WAR ROOMS WITHIN WAR ZONES

Iraq attempts to create a stock exchange in the midst of violent chaos

By Claudia La Rocco

Many of the larger companies in Mogadishu, including the bottling plant, have issued shares, although there is of course no stock exchange or financial authority of any sort in the city. Everything is based on trust, and so far it has worked, owing to Somalia's tightly woven clan networks: everyone knows everyone else, so it's less likely that an unknown con man will pull off a scam. In view of Somalia's history, this ad hoc stock market is not as implausible as it may sound. Until a century ago, when Italy and Britain divided what is present-day Somalia into colonial fiefdoms, Somalis got along quite well without a state, relying on systems that still exist: informal codes of honor and a means of resolving disputes, even violent ones, through mediation by clan elders.

–Peter Maass[1]

Trading on the Baghdad Stock Exchange, 1999.

Michael S. Yamashita/CORBIS

Cutthroat deals, take no prisoners; war rooms; the language of combat is often used to describe the world of business. But throughout history, the clichéd comparison has been no mere metaphor for many stock exchanges. The crippling or disruption of exchanges by wars is nothing new, from the New York Stock & Exchange Board suspending trading in seceding states in 1861, to the arduous history of the Belgrade Stock Exchange, to the 1983 suspension of the Beirut Stock Exchange after nearly a decade of civil war in Lebanon. It reopened in 1995.

During World War I, the London Stock Exchange shut its doors from July of 1914 until the following year. Of the 1,600 men who volunteered for the Stock Exchange Battalion of Royal Fusiliers, 400 did not return. World War II caused shorter disruptions. In 1939, the bourse closed for just six days, reopening on September 7. It wasn't until 1945 that the exchange closed again, this time when a V2 rocket damaged the building. Investors solved this problem by relocating to the basement the next day.

When Saddam Hussein invaded Kuwait in August of 1990, the Kuwait Stock Exchange in Kuwait City was forced to close. The eight-story building escaped major damage during seven months of occupation, though Iraqi troops did make off with a $5 million Unisys computer. But systematic looting only got as far as handwritten notes placed on everything from furniture to paintings.

"Thank God there is no stock market in Baghdad. That would have decided who got all this," the exchange's deputy director general, Abdullah Al-Sederawy, told *USA Today* reporter James Cox, explaining that the contents of the building were not transported to the Iraqi capital because Kuwait was liberated before two feuding Iraqi ministries could decide who would get what.[2] Still, other companies did suffer heavy losses. The bourse did not reopen until the fall of 1992, and then it did so as a shadow of its former self, as the country's economy sorted through the wreckage left by Saddam's army.

Still, however daunting, the task of rebuilding was a discreet one; the Iraqi army was vanquished, the threat repelled. Kuwait's financial institutions could proceed, relatively secure in their belief of a peaceful future. Increasingly, this is not the case.

Markets rarely thrive in uncertain conditions. As both actual wars and business have become more global affairs in recent history, and terrorism continues to erase the line between battlefield and civilian activity, economies have had to adjust to ever-higher levels of uncertainty. Exchanges cannot simply close their doors and wait for the violence to end. Instead, both psychologically and through tangible security measures, they must adjust to a world in which the ever-present threat of attack is commonplace.

In September 2000, 15 people were killed when a bomb exploded in the underground parking lot of Jakarta's struggling exchange. The week-long closure of the bourse garnered very little attention from the outside world, which likely dismissed it as just the latest political violence in Indonesia's troubled history.

The response was far different a year later, on September 11, when two hijacked planes brought America's financial center to its knees. The New York Stock Exchange, Nasdaq Stock Market and American Stock Exchange shut down that Tuesday morning, and remained closed for the rest of the week. It was, as widely reported, the longest halt in trading since World War I. No one knew what to expect when the markets reopened; some feared stocks would tumble, while others predicted a patriotic response.

Neither the NYSE nor the electronically-based Nasdaq were physically damaged, but a telephone switching operation was destroyed, cutting off some communications systems needed for trading. The American Stock Exchange, just a half-block from the World Trade Center site, did not escape unscathed. It resumed stock trading on the NYSE, and options trading on the Philadelphia Stock Exchange, while construction crews worked to clear the building of debris and worked on safety and access issues.

This resumption, on Monday morning, was both somber and defiant. A heavy police presence, including bomb-sniffing dogs, reinforced the feeling of a city under siege. Bags were checked and those entering the building had to pass through metal detectors. The stars and stripes were draped across the white columns.

Four years later, New Yorkers have grown used to bomb scares, building evacuations and random searches. For many, despite occasional jitters during the morning subway commute, a new sort of fatalistic complacency has set in. For months after the attacks, though, the city, especially its financial heart, remained raw. On November 12, when American Airlines Flight 587 crashed into a city neighborhood shortly after take off, killing 265 people, everyone assumed it was another strike on New York. The Dow plunged as much as 198 points in early trading before investors learned terrorism likely wasn't the cause.

To establish even a marginally functioning economy out of the wreckage of Iraq would have been a daunting task. Despite decades of a heavily controlled, state-run economy; the deterioration caused by a succession of wars; a decade of international sanctions; and the looting and sabotage that followed the 2003 war, the US government set its sights high after toppling Saddam Hussein; to create a liberal, market-based Iraqi economy, a key piece of its broader goal to bring democracy to Iraq.

—Bathsheba Crocker[3]

It will be to their fortune if they do (invest). Iraq is one of the richest countries in the world. Give me security and a little time, and you will see.

—Talib Tabatabai, Chairman of the Iraq Stock Exchange[4]

When something blows up or crashes in Iraq, there isn't much suspense over whether it's an accident or a deliberate act of destruction. In the midst of so much violence, it would seem impossible to create the conditions necessary for a viable stock exchange to exist. But, as Peter Maass' reporting on the incredible situation in Mogadishu demonstrates, what seems like insurmountable chaos can provide enterprising businessmen with surprising opportunities.

Now, the world watches as the fledgling Iraqi economy seeks to find its footing and the fledgling nation seeks to find its way out of a war zone. For many, such as Iraqi Industry Minister Hajim al Hussani, the two are inextricably linked: "The way to eliminate [the insurgency] will only be by creating job opportunities in the private sector. And the development of the private sector depends on the improvement of the security situation."[5]

The old Baghdad Stock Exchange (BSE) existed for about 11 years under Saddam Hussein, who created it in 1992. Initially consisting of 64 companies, the exchange grew to include at least 114 companies, as reported by Maher Chmaytelli of *Agence France Presse,* in an article

Saeed Khan/Pool/Reuters/CORBIS

Iraqi stock brokers walk past a bell presented by the Philadelphia Stock Exchange in commemoration of the opening of the Iraq Stock Exchange, July 18, 2004.

from November 3, 2002. At that time, the BSE's capitalization had grown to 274 billion dinars ($137 million), up from one billion dinars in 1992 (about $20 million). Markers and white boards were used to mark transactions, "with traders watching through opera glasses."

Leading up to the 1990s, Iraq's economy was one of the strongest in the Arab world. But a 10-year-long UN embargo, following the Persian Gulf War and the brutal Iran-Iraq War, had decimated the national infrastructure and caused the dinar to tumble. Faced with the uncertainty of the exchange rate, many Iraqis opted for stocks. Even with the looming threat of war with the United States, Chmaytelli reported that the BSE was holding steady. Investors such as retired accountant Jamil Qays were optimistic: "It will end at some point, demand will resume, along with production and profit. Think long term."

Three years later, many Iraqi investors and foreign observers are saying the same thing. Under the old regime, the Baghdad Stock Exchange was a haven for cronyism, manipulated by officials who used it for money laundering. Rules limited price fluctuations; the Ministry of Finance stopped trading whenever a stock rose or fell by more than 5% of its value in a session. Taha Ahmed Abdul-Salam, Chief Executive for the new Iraq Stock Exchange, served as research director for the old bourse; when he attempted to quit his job, the regime "threatened to cut off his electricity and family food rations." (Now he works for $830 a month.)[6] Not surprisingly, certain people's portfolios were more successful under this system than others.

Still, trading continued until just before the US-led invasion of Iraq: "'The brokers were all waiting for the bombs to start dropping,' said Siro Pedros, 50, of the Nineveh Brokerage Co., who has been a stockbroker in Baghdad since 1997. 'Everyone thought that billions in reconstruction would flood the country after the war.'"[7]

American and Iraqi pre-invasion dreams of reconstruction were shortlived. Instead, days after the war ended, looters stripped two key banks and the BSE bare; when Jay Hallen, the man hired by the Coalition Provisional Authority (CPA) to head the organization of a new exchange, tried to enter the exchange building, armed squatters made it clear that his presence was not welcome.

US officials shut the bourse for good in order to form a private, non-profit exchange which would be regulated by brokers and overseen by a securities commission. The US Agency for International Development provided months of training to the new staff. The new exchange, it was hoped, would be one of the centerpieces of an economy that needed to be radically rebuilt from the ground up, from privatizing key sectors like oil and mining, to persuading Iraqis to participate in a formal banking system. Still, while the CPA could construct a legal and regulatory structure for Iraq to follow, it was up to the new Iraqi government to follow suit.

Trading on the Iraq Stock Exchange commenced on June 24, 2004, complete with opening bell—a Liberty Bell replica, donated by the Philadelphia Stock Exchange. In its first morning of operation, "more than 500 million shares were traded—more than the Baghdad Stock Exchange ever achieved—with shares in just six companies changing hands...12 companies actively traded on the second session on Sunday, July 4.

"Their aggregate share price at the end of the morning was $2.66 million, up from $2.21 million at the start, for a 20% rise, the exchange said in a statement, adding that 560 million stocks changed hands."[8]

The bourse was established in a converted Italian restaurant partly chosen for its location on a small side street that could more easily be protected from car bombs and rockets. Still, it was just one block from turbulent Haifa Street. Brokers worried about kidnappings, not portfolios; indeed, fears of attack prompted officials to keep the site secret in advance of the exchange's opening. But as Thomas S. Mulligan reported for the *Los Angeles Times* in October of last year, this didn't stop eager investors, many of whom had met privately to trade shares while waiting for the new exchange to open:

"Yet every Sunday and Wednesday, scores of Iraqis make their way though vehicle checkpoints and weapon pat-downs to wait for the 10 am opening bell. They gather in a breezeway outside the front entrance, protected from the sun by a tall canvas overhang and from intruders by plainclothes Iraqi guards with shoulder-slung AK-47s....

"When the exchange reopened in June, after a 15-month hiatus for the war, Abdul-Salam and other ISX officials were so afraid of attack that they admitted only 20 investors—and no reporters. Since then, holding their breath, they have allowed the crowd to expand to as many as 250 for each two-hour trading session. There's no telephone or computer trading, so if you want to play you have to come in person."[9]

As with the old bourse, transactions were scrawled on white boards; prompted mainly by security concerns, the exchange had hoped to switch to an modern electronic marketplace, like the Nasdaq, by the end of that year.

But this has yet to occur—along with predicted foreign investors, who have not materialized in great numbers, kept away by continued political instability. Indeed, many Iraqi investors say they do business much as they did on the old Baghdad Stock Exchange. As with many of the CPA-implemented changes, it remains to be seen when, or if, reality will catch up to new regulations.

"Like other exchanges in developing countries, there are no prohibitions on what US investors would call 'insider trading.' Here, who you know is key to making money. 'We are in a highly personalized situation,' said broker and board chairman Tabatabai, 66, who holds a Ph.D. in government affairs from Florida State University. 'We know every inch of every stock. Everybody is inside.'"[10]

And the rest of the world is on the outside, waiting to see what sort of history will be made with markers and white boards on the floor of the new Iraq Stock Exchange, or in the streets, with homemade bombs and assault rifles. FH

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