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# Managing Change in Egypt

Advancing a New U.S. Policy that Balances Regional Security with Support for Egyptian Political and Economic Reforms

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By Brian Katulis      June 2012

Center for American Progress



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# Introduction and summary

Egypt is in the midst of a series of major political, security, and economic transitions that will unfold for years to come. The 2012 presidential elections set to conclude later this month in a final run-off election mark the end of one period in this transition. But Egypt faces a long road ahead, including drafting a new constitution, setting checks and balances in the new political system, and concluding trials for former leaders in previous governments.

The world's most populous Arab nation could transition into something that resembles Turkey, with a greater voice for Islamist parties and curbs on the previously unchecked power of the security establishment. Or Egypt could transition toward a scenario similar to Pakistan, in which the military and internal security forces continue to hold significant political power and dominate key sectors of the economy. Most likely Egypt will carve out its own path with its transition shaped by multiple centers of power—some that have emerged since the popular uprising in 2011 and others that have existed for decades.

The path Egypt takes will have major implications for the rest of the region. The changes in the formal structures and internal balance of power in Egypt's government, alongside the social and economic transformations Egyptians continue to experience, will be some of the most important strategic dynamics reshaping the Middle East. What happens in Egypt will be as important as the threats and challenges posed by Iran, the re-emergence of Turkey as a regional power, and the continued problems emanating from the unresolved Arab-Israeli conflict.

The changes underway in Egypt could spark its greatest repositioning since the 1970s, when it turned away from the Soviet sphere of influence and toward the United States and signed a peace treaty with Israel. The stakes for U.S. national security are great. How Egypt evolves in the coming years will affect U.S. national security policy in the Middle East on multiple fronts, including:

- Managing regional security and the Arab-Israeli conflict
- Fighting terrorist networks
- Responding to new trends such as political reform and the rise of Islamist parties across the region
- Forging new economic relations with the broader region

Engaging with the new Egyptian government in all these arenas will require the United States to balance and integrate efforts to advance two core objectives—maintaining a close partnership with Egypt in advancing regional security and supporting Egypt’s political and economic transitions toward more effective governance and expanded economic opportunities for its citizens.

The days when the United States could prioritize regional security over support for Egypt’s political and economic transitions are over. Egypt’s political transition remains a volatile work in progress after multiple rounds of parliamentary and presidential elections, with the constitutional reform process representing the next key phase. This political uncertainty has weakened Egypt’s economy, leaving endemic problems of high unemployment, growing public debt, corruption, and increasing pressures on Egypt’s foreign cash reserves—without a coherent economic policy response from the interim government. This domestic economic and political instability could lead to more problems in the security realm. Egypt faces increased crime and civil disorder, as well as heightened security threats, particularly in the increasingly lawless Sinai Peninsula bordering Israel.

These overlapping upheavals require a fundamental reassessment of how the United States manages its bilateral ties with Egypt and implements its overall Middle East strategy. For three decades, the central foundation for U.S. policy on Egypt was military cooperation and the 1979 peace treaty between Egypt and Israel. This now needs to expand.

Over the past year, the United States has worked to broaden its contacts with a more diverse range of actors in Egypt. This must continue. In addition, the United States should initiate a comprehensive U.S. interagency policy review on Egypt. The United States has conducted reviews of key components of its Egypt policy, including key aspects of nonmilitary assistance. But it needs to integrate the efforts of all of its agencies involved in Egypt, including the Pentagon.

The United States should propose a strategic and economic dialogue with the new Egyptian government akin to what the United States has done with countries such

as India and China. This dialogue should aim to cover all key aspects of the bilateral relationship, including security, diplomatic, and economic cooperation. It should be as broad and inclusive as possible—connecting key agencies of our governments, including the U.S. Congress and new Egyptian parliament—and also have nongovernmental and private-sector tracks. This strategic dialogue would offer a mechanism for better structuring the already extensive regular discussions between U.S. and Egyptian officials, and it would seek to buffer the bilateral relationship from tensions and tactical disputes that could lead to a strategic rift and breakdown.

The central questions of what Egypt wants from the United States and what the United States wants from Egypt will remain under negotiation and subject to change, which means a bilateral framework for managing change should be established.

But even before a U.S. internal policy review on Egypt and a strategic dialogue with the new government in Egypt is conducted, the broad contours of a new U.S. policy on Egypt are already apparent and should be acted upon.<sup>1</sup> Given the substantial economic and political reform challenges Egypt faces, the United States should begin to rebalance its overall approach toward support for economic growth in Egypt. This means gradually shifting the current emphasis on military assistance—now at \$1.3 billion a year—toward economic and political assistance—now around \$250 million a year.

Egypt needs to make substantially greater investments in its human capital, and it needs to place a high priority on job creation and economic reforms to spark broad-based economic growth. The new Egyptian government needs U.S. support for this effort now.

As it continues to shift its emphasis towards economic growth and job creation, the United States should make democratic governance reform, anticorruption measures, and support to civil society organizations working for political reform a priority. These efforts are even more complicated now with the ongoing trials of both Egyptian and American nongovernmental organizations, but the United States needs to work with other countries to establish innovative multilateral efforts to support civil society and democracy reform. Support for economic growth should not come at the expense of the important yet complicated efforts of support for political reform.

The United States must also take into account the economic and political impact of support to Egypt's military in a new, comprehensive U.S. approach to Egypt. The strong role that Egypt's security establishment plays in the economy, includ-

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ing the inefficiencies this has created, makes it a critical area for both economic and political reform in Egypt. The security establishment's efforts to shield itself from oversight from the civilian government will have a major impact on the trajectory of political reform.

Going forward through the rest of this decade, the United States should broaden the bilateral partnership with Egypt and maintain security cooperation on regional issues with Egypt while encouraging a fundamental transformation of U.S.-Egyptian relations by creating a more integrated and balanced approach. The two key components include working with other global powers to provide Egypt with necessary economic support and continuing the private and public diplomatic efforts to support political reform in Egypt.

Throughout this process, the United States needs to maintain realistic expectations. The leverage and influence that the United States has on Egypt will become increasingly more limited by several factors, including more assertive and independent political leaders in Egypt, widespread anti-Americanism, and financial and political constraints inside the United States. It will not be able to dictate outcomes in Egypt, but by working with Egyptian partners and other regional and global powers, the United States can help influence trends. This paper offers an initial roadmap to help policymakers navigate these changes in the months and years ahead.

# U.S. national security interests in Egypt

Understanding how U.S.-Egyptian relations can evolve positively for both countries first requires understanding how we got to where we are today. Egypt has been a central partner in U.S. national security strategy in the Middle East for decades. Any discussion of U.S. interests in Egypt is necessarily connected with broader U.S. national security interests in the region as a whole. Shortly after the start of the uprisings in parts of the Middle East in 2011, Gen. James N. Mattis, the commander of the U.S. Central Command, defined four significant U.S. interests in the Middle East in testimony before the Senate Armed Services Committee:

- The security of U.S. citizens and the U.S. homeland
- Regional stability
- The promotion of effective and legitimate governance, human rights, the rule of law, and sustained economic growth and opportunity
- The free flow of commerce and trade within the region through strategic maritime chokepoints and via land-based trade routes to international markets<sup>2</sup>

This articulation of U.S. interests in the broader region is embedded in key U.S. national security strategy documents, and it remains relevant today.<sup>3</sup> Despite the significant changes in Egypt and other parts of the Middle East in the past year, those broader regional interests endure.

Egypt remains a cornerstone in the region, even as it has turned inward to deal with pressing internal economic challenges and political transitions. With a population approaching 90 million people, Egypt is the most populous country in the Arab world. It has the largest Arab military, and it continues to have a strong political, diplomatic, and cultural influence. The United States has two overarching interests it seeks to advance in Egypt:

- Advancing regional security and countering terrorist networks
- Supporting Egyptian political and economic transitions toward more effective governance and expanded economic opportunities for its citizens



The next section briefly reviews these longstanding core U.S. interests before examining how these interests must adjust to Egypt's new political and economic realities.

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## Advancing regional security and countering terrorist networks

The United States has a clear objective in maintaining a close partnership with Egypt in advancing regional security. Egypt's critical geographic location—bordering the Mediterranean Sea between Israel and the Gaza Strip in the east, Libya to the west, and along the Red Sea north of Sudan—makes it a vital transit point for global trade and central to regional security. U.S.-Egyptian military cooperation remains essential. Egypt grants permission for overflights and refueling to the U.S. military, and the countries regularly participate in joint military exercises to advance regional security.

The 1979 peace treaty between Egypt and Israel led to a new framework for regional security—a framework in which the United States has invested billions of dollars over the past three decades. The strategic logic of that treaty survives and remains relevant today—it remains in the interests of Egypt, Israel, and the United States to continue working in this framework. Through the years, the United States has leveraged Egypt's unique diplomatic and strategic position to manage tensions between Israel and the Palestinians and wider Arab-Israeli conflicts, enabling Washington to work toward the goal of comprehensive resolution of those conflicts. For decades, the United States and Egypt have hosted negotiations and worked jointly to deal with volatile security situations between Israelis and Palestinians. A major shift or change in the terms of the peace treaty between Israel and Egypt would undermine security in the region—particularly for both of those countries—and seriously threaten what progress has been made on Arab-Israeli issues—as limited as that progress has been in recent years.

Egypt also possesses key assets central to regional stability. Egypt manages the Suez Canal, a central location of shipping in global energy and trade markets. The U.S. military depends on consistent access to the Suez to move its military assets from the Mediterranean Sea to the Horn of Africa, the Indian Ocean, and the Persian Gulf. Maintaining free movement through the Canal requires stable relations between Egypt and its neighbors, especially Israel. The canal was closed when Israel occupied the Sinai Peninsula from 1967 to 1973 and was constantly under threat of renewed conflict until the Egypt-Israeli peace treaty was concluded in 1979.

Egypt continues to play an important role in regional and global counterterrorism efforts, as well. Its security agencies have worked for decades in cooperation with the United States in addressing the threats posed by Al Qaeda and its affiliates. Intense U.S.-Egyptian counterterrorism cooperation against terrorist networks, including Al Qaeda, dates back three decades, when the United States began capturing overseas militants wanted by the Egyptian government and rendering them back to Egypt. U.S. intelligence agencies frequently gave Egyptian interrogators questions to ask detainees associated with Al Qaeda. Following the September 11, 2001, terrorist attacks on New York and Washington, the rendition process grew dramatically before being scaled back after a review by President Barack Obama.<sup>4</sup> Despite political changes wrought by the overthrow of former Egyptian President Hosni Mubarak and transition to a more representative government, Egyptian security services continue to target militant groups in hard-to-govern regions such as the Sinai Peninsula.<sup>5</sup>

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Supporting Egypt's political and economic transitions toward more effective governance and expanded economic opportunities for its citizens

A second overarching interest the United States has in Egypt is supporting its evolution toward a more sustainable political and economic system—one that enables more open and transparent governance and provides economic opportunities for all its citizens. Without substantial progress toward broad-based economic growth, sustainable job creation, and a functional political system that ensures the basic rights of its citizens, Egypt risks slipping into internal turmoil that could have dramatic repercussions on the broader region. The United States has both pragmatic and moral reasons for supporting Egypt's political and economic transitions.

For decades the United States has sought to advance its regional security interests by working with Egyptian governments that lacked effective governance systems with sufficient support from the people, and therefore lacked sufficient legitimacy. The Egyptian economy became weighed down by debt and dependent on external sources of support.

The United States defined its policy objectives in Egypt with broader national security goals in mind rather than prioritizing domestic political or economic reforms in Egypt. During the Cold War, the United States sought to check and contain Soviet influence. In the 1990s the United States turned to Egypt, among other actors, to help advance the strategic goal of achieving a just and lasting

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resolution to the decades-long Arab-Israeli conflict. And after 9/11, Egypt further solidified its role as a close counterterrorism partner for the United States.

During each of these phases, U.S. policymakers recognized the need to elevate support for economic and political reform in Egypt and crafted policies aimed at making this a greater priority—and for most of the last three decades, it placed a higher priority on economic reform than political reform. But Egypt’s leaders were less receptive to these efforts than they were to security cooperation with the United States, and because the United States placed greater emphasis on regional security, domestic economic and political reform efforts languished.

This is no longer a sustainable approach for the United States or the new Egyptian government. Egypt’s ongoing political changes require U.S. policymakers to place a higher priority on support for political and economic reform in Egypt and to place it on the same strategic level as regional security priorities. The reform will need to place a high priority on getting the benefits of growth to the people. Achieving this balance will require the United States to continue to make investments in its bilateral military and intelligence partnerships, but it also means greater emphasis on reaching out to new centers of power inside of Egypt that will shape and inform Egypt’s policymaking.

# Egypt's political, economic, and security transitions

Egypt's political transition remains a work in progress even after multiple rounds of parliamentary and presidential elections, with the constitutional reform process representing the next phase of the transition. The economic changes in Egypt since the start of 2011 have been mostly negative. In the security realm, Egypt faces increased crime and civil disorder, as well as heightened security threats from militant groups, particularly in the increasingly lawless Sinai Peninsula bordering Israel.

This section of the report explores these new dynamics in Egypt, specifically:

- New multiple centers of power operating through institutional frameworks that are ill-defined and, in some cases, weak
- The worsening economic crisis
- The new internal security challenges, some which could spill over and undermine broader regional security

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## New multiple centers of power operating through institutional frameworks that are ill-defined and weak

The political transition that began in Egypt in 2011 is likely to continue as a prolonged negotiation over power between multiple centers of power—a debate that will reshape the checks and balances within Egypt's government. A debate could also emerge over centralization and decentralization and whether more power might be shifted toward provinces or regions of Egypt and away from the strong central government model. Recently elected Islamists of the Muslim Brotherhood in the new parliament, new political voices in liberal political parties and movements, the powerful military and security establishment, and a more assertive judiciary are just some of the forces vying to reshape Egypt. Further complicating this process are thorny questions related to transitional justice and the court cases against leaders of the previous government. The new Egypt remains undefined and subject to a fierce internal debate.

Since Mubarak stepped down in February 2011, Egypt's political transition can be categorized into four distinct phases. The first was the Tahrir revolution from January 2011 through February 2011. The second was a lengthy transition period from the March 2011 constitutional referendum until the end of parliamentary elections in February 2012. The third period began with stalled efforts to draft a new constitution in March 2012 and ends with the presidential elections this summer. Egypt should enter a fourth phase if the military rulers and interim government formally hand over power to a new civilian government this summer.

The parliamentary elections produced a strong majority for Islamist political parties, with the Freedom and Justice Party of the Muslim Brotherhood taking about half the seats in the parliament and the more conservative Islamist Salafist An-Nour party winning nearly one-quarter of the seats.

Despite these major political changes—and innumerable street protests—the fundamental structures of power remain intact, with the Egyptian military controlling the commanding heights of government and key sectors of the economy.

What has changed is that there are new centers of power competing to shape the new Egypt. Egypt's political transition thus far has had several flaws, but it has produced a cacophony of voices and multiple centers of power that are all vying to have a say in the debate over Egypt's future. This complicated mix of actors can be lumped into five broad categories:

- The security establishment, including the military and internal security forces
- Islamist political forces and institutions
- Political leaders who have links with the Mubarak regime
- Activist groups, liberals, and civil-society groups campaigning for different causes
- Egypt's increasingly assertive judicial branch

Even after the presidential election is over, and Egypt has a new president, the negotiations for power will involve all of these players. A brief examination of each group's power base and ambitions follows.

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## The security establishment, including the military and interior security forces

In the period since Mubarak stepped down, Egypt has been ruled by the Supreme Council of the Armed Forces, a group of generals who hold executive power and have led an often-opaque political transition. The Supreme Council of the Armed Forces has continued to control all levers of power even after the new parliament was sworn in earlier this year, and it has committed to transferring authority after the presidential elections are completed.

Separate but connected to the military are the internal security forces, part of the Egyptian state that attempts to control the streets and that have often resorted to repressive campaigns throughout the years. At times, these forces also have been a crucial partner to the United States in rooting out some of the most militant Islamist groups that terrorized Egypt with violence—groups with links to the global radical Islamist movements.

At this stage of the political transition, the security establishment maintains key levers of power and influence through its ability to control the streets and to maintain some law and order.

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## Islamist political forces and institutions

The strong showing of the Freedom and Justice Party—the party of the Muslim Brotherhood—and the more conservative Islamist Nour Party in the 2011–12 parliamentary elections has brought increased attention to a broad range of Islamist groups. It is important to note that there is great diversity of views in this broad category of Islamists.

Voters who support these and other Islamist parties in the parliamentary elections split their votes among different candidates in the first round of the presidential elections this past month. Mohammad Morsi—the Muslim Brotherhood’s preferred candidate—received about 25 percent, and one other Islamist candidate received double-digit support and placed third—Abdel Moneim Abul-Fatouh at 17 percent.<sup>6</sup>

Most analyses following the first round of the presidential elections focused on the polar opposite choices that Egyptian voters face in the second round—a figure from the former regime versus the Muslim Brotherhood’s candidate—but the first round results demonstrate the diversity of views among all voters, including Islamists.

At this stage of the political transition, the security establishment maintains key levers of power and influence through its ability to control the streets and to maintain some law and order.

In addition, there are substantial divisions within the main Islamist political parties—the Freedom and Justice Party faces sharp internal divisions including a generational divide. Some of the initial analyses of the party’s early electoral successes have assumed greater unity than diversity within the party’s ranks. The Muslim Brotherhood also faces a major challenge moving from opposition politics and electoral politics into governance, and this transition will require the movement to adapt.<sup>7</sup>

Also, the Freedom Justice Party’s overall outlook is distinct from the Salafist Nour Party and a broader range of Islamist parties that participated in Egypt’s first set of elections.<sup>8</sup> As Professor Jonathan Brown recently wrote, “The spectrum of political Islam in Egypt is no longer limited to the Muslim Brotherhood and the parties derived from it.”<sup>9</sup>

Also in this category is Al Azhar University, the oldest university in the Sunni Islamic world. This institution of higher learning tried to play a mediating role in the political transition earlier this year by presenting a set of constitutional principles agreed to by a broad range of Muslim, Christian, liberal, and secular leaders.<sup>10</sup>

Even though there are substantial fissures within this broad category of Islamists both in terms of institutional roles and ideological and policy splits, at this phase of Egypt’s transition the Islamists together appear to have popular support and legitimacy. They will be key players in shaping the future.

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### Political leaders who have links with the Mubarak regime

The group includes leaders who were part of the old order and are separate from the current security establishment. The most prominent example is Ahmad Shafiq, one of the two frontrunners in the first round of the presidential elections. Shafiq, a former air force general and the last prime minister to serve under Mubarak, sought the support of Egyptian elites and Christian minorities by emphasizing the rising crime and security problems since the start of the revolution and by stressing the need for pluralism and equal citizenship for all, playing to some Egyptians’ fears of an Islamist political sweep.<sup>11</sup>

Some key figures in government ministries who were part of the Mubarak government have remained influential in Egypt. One prominent example is Fayza Abul Naga, the minister of planning and international cooperation under the Mubarak government, who has remained in office during the past year and a half. Abul Naga

became well known in this past spring's standoff with the United States over the charges and trials of American nongovernmental activists working on political reform projects in Egypt.<sup>12</sup>

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### Leftist and liberal political parties, activist groups, liberals, and civil-society groups campaigning for different causes

This broad category includes a disparate and sometimes disorganized set of groups that were one of the key forces behind the street protests in 2011. Among them are the April 6 Youth Movement and the National Association for Change, a group of activists that used the Internet to help organize the popular protests that toppled Mubarak's government. These groups have used street protests and advocacy campaigns to push for a quicker transition to civilian rule, and they remain active in pushing a wide range of agendas aimed at advancing political reform and holding figures from the previous regime accountable.

Also in this broad category are a number of political parties and leaders who contested the elections—a range of leftist political parties and figures, some of which have been in the opposition for years. Some of these groups have formed a liberal front, called the United Front, which announced an advocacy effort to obtain a pledge from the two presidential candidates on steps to ensure pluralism and to protect the civil state in the next steps of Egypt's transition.<sup>13</sup>

Similar to the broad category of Islamists described above, this overall group's contours are fairly ill defined. There is a wide range of diversity and pluralism of views within this broad camp. Their lack of cohesion and inability to craft a common strategy leaves them weak when it comes to the formal political transition and electoral politics.

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### Egypt's increasingly assertive judicial branch

This group is in a more defined category than the four evolving power centers in Egypt, and it is playing an important role in the political transition by administering the elections, ruling on election disputes, and dealing with cases such as the charges against foreign nongovernmental organizations. The judiciary is also playing an important role in the trials of former regime leaders, including the recent trial of former President Mubarak. As the renegotiation over Egypt's system



of checks and balances continues, and a new constitution is written, this center of power is likely to play an even more crucial role.<sup>14</sup>

All five of these groups will help shape the coming political and economic future of Egypt, alongside a diverse business community with wealthy corporations and small business entrepreneurs, as well as the increasingly free and open media.

Changes in the past year have produced a diversity of voices with a chance to shape Egypt's political future. A top priority moving forward in this transition is to ensure that the increased openness in Egypt's political discourse—as limited as it remains—provides opportunities for a broad range of voices to remain involved in the system. If any single force seeks to dominate the system and close off channels for broader participation, Egypt could see a return to authoritarianism.

First up among the many challenges facing Egypt is the number of structural political hurdles on the immediate horizon. First and foremost is the uncertainty about how the prospective new constitution will define the checks and balances in a new Egyptian political system. The efforts to form a constituent assembly that will draft a new constitution that defines powers and authorities of all of the key branches of government will set the terms for Egypt's political future. It also remains unclear whether elected civilians in the parliament and the presidency will have some oversight and authority over the security forces. Egypt's democratic institutions remain fairly weak, particularly opposition political parties and civil society forces.

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### A continued economic crisis worsens

Instability and political uncertainty have weakened Egypt's economy, leaving endemic problems of high unemployment, public debt, corruption, and pressures on Egypt's foreign cash reserves without a coherent policy response from the interim government. The new civilian government that takes power after the presidential elections will face high expectations about dealing with the increasingly dire economic situation.

Finding jobs and generating income for families are the leading economic challenges. The International Monetary Fund projects a double-digit unemployment rate for Egypt in 2012 and 2013.<sup>15</sup> Another immediate economic challenge is inflation and increased prices for food, basic commodities, and fuel. More than half

of Egypt's wheat is imported,<sup>16</sup> and Egypt has an outmoded system of energy and bread subsidies that creates further pressures on the budget.

The disruption following Mubarak's overthrow caused Egypt's economic growth to slow dramatically in 2011, with effects continuing into 2012, according to the IMF. While the IMF expects growth to pick up over the next five years, continued political uncertainty in Egypt could hinder expected improvements. In particular, the costs of domestic borrowing have soared.

Egypt's international financial situation is equally precarious. Egypt's cash reserves dropped by more than half in early 2012, from \$36 billion before the uprising began to \$15 billion at the end of April 2012.<sup>17</sup> Decreased foreign cash inflows skewed Egypt's balance of payments, forcing the Central Bank of Egypt to deplete its foreign currency reserves to prop up the Egyptian pound. At the end of 2011, Egypt's military lent \$1 billion to the Central Bank of Egypt, showing both how dire the economic and monetary situation is and how much power and resources Egypt's security establishment wields.<sup>18</sup>

The declining foreign currency reserves raised concerns about a possible devaluation of the Egyptian pound, an event that could ignite inflation, particularly given Egypt's dependency on certain food imports. Egypt's foreign reserves started to stabilize in the spring of 2012, but continued political and economic uncertainty means devaluation remains a distinct possibility.

Egypt has not yet received most of the billions of dollars in aid and loans pledged by foreign donors, including Arab nations in the Persian Gulf, the Group of 8 developed nations, and the European Bank for Reconstruction and Development. In 2011 Egypt's transition government rejected a \$3 billion IMF loan package for a range of reasons, and the IMF and Egypt continue to discuss a possible loan.

A new government in Egypt will have to make some quick decisions about that proposed loan, as well as economic and budgetary policies. Most critical will be what to do about the current system of subsidies for fuel and electricity, a major budget and political question. Many private-sector foreign direct investors and some bilateral and multilateral foreign loan and grant providers are holding back until they have greater certainty about Egypt's political transition and the new economic policies that the new government will pursue.

Neither the emerging political forces in the parliament nor the two frontrunner candidates for the presidency have offered concrete and coherent strategies for the economy. The platforms under consideration have been general, with some ideas anchored in the language of the free market and the need to promote foreign investment but not much in terms of what might be a workable plan. The Mubarak regime's legacy of some steps toward market reforms combined with rampant corruption will likely continue to shape perceptions about economic reforms for years to come. The pressure for reforms such as changes in basic subsidies could lead to a populist backlash that would present a political challenge for future governments.

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### The new internal security challenges, some of which could spill over and undermine broader regional security

In addition to the major economic and political challenges, Egypt faces new security risks. Egypt has seen increased instability in its streets with a rise in crime and civil disorder, as well as heightened security threats from militant groups, particularly in the increasingly lawless Sinai Peninsula bordering Israel. These security challenges have been manageable thus far, but further internal unrest could overwhelm Egypt's security forces.

Egypt's geographic location makes it strategically vital, and instability along its borders could easily spiral into wider tensions. The ongoing uncertainty in neighboring Libya, continued security problems in the Sinai and the unresolved tensions between Israelis and Palestinians in the Gaza Strip all present complex challenges that impact Egypt's security. The August 2011 terrorist attack in Israel and the killing of Egyptian police in Israel's response to that attack resulted in an escalated tensions. There are also the dozens of attacks on pipelines in the Sinai Peninsula that carry gas from Egypt to Jordan and previously to Israel before those shipments were halted earlier this spring when the business arrangement supporting those shipments collapsed.

The new government in Egypt faces a possible "perfect storm" of risks—an incomplete political transition requiring a new constitution, massive economic problems, and new types of security threats. These security, economic, and political threats are intertwined, meaning that new challenges in one of these areas could very easily disrupt efforts to move forward on other fronts.

Predicting how any of this will play out is nearly impossible, but one clear and present risk is that the ongoing political transition could stall if large segments of

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Egyptian voters view the election results or the revamped efforts to draft a new constitution as lacking legitimacy and credibility. Stalled political reform would almost certainly reduce confidence in efforts to jump start Egypt's economy and to garner foreign investment necessary to create jobs.

So how can U.S. policy help avoid this risk in 2012 and beyond?

# A new U.S. policy: Managing change in Egypt

The Obama administration has pursued a policy aimed at balancing a number of U.S. interests and values in reaction to the political and economic changes sweeping Egypt. Administration officials used public and private diplomacy to make clear its stance during difficult moments in Egypt's transition—sending a message on the need for political change and support for universal values such as the freedoms of assembly and speech, and opposing violence. In the wake of Mubarak's ouster in 2011, the Obama administration announced a new plan to revise its development assistance strategy and engagement with key Arab countries experiencing political transitions, including Egypt.

President Obama announced this multifaceted plan in a speech at the State Department in May 2011. The Obama administration reprogrammed \$165 million in economic support funds and announced a plan to provide up to \$1 billion in bilateral debt relief with the goal of working with the Egyptian government to invest these resources to promote entrepreneurship and economic growth. Another important component to the U.S. policy is a \$2 billion loan facility with the Overseas Private Investment Corporation to support private investment in Egypt and other countries in the region. The Obama administration announced a further \$1 billion in loan guarantees to finance job creation and infrastructure investment in Egypt. Combined with a proposal for enterprise funds aimed at making loans and investments in small and medium-sized businesses, this overall package is being implemented and further developed.<sup>19</sup>

In addition to this bilateral package, the Obama administration developed a comprehensive multilateral effort to encourage increased trade and economic integration of Egypt and other countries in the region with global markets, including a Trade and Investment Partnership Initiative with the European Union. At the May 2011 Group of 8 summit, the United States and its G-8 partners announced the Deauville Partnership, a broad effort aimed at Egypt and other key Arab countries that amounted to pledges of up to \$40 billion in direct aid and loans from a range of institutions, including the World Bank and African Development Bank.<sup>20</sup>

In the most recent G-8 meeting at Camp David this past month, the G-8 leaders reviewed the status of the implementation of the Deauville Partnership efforts, which remain a work in progress.<sup>21</sup> The new government that comes into office in Egypt will have to make some important decisions regarding how to best utilize this assistance.

These efforts by the Obama administration are significant, but as Egypt heads into a new phase in its economic and political transition, the United States should start an internal process to review the impact of these steps thus far and to plan for the next steps. This means the United States should undertake a major interagency review of its Egypt policy. In the third quarter of this year, the White House should bring all of its agencies together—the State Department, Pentagon, Treasury Department, Commerce Department, and the key intelligence agencies—to conduct a thorough strategic policy review. This review would examine all options for updating the tools to engage Egypt at a time of fundamental political change and would plan an integrated, comprehensive approach to engage the new government coming into office there. This strategic review would help prepare the United States for new discussions with Egypt’s leaders later this year and in 2013.

Once there is greater clarity about Egypt’s political future, the United States and Egypt should begin a strategic dialogue in early 2013 aimed at renewing and revising the basic terms of their relationship. The shift in political power from the Mubarak regime to multiple centers of power and increased public political participation necessitates this strategic dialogue. The dialogue would provide a structure for a process in which both countries can reaffirm their core shared interests, identify ways to enhance the bilateral relationship, and update the way Egypt and the United States have managed their ties for decades. The end goal of this organized negotiation would be to help build a more stable foundation for U.S.-Egyptian ties.

Given the multiple centers of power and efforts to redefine the balance of power inside of Egypt, the United States should seek to have as broad and inclusive a dialogue as possible. The United States and Egypt need to work to expand the range of contacts to include members of Egypt’s parliament and Congress and build broader business and civil society ties. For example, the U.S. House of Representatives has a House Democracy Partnership that works with legislative bodies around the world in collaborative efforts to build technical expertise and share information.<sup>22</sup> Gone are the days when the United States can have a dialogue with a small set of leaders in Egypt’s government. Just as Egypt has entered into a profound political and economic transition, U.S. policy must change as well.

The best final result of this process would fundamentally redefine U.S.-Egyptian ties to build cooperation on economic growth, trade, regional diplomacy, and regional security and counterterrorism cooperation. Such a dialogue should ensure that both the United States and Egypt have a structured process for making any shifts in the bilateral relationship. No strategic decisions about diplomatic, economic, or security cooperation should be made in reaction to a tactical crisis or dispute, as almost occurred during the nongovernment organization crisis earlier this spring.

Even before the United States conducts this major policy review and starts a strategic and economic dialogue with the new leaders in Egypt, the broad contours of a new U.S. policy on Egypt are already apparent. Given the substantial economic and political reform challenges Egypt faces, the United States should rebalance its overall approach toward support for economic growth in Egypt. This means gradually shifting the current emphasis on military assistance—now at \$1.3 billion a year—toward economic and political assistance—around \$250 million a year.

Egypt needs to make substantially greater investments in its human capital, and it needs to place a high priority on job creation and economic reforms that spark growth. The United States can help kick that process into gear this year, while aiming in the years ahead to broaden its partnership with Egypt beyond the strong ties between the two nations' security institutions to encourage joint partnerships in economic and governance reforms, too.

This policy overhaul by the United States should focus on three fundamental issues that will dominate U.S.-Egyptian relations regardless of the outcome of Egypt's presidential election. Specifically, U.S. policymakers need to decide how best to:

- Transform U.S.-Egyptian security cooperation
- Support Egypt's efforts toward sustainable economic growth and away from dependency on foreign aid
- Invest in long-term efforts to implement political reform and effective governance in Egypt

These policy objectives are easily stated but not so easily implemented. What follows is a detailed exploration of what needs to be on the table in proposed U.S. interagency discussions and how their outcome could help strengthen the proposed strategic and economic dialogue with Egypt.

No strategic decisions about diplomatic, economic, or security cooperation should be made in reaction to a tactical crisis or dispute, as almost occurred during the nongovernment organization crisis earlier this spring.

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## Transform U.S.-Egyptian security cooperation

Given Egypt's pivotal role in regional security and new threats that have emerged in places such as the Sinai Peninsula, the United States should seek to maintain security cooperation to mitigate regional security risks. But this bilateral security partnership needs to evolve from what it has been.

Egypt has over 900,000 military personnel, divided between about 430,000 on active duty and the rest in the reserves. The military has more than 2,400 tanks, more than 400 fighter aircraft, and more than 200 helicopters.<sup>23</sup> No matter what happens in Egypt's political transition, the Egyptian military and other security agencies will continue to play an important role in the regional security scenario.

The United States has spent \$40.5 billion in military assistance to Egypt since 1978, when the first International Military Education and Training funding went through prior to the signing of the Camp David accords. This funding has primarily been Foreign Military Financing grants rather than loans, with a constant yearly amount of roughly \$1.3 billion since 1979.<sup>24</sup> The most recent major purchase of U.S. military equipment by the Egyptian military was the acquisition of 24 F-16C/D fighters for \$3.2 billion.<sup>25</sup> Congress has also been notified of a possible sale of 125 M1A1 Abrams tanks to Egypt for \$1.329 billion.<sup>26</sup>

The United States and Egypt hold a major joint exercise called Bright Star every two years. A Bright Star exercise was scheduled for 2011 but was canceled due to ongoing political turmoil in Egypt. The next Bright Star exercise is slated for 2013, with planning scheduled to start in June 2012.<sup>27</sup> The U.S. and Egyptian militaries also have conducted joint air and naval exercises, known respectively as Eagle Arena and Eagle Salute.<sup>28</sup> Both militaries participate in a wide range of international military exercises such as Red Flag air combat exercises in the United States, NATO's Phoenix Express naval exercises in the Mediterranean, and the recent Eager Lion exercises in Jordan.

The United States operates the Office of Military Cooperation-Egypt to coordinate military cooperation between the U.S. and Egyptian militaries. This office "is responsible for the oversight of all aspects of U.S. Security Cooperation with Egypt, including the sale of U.S. defense related materiel, services, and training to the Egyptian military,"<sup>29</sup> according to the U.S. State Department. Egypt in turn provides the U.S. military "priority access" to its airspace and expedites passage of U.S. Navy ships through the Suez Canal.<sup>30</sup> In addition, Cairo West air base serves



as a key regional staging ground for U.S. tanker and cargo aircraft. Units of the U.S. Sixth Fleet are regular visitors to Egyptian ports.

The United States should continue to provide military aid and cooperation during this period of regional uncertainty. At the same time, it should start a formal process for reassessing how to reform its bilateral security cooperation to reflect new political realities in Egypt, while aiming to preserve the strong cooperation on regional security and counterterrorism that has benefited both countries. What does this mean in practice? Three policy ideas:

- Support the pragmatic evolution of civil-military relations in Egypt
- Encourage internal security and police reform
- Condition U.S. military assistance and cooperation on maintaining regional security cooperation, including the peace treaty with Israel

Here's how each of these policy issues could be addressed.

### [Support the pragmatic evolution of civil-military relations in Egypt](#)

The United States should continue to encourage leaders in Egypt's military and security establishment to accept the broader institutional evolutions in Egypt, including increased transparency and oversight from civilian authorities. The political reform process will probably lead to more calls within Egypt to reduce the opaque control that current and former members of Egypt's security establishment have on key sectors of the economy.

The United States should avoid getting publicly involved in those political battles, but should quietly encourage leaders in Egypt's security institutions to accept more transparency and openness. It should also support initiatives within the Egyptian government to create greater dialogue and structured policy coordination between civilian and security leaders. The creation of a new national security council with representatives from the civilian leadership and the military in Egypt's executive branch could be one effort. Also, working with other countries, the United States could support greater legislative oversight on Egypt's security establishment.

The bilateral strategic dialogue between Egypt and the United States could discuss ways to update U.S.-Egyptian military and security cooperation to take into account these changes inside of Egypt.

## Support internal security and police reform

The United States could seek to expand cooperation and support with the police and other security institutions—the bodies that are charged with maintaining law and order in Egypt. The Ministry of Interior has been undergoing some internal changes. During the previous decade, the budget for the police reportedly grew from slightly more than \$583 million to \$3.7 billion, according to some estimates. The number of the police and interior ministry employees is reportedly double the size of the active duty military in Egypt.<sup>31</sup>

The role that the police and interior security forces play will be instrumental in determining not only whether Egypt improves its human rights and rule of law records but also whether the broader political reform efforts move forward. One of the main drivers of initial popular uprising in 2011 was anger at broad abuses by the police, and reforming the legal and administrative framework governing Egypt's police will be a long-term challenge. The United States should stand ready to work with others in the international community to develop partnerships with the new Egyptian government to provide assistance in this effort.

## Calibrate U.S. military assistance and cooperation on maintaining regional security cooperation, including the peace treaty with Israel

One major question is whether the new political leaders in Egypt will seek to abrogate or amend the Camp David treaty with Israel. The United States should make clear that it will use the leverage of its military funding and cooperation if Egypt's new political leaders cancel the treaty. This could then present the United States with an extremely complicated decision should Egypt's new leadership move to cancel the treaty. This is why a structured bilateral strategic dialogue with a wide range of actors will be essential—it can present a useful mechanism to manage the dialogue and address potential differences between our two countries.

The transition to a more open system of governance in Egypt means that the new government will need to be more responsive to public opinion, which in turn offers Egypt and Israel an opportunity to more broadly understand the value of the Camp David peace treaty.

Based on the rhetoric surrounding the treaty in the presidential campaign, Egyptians view it as an unfavorable deal imposed by dictators beholden to the

United States that benefits Egypt little, if at all. It also appears, however, that the presidential candidates themselves recognize the value of the treaty—if for no other reason than that it prevents another disastrous war with Israel.

By assuming at least partial responsibility for governance, Egypt's major political players and the public as a whole will be forced to consider the benefits of peace with Israel and the costs of hostility. Egyptian acceptance of responsibility for peace with Israel will not lead to warmer relations between the two countries, but it will provide a more solid foundation for peace and stability in the long run.

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### Support Egypt's economic evolution towards sustainable economic growth and away from dependency on aid

The collapse of Egypt's economy would have unpredictable consequences for U.S. interests in the region. It could result in significant political turmoil within Egypt with unforeseeable outcomes for regional stability. To help the new government in Egypt deal with the daunting economic pressures and challenges it faces, the United States should continue to work with other G-8 countries to provide Egypt's new government with economic advice on how to weather the economic storm the country is facing.

It should continue with efforts to implement a coordinated plan with G-8 partners and key international economic institutions such as the International Monetary Fund to disburse the assistance pledged to Egypt at previous international conferences. The economic challenges facing the United States and Europe make major new bilateral assistance packages impractical. No new Marshall Plans are realistic, given the economic challenges in the United States and in Europe. What is possible is a more coordinated international effort to assist Egypt, marshaling organized support from the United States, the European Union, and other global powers—something that the Obama administration began in 2011.

Once some Egyptian economic policy decisions have been made, the United States should work with the new Egyptian government and Egyptian society through the proposed strategic and economic dialogue outlined above. In these negotiations, the United States and Egypt would work together to re-evaluate aid packages and priorities. Certainly there is plenty to work with. The U.S. Agency for International Development has provided more than \$28 billion in economic and development assistance to Egypt since 1975. Early assistance focused on

infrastructure, health, food supplies, and agriculture. The Commodity Import Program—through which USAID provided hundreds of millions of dollars in financing to enable the Egyptian private sector to import U.S. goods between 1986 and 2008—was one of the largest and most popular USAID programs.

Current U.S. nonmilitary assistance programs focus on trade and investment, utilities, education, health, natural resources, and democracy and governance. The Obama administration’s proposal for \$770 million for a new Middle East and North Africa Incentive Fund, a new fund establishing incentives for countries that make economic, trade, and political reforms, offers some potential if coordinated well with other initiatives.<sup>32</sup>

Past aid efforts provided Egyptians with crucial economic and political support, but they have not yet established a sustainable foundation for Egypt’s economy. Over the past three decades, Egypt has become addicted to development assistance, and its previous authoritarian leaders created a system that fostered a cycle of dependency—its government programming and planning became dependent on external sources of economic assistance, and the country’s debt grew.

In the longer term, the United States and Egypt would benefit from Egypt making a transition that integrates its economy more closely with the rest of the region and the world. Private-sector business support is one key tool, and Egyptian Americans working in the private sector can serve as an important link in providing this support. In developing a new bilateral strategic dialogue proposed in this paper, Egypt and the United States should seek to coordinate with a track of private sector organizations in both countries to expand the dialogue on economic cooperation. Some efforts like these are already underway, such as the Partners for a New Beginning, a network of private-sector and civil society leaders aimed at building partnerships between the United States and a number of countries including Egypt in efforts to promote economic opportunity and enhance educational opportunity.<sup>33</sup> As outlined in a companion paper from the Center for American Progress and my colleagues Sabina Dewan, James Hairston, and Jordan Bernhardt, the United States can encourage partnerships and cooperation with Egypt to spark job creation and growth.<sup>34</sup>

Finally, another longer-term policy tool the United States should consider with Egypt is offering the prospect of a U.S.-Egypt Free Trade Agreement, as some analysts have proposed.<sup>35</sup> It is important to note that in recent years U.S. trade policy has become an increasingly complicated domestic political issue, making it more difficult for the

The Obama administration’s proposal for \$770 million for a new Middle East and North Africa Incentive Fund offers some potential if coordinated well with other initiatives.

United States to pass free trade agreements. Still, in the context of an emerging Arab democracy, the possibility of a Free Trade Agreement should be on the table for discussion. For free trade agreements to have a positive impact, they require strong provisions to support good governance and anticorruption standards.<sup>36</sup>

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## Supporting long-term efforts to implement political reform and effective governance in Egypt

A third leading priority for the United States is to support the long-term efforts of political reform and a transition to more effective governance. Now that the first waves of elections in Egypt are nearly complete, the leading parties and top officials will face the challenge of making the transition from ideological development to concrete ideas that translate into more effective governance. The short history of strong, multipartisan, and open political debate and the long history of authoritarian one-party dominance of Egypt's political system is a major hurdle to overcome.

The next major challenge is the constitutional reform process, which will require the formation of a constituent assembly charged with drafting a new constitution. Earlier efforts to do this fell apart after the Cairo administrative court suspended it for being unrepresentative. Once this constitution-drafting process resumes under a new framework, the leading political forces will attempt to redefine the checks and balances in Egypt's political system.

This process will also likely set new parameters for the role of religion in governance and redefine the power and role of the security establishment. In this sensitive and important debate, the United States should seek to advance universal values of human rights, women's rights, religious freedom, and political pluralism. To do that, the United States needs to pursue:

- Targeted private and public diplomacy to influence Egypt's ongoing political transition
- Continued support for Egypt's civil society through new channels

Again, pursuing these objectives is easier said than done, but here are some preliminary guidelines for policymakers to consider.

## Targeted private and public diplomacy to influence Egypt's ongoing political transition

The United States should continue to use diplomacy—both public and private—to make clear its red-line positions in the political transition and constitutional process, including respect for basic human rights, women's rights, religious minorities such as Christians, and political pluralism. Quiet diplomacy is often more effective than public statements, given Egypt's polarized politics. The ongoing battle over the role of U.S. nongovernmental organizations in Egypt's political transition demonstrates the risks of reactionary nationalist backlashes and the potential that Egyptian politicians could manipulate and mischaracterize the work of these groups for their own purposes.<sup>37</sup>

Egypt's new electoral politics has escalated nationalist rhetoric and sparked inflated claims of Egypt's international importance and ability to impose its will in foreign affairs. Consequently, the United States should work with the new Egyptian government to achieve these ends, rather than badger the new leaders to adhere to U.S. demands. Of course, there will be times when public diplomacy will be necessary—when clear universal values are at stake.

## Continued support for Egypt's civil society

The nongovernmental organization crisis has not yet been resolved. Court trials for both U.S. and Egyptian groups continue, with these and other civil society groups facing severe restrictions to operating in Egypt. The United States should lead multilateral efforts to continue to offer support to Egyptian civil society groups.

Direct bilateral assistance from the United States to Egyptian civil society organizations has become more complicated by the recent efforts to politicize this assistance inside of Egypt. Working with other partners both within the region and in Europe in efforts to help Egyptian civil society can help manage the sensitivities related to this type of support. One idea under discussion inside a number of policy circles, including the U.S. government, is a multilateral trust fund for supporting democratic reform and civil society organizations in Egypt.

# Conclusion

U.S. policymakers will continue to find it difficult to balance their competing policy priorities in Egypt. Maintaining cooperation with Egypt on regional security should not come at the expense of tacitly supporting the unchecked authority of the security services in Egypt. Nor should supporting Egypt's political transition be narrowly defined in terms of electoral processes. The United States should work with other democratic allies, particularly the European Union, to underscore the importance of an inclusive, pluralistic process for drafting a new constitution in Egypt.

The United States and Egypt need to begin to renegotiate the basic terms that have guided their bilateral relationship for more than three decades. At the end of this negotiation, some of these fundamentals are likely to remain the same, including key aspects of military and regional security cooperation. But the daunting economic challenges and the considerable changes in Egypt's political system will require a re-evaluation within the United States and a renegotiation between the two countries.

The leverage and influence that the United States has on Egypt will become increasingly more limited by several factors, including more assertive and independent political leaders in Egypt, widespread anti-Americanism, and financial and political constraints inside the United States. The United States faces similar challenges with other countries that have complicated internal political situations and play an important leadership role in their region. Turkey, India, and Brazil are three examples in which the United States has had to adapt the way it conducts its bilateral relations due to economic and political changes in these countries.

Many of Egypt's core strategic interests remain the same despite the leadership changes and the political and economic transitions it has experienced since 2011. Egypt still has a strong interest in maintaining stability both internally and along its borders. The daunting internal economic and political challenges will quite likely result in Egypt turning increasingly inward over the next few years to address its own challenges. Its bilateral relations with other important countries in the region such as Israel, Turkey, and Saudi Arabia will evolve, but it is not in

Egypt's national interest to make fundamental changes to the way it operates in the broader regional security environment.

The basic challenge the United States faces in Egypt is managing the major internal changes while maintaining core interests in regional security and cooperation. The United States needs to balance and integrate efforts to advance two core objectives in Egypt—maintaining a close partnership with Egypt in advancing regional security while supporting Egypt's political and economic transitions toward more effective governance and expanded economic opportunities for its citizens. The United States must better integrate its security, diplomatic, and economic policies on Egypt in order to manage the changes ahead.



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