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# Building a Successful Palestinian State

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The RAND Palestinian State Study Team

Supported by a gift from  
David and Carol Richards



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## Summary

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This study focuses on a single analytical question: How can an independent Palestinian state be made successful?

Identifying the requirements for success is a pressing policy need if a new Palestinian state is established. Currently, the United States, Russia, the European Union, and the United Nations remain committed to the establishment of a Palestinian state, as do a critical mass of Palestinians and Israelis according to surveys. The “Roadmap,” which these parties have all officially supported, calls for the establishment of a new Palestinian state by 2005.<sup>1</sup> President Bush recently revised this timetable for the United States, calling for a new state by 2009. As this book is published, prospects for an independent Palestine are uncertain, although the recent passing of Yasser Arafat has opened up new dialogue and new opportunities. Nevertheless, recent history in nation-building clearly indicates that in the absence of detailed plans, such efforts almost always fail. It is this void that the present volume seeks to fill.

In this study, we explore options for structuring the institutions of a future Palestinian state, so as to promote the state’s chances of success. We do not examine how the parties could reach a settlement that would create an independent Palestinian state. Rather we develop recommendations, based on analysis, about steps that Palestinians, Israel, the United States, and the international community can begin to take now to increase the likelihood that a new Palestinian state will thrive.

It should be emphasized that nation-building even under ideal circumstances is a very difficult undertaking. If a peace is agreed to, significant distrust will still exist between Palestinians and Israelis, and some elements in both countries will not accept a peace settlement and instead will actively seek to disrupt progress toward a successful Palestinian state. Success will require good planning; significant resources; fortitude; significant sustained involvement of the international community; and courage, commitment, and hard work on the part of the Palestinian people.

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<sup>1</sup> The full title of the Roadmap is *A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict* and can be found at <http://www.state.gov/t/pa/prs/ps/2003/20062pf.htm>, as of June 2004.

## Approach

We begin our discussion by considering the essentials of a successful new state—the nature of the institutions that will govern it and the structures and processes that will ensure its security. We then describe the demographic, economic, and environmental resources on which a Palestinian state can draw, while also identifying factors that can limit the state’s ability to use these resources effectively. Finally, we consider what a Palestinian state must do to ensure that its citizens are healthy and educated.

In each substantive area, we draw on the best available empirical data to describe the requirements for success, to identify alternative policies for achieving these requirements, and to analyze the consequences of choosing different alternatives. We also provide initial estimates of the costs associated with our recommendations over the first decade of independence. The methodology used in each chapter differs depending on the nature of the analytic questions and the availability of data. Each chapter describes its individual approach and identifies the constraints and uncertainties that accompany the analysis.

## Defining Success

In our view, “success” in Palestine will require an independent, democratic state with an effective government operating under the rule of law in a safe and secure environment that provides for economic development and supports adequate housing, food, education, health care, and public services for its people. To achieve this success, Palestine must address four fundamental challenges:

- **Security:** Palestinian statehood must improve the level of security for Palestinians, Israelis, and the region.
- **Governance:** A Palestinian state must govern effectively and be viewed as legitimate by both its citizens and the international community.
- **Economic development:** Palestine must be economically viable and, over time, self-reliant.
- **Social well-being:** Palestine must be capable of feeding, clothing, educating, and providing for the health and social well-being of its people.

## Conditions for Success

### Security

The success of an independent Palestinian state is inconceivable in the absence of peace and security for Palestinians and Israelis alike. Adequate security is a prerequisite to achieving all other recommendations in this volume. An independent Palestinian state

must be secure within its borders, provide for the routine safety of its inhabitants, be free from subversion or foreign exploitation, and pose no threat to Israel. Moreover, these conditions must be established from the moment of independence: Unlike infrastructure or industry, security is not something that can be built gradually.

Successful security arrangements range from protecting borders that surround the state to maintaining law and order within it. Success, even under the most favorable conditions, will probably require extensive international assistance; close cooperation between any international security personnel and their Palestinian counterparts; and Israeli-Palestinian security cooperation, bolstered by at least international financial assistance.

### **Governance**

Good governance will be a key measure of success of a new Palestinian state. From our perspective, this must include governance that is representative of the will of the people, practices the rule of law, and is virtually free of corruption. The government must also enjoy the support of the people. To gain the support of the majority of Palestinians—three-fourths of whom public opinion surveys suggest support reconciliation with Israel and the establishment of an independent Palestinian state—a new state must be seen as legitimate by its citizens and practice the good governance that is necessary to maintain public respect and support.

The thoroughness with which democratic institutions and processes, including the rule of law, are established will be vital from the outset—indeed, it is already critical. The death of Yasser Arafat in November 2004 will yield new challenges and opportunities for Palestinians trying to establish the institutional foundation for an independent state.

### **Economic Development**

An independent Palestinian state cannot be considered successful unless its people have good economic opportunities and quality of life. Palestinian economic development has historically been constrained, and per-capita national income peaked in the late 1990s in the range of “lower middle income” countries (as defined by the World Bank). Since then, national income has fallen by half or more following the start of the second intifada (uprising) against Israel in September 2000. An independent Palestinian state will need to improve economic conditions for its people just as urgently as it will need to improve security conditions.

Our analysis indicates that Palestine can succeed only with the backing, resources, and support of the international community—above all, the United States, the European Union, the United Nations, the World Bank, and the International Monetary Fund. Resource requirements will be substantial for a decade or more. Of course, the availability of such resources cannot be taken for granted. The possible limited availability of resources intensifies the need for the state to succeed quickly, especially in the eyes of those who provide private investment capital.

During the period of international assistance, the Palestinian state should invest aid, not merely consume it. Ultimately, an independent Palestinian state cannot be characterized as successful until the state becomes largely self-reliant.

### **Social Well-Being**

A fourth condition for the success of an independent Palestinian state is that the living conditions of its people improve substantially over time. Many observers have suggested that disappointment about slow improvement in living conditions under Palestinian administration after 1994—and sharp declines in some years—contributed significantly to the outbreak of the second intifada.

In addition to the conditions for success described above, the Palestinian health and education systems must be strengthened. Options for such improvements are discussed in the final chapters of this book. Both systems start with considerable strengths. But both will also need considerable development, which will require effective governance and economic growth, as well as external technical and financial assistance. In the area of health, the state can be seen as successful if it is able to provide its citizens with access to adequate primary and tertiary care services while being able to carry out the basic public health functions of a modern state, including immunization programs for children. In education, all children need to be assured access to educational opportunities to enable them to achieve their potential while contributing to the economic and social well-being of the society.

### **Crosscutting Issues: Permeability, Contiguity, and Security**

Our analysis identified three crosscutting issues that will strongly influence prospects for the success of a Palestinian state:

- How freely people can move between Israel and an independent Palestinian state, which we refer to as “*permeability*” of borders.
- Whether the state’s territory (apart from the separation of Gaza from the West Bank) is *contiguous*.
- The degree to which *security* is achieved.

These issues affect all of the other issues examined in this book. It is important to understand how they are interlinked, how they affect key goals, and how they might be reconciled. This study concludes that none of the major conditions of success—security, good governance, economic viability, and social welfare—can be realized unless Palestinian territory is substantially contiguous. In a territorially noncontiguous state, economic growth would be adversely affected, and the resulting poverty would aggravate political discontent and create a situation where maintaining security would be very difficult, if not impossible. In any case, a Palestine divided into several or many

parts would present its government with a complex security challenge since a noncontiguous state would hamper law enforcement coordination; require duplicative and, therefore, expensive capabilities; and risk spawning rivalries among security officials, as happened between Gaza and the West Bank under the Palestinian Authority. Greater border permeability is essential for economic development but significantly complicates security.

## **Key Findings from the Analyses**

Below key findings from our analyses are summarized. Most areas examined include estimates of the financial costs associated with implementing each chapter's recommendations. Costs are presented in constant 2003 U.S. dollars, unless otherwise noted, with no attempt to adjust the estimates for future trends in inflation or exchange rates.

These estimates are not based on detailed cost analyses. Rather, we intend them to suggest the scale of financial assistance that will be required from the international community to help develop a successful Palestinian state. More precise estimates will require formal cost studies (involving detailed needs assessments), which were outside the scope of the present project. Moreover, we did not estimate the costs of all the major institutional changes and improvements in infrastructure that would be required for a successful Palestinian state, so summing the cost estimates across the chapters of this book will fall considerably short of the "total" financial requirements for successful Palestinian development.

### **Governance**

A successful Palestinian state will be characterized by good governance, including a commitment to democracy and the rule of law. A precondition to good governance is that the state's citizens view their leaders as legitimate. An important source of legitimacy will be how well Palestinian leaders meet the expectations of their people in negotiations with Israel on key issues such as the size of the new state, its territorial contiguity, and the status of Jerusalem, as well as the form and effectiveness of governance, economic and social development, and the freedom of refugees to resettle in Palestine or be compensated.

Good governance will be more easily achieved if Palestine's borders are open, its economy prosperous, its refugee absorption manageable, its security guaranteed, and its early years bolstered by significant international assistance. Good governance will not be achieved without significant effort and international assistance. It will depend heavily on the reform of government institutions and practices. At a minimum, Palestine must take actions that (1) promote the rule of law including empowering the judiciary, (2) give greater power to a Palestinian parliament, (3) significantly reduce corruption, (4) promote meritocracy in the civil service, and (5) delegate power to lo-

cal officials. Among other actions, a currently pending constitution that recognizes the will of the people and clearly defines the powers of various branches of government must be wisely completed. Finally, the authoritarian practices and corruption that has characterized rule under the Palestinian Authority must be eliminated.

Strengthening Palestinian governance will entail real costs, for instance for conducting elections and for establishing and operating the legislative and executive branches of government. Our analysis does not explicitly estimate the costs of these institutional changes. These costs are addressed in some instances, however, particularly those relating to administration of justice in Chapter Three.

### **Internal Security**

The most pressing internal security concern for a Palestinian state will be the need to suppress militant organizations that pose a grave threat to both interstate security (through attacks against Israel and international forces) and intrastate security (through violent opposition to legitimate authority). Public safety and routine law enforcement—administration of justice—will also need to be put on a sound footing as quickly as possible.

Assistance for the administration of justice would facilitate the emergence of an independent judiciary and an efficient law enforcement agency capable of investigating and countering common criminal activity and ensuring public safety. Both of these broad objectives would require funds for rebuilding courthouses and police stations; supplying equipment and materials necessary for training, such as legal texts, computers, and other office equipment; and providing forensic and other training and the equipment that police need to carry out their day-to-day patrolling duties. A more comprehensive program aimed at accelerating the reform process and creating a sense of security for Palestinian citizens more swiftly would include deploying international police and vetting and recruiting judges, prosecutors, and police officers.

As in the realms of counterterrorism and counterintelligence, internal security requirements would demand restructured security services and up-to-date equipment, monitoring, training, and analytical support. Depending on the severity of the domestic terrorist threat and the speed with which Palestinian capacities develop in this area, a more intensive program might be needed.<sup>2</sup>

We estimate general internal security reconstruction costs to be at least \$600 million per year, and as much as \$7.7 billion over ten years.

### **Demography**

There are almost 9 million Palestinians, nearly 40 percent of them living within the boundaries of what is likely to become a new Palestinian state (the West Bank and

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<sup>2</sup> A forthcoming RAND companion study to this one, entitled *Building a Successful Palestinian State: Security*, will explore security issues in more depth.

Gaza). The population's fertility rate is high. If there is large-scale immigration by Palestinian diaspora, the population in the Palestinian territories will grow very rapidly for the foreseeable future.

Rapid population growth will stretch the state's ability to provide water, sewerage, and transportation to Palestinian residents, and it will increase the costs of doing so. It will tax the physical and human capital required to provide education, health care, and housing, and it will place a heavy financial burden for funding these services on a disproportionately smaller working-age population. A new Palestinian state will also be hard-pressed to provide jobs for the rapidly growing number of young adults who will be entering the labor force.

There are clear signs that Palestinian fertility rates are declining, but the rate of decline is uncertain. In the short run, births will certainly increase since the number of Palestinian women in the prime childbearing years will more than double. How much fertility rates decline over the long term will probably depend on the degree to which the education levels and labor force participation of Palestinian women rise.

There is also considerable uncertainty surrounding the number of diasporic Palestinians who might move to a new Palestinian state. The Palestinian Central Bureau of Statistics and the United States Census Bureau estimate between 100,000 and 500,000 returnees. Our own estimates, based on assumptions about which groups of Palestinians will be most likely to return and under what conditions, are somewhat higher. Ultimately, the number of Palestinians returning will depend on the terms of the final agreement and on social, political, and economic developments in the new Palestinian state. These demographic realities greatly affect the likely economic and social development of the new state.

## **Water**

A viable Palestinian state will need adequate supplies of clean water for domestic consumption, commercial and industrial development, and agriculture. These requirements are not being met today. Current water and waste management practices are degrading both surface streams and rivers and underground water resources.

Most of Palestine's water is provided by springs and wells fed by underground aquifers that are shared with Israel. Current water resource development provides only about one-half of the World Health Organization's per-capita domestic water requirement and limits irrigation and food production. In addition, current water use is unsustainable: The amount of water that the Palestinians and Israelis extract from most of the region's aquifers exceeds the natural replenishment rate.

Options for increasing the water supply that were examined include increasing groundwater use, accommodated by Israel's reduction in use; increasing rain and storm water capture; and increasing desalination capabilities where no other options exist. Demand can be managed through the wise application of water efficiency technologies, water reuse methods, and infrastructure improvements.

We estimate a base case cost of more than \$4.9 billion for supplying water and sanitation through 2014. Improved water management strategies could save \$1.3 billion to \$2 billion.

## Health

The health system of a future Palestinian state starts with many strengths, including a relatively healthy population, a high societal value placed on health, many highly qualified health professionals, national plans for health system development, and a strong base of governmental and nongovernmental health care institutions.

Important areas of concern include poor system-wide coordination and implementation of policies and programs across geographic areas and between the governmental and nongovernmental sectors of the health system, many underqualified health care providers, weak systems for licensing and continuing education, and considerable deficits in the operating budgets of the Palestinian Ministry of Health and the government health insurance system (the principal source of health insurance).

Our analysis focused on major institutions that the health care system would need in the first decade of an independent state. In addition, we identified several urgently needed programs for preventive and curative care.

We examined and recommended that priority be given to initiatives in two areas:

- Integrating health system planning and policy development more closely, with meaningful input from all relevant governmental and nongovernmental stakeholders.
- Improving public and primary health care programs, including an updated immunization program, comprehensive micronutrient fortification and supplementation, prevention and treatment of chronic and noninfectious disease, and treatment of developmental and psychosocial conditions.

We estimate that the Palestinian health system would require between \$125 million and \$160 million per year in external support over the first decade of an independent state.

## Education

The future state's education system begins with a strong foundation, especially in the areas of access, quality, and delivery. Access strengths include a commitment to equitable access and success in achieving gender parity, strong community support for education, and leadership that is supportive of both system expansion and system reform. Strengths in the area of quality include willingness to engage in curricular reform, strong interest in and resources for improving pedagogy, commitment to improving the qualifications and compensation of staff, and the perception of schools as a key location for developing students' civic skills and social responsibility. The system is relatively well managed and has some solid data collection capabilities.

Nevertheless, the system faces notable challenges. In the area of access, these include rising levels of malnutrition, homelessness, and general poor health; inadequate facilities and supplies; unsafe schools and routes to schools; lack of special education options for students with special needs; lack of informal education options for school-age students; and the absence of lifelong learning opportunities. Quality challenges include a lack of clear goals and expectations for the system; limited relevance of secondary, vocational, and tertiary programs to Palestine’s economic needs; limited research and development capacity and activity; low staff compensation and an emerging administrative “bulge”; and difficulty in monitoring process and outcomes. Delivery is hobbled by a severely underfunded and donor-dependent system, and the limited data on the system are not effectively linked to reform.

Our analysis examined ways in which access, quality, and delivery could be improved, with a long-term goal of positioning Palestine as a powerful player in the region’s knowledge economy. We recommend the following three primary goals for the system over the next ten years:

- Maintaining currently high levels of access, while also working within resource constraints to expand enrollments in secondary education (particularly in vocational and technical education and the academic science track) and early childhood programs.
- Building quality through a focus on integrated curricular standards, assessments, and professional development, supported by long-term planning for system sustainability.
- Improving delivery by working with donors to develop streamlined and integrated funding mechanisms that allow the administration to focus on the business of meeting student needs, informed by strong evaluation and backed by significant sustained investment.

We estimate that the Palestinian education system will require between \$1 billion and \$1.5 billion per year in financing over the first decade of statehood if it is to operate at a level that will support national ambitions for development. (We do not distinguish between donor and national investments.) We recognize that these investment levels are substantial, both in absolute terms and relative to historical spending levels in Palestine (which averaged around \$250 million per year during 1996–1999). Our recommendations are based on international benchmarks for spending per pupil in successful education systems. We also offer options for reducing costs should it be necessary to do so.

### **Economic Development**

We examined possible economic development trajectories in an independent Palestinian state during the 2005 to 2019 timeframe, focusing on Palestine’s prospects for sustaining growth in per-capita incomes. Prerequisites for successful economic develop-

ment include adequate security, good governance, adequate and contiguous territory, stable access to adequate supplies of power and water, and an adequate transportation infrastructure. In addition to the prerequisites, four critical issues—transaction costs, resources including internal resources and financing and external aid, the Palestinian trade regime, and the access of Palestinian labor to employment in Israel—will primarily determine the conditions under which the Palestinian economy will function.

Since Palestinian territory has limited natural resources, economic development will depend critically on human capital, with stronger systems of primary, secondary, and vocational education as indispensable down payments on any future economic success. Other important conditions will include Palestinian access to Israeli labor markets and substantial freedom of movement of people and products across the state's borders, including the border with Israel. However, brittle Israeli-Palestinian relations are likely to constrain cross-border movement of Palestinians into Israel for some time after a peace agreement.

Strategic choices made by policymakers at the outset of the new state will markedly affect its economic development. Decisions about *geographic contiguity*—the size, shape, and territorial coherence of a future Palestinian state, the inclusion of special sites or areas, and control over land and resources—will determine the resources that the new state's leaders will have to foster growth and the ease with which Palestinians can engage in business. Decisions about the degree of *economic integration* with Israel in terms of trade and the mobility of Palestinian labor will shape the Palestinian economy, the rate of economic growth, and prospects for employment.

We analyze four development scenarios, each determined by decisions about geographic contiguity and economic integration. We estimate the levels of economic growth that might be achieved under each scenario, given specific levels of international investment.

Under each scenario except the low-contiguity/low-integration case, Palestine could surpass its 1999 per-capita gross national income by 2009 and double it by 2019. Achieving such growth would require significant investment in Palestinian capital stock: Between 2005 and 2019, the Palestinian private and public sectors and the international community would have to invest about \$3.3 billion annually, for a cumulative total of some \$33 billion over the first decade of independence (and \$50 billion over the period 2005–2019).

Under any scenario, domestic private employment would have to grow at a substantial pace (perhaps at an annual average of 15 to 18 percent) between 2005 and 2009 to reach rates of employment last seen during the summer of 2000. These employment rates should be possible once Palestinian businesses are able to operate in a relatively unrestricted environment and are fully able to utilize available resources.

We note that the assumed level of capital investment of \$3.3 billion per year is in the same range as the total cost estimates for a port, airport, and connecting road; improvements in the electric power system; the capital costs of expanding water and

sewage systems; and even costs of improving health and education, many of which are operating, not investment costs. Thus, the economic analysis of the Palestinian economy provides some comfort that the total of the individual cost estimates is not out of line with overall investment needs.

## Donor Funding and the Costs of Creating a Viable Palestinian State

As a frame of reference for the magnitude of funding that may be required from international donors to ensure successful Palestinian development, we considered the cases of Bosnia and Kosovo, two areas where the international community has recently invested very large sums for post-conflict reconstruction. Like the West Bank and Gaza, these two entities suffered considerable damage from conflicts. Both have attracted considerable international interest and assistance. Both have had some success in creating democratic governments and revitalizing the local economies. In the first two years following the signing of peace accords in Bosnia and Kosovo, foreign assistance (grants and loans) averaged \$714 and \$433, respectively, per person per year.

Applying these per-capita figures to the projected population of West Bank and Gaza, an analogous annual inflow of assistance of \$1.6 billion to \$2.7 billion would be required in the first year. The level of required assistance would rise to between \$2.1 to \$3.5 billion by 2014 because of increases in population (see Table S.1). Over

**Table S.1**  
**Aid Flows Analogous to Bosnia and Kosovo**

Year	Estimated Palestinian Population	Total Aid (millions of 2003 dollars)	
		Bosnia Analogy	Kosovo Analogy
2005	3,761,904	2,688	1,627
2006	3,889,249	2,779	1,683
2007	4,018,332	2,871	1,738
2008	4,149,173	2,964	1,795
2009	4,281,766	3,059	1,852
2010	4,416,076	3,155	1,910
2011	4,547,678	3,249	1,967
2012	4,676,579	3,341	2,023
2013	4,807,137	3,434	2,080
2014	4,939,223	3,529	2,137
Total		31,068	18,813

SOURCE: World Bank, *West Bank and Gaza Update*, Washington, D.C., April–June 2003.

NOTE: The World Bank figures are in then-year U.S. dollars.

the ten-year period between 2005 and 2014, flows of foreign assistance to a new Palestinian state analogous to levels that have been granted to Kosovo and Bosnia would run from \$18.8 billion to \$31.1 billion. Those levels of foreign investment would be enough to cover the areas examined by our study, with some left over for other areas that were outside the scope of our study (e.g., transportation).

## **Looking to the Future**

At the time of this writing, the prospects for establishing an independent Palestinian state are uncertain. U.S. attention, without which a negotiated settlement between Palestinians and Israelis seems unlikely, has been focused primarily on Iraq and elsewhere to date. However, President Bush recently called for a new state by 2009. U.S. experience in Iraq and Afghanistan can only reinforce the value of having plans in place for the eventuality of an independent Palestine. The death of Yasser Arafat in November 2004, which spurred both Palestinians and the wider world to focus on the future of the region, may yet turn this eventuality into a more imminent reality.

Our book is not a prediction that peace will come soon. However, we believe that thoughtful preparation can help make peace possible. And when peace comes, this preparation will be essential to the success of the new state. This book is designed to help Palestinians, Israelis, and the international community—the United States, its Quartet partners, and Palestine's Arab neighbors—prepare for the moment when the parties are ready to create and sustain a successful Palestinian state.