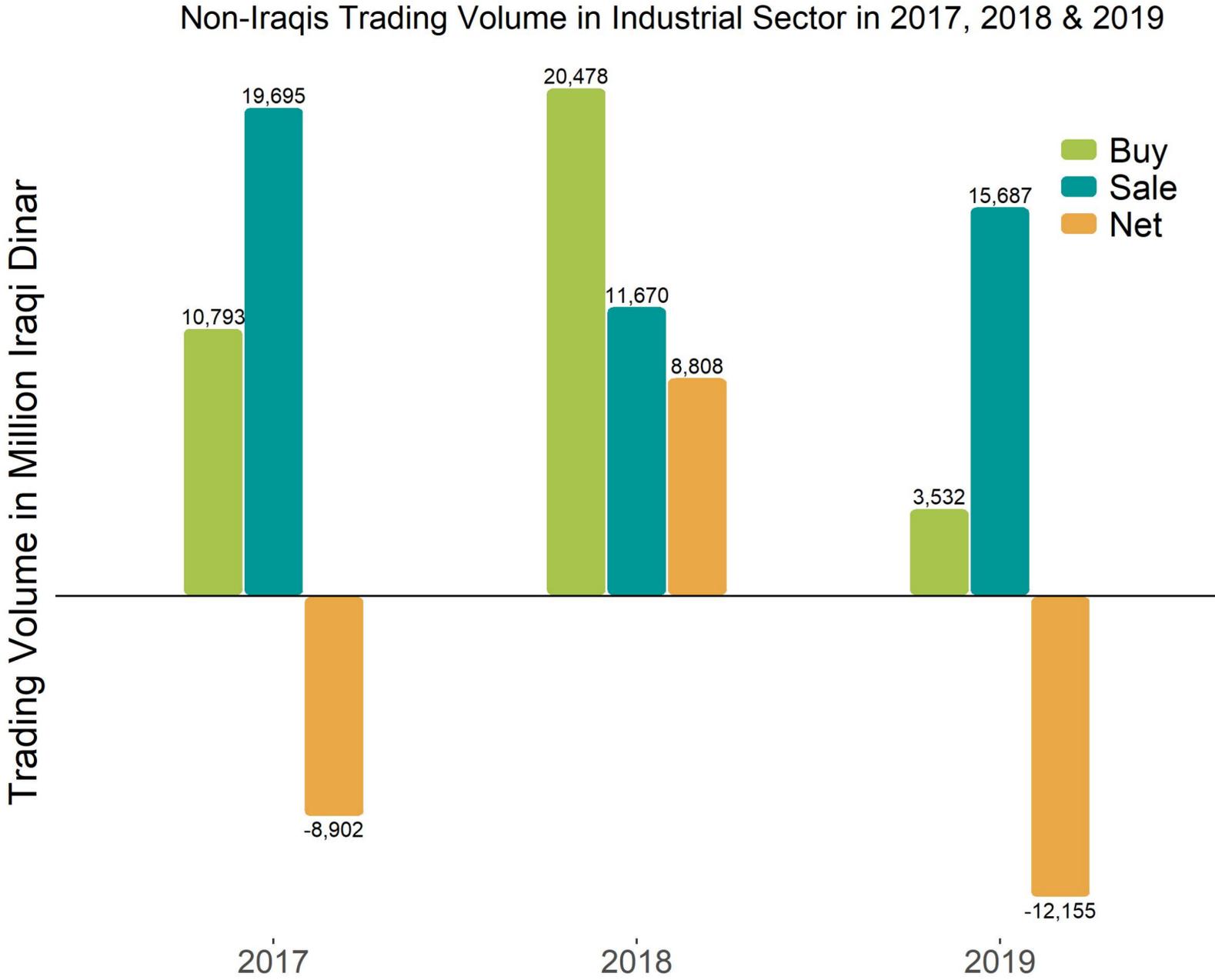


Data Source: Iraqi Securities Commission



Non-Iraqis Trading Volume in Industrial Sector

As shown in the figure, the trading net value in 2019 dropped severely. Compared to the previous year. The selling trading volume was 40% out of the total sale in 2019, while the buying trading volume was only 9.1% out of the total buys. While these percentages were 21.3% and 37.3%, respectively, for 2018. The trading volume of non-Iraqis within the industrial sector was 54,852.6 million IQD and 38,825.7 million IQD in 2018 and 2019, respectively. The number of traded shares for non-Iraqis in the industrial sector was 34,296.8 million IQD in 2018 and 24,220.7 million IQD in 2019. Additionally, the percentage of purchased shares by non-Iraqis in 2019 was 5.6% and the sold shares were 20.1% out of the total purchased and sold shares, and these percentages were 17.4% and 4.2% in 2018 (Iraqi Securities Commission, 2019).

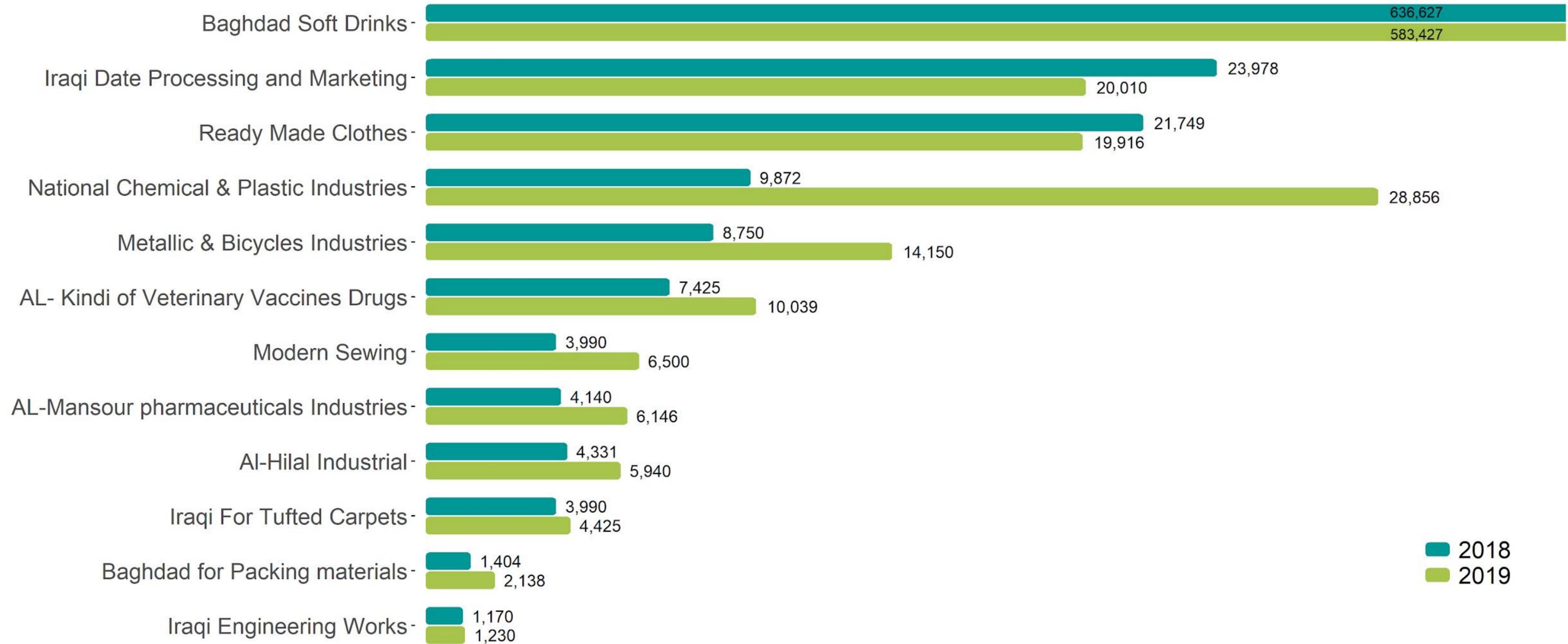


Data Source: Iraqi Securities Commission



Industrial Companies Market Value

Industrial Companies Market Value in Million IQD for 2018 & 2019



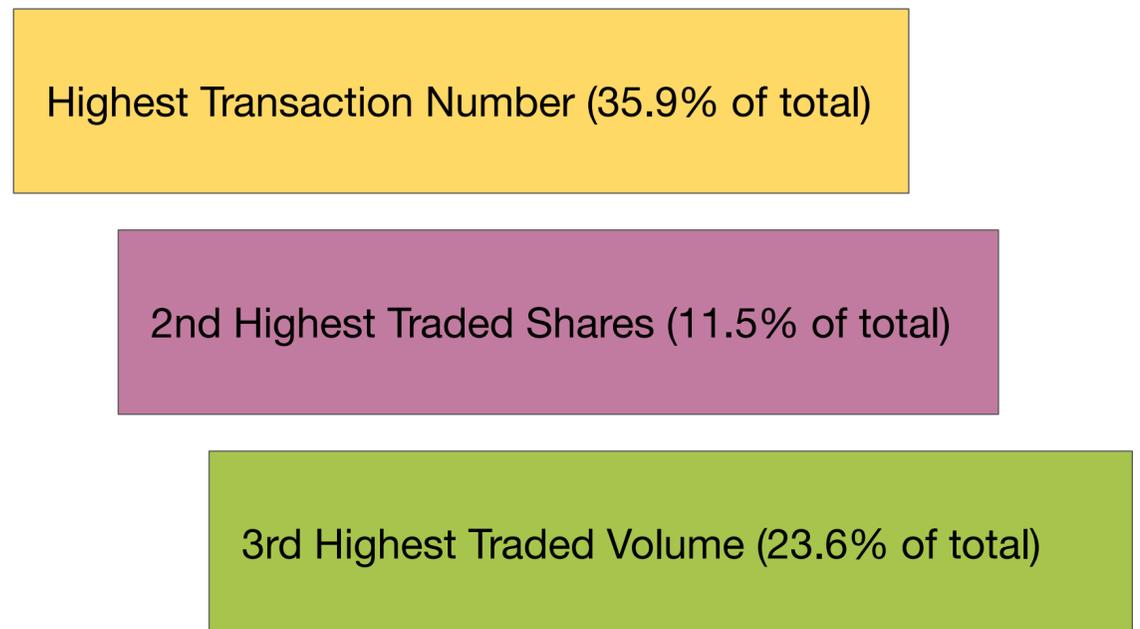
Data Source: Iraqi Securities Commission



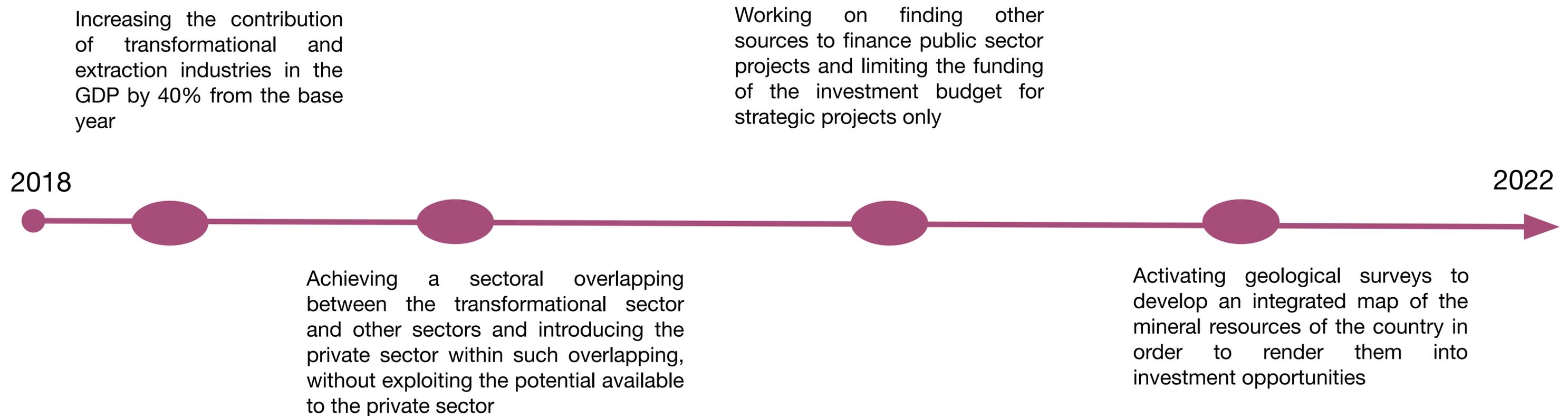
Industrial Companies Market Value

Although Baghdad Soft Drinks has the highest market value, the number of transactions dropped from 10362 to 8263 with a 20.3% drop rate between the year 2018 to 2019, and their market value dropped by 8.4%. On the other hand, National Chemical & Plastic Industries had the highest growing market value with 192.3% growth (9872 Million ID in 2018 to 28856 Million ID in 2019), followed by Modern Sewing with 62.9% growth (3990 Million ID in 2018 to 6500 Million ID in 2019) and Metallic & Bicycles Industries 61.7% growth (8750 Million ID in 2018 to 14150 Million ID in 2019). The total market value of the industrial sector in 2018 was 737,574 million IQD, this number dropped to 712,926 million IQD in 2019 with a reduction of 3.34%. Additionally, the total trading volume dropped from 54,852.6 million IQD in 2018 to 38,825.7 million IQD in 2019 with a reduction rate of 29.2% and the number of total transactions changed from 30,742 in 2018 to 27,970 in 2019 with a reduction of 9%. Also, the number of traded shares in 2018 was 34,296.8 million shares and 24,220.8 million shares in 2019 with a reduction rate of 29.4 (Iraqi Securities Commission).

Industrial Sector Contribution in 2019



Industrial National Development Plan 2018-2022



Current Available to Investment Public Projects

According to the national investment commission, there are currently 192 projects belonging to the Ministry of Industry and Minerals open to investments. These projects are in different industrial activities such as construction, food manufacturing, rubber manufacturing, electrical devices, chemical process, water, metals, and clothes. The 192 projects belong to 28 different companies such as The General Company for Electrical and Electronic Industries with 27 projects for investments followed by General Company Hydraulic Industries with 22 projects for investments followed by General Company for Textile and Leather Industries with 16 investments projects. These types of investments are either for rehabilitation and development, sharing investment, or total investment. These investments are spread across the country in different cities such as Baghdad, Nineveh, Najaf, Anbar, and Dhi Qar (National Investment Commission).

Overall, the Ministry of Industry and Minerals has more than 72 public industrial companies spread as the following; 28 companies in the engineering sector, 18 chemical and food sector, 6 construction sector, 7 in the textile sector, and 13 in other sectors. However, most of these companies are providing limited production due to old factories, lack of technological advancements, lack of electricity provided by the government, availability of imported products (National Investment Commission).



A factory in Iraq
(NRT TV 2020)

Conclusions and Recommendations

- The industrial sector plays a key role in decreasing unemployment rate and increasing the standard of living in Iraq.
- Laws that aim to improve the industrial sector exists in Iraq but the government should make sure that these laws are implemented and followed.
- The percentage of people working in the industry should increase because such an increase will lead to advancement in all different sectors and not only the industrial sector.
- The government should provide a secure and healthy environment for industrial factories and investment in the industrial sector to take place.
- The industrial establishments should be encouraged in different cities beyond the main cities that the industrial activities are concentrated in right now.
- Clear and easy to follow laws should be presented and made available to investors and the public who are interested in industrial activities.
- Strategic planning and in-depth market search should be conducted and made available to existing companies and investors
- Taking advantage of new technological machines within the industrial sector.
- Encourage new employees, students, and potential workers to be updated with the latest technologies, skills, and tools in the industrial sector
- Encourage foreign investors by providing decent services, laws, and protection.
- Encourage the Central Statistical Organization to re-define the industrial establishment sizes in their next reports. The definition could cover more factors to determine the size of the establishment rather than depending only on the number of employees factor as of now. Examples of these factors could be total production value, and total production cost.



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