

"The old order changeth, yielding place to new"¹ - Tunisia... changing things since 146 B.C.

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"Images of the Tunisian Revolution", Byrsa Hill, Carthage

The Jasmine Revolution

"When the 26-year-old Tunisian graduate, Mohamed Bouazizi, despairing of getting a decent job and abused by the police - set fire to himself in a public square, his story resonated far beyond his provincial town. When he later died of his injuries, he became both a symbol and a martyr. Now the unrest sparked by his self-immolation has led to the downfall of one of the region's longest-serving autocrats. Unable to quell the unrest, despite making a string of televised concessions to the protesters, the 74-year-old President Zine al-Abidine Ben Ali [in power 23 years] simply vanished from the scene...."

For decades, Western governments depicted Tunisia as an oasis of calm and economic success - a place they could do business with. They turned a blind eye to President Ben Ali's harsh suppression of dissent - and ignored the fact that, while the elite prospered, ordinary Tunisians suffered. Several dangers lie ahead. One is that Tunisia falls into chaos - a scenario that would convince Arab rulers to cling more tightly to power rather than sharing or relinquishing it. Another is that the unrest may spread. It is already apparent - and for broadly similar reasons - in neighbouring Algeria. In a string of Arab countries, succession issues loom as ageing autocrats confront the unmet aspirations of their youthful and rapidly growing populations."²

¹ "Mote D'Arthur", Poems, Alfred Tennyson, 1845

² BBC, January 14, 2011

It was difficult to anticipate at the time, but what began on December 17, 2010 in Tunisia spread east across the Middle East to become the “Arab Spring,” with uprisings in Egypt, Libya, Syria and Bahrain. The conditions in each country are unique and their outcomes will be unique as well. So far, Tunisia has progressed much further towards stability and recovery than have its neighbors.

For several reasons, the Tunisian stock market has been expensive for many years. Even now, despite uncertainty over the new government, the \$10 billion capitalization market sells at an average PE of 19x trailing earnings. This is, however, a good time for a close look at what is going on in Tunisia—to see what lessons might be learned and what opportunities might emerge.



Tunisia

Imported from southern Spain in 16th century, the Jasmine is Tunisia's national flower. A man who wears jasmine on his left ear indicates that he is single, and an offering of white jasmine is seen as proof of love.



The Phoenicians founded Carthage on the site of modern Tunis in 814 B.C., roughly 300 years after they had colonized Utica 25 miles up the coast. Carthage proved to be a splendid site with rich agricultural land and gentle breezes for the homes that spread up the slopes of Byrsa Hill. On the sea, they cleverly tucked a Naval Harbor inside the protection of their Merchant Harbor and, from this port, they dominated shipping in the region for 600 years. After bickering with Rome, however, conflict erupted into the Punic Wars, which lasted more than 100 years. It was during the second Punic War, in 218 B.C., that Hannibal famously invaded Italy with 90,000 men and 37 elephants.

The old order changed, however, in 146 B.C. when Carthage fell after a three year siege. The Romans were bent on revenge; in addition to taking 50,000 slaves, they leveled the city and sowed the soil with salt.

Just a hundred years later, Julius Caesar decided to rebuild on this fine location, flattening the top of Byrsa Hill to create a Roman plaza with a massive forum, several temples and a library. Hadrian added the enormous Antonine Baths by the edge of the sea, which was completed in the 2nd century A.D. The baths featured a room half the size of a football field with a ceiling supported by 15 meter columns. Also included in the complex was an 80 seat circular structure initially thought to be a theater, until later it was determined to be quite a large restroom.



Ruins of the Phoenician Carthage, which the

The Roman order changed abruptly in 439 A.D. when the Vandals invaded and promptly vandalized everything, reducing the city to rubble. They stayed a hundred years until the Byzantines took over. Then, after another hundred years, Islamic rule arrived in 669 and proved to be far more enduring. A thousand years later, neighboring ships were ravaged by the Muslim

Corsairs—infamous pirates led by the Barbarossa brothers. It wasn't until 1816 that the Barbary States, including Tunis, renounced piracy and gradually ceded control to France.

However, the French order in Tunisia changed in World War II, when France fell.

Rommel, the "Desert Fox", led the Afrika Korps in battles against the Allied forces that raged across North Africa for three years. By March 1943, however, German and Italian troops had been pushed back from El Alemein, Tobruk and Tripoli in the east. Meanwhile in the west, Allied forces had landed in Algeria and then turned back the Germans at Kasserine Pass in Western Tunisia. Rommel flew to a meeting with Hitler in the Ukraine where he proposed abandoning Tunisia. Instead, Hitler rejected the idea and fired Rommel. Two months later, on May 12, 1943, Hitler's decision proved to be a costly blunder: 230,000 Axis troops were forced to surrender to the Allies, opening the path for invasion of Sicily and Italy.



The vandals did a thorough job of destroying Roman



Source: <http://www.asisbiz.com/>

The Arab Spring

“Happy families are all alike; every unhappy family is unhappy in its own way.”
Anna Karenina, Leo Tolstoy, 1873

Once again, Tunisia is the location of pivotal change.

It is difficult to peer into the mind of ex-President Ben Ali or of his younger wife who is fond of extravagant shopping trips. He must have begun to see cracks in his iron rule in 2008 when unemployed protestors at phosphate mines in the south overcame 30,000 police sent to quell riots. Perhaps he recognized that the corruption of his regime and the plunder by his family could no longer escape the notice of his Western friends. As the violence escalated on January 14, 2011, his army and security forces crumbled into a confusion of conflicting reports. Bin Ali made plans for his wife and children to fly to safety in Saudi Arabia. Then as the presidential plane was about to depart, on impulse, he jumped aboard himself!

Each country at the vortex of the Arab Spring has several unique characteristics that are highlighted in the table below.

	Tunisia	Egypt	Libya	Syria	Bahrain
GDP Growth (2012 est)	0.0%	1.0%	0.0%	-2.0%	1.5%
Inflation	3.5%	13.0%	6.0%	7.0%	0.0%
Population (mil)	10.7	83.7	6.7	22.5	1.2
People / km sq	66	84	4	122	1642
% Literate	74%	71%	83%	79%	87%
% Literate Female	65%	59%	72%	74%	84%
% under age 15	23%	33%	33%	35%	21%
Life expectancy	75.4	72.9	77.8	74.9	78.3
% Urban	67%	43%	78%	56%	89%
GDP / cap (PPP)	\$9,500	\$6,500	\$14,100	\$5,100	\$27,300
Electricity/cap kWh	1.3	0.4	5.2	2.6	36.1
% Unemployed	16%	12%	30%	8%	15%
Land (km sq)	163,610	1,001,450	1,759,540	185,180	760
Market Cap (\$ bil)	\$10.7	\$82.5	\$2.0	na	\$20.4
Market Cap/GDP	21.8%	16.0%	2.2%	na	77.3%
GDP	\$48.9	\$515.4	\$92.6	\$64.7	\$26.4
Military exp % GDP	1.4%	3.4%	3.5%	5.9%	4.5%
Leadership orientation %	Sunni 98%	Sunni 99%	Sunni 97%	Alawite 16%	Sunni 27%

Source: FMAM, www.cia.gov, March 2012

During the past year, Bahrain has crushed its protestors while Syria has embattled the opposition and killed 7,500 people. In each case, their rulers represent a minority sect: Sunnis in mostly Shiite Bahrain and Alawite in mostly Sunni Syria. Perhaps these rulers fought because they feared for their fate if they should surrender to the majority that they had long dominated.

Bahrain

The leadership of Bahrain is Sunni, while 54% of its population is Shiite (and 20% non-Muslim). Bahrain's record on local democracy before the crisis was actually quite good for an Arab state, but protests came nonetheless, perhaps stirred up by Iran. The government, however, had the resources of its vast oil wealth plus military help from Saudi Arabia to help quell the protests. It may have helped that Bahrain's population is so small, only 1.2 million. Bahrain has GDP/capita

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that is at developed world levels (\$27,500 GPD/Capita on a purchasing power parity basis compared with \$27,600 in Greece and \$30,100 in Italy).

Syria

President Assad was trained to cure people as an ophthalmologist, but instead he has decided to use his power to brutally crush the opposition. The country is 74% Sunni rather than his minority Shite sect of Alawites (they differ from other Muslims in having a clerical class that performs the religious ceremonies while the lay Alawites are freed from obligations such as daily prayer). Despite this difference from the Shite mainstream, Iran has supported the regime.

The earlier table, on page four, shows that Syria has the highest relative expenditures on the military of any country on the list at 5.9% of GDP, although Bahrain is close at 4.5% (the U.S. spends 4.1%). However, Assad has issues with his own military because many units have senior officers who are Alawite while the conscripts are Sunni. As a result, he has relied heavily on a disorganized group called Shabiha (meaning “phantom-like”) started by his father. According to Stratfor³, January 12, 2012: “The Shabiha have around 20,000 members, many of whom were uneducated, unemployed youths or criminals released from prison on the condition that they would go to extreme lengths to demonstrate their loyalty to the regime... According to accounts by opposition activists, journalists and human rights monitors, the Syrian regime will typically bus Shabiha in to the more restive urban areas of the country. Once there, the Shabiha will go door to door assaulting, jailing or killing suspected opposition members -- and their families, in some cases.” These thugs are behind many of the atrocities in Syria.

It is hard to predict whether Assad’s gamble to stay in power will succeed. It would be interesting to learn what his moderate British wife thinks now that her husband has turned from doctor to despot and her passport has been revoked.

Libya

Libya has seen a hard fought campaign that led to the annihilation of Colonel Kaddafi’s loyalists with some help from Europe and Qatar. Now, however, the victors are squabbling among themselves over the spoils of oil. There seem to be four or five tribes contesting their shares of the wealth. The urgencies of battle led them to put their differences aside, but success has spotlighted the leadership vacuum that exists in Libya. As the table shows, unemployment was high even before the conflict (30% versus roughly 15% elsewhere). Though oil exports are Libya’s strongest economic factor, its literacy rate may prove a silver lining for the future—83% compared to 71% in Egypt and 74% in Tunisia.

Egypt

Egypt is another “unhappy family.” In contrast to Tunisia, the Egyptian army has long been the “power behind the throne” and the army may have wanted to manipulate a post-Mubarak government without risking a lurch towards an Islamic state. They delayed elections in hopes that things would calm down and moderate forces would come to the fore. This has not happened, as proven by recent demonstrations.

Parliamentary elections did take place and led to Islamic control, with a surprising 45% going to the Muslim Brotherhood and another 25% to Islamic extremist parties. The parliament cannot form a government until the power is ceded from the Supreme Council of Armed Forces (SCAF) and this will only occur after presidential elections, which must wait for a new constitution; this process promises to be rocky.

³ <http://www.stratfor.com/sample/analysis/use-mercenaries-syrias-crackdown>

According to the *International Herald Tribune*, March 28, 2012:

“The brotherhood’s political wing and an ultraconservative Salafi party voted to fill the Constitutional Drafting Commission with Islamists, causing a walkout by members of several other parties.”

Meanwhile, uncertainty has caused a plunge in the economy and the country’s financial reserves are rapidly dwindling. Egypt has long had expensive energy subsidies that distort the economy and contribute to its 15% budget deficit. For example, diesel subsidies have resulted in a shift to less fuel efficient truck transportation from barges that used to fill 20% of the country’s transport needs but are now down to 1%. Meanwhile, Egypt’s oil production peaked years ago and refinery investment has been neglected. Half of the diesel consumed is imported. While the country has gas reserves, it overcommitted to export contracts that are below current market prices. Now Egypt must import gas at twice the price of its exports, while it simultaneously pays subsidies to consumers. By the time a new government can implement reforms, it will have very limited financial reserves to cushion the blow. A devaluation of the Egyptian pound and rescue packages from the IMF and the GCC may be essential.

Tunisia

Tunisia has had some advantages over these other countries. The army had no desire to hold onto power (note that military expenses are only 1.8% of GDP). The army did impose curfews after Ben Ali left in January 2011, because gangs started attacking the malls, but most citizens banded together in neighborhood watches and went on about their daily business. In late January 2011 a “national unity government” was formed, the army handed over power, and the chairman of parliament assumed the presidency (until presidential elections later in 2012). In the parliamentary elections last October, Islamists took 40% of the vote versus the 25% some had predicted, but so far they have been moderate. Salafist extremists are a nuisance on the streets and in mosques (kicking Westerners out, for example), but the moderate Ennahda party has rejected their demand that Islamic law to be written into the constitution.

The Market

Tunisia’s \$10 billion stock market suffers from several obstacles to participation by foreigners, who represent only 10% of current trading volume. Total daily volume runs at only \$6 million, so the annual turnover of \$1.2 billion is only 12% of market capitalization. Prices are high because of restrictions on moving money abroad that force local investors to compete for the limited universe of local stocks. There are foreign ownership limits and many potentially attractive names are at their limits. Finally, significant portions of many companies are now owned by the government after seizure by the former president, who had taken obligatory family stakes in many leading companies in the economy. Opportunities could lie ahead for the privatization of these holdings as well as for loosened restrictions on foreign and local investors.



The Medina in Tunis

Meanwhile, from an economic standpoint, Tunisia is well balanced. Lacking the “curse” of oil, it has developed phosphate exports as well as manufacture of auto parts, electronics and textiles. Agriculture is another pillar of the economy. And a great opportunity lies in Tunisia’s great centuries-old attractions: tourism.

Conclusion

Tunisia may not have the Pyramids of Egypt, but it is a worthy tourist destination: rich in history, dotted with the ruins of many Roman towns, and punctuated with dramatic landscapes. The sands of the Sahara begin in the south and to the west are locations used in Star Wars films with many of the sets still in place. The Mides Gorge and Jugurtha's Table are said to be spectacular.

Tunis itself has the Medina, the old city, with its covered souks in winding alleys and exotic restaurants, such as the Dar el- Jed in an historic mansion.

A short drive to the north, beyond the ruins of Carthage, is the village of Sidi Bou Said, with its white buildings trimmed in blue, its marrow alleys filled with curio shops, and its magnificent vistas to the sea. It seems like Greece except for the signs in Arabic and French.

Concertina wire is still strung around the Place du Gouvernement and at the end of Avenue Habib Bourguiba, but without it, one might not sense the gravity and the importance of what happened here a year ago.

The old order of the entire Middle East has been changed by tiny Tunisia. Reason seems to be replacing passion in finding the best path forward in this country. We hope that good times are ahead for the ten million people in this land and hopefully, there will be good opportunities for investors as well.



Sidi Bou Said

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