

ISSUE BRIEF

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RAFIK HARIRI CENTER FOR THE MIDDLE EAST

A US-EU Action Plan for Supporting Democratization: Egypt, Libya, and Tunisia

While ownership of the transition belongs to those who initiated and drove the uprisings in Egypt, Libya, and Tunisia, the West has a great stake in the outcome. A failure of these revolutions would likely lead to a rise in radicalism across the Arab world, increased threats to the security and stability of the Mediterranean region, potential disruption in energy flows to Europe and beyond, and enhanced pressures on migration to Europe, both legal and illegal.

The United States and Europe should seize the opportunity to work together to create a shared vision for a prosperous, pluralistic, and peaceful Middle East and North Africa region built upon democratic principles and institutions.

Due to its geographic proximity and labor flows, Europe has more immediately at stake. Europe is the key economic partner of North Africa and can share recent lessons learned from transitions in Central and Eastern Europe (CEE). Despite its distance, the United States also faces opportunities and threats, ranging from new energy sources to greater danger of terrorism. The United States can leverage its strong military relationships to help provide stability in the region, and offer new trade and investment opportunities to help spur the economic growth so key to successful transitions. A strong, coordinated approach will not only be more effective, but it will also send a clear message to the Arab and Muslim world that they can count on Western support to encourage democracy.

As the United States and the EU pursue a joint action plan, it is critically important that initiatives are responsive to local needs and guided by the people who will be affected the most. Lessons can be learned from other transitional

About the Rafik Hariri Center for the Middle East: The Rafik Hariri Center for the Middle East seeks to produce original analysis of the forces transforming the region, as well as policy recommendations for the United States and Europe about how to promote closer and more productive relations with the region. **About the Transatlantic Program:** The Program on Transatlantic Relations promotes dialogue on major issues affecting the transatlantic relationship and the ability of the US and its European allies to respond to global challenge.

The recommendations presented in this issue brief were drawn from a workshop on November 8-9, 2011 in Washington, DC that included participation from more than 35 senior-level officials from the US government and European Union, analysts, and practitioners from the United States, Europe, and the Middle East. We are grateful for their insights, but they bear no responsibility for the content of this paper.

This initiative is a joint project of the Atlantic Council and the Polish Institute of International Affairs, with significant contributions by project directors Frances G. Burwell, Vice President and Director, Transatlantic Programs and Studies, Atlantic Council, Michele Dunne, Director, Rafik Hariri Center for the Middle East, Atlantic Council, and Patycja Sasnal, Analyst for the Middle East, Polish Institute of International Affairs (PISM).

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countries, including the CEE countries, but no model can be imposed from outside—each country will forge its own path. Nor can the United States and Europe act alone; they must consult with other important regional players that carry considerable weight, such as the Gulf Cooperation Council countries and Turkey, pursuing joint interests where they exist and seeking to mitigate potential conflicts where interests may differ.

Tunisia, Egypt, and Libya face different challenges as they proceed along the path towards democracy. With Tunisia's recent election, the prospects seem reasonably positive on the political front, but high youth unemployment and a sluggish economic rebound could threaten these initial gains. Libya's recent liberation leaves the country with a complete lack of institutions, and stability is an open question with flaring rivalries between armed militias and ongoing tribal grievances. Egypt presents a worrisome case, with increasing sectarian violence and a military leadership council that seems intent on expanding and institutionalizing its hold on power. With these developments, we cannot afford to delay.

The United States and EU must leverage all possible resources to support a democratic transition that guarantees the rights of all citizens, upholds the rule of law, and enshrines basic civil liberties. The following recommendations seek to provide a roadmap for action.

Building Stronger Economies That Deliver

In the current climate of austerity, aid packages from the United States and Europe will be extremely limited and opening trade flows and leveraging the power of private sector will be the key drivers of economic growth. Economic initiatives that promote trade, support new business growth, and encourage investment can bring about considerable gains and will garner much greater domestic support.

Trade should not be seen as a zero-sum game, and where mutual interests can be identified, it will form the basis of strong cooperative agreements. They will benefit not only the target countries in question, but also companies in the region, the United States, and Europe. Cash assistance can help resolve immediate financing needs, but the key to long-term growth and prosperity in the region lies in mutually beneficial trade partnerships with Europe and the United States.

Ten Steps for a US-EU Action Plan

1. Expand access to US and EU markets and facilitate greater foreign investment.
2. Prioritize development of the SME sector through targeted initiatives.
3. Explore integration for a sub-regional economic bloc among Egypt, Libya, and Tunisia.
4. Coordinate US-EU policies on debt relief and consider debt forgiveness.
5. Empower the private sector to play a lead role in driving growth.
6. Use military assistance as leverage to ensure commitment to democratic practices and standards.
7. Emphasize the importance of civilian oversight of military and support security sector reform.
8. Defend freedom of expression and the rights of journalists and social media activists.
9. Provide robust funding for local and international democracy-support organizations.
10. Offer technical assistance to all political parties that eschew the use of violence, including Islamist parties.

Corrupt crony capitalists in the region have discredited the private sector and the privatization process across the board. Nevertheless, the economic future of these countries will depend on a dynamic private sector and less government involvement. The United States and EU should help the business community in the region reestablish credibility, grow businesses, and create new jobs. New economic partnerships based on reciprocity rather than clientelism can reinforce the region's human capital, productive potential, and strategic geographic location.

1. **Expand access to US and EU markets to both manufactured and agricultural products from the region and facilitate greater foreign investment in the target countries.** Over the longer term, the United States and EU should seek to engage Egypt, Tunisia,

and Libya on an individual basis to negotiate free trade agreements or deepen existing preferential trade arrangements. In the short term, however, they should avoid negotiating competing FTAs with differing regulatory requirements and instead focus on encouraging these governments to remove existing regulatory obstacles to trade and investment. The trade facilitation measures the United States and EU should encourage include revising customs rules and reducing delays for goods to cross borders. The United States and EU should pursue a pragmatic and gradualist approach by identifying areas where they can agree—such as on transparency of the regulatory process and reducing some barriers—and leaving aside areas of disagreement or conflicting interests. All agreements should include specific provisions and monitoring mechanisms to ensure accountability and transparency and should be designed specifically to benefit small- and medium-sized businesses (SMEs).

In addition, the United States and EU should work with each country to initiate a targeted program aimed at clarifying investment rules and regulations covering certain products, and at ensuring greater transparency in the regulatory process with opportunities for public comment on the rules. The United States and EU should provide technical support to the Egyptian, Libyan and Tunisian governments and regulators to enhance investor protection and ensure that court systems give investors adequate recourse.

2. **Prioritize development of small and medium-sized enterprises (SMEs) through specific trade, investment, and training initiatives targeting that sector.** SMEs, which represent more than 80 percent of economic activity in Egypt and similar proportions in Tunisia and Libya, will be the primary source for future job creation. Removing trade and regulatory barriers will take considerable time, and in the interim, rapid action can be taken to foster SME development by providing financing, access to credit, skills-based training, mentorship, and institutional support. The United States and EU should encourage policymakers in the transition countries to simplify the process of forming companies and lower licensing fees in order to generate new business development. In particular, the United States and EU should develop a program for the private sector to identify key sectors for growth in

the three countries and connect local SMEs to international supply chains and franchise industries.

3. **Explore the idea of integration for a sub-regional economic bloc among Egypt, Libya, and Tunisia.**

Since the three countries are geographically contiguous, it presents a unique opportunity to forge a unified bloc of countries transitioning to democracy that provide support to each other. The basis for regional integration would be economic, not political; trade and infrastructure would be the organizing structure and become the glue *within* the region.

There are real opportunities for horizontal integration to build upon competitive advantages: Tunisia (tourism), Libya (oil and therefore financial resources), and Egypt (advanced technology and labor-intensive sectors of the economy). Even in industries where these countries may produce the same goods, comparative advantage can still be realized due to economies of scale.

The United States and EU should orient assistance toward infrastructure projects that link the three countries, rather than address each individually. As a starting point, the United States and EU could encourage discussion on integration, which could potentially follow a similar model to the framework set forth in the Agadir Agreement that committed Tunisia, Egypt, Morocco, and Jordan to remove tariffs and establish harmonious standards. Other actions could include:

- Easing visa restrictions so workers can travel and work more easily in each of the three countries. The United States and EU can provide technical assistance in terms of biometric passports and other technical mechanisms that can, in time, make it easier for these countries to meet the requirements for visa liberalization vis-à-vis the EU.
- Reducing of trade and customs barriers between these three countries, perhaps culminating in a customs union.
- Improving inter-country transportation links and developing infrastructure for shared energy resources, such as the World Bank-proposed solar network.

- Instituting a regional certification process to measure skills and allow fluidity in employment.

4. **Coordinate US and EU policies on debt relief for the governments of the region and consider debt forgiveness.** Since cash support will be limited at best, debt forgiveness is an important mechanism to ease fiscal pressures in countries that are confronting severe budget shortfalls. Coordinated action is needed since debt relief discussions are required to go through the Paris Club and a threshold consensus among Paris Club members is necessary for this to move forward. Coordination is also needed to ensure that recipients do not try to avoid conditionality that either the United States or the EU may assign to an agreement. The United States has initiated discussions on debt forgiveness for Egypt and loan guarantees for Tunisia; this process should be coordinated with the EU and implemented as soon as possible. To address fiscal constraints, the United States and EU can work with central banks in the region to resolve cash flow problems through loans from the IMF and World Bank.
5. **Empower the private sector, both US and European companies and those from the region, to play a lead role in identifying barriers to trade and investment as well as those specific economic sectors that could provide additional growth.** In consultation with these businesses, new vocational training programs should be developed and educational reform should be supported to ensure that job seekers are gaining the necessary skills to get the positions that will become available. While education in the region needs a significant overhaul to meet the demands of a global economy, this will be a long-term, complicated process. In the short-term, vocational training programs that link private sector needs with job seekers would begin to close the employment gap. The United States and EU should consider establishing a regional Private Sector Advisory Council that would provide strategic advice to each government from a private sector point of view.

Recalibrating Military Relationships and Security Sector Reform

Those who took to the streets in Cairo, Tunis, and Benghazi were protesting dire economic conditions and a lack of dignity, but also the pervasive presence of the military and

security establishment in daily life and the abuse of power for personal gain. While the reaction of the military during the uprisings varied widely from country to country, in all cases, there is a weak or nonexistent tradition of civilian oversight over military institutions, which is a critical ingredient for a consolidated democracy. After decades of strong-arm rule by the secret police, internal security, and intelligence forces in these countries, there is a deep mistrust of military authorities. Reversing this will take time, and significant work must be done to lay the foundation of a healthier relationship between military and civilian institutions. Civil management of security forces promotes accountability, which is essential to overcome the legacy of corruption, nepotism, and wasted resources.

6. **Use military assistance as leverage to ensure commitment to democratic practices and standards.** A significant portion of international aid to these countries comes in the form of military assistance. This should give the United States and EU considerable leverage to discuss how the aid should be used and how to align the military with democratic processes. The United States and EU should consult with each other on aid conditionality and determine a coordinated response as to whether aid should be tied to specific benchmarks and how action would be taken if benchmarks are not reached. Combined, the United States and EU have spent billions of dollars in aid money in Egypt and a lesser amount in Tunisia, and there should be serious deliberations about the best way that aid can be used as a tool for military diplomacy.
7. **Emphasize the importance of civilian oversight of military and support security sector reform.** At present, there is little knowledge within civilian circles about military infrastructure, budgets, or operations in Egypt, Tunisia, or Libya. The United States and EU should support initiatives that will train a cadre of civilian defense experts, both in parliaments and in civil society, who can eventually exercise oversight over the military. Security sector reform should take a holistic approach that includes work to reform training programs, set standards for effective and ethical lawyers and judges, introduce standardized exams for police to be licensed, and improve the prison and court systems. Security sector reform is not just retraining the people with guns, but also thinking about judicial

reform and re-shaping the culture to guarantee the rule of law, otherwise it is an investment in only half of the architecture. This is an area where other recently transitioned countries may have valuable experience to lend. The United States and EU should facilitate exchange missions and knowledge sharing between military and civilian leaders from the Middle East with their counterparts in Turkey, Latin America, Central Europe and Asia.

Political Institution-Building and Civil Society

While the path is murky at best, the end goal for the United States and Europe in the Middle East is clear: helping to build democratic systems built on values of pluralism, citizen participation, civil liberties, respect for minorities, and the rule of law. To achieve this, the US and the EU must support the development of political institutions and civil society organizations that represent and channel citizens' concerns and act as watchdogs to prevent backsliding to authoritarian tendencies. In this context, civil society encompasses a broad definition of advocacy groups, media organizations, political parties, business associations, professional syndicates, and other membership-based groups. The active engagement of these interest groups is essential for a balanced, pluralistic, democratic system that gives voice to average citizens and prevents a return to the status quo. Egypt, Libya, and Tunisia all suffered from authoritarian regimes that, to varying degrees, kept civil society weak and marginalized as a matter of policy. Now, support for civil society is essential to create a culture of democratic participation and lay the foundation of political awareness of future leaders.

8. **Defend freedom of expression and the rights of journalists, bloggers, and other social media activists.** Anticipating the likelihood of backsliding in the months to come, a vibrant and free media will likely be the most critical element to prevent such an occurrence and to ensure accountability and transparency. This will be particularly important where individuals or institutions are incentivized to preserve or return to the status quo to maintain their privileges and avoid responsibility for past abuses. The treatment of bloggers and journalists in Egypt is particularly worrisome, and the United States and EU must be vigilant in communicating to the military council and

other governing bodies that such actions are unacceptable and that journalists and other political activists should never be tried in military courts.

9. **Provide robust funding for local and international democracy-support organizations, despite fiscal constraints and tight budgets.** Investing in Egypt, Tunisia, and Libya is not an optional humanitarian endeavor, but rather an imperative for global security and economic prosperity. The United States should increase the budget for the National Endowment for Democracy (NED) and its core institutes, in addition to US Agency for International Development and State Department programs that support media freedoms, political participation, human rights, and other civil liberties. The EU should move forward to establish a European Endowment for Democracy to assist civil society around the world in building democratic systems. Such an institution would be a natural partner for the NED and would help cushion NGOs from the requirements of direct EU funding. In both the United States and EU, funding decisions must be clearly and transparently explained in order to generate indigenous support and mitigate claims of foreign meddling.
10. **Offer technical assistance—through US and European party-support organizations—to all political parties that eschew the use of violence and pledge to follow the rules of the game, including Islamist parties.** While there is great concern in Washington and Brussels about the rise of Islamist parties in these three countries, the inclusion of religious voices in the political discourse is of paramount importance. Experience has shown that becoming part of the formal political process often moderates the action and rhetoric of religious parties. Ultimately, parties and candidates should be judged based on deeds, not rhetoric or labels, and this will occur only once they have been elected and granted the hard task of governing. The United States and EU will need to accept when Islamist parties win elections, with the understanding that this will allow for their permanent integration into a democratic system. The White House needs to reassure Congress and the EU needs to reassure some national capitals about the legitimacy of Islamic parties if elected by popular will.

Mechanisms for US-EU Cooperation

Both the US government and the European Union have acknowledged the importance of the tectonic shifts in the Arab world and created new offices to coordinate their official responses to transitioning countries. The US and EU coordinators for the Middle East should communicate regularly and institute periodic meetings with a focus on reinforcing each other's messages and engaging other regional partners, such as Turkey, Qatar, and other Gulf countries, in robust discussions on these issues. The EU has taken the initiative to set up a Tunisian Task Force, which provides a valuable model moving forward, and similar task forces are expected to be established for Libya and Egypt. The United States should participate in these to the extent possible in order to institutionalize coordinating efforts.

The United States and EU should also reinforce their cooperation by strengthening the Deauville Partnership Initiative, which was launched in May 2011 and gathered the most powerful donors (the G8 countries, the International Monetary Fund, the World Bank, and key Arab countries) around the same table for the first time. The United States is well-positioned to enhance the initiative

during its 2012 G8 presidency. The EU is represented and other European countries could be included on a voluntary basis in order to broaden the flow of information and coordination regarding what all donors and stakeholders are undertaking in the region. It should draw on these recommendations to announce a new initiative for targeted and coordinated support from the international community to these three key countries at the G8 summit in Chicago in May 2012.

The US and EU commitment to assisting the transitional governments and societies in North Africa should be made clear at the highest levels, at every opportunity. Such a declaration should be followed quickly by a detailed action plan aimed at building strong economies, advancing security sector reform and civil-military relationships, and strengthening political institutions and civil society. By combining and leveraging shared resources, the United States and EU can advance their own interests *and* be effective in helping countries in the Arab world achieve a peaceful and successful transition to real democratic systems.

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