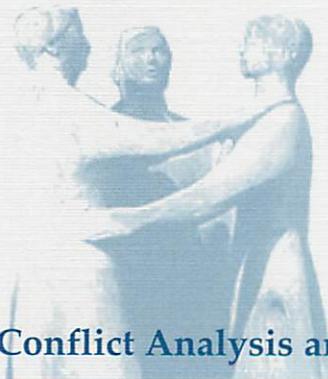


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Globalization and Pressure to Conform: Contesting Labor Law Reform in Egypt

by
Agnieszka Paczynska

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About the Author

Agnieszka Paczynska joined the faculty of the Institute for Conflict Analysis and Resolution (ICAR) in 2002 after completing her PhD in political science at the University of Virginia. At ICAR she teaches courses on globalization and conflict, conflict and development, and social movements. She also teaches an undergraduate course in globalization and conflict as part of the new Global Studies major at George Mason University.

Paczynska's research interests include the political economy of distributional conflicts and democratization and conflict. She has conducted research in Poland with support from the International Research and Exchange Board and in Egypt with support from the Social Science Research Council. She studied Arabic in Cairo and Middlebury, Vermont, and has received grants from the American Council of Learned Societies and the University of Virginia Albert Gallatin Dissertation Writing Fellowship.

Paczynska has presented her work before the American Political Science Association, the Middle East Studies Association, the Association for the Advancement of Slavic Studies, and the Washington Area Workshop on Contentious Politics. She has published in *MERIP: Middle East Report* and the *Bulletin of Regional Cooperation in the Middle East*.

About the Institute

The Institute for Conflict Analysis and Resolution (ICAR) at George Mason University in Fairfax, Virginia, has as its principal mission to advance the understanding and resolution of significant and persistent conflicts among individuals, communities, identity groups, and nations.

In the fulfillment of its mission, the Institute conducts a wide range of programs and outreach. Among these are graduate programs offering master of science and doctoral degrees in conflict analysis and resolution, clinical consultancy services offered by individual members of the faculty, and public programs and education that include the annual Vernon M. and Minnie I. Lynch Lecture Series.

ICAR's major research interests cluster into four overall themes: globalization and conflict, religion and conflict, reflective practice, and change and conflict. The Institute's Applied Practice and Theory (APT) program develops teams of faculty, students, and allied practitioners to analyze and address topics such as conflict in schools and other community institutions, crime and violence, jurisdictional conflicts between local agencies of government, and international conflicts.

For more information, please call (703) 993-1300 or check the Institute's web page at www.gmu.edu/departments/ICAR/.

Foreword

This is the first of what the Institute for Conflict Analysis and Resolution (ICAR) is planning as a series of working papers focused on the connections among globalization, conflict, and violence. This topic is one of the four major research themes that will occupy much attention and effort by faculty and students at ICAR over the next few years, the others being conflict and change, reflective practice, and religion and conflict. The last topic will be the focus of Marc Gopin's new Center for World Religions, Diplomacy, and Conflict Resolution.

Paczynska's paper is part of a much larger study of reactions to globalization from governments, pressure groups, civil society organizations, and general publics in a number of Third World countries that have been affected by becoming more closely integrated into the global market and, more particularly, from those agents of free trade and economic "reform," the International Monetary Fund (IMF) and the World Bank. All too often, discussions of these topics are conducted at high levels of generalization, sometimes simply by listing the benefits accruing to societies that undergo globalization or, on the other hand, the disadvantages suffered by those who are unable to compete effectively in the increasingly interdependent, low-labor-cost marketplace.

One of the great advantages of Paczynska's approach is that it uses comparative case studies on a country-by-country basis to investigate what actually happens when powerful international institutions call for structural reforms and what determines the extent to which the changes are implemented to the satisfaction of these institutions and their local agents, the national governments. In this paper, she focuses on the change process in Egypt and the manner in which the call for restructuring was met by the Egyptian government and by powerfully entrenched interests that emerged during the Nasserite era of Arab socialism, which saw themselves as bearing the costs of the required changes without receiving much in the way of benefits. The paper is a fascinating micro-level study of the way changes in economic policies and structures can engender conflict and how the policies of pro-change agencies can be challenged by powerful pro-status quo actors, so that the resultant conflict is played out at many levels and in many arenas. The paper is enriched by occasional comparisons to similar processes with different outcomes in other cases. We await with great anticipation a full description of other cases of distributive conflicts during economic restructuring in subsequent working papers.

Christopher Mitchell

Drucie French-Cumbie Professor of International Conflict Analysis and Resolution

Introduction

The economic changes brought on by globalization imply a fundamental restructuring of the relationship between the state and society, a transformation that inherently generates conflicts.¹ Everyone has been affected by these changes, but the costs and benefits of integration into the global economy have not been distributed evenly across all social groups. While some have benefited from the changes, others have found themselves struggling to cope in this new environment. Many students of globalization have noted that as economic integration has progressed, the power of capital vis-à-vis the state as well as vis-à-vis organized labor has grown. In particular, as capital has become more mobile and the competition to attract this increasingly mobile capital has increased, the set of policy choices available to national governments has shrunk. As national-level policies have become more capital-friendly, the position of trade unions has declined and workers have been caught in a relentless “race to the bottom”—lower wages, lower social spending, and less worker-friendly labor market regulations.

Others, however caution that not only is the process of economic integration proceeding very unevenly, with some regions marginalized and excluded rather than integrated, but that the way globalization pressures are transmitted into the national economy, how they are translated into discrete policy choices, and how they are implemented depend to a great extent on the political and social institutions that exist on the domestic level. Depending on the configuration of these institutions and, by extension, the balance of power among various political and social actors, the consequences of globalization will differ substantially among countries.

In this paper, I explore a set of conflicts sparked by globalization, marketization, and structural adjustment. I argue that the types of conflict that emerge, how they proceed, and how they are resolved depend to a great extent on the existing institutional environment. In other words, the existing institutional environment shapes, constrains, and influences

1. The author would like to thank Terrence Lyons and David Waldner for offering advice on many iterations of this paper. She would also like to thank Diane Singerman and Bob Vitalis, as well as participants in the Washington Area Workshop on Contentious Politics, for their comments on earlier drafts.

political interests and how these interests are pursued. I will show that in order to understand the contemporary institutional environment, it is important to investigate how institutions have developed historically, as institutions formed in the past provide constraints for current choices. To put it differently, I argue that in order to understand the outcome of conflict generated by globalization and economic restructuring, it is important to analyze the institutional resources of the parties who engage in these struggles.

These conflicts will be analyzed through a detailed examination of the intense negotiations that took place among the government, business groups, and trade unions over changes in the labor law in Egypt. Many observers of the Egyptian political scene anticipated that the labor law would pass quickly and without much difficulty, given the increasingly authoritarian nature of the Egyptian regime, its close association with the business community, and the unrepresentative nature of the Egyptian Trade Union Confederation (ETUC).² Similarly, given many of the arguments concerning the effects of globalization and marketization on economic policy convergence and on the weakening of labor organizations, the passage of the new code should have proceeded with little delay. Yet, it was not until April 2003, a decade after the law was proposed, that the Egyptian parliament approved the Unified Labor Law in principle, and it is still not clear how the implementation of this code will proceed.

The negotiations over the new labor market regulations underscore how conflictual such restructuring processes are. Furthermore, the Egyptian case suggests that the relationship between globalization and the power of organized labor is quite complex. While growing global integration and increasingly mobile capital are undermining union influence, this does not mean that organized labor has been rendered powerless. In fact, when we examine how unions have fared in different locales, what is striking is not their uniform lack of voice but rather the great variation in their ability to affect economic restructuring. While some governments have adopted market reforms with little difficulty, disregarding union opposition as was the case, for example, in the Czech Republic and Tunisia, other governments seem to have great difficulty pushing through such changes and have been

2. Pripstein, "Egypt's New Labor Law Removes Worker Provisions," *Middle East Report*, no. 194/5, (May–August 1995), 52–3, 69.

unable or unwilling to overcome labor resistance. Over the past few years, we have seen how militant worker opposition can be. In Spain, unions staged large demonstrations in opposition to the proposed changes in the labor code. In Italy, protests took a violent turn when the government lawyer in charge of designing the more capital-friendly labor law was assassinated. And in Poland, proposed changes in the labor code led to the unprecedented joining of forces of two historically hostile trade union confederations, Solidarity and OPZZ (the All Poland Trade Union Alliance). While conflicts over the proposed changes are just beginning in these countries, it is apparent that pushing through restructuring is likely to carry high political costs to the incumbent governments.

Although the paper will focus on just one case, Egypt, the conclusions that emerge from this study are broader. In particular, they suggest that in order to understand the dynamics of contention that accompany globalization and marketization processes, we need to examine the relationship between the state and the social groups affected by the various components of such restructuring in the period prior to reform initiation since the resources acquired in the past will shape the balance of power between states and social groups during their future encounters. In the case of organized labor, while the power of unions may be diminishing as a consequence of changes in the global organization of production, such a decline will not be immediately reflected in the decline of union political power, because the institutions that had in previous decades bolstered labor influence are likely to persist and change more gradually than the changes in economic preferences of domestic actors.

Globalization and Domestic Policies

The processes of globalization have entailed changes in cultural, social, economic, and political arenas. Here the focus will be on how international economic changes affect domestic political dynamics. Although global economic integration is hardly a novel phenomenon, many analysts argue that the recent technological innovations have ushered in both qualitative and quantitative changes in international relations. In particular, the new

3. Robert Litan, Paul Masson, and Michael Pomerleano, "Foreign Participation in Financial Systems in Developing Countries," The Brookings Institution, Conference Report #6, June 2001.

developments in information and communications technologies have meant that the movement of capital has accelerated. For example, between 1991 and 1997, foreign direct investment (FDI) in developing countries grew from \$36 billion to \$173 billion.³ Because capital is mobile and investments are more often placed in stocks, bonds, and the like than in physical infrastructure, at the first sign of political or economic instability, capital is likely to pull out of a country. This can happen quickly and have devastating consequences, as the recent experience of Latin American countries amply demonstrates. Because of the fear of capital flight, “convergence thesis” proponents argue that governments feel much more constrained in the way they conduct their fiscal and monetary policies. In other words, capital mobility and the increasing integration of markets in goods and services has had a profound impact on the way countries can conduct their economic policies and why countries feel increasing pressure to follow similar macroeconomic policies—what Friedman has termed the Golden Straitjacket.⁴

While most of the accelerated integration has taken place among industrialized countries, developing countries that have been largely bypassed by the new patterns of financial and production networks have not been immune to globalization pressures. In particular, in highly indebted countries, the process of global economic integration can be seen in the widespread adoption of structural adjustment programs that have sought to liberalize their economies and to curtail state involvement in the economy. As Brainard notes, “Globalization equals marketization. And the market takes on a life of its own, beyond the control of any nation...globalization is not a choice. It is a force, driven by the logic of the market and technological advance.”⁵ Indebted developing countries that turn to the International Monetary Fund (IMF) for support need to begin changing their state-centric economies to economies based on market mechanisms. The IMF structural adjustment programs emphasize restoring fiscal discipline, reducing public expenditures, allowing the market to set interest rates, making the

4. Thomas L. Friedman, *The Lexus and the Olive Tree: Understanding Globalization*. New York: Anchor Books, 1999.
5. Lael Brainard, Commencement Address at the University of California, San Diego, Graduate School of International and Pacific Studies, June 16, 2001.
6. See, for example, John Williamson, “What Washington Means by Policy Reform,” in John Williamson, editor, *Latin American Adjustment: How Much Has Happened?* Washington, DC: Institute for International Economics, 1990, 7–20. For an overview of the various reforms recommended by the international financial institutions and the experiences of individual programs, see Vinod Thomas, Ajay Chhibber, Mansoor Dailami, and Jaime de Melo, editors, *Restructuring Economies in Distress: Policy Reform and the World Bank*. New York: Oxford University Press for the World Bank, 1991.

exchange rate competitive, liberalizing the trade regime, encouraging foreign investment, and privatizing the parastatal sector.⁶ These policy prescriptions mean that many of the economies of the developing countries that had previously been protected by high tariff walls are now becoming much more exposed to international trade. Trade integration and reduction of tariff protection, in turn, exert pressure to restructure labor market institutions.⁷ As Haworth and Hughes point out, "the erosion of trade restrictions and the expansion of the international trade regime became a force for international economic integration and inevitably a challenge to national industrial relations."⁸ Moreover, because many developing countries are not only grappling with macroeconomic crises but are also saddled with massive foreign debt, they are in a weak position to resist neoliberal prescriptions for reform. Consequently, the effects of globalization and the internationalization of finance may be even more keenly felt in developing than in advanced industrialized countries. As Huber, Rueschemeyer, and Stephens note, continuing debt pressure increases "their exposure to pressures for rapid and rather indiscriminate trade liberalization."⁹

Pressure to integrate into the global economy as well as structural adjustment programs have also begun to fundamentally change the relationship between capital and labor to the disadvantage of the latter, according to most observers. As states have increasingly withdrawn from direct involvement in production through privatization programs, the previously influential position of trade unions which are often present primarily within the parastatal sector in developing countries has come under challenge. Across various regions, unions have seen their membership dwindle. The shift to segmented production and from manufacturing to services has meant that union members and workers in general have become more reluctant to voice their demands or strike, because they are faced with the very real possibility of businesses simply closing shop and relocating to more hospitable locales. Hence, concerns over job security come to dominate other issues, like wages and benefits levels. These changes in the economic fortunes of unions and workers, many analysts

7. Nigel Haworth and Stephen Hughes, "Internationalization, Industrial Relations Theory and International Relations," *Journal of Industrial Relations*, vol. 42, no. 2, June 2000, 196-8.

8. *Ibid.*

9. Evelyn Huber, Dietrich Rueschemeyer, and John D. Stephens, "The Paradoxes of Contemporary Democracy: Formal, Participatory, and Social Dimensions," in Lisa Anderson, editor, *Transitions to Democracy*, New York: Columbia University Press, 1999, 195.

argue, have been directly translated into declining union influence. This decline can be seen everywhere, from the advanced industrial economies to transitional countries such as those of Eastern Europe to those that remain firmly authoritarian.¹⁰ As Piazza notes, "globalization simultaneously erodes the organizational framework under which workers use strikes and the threat of strikes as strategic assets, by diminishing union density, while also providing a new option for employers wishing to eschew compromise with workers: the option to exit or to threaten to exit by relocating abroad."¹¹ Taken together, these changes mean, according to critics of globalization, growing inequalities both within and among countries and a relentless "race to the bottom," that will further impoverish and disempower the economically less fortunate.

To what extent are these dire expectations mirrored by countries' experience? Much available evidence does indeed suggest that income disparities have been on the rise in many parts of the globe, with some of the most dramatic increases plaguing countries of the former Soviet Union and Eastern Europe. On the other hand, the implementation of the various stabilization and structural adjustment policies deemed necessary to either retain or attract foreign capital have been much less uniform. These differing patterns of restructuring implementation reflect the role of the existing domestic institutions in the process of preference formation, interest aggregation, and agenda setting. We can expect different outcomes even in countries that experience similar pressures from the international economy.¹² As Locke and Thelen note, even in such cases where "international economic developments have created uniform pressures for increased flexibility, the types of flexibility sought and the degree of success achieved differ from country to country, reflecting state-social differences."¹³ In other words, because existing institutional arrangements favor certain social actors, changing economic preferences will not necessarily be translated into changes in domestic policy choices. In fact, as Garrett and Lange note, "existing institutions generate powerful pressures for governments to persist

10. See, for example, Kubicek, "Organized Labor in Post-Communist States: Will the Western Sun Set on It Too?" *Comparative Politics*, vol. 32, no. 1, October 1999.

11. James A. Piazza, "Globalizing Quiescence: the Effects of Globalization on Strikes in 14 Industrialized Countries," *AFSA* 2002, 8-9.

12. Nick Wailes, "Economic Change and Domestic Industrial Relations Institutions: Towards a Theoretic Model," *Journal of Industrial Relations*, June 2000.

13. R.Locke and K. Thelen, "Apples and Oranges Compared: Contextualized Comparisons and the Study of Comparative Politics," *Politics and Society*, vol. 23, no. 3, 1995.

with policies that are favored by the constellation of interests that initially supported their ascent to power, even if the power of these interests has declined, and even if this has deleterious consequences for macroeconomic performance.”¹⁴ The persistence of domestic institutions suggests that the decline in traditional measures of union strength, such as union density, will not necessarily translate into a decline in union influence. In other words, in order to understand the outcome of conflicts generated by globalization and economic restructuring, it is important to analyze the institutional resources of the parties who engage in these struggles.

Egypt and Globalization

Like many other developing countries, by 1960 Egypt was increasingly moving away from seeing the private sector as the engine of economic development. Instead, it placed greater emphasis on central planning, and the public sector began to expand. Although initially this change in policy resulted in impressive growth rates, by the latter part of the decade the economy was running into trouble, a situation further exacerbated by the 1967 war with Israel. In 1974, President Anwar Sadat sought to reorient economic policies and initiated a process of liberalization (*infitah*) aimed at reviving the private sector and attracting foreign investment. The open-door policy, however, proved to be no panacea for Egypt’s economic woes.

By the early 1990s, with the economy in crisis, a more fundamental restructuring of the economy began to be contemplated. The combined influence of persistent economic malaise, the changing international intellectual climate concerning the role of the state in the economy that followed the disintegration of the Soviet Union, and the move to a market economy in Eastern Europe, as well as the growing impatience of Egypt’s main financial backer, the United States, persuaded many in Egypt’s policymaking community that the status quo was unsustainable. The Gulf War of 1990–1991 provided an added pressure that finally pushed structural adjustment to the forefront of the government’s agenda. Shortly after the hostilities in the Gulf ended, the Paris Club, along with the IMF and the

14. Geoffrey Garrett and Peter Lange, “Internationalization, Institutions, and Political Change,” *International Organization*, Autumn 1995, vol. 49, no. 4, 633.

World Bank, came to an understanding with Cairo that 50 percent of Egypt's foreign debt would be forgiven in three tranches. The deal, however, came at a price. In exchange for debt forgiveness, Egypt had to agree to embark on a structural adjustment program more ambitious than anything it had previously contemplated.¹⁵

The Economic Reform and Structural Adjustment Program signed by Egypt, the IMF, and the World Bank in June 1991 entailed not just measures aimed at stabilizing the macroeconomic situation but also more far-reaching structural reforms. The 18-month standby agreement with the IMF, signed in May 1991, amounted to 234.4 million SDRs (Special Drawing Rights)- and was to support the macroeconomic stabilization program.¹⁶ At the same time, the World Bank approved a \$300 million structural adjustment loan. The World Bank—in association with the International Development Agency, the European Union, and other bilateral donors—also established the Social Fund for Development, which was to provide financial assistance to people affected by the reform process.¹⁷

The first phase of the program focused on stabilization measures, including unifying the exchange rate, liberalizing the banking system and the financial sector, bringing the budget deficit under control, and lowering inflation.¹⁸ The second phase of reforms was to tackle more fundamental structural issues. The most important component of this second phase was the privatization program, whose aim was to sell off 314 public sector companies, preferably to anchor investors who could provide capital, know-how, and connections to global production and distribution networks. The government hoped that privatization would ensure the long-term viability of these firms and provide a boost to the growth of the economy as a whole.

15. See, for example, Arvind Subramanian, "The Egyptian Stabilization Experience: An Analytical Retrospective," IMF Working Paper, Washington, DC: International Monetary Fund, September 1997; Ahmad Zabit, "Ta'ir tabi'a wa dur al-dawia al-misriya fi dua al- namu al-tabi'a siyasat sunduk naqd al-dawli," in Samir Amin, editor, *Mujtama'a wa dawia fi al-watan al-arabiy fi zil al-siyasat al-rasmaliya al-jadida - Misr, Qahira: Maktabat Matbuli*, 1996, 113-38.
16. This represented 34.6 percent of Egypt's quota. See Dieter Weiss and Ulrich Wurzel, *The Economics and Politics of Transition to an Open Market Economy: Egypt*. Paris: Organisation for Economic Co-operation and Development, 1998, 23.
17. For a more detailed overview of the activities of the Social Fund, see its annual reports and the annual reports of the Delegation of the European Commission in the Arab Republic of Egypt.
18. For a discussion of other aspects of the economic reform program, see, for example, Mona Qasim, *Islah al-iqtisadiy fi Misr: dur al-bunuk fi khaskhasa wa aham al-taqarib al-dawia*, Qahira: Maktabat al-Usta, 1998; and various issues of *Awraq al-Iqtisadiya* published by Markaz al-Buhuth wa al-Dirasat al-Iqtisadiya was Maliya.

In other words, Egypt's growing integration into the global economy can be seen primarily in its adoption of market reforms and its attempt to remove the state from direct involvement in the economy. As part of the structural adjustment program, trade has been liberalized and various trade barriers have been removed. The general maximum tariff has been lowered and continues to be progressively reduced. Other instruments regulating trade have also been restructured. One of the most important changes was the reduction in the number of products on the import ban list from 210 in 1990 to only 3 in 1993. Also in 1993, the list of products that required approval before their importation was abandoned. At the same time, the government began the process of deregulating business activity. Cognizant of the new challenges posed by globalization, the Egyptian government, according to the Ministry of Economy, has "increasingly sought to encourage domestic investment and foreign capital and technology transfers...to accelerate the globalization process in Egypt, efforts are being made to exploit international factor cost differentials, minimize transaction costs, access clusters of specialized capabilities and contested growth markets, and reduce the response time to technological changes and market requirements."¹⁹

In order to promote such global integration, Egypt has also moved to finalize a number of international trade agreements. Among the most significant actions have of these has been Egypt's participation in the World Trade Organization, the signing of the European Mediterranean Agreement that seeks to facilitate trade between Egypt and Europe, the creation of special free trade zones between Egypt and Tunisia and Egypt and Turkey, and the finalization of the negotiations for the establishment of the Common Market for Eastern and Southern Africa.

Despite these policy changes, however, Egypt has had a difficult time attracting foreign investment. The easing of trade restrictions, the initiation of a structural adjustment program, and the appeal of emerging markets to global capital initially resulted in a surge of FDI inflows. FDI

19. Ministry of Economy, Final Report: Private Sector Contribution to Egypt's Productivity and Growth, Development Economic Policy Reform Analysis Project, March 2000, 45-8.

grew from \$253 million in 1991 to \$750 million in 1997, \$1.3 billion in 1998, and \$3 billion in 2000.²⁰ This increase, however, was not sustained. By 2001, inflows of FDI had plunged to \$510 million. While the Egyptian government pointed to the combined negative effects of falling tourism, regional instability caused by the Palestinian uprising, and the ripple effect from the September 11 attacks on the United States, data from other North African countries suggested that other factors were also contributing to this decline in FDI inflows. Between 1999 and 2001, for example, while FDI inflows to Egypt fell by 80 percent, they doubled for Morocco and Algeria.²¹ Similarly, while by the middle of the 1990s over 30 percent of transactions on the revitalized Cairo stock exchange involved foreign investors, by the end of the decade the same investors grew more cautious, as major international rating agencies downgraded Egypt from investment to speculative grade.²²

Similar problems plagued Egypt's efforts to promote its export capacity. On this score as well, Egypt has consistently fallen behind other emerging markets, with its share of world exports declining from 0.2 percent in 1990 to 0.07 percent in 1995.²³ The inability to expand exports has meant that Egypt has faced a growing trade gap, which in 1998 rose to \$9 billion. As the Ministry of Economy noted with some concern, "in 1998 the private sector contributed twice as much as the public sector to the overall trade deficit. It accounted for two-thirds of the trade deficit. In recent years the value of the private sector's imports has been about twice as large as that of the public sector, while the public sector's value of exports has been twice as large as that of the private sector. It could be argued that this trend is the result of the private sector's faster growth, but this trend should have produced a larger export market share. A good deal of the private sector output is in non-tradeables such as construction, building and real estate."²⁴ By the same token, private business has been less willing to invest in manufacturing and industrial production that requires larger initial capital outlays and is unlikely to generate immediate profits.

20. *Ibid.*

21. *Middle East Times*, no. 39, 2002.

22. See for example, *Al-Ahram Weekly*, May 30–June 5, 2002; *Financial Times*, June 26, 2002.

23. Arvind Subramanian, *The Egyptian Stabilization Experience*, 59.

24. *Ministry of Economy*, 14.

Many within the government and the business community recognized that new incentives for investment and exports needed to be introduced and that the legal environment needed to undergo fundamental reforms in order to make business activity easier. As one Egyptian business publication noted, “[S]oon, those products that are not competitive globally will not be able to compete locally when the General Agreement on Tariffs and Trade is applied and imports freed.”²⁵ Of equal importance, according to many within the business community, has been the slow progress in implementation of the privatization program. At the same time, foreign investors have shown less interest in acquiring public sector companies than the government initially anticipated. The slowdown in privatization, according to one Egyptian banker, “leads to the downfall of the stock market and to the decline of inflows of foreign currency. Private sector is more interested in short, quick gains through trade and imports than production through building factories.”²⁶

One reason for the slowdown in the pace of divestitures and the inability to attract foreign investors has been the lack of progress in reforming the institutions that underpin the functioning of markets. As one study found, it “can take 77 bureaucratic procedures in 31 different offices to register property.”²⁷ Furthermore, as a number of surveys conducted among businessmen indicate, overregulation in the Egyptian economy continues to be perceived as an impediment to productive investment. Businessmen point to such issues as the lack of clear criteria in tax regulation, the slowness of the commercial court system, lack of access to finance, and labor market regulations. The government recognized that these issues have constrained the expansion of business activity and have posed challenges to attracting more foreign investment into Egypt and has therefore sought to restructure the various institutions that govern the economy.

Changing the Labor Law

The dispute over changes in the labor code came at a time when organized labor perceived a growing threat from the accelerating pace of structural adjustment reforms; and in particular, the privatization program aimed at

25. *Business Today*, March 2001.

26. *Ibid.*

27. *The Economist*, March 20, 1999.

finding private owners for the 314 state-owned enterprises. Unions opposed any attempts to chip away at the state sector for years, because the unions were mainly based in the public sector and because workers in these enterprises had access to benefits unavailable to those working outside the public sector. For the government, however, as the economic reforms progressed, changing the labor laws became an increasingly urgent task. Large domestic investors saw the existing regulations as severely constraining their ability to run their companies effectively. Surveys conducted by the World Bank in 1992 and 1994 among company managers revealed that the business community saw the existing labor regulations as among the most significant constraints on the development of the private sector.²⁸ Furthermore, another survey of these managers found that the larger the firm, the more constraining was the labor laws were perceived in terms of the pursuit of business activities according to the managers of these firms.²⁹ As Fathi Nematatallah, National Democratic Party member of parliament (MP) pointed out, "businessmen need to be confident in the investment atmosphere to commit funds. The current law makes many of them reluctant, which hurts the economy. The draft law simply adds a measure of balance to the employer-employee relationship."³⁰ While the parliament approved in principle a new labor code in the spring of 2003, the labor code still on the books was adopted in 1976 and amended several times, most recently in 1981. It has been seen as too pro-employee by the private sector because of, for example, provisions concerning dismissals. The law stipulates that workers once hired can only be fired only under certain, very restrictive conditions, specifically if "the worker had been finally sentenced for [a] crime or misdemeanor involving dishonesty and immorality."³¹ At the same time, however, strikes are, according to the law, illegal, and participation in a strike is punishable by imprisonment.³²

28. IBITCL, Quarterly Review for Period October 1, 1997, to December 31, 1997, 109.

29. Ahmed Galal, Which Institutions Constrain Economic Growth the Most in Egypt?, working paper no. 001, Cairo: The Egyptian Center for Economic Studies, 12-13.

30. Interview with Nematatallah, Cairo Times, January 13-19, 2000.

31. Business Today, June 1996.

32. While the current law prohibits strikes, this has not prevented workers from striking. The government response has often included sending in security forces to quell the protests, but generally only individual strike leaders have faced arrest. Furthermore, as the economic reforms progressed despite the regime's increasingly brutal response to the Islamist opposition, the harassment of labor activists appears to have declined.

The government was also concerned that the lack of flexibility of labor regulations was discouraging foreign investors from entering the Egyptian market. Without both domestic and foreign investors, however, the progress of the privatization program was in serious jeopardy. Furthermore, changing the laws governing labor relations was crucial to the success of other components of the structural adjustment package. In particular, the changes in the trade regime and, consequently, the growing openness of the Egyptian economy to international flows of goods and services meant that the Egyptian business environment had to be improved if the country were to have any hope of becoming internationally competitive. As the Ministry of Economy noted, the government has "increasingly sought to encourage domestic investment and foreign capital and technology transfers...to accelerate the globalization process in Egypt, efforts are being made to exploit international factor cost differentials, minimize transaction costs, access clusters of specialized capabilities and contested growth markets, and reduce the response time to technological changes and market requirements."³³ The need to reform the legal environment to make business activity easier thus became an ever more urgent task. As one Egyptian business publication noted, "soon, those products that are not competitive globally will not be able to compete locally when the GATT is applied and imports freed."³⁴ The labor community was well aware of the reasons behind government's attempts to restructure the labor code. As Kamal Abbas, director of the Center for Trade Unions and Workers Services, noted, "the government believes that if workers' rights are restricted, it will help attract investors. If any giant foreign company wants to build a factory overseas, it will find Turkey, Indonesia and Egypt offering different things, and it will take the country that offers the best deals in order to invest. The worker, the human being here, has been transformed into a tool of competitive advantage in attracting investment."

Proponents of changing the labor law, however, took care to emphasize that while the law would facilitate the expansion of private investment, its provisions should not be seen as only benefiting the business community but as improving the workers' position as well. Critics of the labor code pointed out that the difficulty of dismissing workers has resulted in a

33. Ministry of Economy, March 2000, 45-48.

34. Business Today, March 2001.

number of problems in the labor market. Most notably, it has led to the unwillingness of the private sector to hire. Rather than taking on additional employees, the private sector has preferred to invest in capital-intensive production. Moreover, attempts by the private sector to circumvent the law have resulted in mistreatment of workers. One of the favorite methods with the private sector uses various ploys of getting around the labor law. Employers hire workers on temporary three-month contracts and dismiss them before the three-month period elapses and the workers automatically become permanent employees. Alternatively, workers are forced to sign an undated letter of resignation when they sign the employment contract. This provides the employers with the flexibility to dismiss the workers at will simply by putting a date on the signed letter of resignation. Another common practice has been to move the worker to another company plant that may be located hundreds of kilometers away. Because there is a profound housing shortage in Egypt, moving one's family to a new location is not an option in most cases.³⁵

The changing patterns of employment in Egypt suggest that many workers could benefit from changes in the labor code. Since the beginning of the structural adjustment program, the unemployment rate has steadily climbed, affecting primarily young, educated, and new labor market entrants.³⁶ The growth of unemployment has been accompanied by an increasing informalization of the labor market, with over half of the labor force lacking job contracts and close to half lacking social security coverage. Between 1990 and 1998, moreover, the proportion of workers with no contracts, no social security coverage, or no regular job increased. The increased informalization of labor has been especially felt among nonagricultural workers.³⁷ At the same time, contrary to expectations, the formal private sector has not provided a sufficient alternative to those leaving either exiting the public sector or those entering the labor market

35. For a discussion of the differing experiences of employees in the public and private sectors, see, for example, Ragui Assaad, "Do Workers Pay for Social Protection? An Analysis of Wage Differentials in the Egyptian Private Sector," Working Paper 9610, Cairo: Economic Research Forum for the Arab Countries, Iran, and Turkey, 1995. For a discussion of abuses of the current labor law by private employers, see Nader Fargany, "Impact of the Proposed Labour Law on Labor Market Flexibility and Social Conditions in Egypt: A Preliminary Assessment," unpublished manuscript, June 1998; and Al-Ahwar, May 13, 1997.

36. Ragui Assaad, "The Transformation of the Egyptian Labor Market: 1988-98," Egypt Labor Market Project, Cairo: Economic Research Forum for the Arab Countries, Iran, and Turkey, 2000.

37. Jackline Wahba and May Mokar, "Informalization of Labor in Egypt," January 2000.

for the first time. In other words, proponents of change have argued, the existing labor legislation has had a number of negative consequences. First, rather than offering protections to workers, the existing law often encourages their exploitation. Second, by restricting employers' freedom of action, it discourages private investors, especially foreign investors, from setting up companies in Egypt, thereby stifling economic growth.³⁸

The lack of employment security in the private sector has meant that employees have been discouraged from voicing dissatisfaction with working conditions or wages, as the threat of dismissal is very real and frequently carried out. Such abuses, in addition to much less attractive benefits and pension packages in the private sector, make public sector workers reluctant to leave their current jobs, which, while not well paid, have always been secure and have ensured a pension as well as access to health care and other benefits.³⁹ The new labor law, its supporters argue, addresses this situation. While the dismissal of workers would now be possible, in exchange for forfeiting job security, workers would gain the right to strike, giving them the means to ensure that their rights in the workplace are respected.⁴⁰

While the government was eager to see the labor market regulations reformed, and large segments of the Egyptian labor force may well have benefited from such changes, organized labor opposed the attempt to change the labor law came up against organized labor's opposition. The Egyptian Trade Union Confederation (ETUC)—the sole labor organization, composed of 23 industrial federations representing primarily public sector workers—for many years opposed any government attempt to restructure the public enterprise sector or tinker with labor legislation. During the 1980s, various government proposals to reform the State-Owned Enterprises (SOEs) did not get beyond the drawing board because of labor opposition.

Unions opposed privatization for a number of reasons. In the first place, the socioeconomic policies initiated by Gamal Abdel Nasser provided workers with numerous benefits. They guaranteed previously unavailable

38. For a discussion of private business views on the regulatory environment in Egypt, see Ahmed Galal,

39. American Chamber of Commerce in Egypt, *The Egyptian Labor Force*, Cairo: American Chamber of Commerce in Egypt, July 1996, 2-6.

40. *Ibid.*, 21-31.

employment security, access to health care, and pension and retirement benefits, which substantially raised workers' standards of living compared with prerevolution days. Furthermore, as the public sector expanded, so did labor privileges. Most important, workers acquired guarantees to a share of the profits of state enterprises and gained representation on the boards of directors of public companies.⁴¹ Finally, the unions mainly represent public sector employees, the ETUC saw attempts to restructure the parastatal sector as threatening its core base. All these factors combined to create hostility among the labor movement toward any proposals aimed at privatizing the public sector. Similarly, attempts to change the labor code threatened the vital prerogatives that organized labor had won over the previous decades. By taking away job security guarantees, the changes would threaten the very existence of unions. As Cook notes in her analysis of labor reform in Brazil and the Southern Cone countries, while many analysts see reform of the labor code as primarily a technical matter, in fact, "for organized labor, the conflict over labor reform is often a struggle over rights and the power to defend them."⁴²

The new labor legislation was first proposed in 1993 and the government anticipated that the legislation would pass quickly through the People's Assembly. But it took a full decade for the parliament to actually vote on the new code. The reasons for the delay can be found in the inability of the government, business groups, and the ETUC to arrive at a consensus during the prolonged negotiations over the draft law. On the contrary, it appears that unions and businesses have, if anything, become even more entrenched in their respective positions over time, making a compromise difficult to achieve. Although the new law also anticipated changes in the collective bargaining process and procedures for labor-management dispute resolution, the two issues that have generated the most controversy have been the right to strike and the worker dismissal. The positions taken by business and labor groups were far apart from the beginning, but as unemployment climbed and living conditions became more precarious, union representatives became even more vocal in their demands that any changes in the labor law must restrict business prerogatives to dismiss employees without

41. Salah El-Sayed, *Workers' Participation in Management*, Cairo: American University in Cairo Press, 1978, 15-6.

42. Maria Lorena Cook, "Labor Reform and Dual Transitions in Brazil and the Southern Cone," *Latin American Politics and Society*, vol. 44, no. 1, Spring 2002, 1.

cause and must guarantee the right to strike.⁴³

The right to strike has been an especially contentious issue during the negotiations. Labor activists have pointed out that not only did the High Constitutional Court rule in 1987 that the constitution guaranteed this right, but Egypt is obligated to respect it because of the various international treaties it has signed.⁴⁴ Union representatives presented this demand during regular meetings held among unions, the business community, and the government to hammer out the details of changes in the labor code.⁴⁵ The business community, however, rejected the idea of a guaranteed right to strike, and the government was willing to entertain it only if it was highly restricted.⁴⁶ Moreover, as the negotiations progressed, it became clear that other disagreements divided the three groups. The ETUC argued that the law favored the employer at the expense of workers, objecting in particular to the removal of provisions in the current labor law that protect workers from arbitrary dismissals and to the lack of minimum wage provisions in the new law. The business community, on the other hand, argued that the law did not go far enough in creating a level playing field between employers and employees, and that too many vestiges of Nasserism remained - hindering the establishment of a flexible labor market.⁴⁷

The deep differences among the three sides meant that the draft law could not be put to a vote in the People's Assembly. Furthermore, as the economic reforms deepened, opposition to privatization grew both among industrial workers and the public in general, and it became a hot-button issue in both parliamentary and union elections. Studies of changing levels of poverty suggest that Egyptians had good reason to be concerned. Despite growth in the gross national product during the 1990s, unemployment remained high. Furthermore, with 500,000 people entering the workforce each year, the employment situation is likely to remain dire. Not only has the purchasing power of Egyptians declined over the decade, but the number of people living below the poverty line has risen steadily. While the majority of poor households are still found in the countryside, the rise in relative poverty

43. Al-Sha'b, December 4, 1992.

44. 'Abd al-Khalīq Farouq. *Al-niqabat wa at tatur al-dusturiy fi Misr, 1923-1995*, 59.

45. *Al-Ahram al-Iqtisadiy*, September 6, 1993.

46. It is important to note that although ETUC wanted to see the right to strike guaranteed, it also wanted to control when strikes could be called. ETUC was thus opposed to giving factory-level unions more autonomy.

47. Kamel al-Manufi, editor, *Tahlil nataij al-intihabat al-'ummaliya*, Cairo: Friedrich Ebert Stiftung and Jama'at al-Qahira, *Kulīa al-Iqtisad wa al-'Ulum al-Siyasiya*, 1997, 23-4.

has been primarily an urban phenomenon, hitting the unionized industrial workforce hard.⁴⁸

The changing economic conditions and the threat to job security that privatization and labor law reform posed led to a growth in labor activism at the enterprise level. Following the 1991 trade union elections, when candidates of the opposition Tagammu and Socialist Labor parties made substantial inroads, new efforts were made to organize workers in opposition to public sector reform. In November 1993, the National Committee to Combat Privatization was formed, and groups such as the Center for Trade Union Services became active in disseminating information to workers about government reform proposals. Within a few years, the number of protests was on the rise. A long standoff between workers and management at the textile plant in Kafr al-Dawwar in November 1994 proved to be a harbinger of clashes later in the decade.

A survey of 6,000 public sector workers, conducted by *Al-Arabi* newspaper in 1996, suggested that government attempts to push forward with privatization were likely to encounter strong labor opposition at the enterprise level. While the survey results should be treated with caution, nonetheless they suggest that public sector workers were far from supportive of government policies. The survey found that 91.2 percent of the workers were opposed to privatization. Furthermore, among the 8.8 percent who supported the program, 80.6 percent were against the sale of public sector companies to foreigners and only 35.5 percent were willing to accept the sale of their own enterprise.⁴⁹

The fear and opposition that public sector restructuring was generating among workers translated into an increase in protest actions and work stoppages and growing calls that the right to strike was absolutely essential, given the changing economic conditions.⁵⁰ The summer of 1998 witnessed an unprecedented wave of labor protests, and by the winter of 1998–99 it was evident that Egypt was experiencing the largest wave of labor unrest since the 1952 revolution.⁵¹ The Land Center for Human Rights

48. Nader Fergany, "The Growth of Poverty in Egypt," *Al-Mishkat Research Notes*, January 1998.

49. *Business Today*, August 1996.

50. *Al-Sha'b*, December 22, 1992; *Al-Ahali*, July 1, 1994; *al-Wafd*, May 2, 1995; *Al-Arabi*, August 15, 1996.

estimated that in 1998 alone there were approximately 80 labor protests, and this trend continued in 1999.⁵² During the first two months of that year, 15 strikes had already taken place. Even more troubling for the government, the protests were spreading beyond the industrial areas. The government's program of earmarking 10 percent of shares in privatized companies for sale at a discount to workers did little to assuage labor concerns.⁵³ The June 1995 ruling by the High Constitutional Court reaffirming the constitutional right of workers to form independent unions and the right to strike, further emboldened labor organizations to maintain their negotiating position.⁵⁴ In 1996, the demands expanded, with many union leaders calling for the establishment of a strike fund, modeled on those in Western Europe, to help finance protest actions. Furthermore, these calls were emanating not just from the enterprise-level union officials who were personally involved in work stoppages but also from presidents of various federations. Especially vocal were the leaders of the Mining Federation and the Chemical Workers Federation.⁵⁵

As a result of these demands, the government announced that it would ensure that the new law included provisions which would guarantee protection of workers' rights in their relationship with employers, that their rights to a share of company profits would be protected, and that their wages would be increased.⁵⁶ However, business groups refused to entertain these proposals, arguing that as far as they were concerned the government had pledged that the new labor law would ensure the ability of owners to dismiss workers and set wage levels. The business community also continued to resist granting the right to strike. In fact, many in the business community saw little reason to support any changes in the existing labor legislation if the right to strike was to be included in the new provisions. Since many of the small and medium-size businesses found it easy to circumvent the existing labor law, they saw only marginal benefits in codifying flexibility in hiring and dismissal policies if such flexibility was to be accomplished at the price of creating a potentially more militant labor force. Once again, the negotiations over the new labor law were

51. Middle East International, March 29, 1999.

52. Land Center for Human Rights, *Ahwal al-'umal fi bir Misr 'am 1998*, Cairo: Land Center for Human Rights, 1998.

53. Al-Ahram, March 27, 1995.

54. Al-Ahram, June 18, 1995.

55. Al-Ahram, September 18, 1996.

56. Al-Taqrir al-Istratijiyy, 1996, 285.

deadlocked.⁵⁷ The government's attempt to jump-start the negotiations by introducing modifications to the draft labor law only made matters worse. While the government proposal included provisions for mandatory compensation for workers in case of dismissal aimed at bringing labor back to the negotiating table, but because the proposal was presented without prior consultation with either business or labor groups, the proposal did little to overcome differences between the two sides.⁵⁸ The unionists continued to point out, that the institutional framework necessary to manage the increase in unemployment anticipated following the enactment of the law simply did not exist. As Abdel Hamid al-Sheikh, head of the Tagammu labor committee, noted, "we have a crisis in Egypt ... unemployment compensation is very difficult to secure. Theoretically, workers have six weeks of compensation, but getting it is so fraught with red tape that in effect it is nonexistent. Currently, there are LE17 billion in the state's unemployment compensation coffers, because it's not going to lay off workers."⁵⁹

By late October 1998, the negotiations over the labor law were still at an impasse. While the government was assuring business and labor that the new law did not seek to undermine anyone's rights but rather aimed at bringing legislation in line with the changing economic conditions, the two groups disagreed. Business complained that the proposed changes were insufficient and maintained too many employee protections while adding few new rights for the business sector. Labor took the opposite view, arguing that the law threatened basic rights of the workers by giving business the right to dismiss them and close down factories. Furthermore, union representatives argued, the supposed concession to labor—the guarantee of the right to strike—was meaningless, as numerous restrictions on this right were still maintained.⁶⁰ The government, for its part, seemed increasingly frustrated by the deadlock, placing the blame primarily on the union delegation. As one legal advisor in the Ministry of Public Enterprise

57. Al-Arabi, December 12, 1996.

58. Al-Ahraz, January 25, 1997.

59. Interview with al-Sheikh in Cairo Times, January 13–19, 2000. He argued that unless an unemployment insurance plan was in place, the new law would only contribute to the already difficult economic situation of the workers. He further pointed out that "there is unemployment everywhere. That's normal, but when you look at European countries they all have unemployment insurance so even if you do not have a job at the moment you can still survive. This, however, is not the case in Egypt." Personal interview with 'Abdel Hamid al-Sheikh, September 23, 1998.

60. Al-Ahali, October 21, 1998.

commented, "the Confederation is creating obstacles. It is the negotiations that are going on with the Confederation that are delaying the presentation of the law to the parliament for debate and approval."⁶¹

The new labor law continued to be embroiled in controversy in 2000. In January, once again there were expectations that the law, in its 17th version, revised due to pressure from the opposition parties and workers' groups, was about to be passed by the People's Assembly. But the controversy surrounding the legislation did not abate.⁶² In response to the renewed activity surrounding the passing of the labor legislation, a coalition of five opposition parties and three workers' rights groups formed a National Committee in Defense of Workers' Rights, arguing that the draft law needed more input from labor groups before being presented to the parliament.⁶³ This new initiative had much support among the rank and file, according to Abdel Sattar Heteita, labor correspondent for *Al-Ahali* newspaper, since "consciousness among workers is very high. I know workers who've attended more than 20 gatherings and conferences to discuss the law."⁶⁴ The group's goal was to vote in the November 2000 parliamentary elections against all MPs who were willing to support the legislation. The threat, however, did not have to be carried out, as since the government did not present the law to the parliament for a vote. With the negotiations between the government, business groups, and the ETUC in a stalemate, the government decided to postpone any further consideration of the changes until after the parliamentary contest in November 2000. The election, however, did little to resolve the underlying tensions and disagreements between the negotiators. The legislation was finally submitted to the People's Assembly in 2002, but as the spring session came to a close, it was once again clear that no vote would be taken on the adoption of the Unified Labor Law. Only during the following year's spring session did the parliament finally approve in principle changes in the labor

61. Personal interview with Mohammad Salim, legal advisor in the Public Enterprise Office, September 28, 1998, Cairo.

62. The revised version of the law includes a number of provisions that are generating much opposition. Among them is the extension of the daily working hours from seven to eight in industrial enterprises without any concomitant pay increase; a reduction in the number of nonholiday vacation days to seven a year; a reduction from three to two months of allowed maternity leave; an increase in the percentage that can be withheld from a worker's paycheck for payment of loans from 25 percent to 50 percent, and the termination of employer-provided health insurance.

63. Unlike previous attempts to set up organizations actively opposed to the changes in the labor law, this group has made a conscious effort to create a national network of activists.

64. Interview with Heteita in Cairo Times, January 13-19, 2000.

code, although it appeared that none of the negotiating partners were fully satisfied with the outcome.⁶⁵

How can we explain the ability of organized labor to engage for almost a decade in an often contentious process of restructuring the labor code? Given the increasingly authoritarian character of the Egyptian regime and its frequently demonstrated willingness to use repression, as well as the increasingly close ties between the ruling National Democratic Party (NDP) and the business community, why did the changes in labor market regulations linger on the negotiating table for close to a decade? In other words, given the regime's policy preferences and its access to coercion, why was organized labor not silenced and sidelined but instead able to insert itself into debates over policy changes? The negotiations over the new labor code took place against a backdrop of growing labor unrest, which clearly concerned the regime. On the other hand, workers' protests have often accompanied the implementation of structural adjustment programs and have often been met with harsh responses from reforming governments. In Mexico, for example, not only were successive governments unwilling to modify economic restructuring programs because of union demands, but were prepared to willing to carry out threats of closing down striking factories. The reason for the Egyptian regime's reluctance to change the labor code over union objections can be found in the prerogatives that the ETUC had acquired in the years preceding the initiation of reforms. While the postrevolutionary Egyptian regime sought to construct corporatist labor institutions that would have allowed the state to control and politically mobilize the working class, over time union organizations succeeded in extracting important substantive and even more important procedural concessions from the state. These concessions eventually gave unions substantial financial independence as well as legal prerogatives that guaranteed the ETUC the right to participate in policymaking.

65. *Business Today*, July 2003.

The Evolving Relationship between Organized Labor and the Egyptian State

Initially the economic program of the Revolutionary Command Council was far from radical, but following the 1956 Suez Crisis and the subsequent souring of relations with the West, the new regime pursued heralded a change in economic policies that pursued by the new regime, with a greater reliance now placed on the role of the state rather than the private sector achieving economic development.⁶⁶ With this shift in policy priorities, Nasser moved against the more conservative regime faction and reevaluated his relationship with organized labor. Although immediately following the revolution he was wary of facilitating the creation of a powerful trade union federation, he now conceded to a number of trade union demands in order to ensure organized labor was firmly in his base of support. A new labor code was adopted in 1959, and other legislation governing labor affairs was modified.⁶⁷ Additional laws were adopted with the goal of raising workers' standards of living and ensuring that the private sector respected the labor code.⁶⁸ Minimum wages were raised, the workweek was shortened, and a new social insurance program was introduced. The expansion of the public sector also provided resources that could be channeled toward labor. In 1961, additional procedural concessions were made with the introduction of Law 114, which granted workers representation on management boards of state firms; two years later, worker representation on the boards of directors of public sector companies was raised from two to four. Dismissing workers was also made more difficult, requiring the approval of a committee composed of unionists, company management, and Ministry of Labor representatives.⁶⁹ In 1962, the Arab Socialist Union (ASU) was created as an alliance of working forces.⁷⁰ Workers and peasants formed the core of the organization and were guaranteed 50 percent of positions within the ASU and the parliament. At the same time, a special office was created within the party with the

66. For a discussion of the regime's motivation for this change in orientation, see, for example, John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*, Princeton, NJ: Princeton University Press, 1983, 73-99; and Raymond William Baker, *Egypt's Uncertain Revolution Under Nasser and Sadat*, Cambridge, MA: Harvard University Press, 1978, 188-90.

67. For a discussion of the labor legislation during this period, see F. J. Tomiche, *Syndicalisme et certains aspects du travail en République Arabe Unie (Egypte), 1900-1967*, Paris: G.-P. Maisson-neuve & Larose, 1974, 49-67.

68. Robert Mabro and Samir Radwan, *The Industrialization of Egypt, 1939-1976*, Oxford: Clarendon Press, 1976, 135-37.

69. Assaf Bayat, "Populism, Liberalization, and Popular Participation: Industrial Democracy in Egypt," *Economic and Industrial Democracy*, vol. 14, 1993, 68. See also Al-Sayyid and Baker.

70. Corporate groups—peasants, workers, businessmen, intellectuals, and the military—were to be represented in the party.

sole aim of devising strategies to bring unions under ASU's control.⁷¹ The state's ability to control the labor movement was further reinforced by a number of provisions in the labor law adopted in 1964 that facilitated government interference in internal union affairs through such measures as "the right to proscribe membership on executive committee of the locals and federations" and requiring the Confederation to submit regular financial reports.⁷²

Thus, by the mid-1960s, corporatist labor institutions were finally in place and the working class thus seemed to have been brought under regime control. The labor movement, for its part, was more than willing to extend its support to the regime. Thanks to the shift in Egypt's domestic and foreign policies and the support it threw behind the "socialist" faction, organized labor succeeded in fulfilling many, if not most, of its major demands. These consisted not only of substantive gains, primarily in the form of higher wages and benefits as well as, but also a number of procedural ones that gave the union leadership significant authority over the administration of internal union affairs and finances, and political access through its membership in the ASU.

However, it did not take long for the conditionality of labor support for the regime to become clear. In particular, once the economic situation began to deteriorate and the regime sought to withdraw some of its substantive concessions, the reaction of the labor movement was immediate. Beginning in the late 1960s, labor protests became a recurring feature of Egyptian political life. At the same time, economic crises tended to exacerbate conflicts within the regime, as different factions pushed for alternative policy scenarios. These elite conflicts, in turn, would emboldened the ETUC to press for more concessions in exchange for offering to back one of the factions. While the Confederation often attempted to extract additional prerogatives, a few particularly deep internal regime crises provided it with effective windows of opportunity to reshape its relationship with the ruling elite. One such opportunity occurred during the succession struggle

71. Waterbury, *The Egypt of Nasser and Sadat*, 321-3; Joel Gordon, *Nasser's Blessed Movement: Egypt's Free Officers and the July Revolution*, New York: Oxford University Press, 1992, 39-59.

72. Pripstein, *Labor and the State*, 26.

immediately following Nasser's death. The second came in the latter half of the 1970s, when President Sadat sought to reorient Egypt's economic policies. During the first of these moments, the Confederation mounted pressure to curtail government interference in internal union affairs. During the second, Sadat, struggling to consolidate his position and to retain the ETUC in his coalition of support, was willing to acquiesce to many of the unions' demands. Indeed, the union elections held in July 1971 were generally regarded as free and fair. Shortly afterward, the president of the ETUC was named minister of labor.⁷³

These concessions, however, proved insufficient in bringing organized labor firmly into Sadat's support coalition. With the economic problems that had plagued Nasser's final years in office still unresolved, and the early 1970s were a period of reoccurring industrial and student unrest.⁷⁴ While repression was freely deployed in order to silence critical voices and force was used to quell strikes and demonstrations, Sadat recognized that given his still shaky political position he could not afford to antagonize too many social groups. Although at this stage Sadat was unwilling to extend any additional procedural concessions to labor, many of its substantive demands were met. In particular, minimum wages were raised and pensions and sick leave benefits increased.⁷⁵ These substantive concessions, however, proved to be too little to placate dissenters, and workers again protested in February, March, and April 1972.⁷⁶

The success of the October 1973 war provided only a brief respite for the regime and within a year, tensions were on the rise again and continued unabated for the next few years.⁷⁷ This growing restlessness of the working class came at an inauspicious moment for Sadat, who at the time was looking to consolidate his position both through reforming the ASU and by redirecting Egypt's economic policies in order to attract more foreign and domestic private investment. Both moves set him on a collision course

73. Pripstein, *Labor and the State*, 97.

74. Lafif Lakhadar, "The Development of Class Struggle in Egypt," *Khamsin*, 1978, 67.

75. *Middle East International*, January 1972, 17. Minimum wages were raised from 84 pounds a year to 108 pounds; workers were to get full pay when they were sick rather than 70 percent; and pensions were raised by 10 percent.

76. The overall political situation was tense because, at the same time, there were growing problems in the armed forces, with protests erupting in February, July, October, and November 1972 and again in February 1973, prompting rumors of an impending coup. Student demonstrations also were becoming more frequent.

77. Waterbury, *Burdens of the Past*, 16; David Hirst and Irene Beeson, *Sadat*, London: Faber and Faber, 1981, 231-2; Lakhadar, "The Development of Class Struggle," 69-70.

with organized labor. While the ETUC was not unhappy to see some reforms of the ASU, it viewed with suspicion Sadat's plans for disbanding the party and replacing it with three political platforms.

A more significant moment for the reshaping of relations between the regime and organized labor came in the second part of the 1970s, when Sadat embarked on an ambitious agenda of reshaping Egypt's political and economic life. While the Confederation was in the abstract supportive of Sadat's economic reform proposals in the abstract, but once the *infitah* policies were announced, the ETUC's enthusiasm for restructuring cooled and union leaders began publicly criticizing its various components. What the Confederation perceived as moves threatening the central position of the public sector came under particular assault from unionists. Concerned about *infitah's* emphasis on the role of the private sector, ETUC leaders made their support for state enterprises unambiguous. Although reforms were indeed necessary, the union leadership argued, the revolutionary gains of workers could not be threatened by restructuring plans, and the public industrial sector needed to be nurtured.⁷⁸

More troubling for the regime's ability to maintain control over organized labor, was ETUC's shift of tactics following the transformation of the ASU into three political platforms. The collapse of the ASU, although opposed by unionists, offered them the opportunity to reassert their independence from the regime. In November 1976, the ETUC announced that it would not align itself with any of the newly established platforms.⁷⁹ In fact, many people in the trade union movement began advocating the creation of an independent workers' party.⁸⁰ The growing assertiveness of the unions and their uncertainty about whether to remain within the regime's base of support was also evident in the inroads that the new opposition parties—especially the leftwing Tagammu—made in local trade union elections.

78. Muhammad Khalid, *Al-haraka al-niqabiya bayn al-madi wa al-mustaqbal*, Cairo: Institute of Cooperative House for Printing and Publishing, 1975, 88–91.

79. Mustafa Kamel al-Sayyid, *Mujtama'a siyasiya*, 83.

80. Huwaida 'Adli, *Al-'ummal wa al-siyasa: al-dawar al-siyasiy li-l-haraka al-'ummaliya fi misr min 1952–1981*, Cairo: Ahali Books, no. 45, 1993, 169.

These growing calls for trade union independence and the unwillingness of the new political parties to play the loyal opposition role that Sadat had envisioned for them, posed a dilemma for the president. Although Sadat was looking primarily to the bourgeoisie for support as he sought to consolidate his power and eliminate elite rivals, the prospect of making organized labor politically available to his opponents was not one Sadat could afford.

The disbanding of the ASU and the re-directing of economic policies thus proved to be a watershed in state-labor relations. Given the changing political and economic environment, the contract between the regime and trade unions underwent significant modifications that would prove, over the next couple of decades, to have far-reaching consequences for organized labor's ability to influence policymaking. Most significantly, from the late 1970s on, labor no longer flexed its political muscle only through the staging of strikes and protests, although these continued to be important tools at their disposal. Rather, the procedural concessions Sadat felt compelled to make in order to retain organized labor within the regime's coalition of support and make it unavailable to other elite factions, meant that the ETUC now had important legal prerogatives that allowed it to directly participate in decision making.

The first sign of the concessions Sadat was willing to make in order to ensure that the ETUC would not abandon him politically, was the offer to the Confederation leadership prior to the 1976 elections. Fearful that unionists would make good on their pledge not to back any of the newly created political platforms, he promised to place them in leadership positions in his ruling party, which was to shortly be reincarnated as the National Democratic Party—in exchange for their abandoning the idea of a workers' party.⁸¹ At the same time, to convince the ETUC leadership to support him and to put an end to the continuing industrial unrest, he extended additional substantive and procedural concessions to the labor movement. As usual, the substantive concessions entailed increased wage and consumer goods subsidies. The procedural concessions on the other

81. Pripstein, *Labor and the State*, 109–11.

hand, reflected in the revised trade union law, gave the ETUC the right to participate in all government discussions concerning any policy changes that would have an economic or social impact on workers, to have input into designing such policies, and to assist in their implementation.⁸²

At the same time, Sadat began encouraging union leadership to look beyond the public sector and expand their business activities, with the hope that this would soften their opposition to the *infitah*. The ETUC was granted powers to “expand the existing system of cooperatives and to use a combination of public funds and compulsory worker contributions in establishing its own economic enterprises.”⁸³ During this period the Confederation established its own bank, university, and vacation resorts and became one of the wealthiest interest groups in Egypt. Sadat’s goal in promoting these union activities was to soften their criticism of economic restructuring, but their long-term effect was the growth of financial independence of the ETUC.

But the Egyptian regime was loath to make such far-reaching concessions, which, if they remained in place, could potentially hamper elite decision-making prerogatives. Shortly, the regime moved to chip away at both sets of concessions. Given the dire economic situation, the abrogation of substantive concessions was of immediate interest. At the same time, the manner in which the move against substantive concessions was made, could be seen as the regime’s attempt to nullify in spirit if not in law the procedural concessions granted to the ETUC. The conflict that erupted between the regime and organized labor over this dual attempt and its eventual resolution indicated how much the balance of power between the state and labor had shifted.

82. Huwaida 'Adli, *Al-'ummal wa al-siyasa*, 172.

83. Bianchi, *Unruly Corporatism*, 49.

While the substantive concessions granted to labor, and in particular, the expansion of subsidies program, provided the regime with breathing room, by the latter part of the 1970s, as the economic problems grew, they became increasingly difficult to maintain. This point was driven home even more when the IMF recommended the implementation of an austerity program. Despite rumors that belt-tightening measures were in the offing, the introduction of austerity measures in January 1977 caught most by surprise. While the regime sought to withdraw these substantive concessions, but labor was unwilling to relinquish them without a fight. The subsidy cuts triggered a wave of protests, riots, and looting, first in Alexandria then quickly spreading throughout the country, resulting in an estimated 800 casualties after the army was called in to quell the unrest. Although Sadat described the events as an "uprising of thieves," the attempt to withdraw substantive concessions was quickly abandoned. Subsidies were restored and the salary increases for public sector workers and government employees that went into effect to compensate for the subsidy cuts, were left in place.⁸⁴

The January events also made clear that the ETUC was more than willing to publicly oppose government policies. While the Confederation did not approve of the protesters' tactics, on the first night of the riots it issued a statement strongly condemning the price increases. The Confederation also took the opportunity to point out to the government that it saw the January decision not only as an attempt to withdraw substantive concessions, but also as a move to tamper with the procedural concessions granted to organized labor. In the pushing through of subsidy cuts, the ETUC argued, was in direct violation of the amended labor law, which gave the Confederation the right to be consulted in decisions⁸⁵ such as the one taken by the regime, thus signaling to the regime that these new prerogatives were viewed as a binding commitment.

84. Thomas W. Lippman, *Egypt After Nasser: Sadat, Peace, and the Mirage of Prosperity*, New York: Paragon House, 1980, 114-7.

85. Mustafa Kamel al-Sayyid, *Mujtama'a siyasiya*, 75-6.

At the same time, organized labor, taking advantage of political liberalization, began resorting to the courts in order to challenge policies it saw as threatening to the interests of the rank and file. In 1980, for example, the Federation of Electrical, Engineering, and Metal Workers brought a case before the administrative court to nullify a decision allowing the merger between a British company, Chloride, with its Egyptian counterpart that would have resulted in the closure of one of the three companies that were part of Chloride Egypt.⁸⁶ At the same time, the ETUC established a secretariat whose job was to oversee the labor movement's relations with the parliament, ensure that the Confederation's position was made clear to deputies during debates on legislation that could affect workers, and, when necessary, introduce amendments to existing legislation.⁸⁷ The ETUC's political visibility was also bolstered by the presence of Confederation leaders in the People's and Consultative Assemblies, on company management boards, and on various policymaking committees.⁸⁸ The 1986 People's Assembly, for example, included 45 senior union leaders, and the deputy speaker was a trade union president.⁸⁹

The significance of these procedural concessions became clear during the 1980s. Initially, the relationship between organized labor and the new Mubarak regime was harmonious. Shaken by the Sadat assassination, Mubarak embarked on restoring better relations with opposition circles, holding frequent consultations with representatives of various parties and interest groups. The ETUC used these meetings to reiterate its views on *infatih* policies and its opposition to selling state companies. Mubarak, who had no independent power base and was uncertain whether the NDP and other members of the ruling elite were loyal to him, needed to secure organized labor's support and thus responded positively to the ETUC's concerns. He assured the ETUC that he would respect its right to participate in discussions concerning any policies that might affect rank-and-file members.⁹⁰

86. While the court ruled that the case was beyond the scope of its jurisdiction, in the end the union prevailed and the company remained open. See Rose al-Youssef, June 9, 1980, and June 23, 1980; Pripstein, *Labor and the State*, 189-90.

87. Huwaida 'Adli, *Al-'ummal wa al-siyasa*, 172.

88. Bianchi, "Corporatization of the Egyptian Labor Movement," 433.

89. *Business Monthly*, June-July 1986, 13.

90. *Al-taqrir al-istratijiyy al-arabiyy*, 1985, Qahirah: Markez al-Dirasat al-Siyasiyyah wa al-Istratijiyyah bil-Ahram, 1986, 339-40.

How fragile this cooperative relationship was became clear with the resurfacing of economic problems. As in the past, the regime's attempt to withdraw some of the substantive concessions triggered a wave of strikes and protests.⁹¹ Although the regime invariably responded with repression to these outbreaks of labor unrest, it would also abandon efforts to abrogate previously granted substantive concessions.⁹² As Shafei observers, the regime "could not restore stability without conceding to the strikers' basic demands."⁹³

The growing dissatisfaction among workers with the deteriorating living conditions and their increasing willingness to go beyond the established legal channels to express their grievances, pushed the ETUC to once again take a more confrontational stance.⁹⁴ While the Confederation leadership did not approve of the proliferating wildcat strikes, it did use them to play on government's fears of social unrest in order to extract more substantive concessions. Furthermore, the ETUC made it clear not only that the regime not only could not abrogate the procedural concessions it had granted in the late 1970s, but that it would use these legal prerogatives to oppose all government proposals concerning possible privatization of the public sector.⁹⁵ The ETUC proved very successful in blocking such proposals, in particular since they had allies within the elite who were equally reluctant to see state firms sold off. As Bianchi notes, "The Mubarak regime has tacitly recognized the Confederation as a veto group whose prior consent is indispensable to the success of any major policy initiative in such key areas as reform of public sector industries, reduction of consumer goods subsidies, and the anti-inflationary indexing of wages and price increases."⁹⁶

91. Financial Times, June 5, 1985, D3; Nazih N. Ayubi, *The State and Public Policies Since Sadat*, Ithaca, NY: Reading, 1991, 242.

92. Bertus Hendriks, "Egypt's Elections, Mubarak's Bind," MERIP, January 1985.

93. Omar El Shafei, *Workers, Trade Unions and the State in Egypt: 1984-1989*, Cairo Papers in Social Science, vol. 18, no. 2, Summer 1995, 28 (for a detailed discussion of these strikes, see 22-9); Washington Post, June 26, 1986, A36.

94. Al-taqnir al-istratijiy 1986, 385-6.

95. Rose al-Youssef, October 16, 1989, 37.

96. Robert Bianchi, "Interest Groups and Politics in Mubarak's Egypt," in Ibrahim M. Oweiss, editor, *The Political Economy of Contemporary Egypt*, Washington, DC: Center for Contemporary Arab Studies, Georgetown University, 1990, 214.

Over the four decades following the July Revolution, the relationship between state and labor underwent important changes. The corporatist labor institutions set up during the late 1950s and early 1960s provided the regime with the tools to control the working class and harness its support behind the regime, but over time the ETUC extracted both substantive and procedural concessions from the state. Most important, during the late 1970s, labor won important legal prerogatives that gave it the right to participate in all policy decisions that could affect the rank-and-file membership. Consequently, by the 1990s, when the Mubarak regime began to seriously contemplate implementing a structural adjustment program, organized labor had both the financial and legal resources to insert itself into the decision-making process. This influence enabled labor to have substantial input into the design and implementation of any public sector restructuring program.

Conclusion

The expansion of the global economy has placed new pressures on national governments to restructure their economic policies. In the case of Egypt, a persistent economic crisis led in the 1990s to a renewed commitment to the implementation of a structural adjustment program aimed at moving away from the state-led development model to one based on market mechanisms. At the same time, Egyptian policy makers became increasingly concerned that unless fundamental changes were initiated that would make the Egyptian economy more competitive and more attractive to foreign investors, the country had little hope of jump-starting growth and was likely to become increasingly marginalized and isolated from the new production and financial networks. Given this new set of pressures and incentives, the Egyptian government sought to reform labor market regulations in order to make them more flexible and more compatible with the market economy model. Nonetheless the regime encountered great problems in pushing through these restructuring measures, and the contentious negotiations with business and labor groups over the new labor code lasted almost a decade.

As I suggested in the introduction, the inability of the Egyptian regime to push through the new labor law over union objections was surprising, given the increasingly authoritarian nature of the Mubarak government. I have argued in this paper that in order to understand why organized labor has been so successful in defending its prerogatives, it is necessary to investigate the resources available to unions at the time when market reforms were commenced. Those resources, in turn were shaped by the dynamics of state-labor relationship that developed during the preceding decades preceding reform initiation. While the post revolutionary Egyptian regime constructed corporatist labor institutions with the dual goal of politically mobilizing and controlling the labor movement, however, over time, the regime was forced to grant concessions to the working class.

Furthermore, as the economy faltered and the state's resources which could be exchanged for political support dwindled, these concessions increasingly shifted from primarily substantive (like wage increases), to procedural ones, eventually giving the ETUC a voice in all government decisions affecting rank-and-file members. Consequently, when the regime embarked on implementing an ambitious structural adjustment program, it had to contend with a labor organization that was well placed to engage in policy debates.

The experience of negotiations over the new legislation regulating labor relations in Egypt underscores the importance of placing domestic institutions at the very center of any analysis that seeks to account for the influence of globalization on domestic political dynamics. While governments are under pressure to implement policy measures that will facilitate their integration into the global economy and make them more attractive to international capital, what changes are actually implemented depends on the domestic institutional environment and on the actors who, thanks to that institutional environment, will have a voice in the negotiations over restructuring proposals. Furthermore, this paper, has suggested that history matters because past interactions between the state and social groups influence the resources that both have at their disposal during their future encounters. By looking at the resources that both state and interest groups bring to the table when fundamental policy changes take place, we can better understand the relative power between the two is likely to be and, hence what the outcome of the conflicts produced by globalization pressures can be anticipated.

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