

State Formation in Palestine

The crisis-ridden progress in Palestinian state formation since the signing of the Oslo Agreements raises important questions about reform priorities and the future prospects of constructing a viable Palestinian state. Were the obstacles to progress primarily due to poor governance and poor leadership on the Palestinian side, how far have corruption and the weakness of democracy in the Palestinian Authority been responsible, and what were the effects of the economic and political relationships between Israel and the emerging Palestinian state? This book examines these key questions, and challenges the widely prevalent view that the Palestinian Authority collapsed because of its internal governance failures, its lack of commitment to democracy, and its failure to control corruption.

It argues that the analytical framework of “good governance” is not appropriate for assessing state performance in developing countries, and that it is especially inappropriate in conflict and post-conflict situations. Instead, an alternative framework is proposed for assessing state performance in a context of economic and social transformation. This is then applied in detail to different aspects of state formation in Palestine to show that while there were indeed internal failures of governance, the institutional architecture set up by the Oslo agreements established an asymmetric Israeli control over the emerging Palestinian state and this was responsible for many of the most serious failures of governance.

This architecture is based on Israel’s insistence on security first, and since this is not likely to change soon, the analysis has important implications for the prospects of Palestinian state formation.

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Viability and governance during a
social transformation

Edited by

Mushtaq Husain Khan

with

George Giacaman and Inge Amundsen

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Abbreviations

BOI	Bank of Israel
CAC	Joint Civil Affairs Co-ordination and Co-operation Committee
CET	common external tariff
GS	Gaza Strip
ICA	Israeli Controlled Areas
ITD	Income Tax Department
JEC	Joint Economic Committee
NIS	New Israeli Shekel
OEIP	Oslo Extended Interim Period
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PCSC	Palestinian Commercial Services Company
PEP	Paris Economic Protocol
PIF	Palestinian Investment Fund
PLC	Palestinian Legislative Council
PLO	Palestine Liberation Organization
PMAD	Palestinian Public Monitoring and Audit Department
PNA	Palestinian National Authority
PNGOs	Palestinian non-governmental organizations
PRA	Palestinian Revenue Authority
PTF	Peace Technology Fund
TAP	Tripartite Action Plan
WB	West Bank
WBG	West Bank and Gaza
WBGS	West Bank and Gaza Strip

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Introduction

State formation in Palestine

Mushtaq Husain Khan

Achievements, constraints and prospects for the future

The historic significance of the Oslo Agreement signed by the Palestinian Liberation Organization (PLO) and Israel in 1993 was that this was the first time that Israel formally recognized, even if only in part, the national aspirations of the Palestinian people. Many Palestinians believed that Israel had implicitly accepted the necessity of creating a fully fledged Palestinian state on 1967 borders. But the exercise eventually ended in the failure of Camp David and the commencement of the Second *Intifada* of 2000. Our analysis of Palestinian state formation in the period after 1994 identifies a number of key external and internal factors that contributed to the eventual failure. The Road Map announced in 2003 retained many of these damaging elements, without enjoying the goodwill or the relative political stability that made Oslo appear so promising at the time. Thus, the impasse reached in 2000 raises questions of great importance for the future. Was the failure due to poor Palestinian governance, poor leadership on one or both sides, or the economic and political relationships that Israel sought to construct with the emerging Palestinian state under the aegis of Oslo? In particular, what role did the quality of *governance* as measured by corruption, rent-seeking and the weakness of democracy within the Palestinian Authority play in the eventual crisis? These questions are not just important for the historical record; they are critical for assessing the prospects of constructing a viable Palestinian state in the future.

The Palestinian Authority (the PA, often also referred to as the Palestinian National Authority or PNA) was established in 1994.¹ It had the unenviable task of *first* ensuring security for Israel while, in the interim period, it only controlled a number of non-contiguous population centres in the occupied territories, with authority over health, education, social services and tourism, the power to raise direct taxes and to elect a representative council. The PNA did not control its external borders, it lacked territorial contiguity, and it lacked meaningful sovereignty over its own land, water, minerals, airspace or even access to the sea. Yet, it had many of the symbols and trappings of a state (such as passports, stamps, car number

plates, an international airport, ministries, police and security forces, and other public institutions)². In substance, however, it was actually a limited self-government with very limited administrative, security and legislative powers over *limited* areas in the West Bank and Gaza Strip (WBG). The Israeli occupation continued over East Jerusalem, some 60 per cent of the area of the West Bank, and just over 25 per cent of the area of the Gaza Strip. Israeli settlements remained atop every strategic hilltop and vital aquifer in the West Bank, breaking up the PNA's territories into a series of non-contiguous and water-scarce plots. Nevertheless, the PNA was more than a municipal government because it was established following the three agreements signed between the PLO and Israel between September 1993 and September 1995, as an interim measure, awaiting the results of final status negotiations.³ Its supporters believed it to be the future Palestinian state in embryonic form, which would take over as Israel withdrew, as they believed it must, from all the territories it occupied in 1967 in line with UN Resolutions 242 and 338. In mid 1999, the population of the WBG was estimated at 3,019,704, including East Jerusalem.⁴ The majority of this Palestinian population in the occupied areas came under the jurisdiction of the PNA, with the exception of East Jerusalem and areas that remained under Israeli control.⁵

The amount of land the Palestinians would eventually get was left for final status negotiations, as were all the difficult questions including the status of East Jerusalem, the refugees, and the Jewish settlements in the occupied territories. The Palestinians believed that by signing the Agreements, Israel had accepted that it would have to withdraw to the internationally recognized 1967 borders. But even if it did, the Palestinians would still barely be getting 22 per cent of historic Palestine. Even this best-case scenario, and the process through which it was to be achieved, was highly controversial from the Palestinian perspective. The international sponsors of the PNA recognized this, since they prioritized assistance to the Authority to immediately set up a massive Palestinian internal security force. But while the Authority acquired the power to police its population, it lacked powers to police its borders and negotiate independent trade agreements; it did not have its own currency and it could not define citizenship. As a result, its economic survival and its relationship with the outside world were controlled by Israel in ways that often worsened the already vulnerable situation of many Palestinians. This superstructure needs to be explicitly recognized in any objective attempt to evaluate governance under the PNA or to identify areas of weakness where reform priorities should be directed.

While the PNA lacked many of the fundamental characteristics of a state, the fact that it could legitimately exercise violence to maintain social order within the territories it controlled gave it a state-like quality. Moreover, Palestinians perceived many of its political and economic interventions as the actions of their emerging state. At the same time, from the outset, there was an internal Palestinian critique of the PNA's quality of governance,

coming from across the Palestinian political spectrum. These critiques pointed out a number of areas of concern, including a widespread perception of corruption, of human rights abuses in arrests and interrogations, the lack of attention given to developing democratic procedures, and of the emergence of monopolies and cartels that were distorting the market against the interests of consumers and small producers. These internal Palestinian critiques were pointing out the slow progress towards the *goals* of the Palestinian state formation process from a Palestinian perspective. In contrast, a related critique of the Authority began to emerge from the ‘good governance’ school and the related neo-patrimonial framework that identified a number of these same characteristics as *causes* of economic stagnation and political crisis. There is no question that the problems of corruption and weak democracy in the PNA were real and undesirable. The question is rather about the causes and consequence of these problems, so that the most important factors can be prioritized for policy. We will argue that both the good governance and neo-patrimonial frameworks are seriously inadequate for assessing the achievements and failures of governance under the PNA, or for identifying the lessons to be learnt for the future.

Our argument is therefore both about methods of analysis and about assessing the historical evidence. On the method of analysis, we question the usefulness of the *good governance* and *neo-patrimonial* frameworks in the context of developing countries, and particularly in contexts of conflict, such as the Palestinian one. We argue that to evaluate the problems of governance in such contexts requires a framework that takes account of the fact that developing states face challenges that are quite different from the service-delivery tasks appropriate for advanced country states. States in developing countries are frequently and necessarily engaged in reconstructing their societies and economies and thereby overseeing far-reaching processes of *social transformation*. In particular, processes of creating a capitalist sector are always intensely contested, and there are inevitably winners and losers. In contexts such as that of Palestine, we also have intense colonial-type conflicts between a colonial power and a colonized population. To assess governance in these developmental contexts, we propose an alternative framework derived from the experience of economic and social transformation in developing countries. This framework focuses on the ‘transformation’ capacities of states and the potential of developing these capacities. It provides a very different set of criteria for assessing areas of strength and weakness in the Palestinian administration. It is likely to be of wider interest in the Middle East, and in other developing countries. We then use this framework to assess the historical evidence of Palestinian state formation.

Chapter 1 by Khan sets out the analytical and empirical approaches that are developed in this book. It begins by questioning the appropriateness of the good governance and neo-patrimonial approaches applied to developing countries. These models are based on an underlying mainstream economics

model where the existence of ‘rents’ signals economic inefficiency. ‘Rent’ is a term used by economists to describe incomes that are higher than those possible in a competitive market. In most cases, rents therefore refer to politically generated incomes, since political intervention is the most obvious way in which ‘above normal’ incomes are generated. Rents include monopoly profits, and subsidies and transfers of all types, where political power is used to create privileged incomes for some. ‘Good governance’, in the mainstream political economy tradition, is achieved if institutional structures prevent the emergence of rents and the associated rent-seeking activities. Anti-corruption strategies and the support for democracy have an *instrumental* value in this analysis. Corruption is illegal rent-seeking, where the state is bribed to create or maintain privileged incomes, or to allocate privileged resources in particular ways. Anti-corruption strategies are expected to reduce this illegal rent-seeking. It is also theoretically assumed that it will become more difficult to create rents if we have a democracy, because rents by definition always benefit a minority. The good governance argument is that to have a vibrant market economy, governance reforms have to tackle corruption, establish democracy, and liberalize the economy at the same time. The neo-patrimonial argument is closely related. It argues that rents are widespread in developing countries because of pre-modern and personalized political institutions and cultures. These allow unaccountable leaders to create rents for themselves and their clients, with the same damaging economic and political consequences.

In contrast to these theories, we argue that an examination of the historical evidence of economic transformation in developing countries tells us that rents are pervasive in all developing countries, *and they have to be*. While some rents are damaging, many other rents are essential for organizing the economic transformation that creates a capitalist economy, and for political stabilization. In conflict and post-conflict situations, the importance of rents for managing political stabilization is even more marked. It follows that in developing and conflict societies we have to examine the determinants of different *types* of rents. Compared to the attractive simplicity of the good governance agenda that tries to achieve a rent-free competitive market, with relatively simple institutional and political reforms, the real world demands are more complex. From this perspective, the task of state-building and of reform is indeed to attack the institutional and political factors that induce the creation of damaging rents. But at the same time, and no less importantly, reform has to promote institutions and political arrangements that allow the creation and management of rents that are essential for economic transformation and political stabilization.

Accelerating *economic* development requires interventions and rent-creation that accelerates the emergence of a viable capitalist class, and supports and regulates its development. States also have to carry out significant redistributions to maintain *political* stability, often having to use patron–client networks to achieve stabilization. This too requires significant

rent-creation and rent-management capacities. In Palestine, there were additional limits on what the 'state' could do that were set by external powers. These external constraints ensured that important rents were controlled by external powers, and this significantly affected the way in which PNA institutions operated. We argue that some of these external constraints played a critical role in blocking state formation in Palestine, and this has important implications for state formation strategies in the future.

We apply this framework to the Palestinian context to identify the strengths and weaknesses of the Palestinian quasi-state set up in 1994. Our method is to start with an investigation of the dominant types of rents that characterized the Palestinian economy and polity. What were the major resource flows and rents that describe the activities of the quasi-state? This information helps us to identify some of the main characteristics and capacities of the PNA, as well as identifying some of the directions in which it was likely to evolve. Some of the most important resources that were critical for the survival of the Palestinian quasi-state were controlled by Israel as a deliberate feature of the security architecture negotiated under Oslo. The bulk of Palestinian fiscal revenues was collected and transferred to the Palestinians by Israel; Palestinian trade was controlled by Israel in ways that allowed Israeli trading monopolies to extract rents from Palestinian consumers, and Palestinian labour movements, to Israel and even within the Palestinian territories, were rigorously controlled. These restrictions meant that resources that were critical for the survival of the Palestinian quasi-state were transferred to it in the form of rents controlled by Israel, and this leads us to argue that Israel's intention was to create a *client state*. Although neither side used this term for obvious reasons, the Palestinian leadership implicitly accepted the necessity of these Israeli controls over the economy for an indefinite period. It was clear to them that they had no option but to accept these conditions and prove that they could deliver security to Israel's satisfaction.

But to assess the viability of the client-state strategy, we need to ask why Israel wanted to maintain these types of controls over the emerging Palestinian state, and this too is discussed further in Chapter 1 by Khan. Security behind recognized international borders does not necessarily require a client state in a neighbouring country, particularly given the military balance of power between Israel and the Palestinians. One possibility is that Israel foresaw the permanent presence of Jewish settlements throughout the Palestinian territories. Ensuring the security of a myriad of enclaves would make it necessary to have a client state on a permanent basis in Palestine. Or even worse, perhaps Israel's political classes believed that a Palestinian state would not solve the 'Palestinian problem' from their perspective, since the problem of the refugees and of Israel's internal Palestinians would remain. If this was the concern, Israel's long-term strategic interests might have demanded the creation of an *unviable* or dependent client state, which could be relied on to assist in the long-run

management of other aspects of the Palestinian problem. If so, the two sides may have had very inconsistent expectations about the type of Palestinian state that was to be constructed. While we do not know precisely *why* Israel insisted on developing and maintaining the controls that we describe as the client-state system of rents, we do know that it did (and this system is the subject of Chapter 3 by Zaghera and Zomlot).

Even though Israel insisted on retaining control over critical Palestinian rents, we argue (in Chapter 1 by Khan) that these arrangements may nevertheless have allowed substantial Palestinian economic growth, but only if Israel had allowed rapid economic integration of the Palestinian territories with the Israeli economy. Of course, this would not be possible if the Israeli intention was to create an unviable state in the first place. But if the client-state controls were simply to ensure Israel's security, Palestinian viability and security could also have been ensured. Given its control over a range of rents critical for the survival of the Palestinian quasi-state, Israeli strategies of ensuring compliance by its client state could in theory have ranged from *integrationist* strategies at one pole to *asymmetric containment* at the other. As the terms suggest, an integrationist strategy would aim to create *incentives* for compliance by rapidly deepening the economic integration of the Palestinian and Israeli economies across all fronts. In contrast, asymmetric containment would create large *penalties* for non-compliance by maintaining and enhancing an asymmetric vulnerability of one side to achieve the security aims of the other. We argue that while Israeli policy statements initially suggested a commitment to integrationist policies, their policies on the ground could only be described as asymmetric containment. The retention by Israel of strategic points of control all over the occupied territories, and the rapid construction of a system of checkpoints within the WBG were the critical components of this system of asymmetric containment. This is one reason why disagreements over small amounts of territory have been so important in final status negotiations. Palestinian negotiators frequently pointed out that in a prison, the prisoners control 95 per cent of the space. The 5 per cent they do not control make it a prison. It appears that Israel was unwilling to give up either the client-state system or its system of maintaining asymmetric containment within the client state. We argue that many of the most important governance failures in the Palestinian territories were directly connected with the management of such a client state.

It is in this context that the other rents and interventions of the PNA have to be assessed. Apart from the rents created by external powers, the Authority created, allocated and extracted its own rents. Some of these rents were undoubtedly damaging rents. These included predatory extortions and monopoly profits for privileged individuals. Clearly there were some embryonic predatory characteristics within the client state, and if these activities had considerably expanded, the client state could have collapsed into a full-fledged *predatory state*. While many of the factors supporting the further development of predatory rents were internal to Palestinian society, external

containment also played an important part. The more constrained economic development becomes because of containment, the more likely it is that a political leadership will engage in short-term predation rather than attempt long-term development. At the same time, the Palestinian quasi-state also had to manage considerable redistributive transfers to maintain political stability, particularly by creating jobs in the public sector and in the security forces. These transfers were also rents, and there was a danger that the emerging state might lose control over these rents. If so, these rents might have become the subject of factional competition, with powerful factions organizing to capture these rents. If this had happened, Palestine may have become similar to many developing countries that suffer from *fragmented clientelism*, where the state loses control over developmental allocations, and political stability is threatened by the intense competition over redistributive rents. We discuss the conditions under which this could happen in Palestine and conclude that while it was a possibility, the conditions pushing the client state to collapse into a fragmented clientelist state were relatively weak.

Finally, and given the context perhaps most surprisingly, there were examples of developmental rents and rent-management capacities in the Authority. These embryonic *developmental characteristics* of the emerging state were supported and promoted by the PNA leadership, which was strongly motivated by economic nationalism, and which had access to a large group of expatriate Palestinian capitalists who could be potential developmental partners of the state. These circumstances created opportunities of accelerating capitalist development that are not available to most developing-country states. The Authority tried to take full advantage of this, but given its limited fiscal and legal powers, it often used unorthodox methods that appeared to violate good governance criteria. Thus, monopolies and market power were often created for investors to attract critical investments into a conflict zone. In other cases, Palestinian trading monopolies were created that prevented the loss of some monopoly profits to Israeli trading monopolies, and these enhanced the fiscal viability of the Authority. The Authority also displayed a strong capacity to maintain internal political stability in a difficult context. It managed rent transfers for stabilization without letting the allocation of these rents get out of control. Thus, there were some limited, but extremely important, developmental rent-management capacities of the client state. If the client-state status could have been overturned and full sovereignty attained, and if policy-makers had been able to identify and strengthen these capacities, the outcome might have been quite promising for Palestinian development.

In Chapter 2 by Hilal and Khan, the conditions supporting the development of each of these sets of state characteristics and capacities are extensively discussed. This chapter draws on other chapters and presents both a historical analysis of state formation in Palestine as well as an evaluation of policy options. Our analysis identifies a number of different constraints that have to be addressed if there is to be viable progress in the

future not only towards state formation but also towards sustainable reductions in corruption or progress in democratization. Palestinian popular aspirations were to achieve rapid *outcomes* in terms of statehood, democracy and a corruption-free society. These aspirations for outcomes have to be distinguished sharply from the analysis of the good governance and neo-patrimonial frameworks that identify democracy and the reduction of corruption as instrumental *preconditions* for the formation of a viable state. Our reading of the historical evidence suggests that the achievement of sustainable democracy and low corruption are themselves *dependent* on the construction of viable and dynamic economies and states. Long-run state viability has, historically, not been dependent on initial levels of corruption or democracy, but rather on the ability or otherwise of their states to push through developmental transformations. This has been a critical precondition for reducing corruption and entrenching democracy in sustainable ways.

To assess whether Palestinian demands for democracy and good governance are going to be furthered by the growing external pressure in pushing good governance reforms as *preconditions* for progress, we need to ask whether these reforms are likely to enhance the developmental and transformation capacities of the Palestinian state. In Chapter 2 by Hilal and Khan, we note that following the failure of the Camp David talks and the beginning of the Second *Intifada* in 2000, a number of governance reforms were imposed on the PNA that enhanced transparency and weakened the centralization of power in the hands of the executive. Far from increasing the chances of successful state formation along the two-state route, our analysis suggests that these reforms may have a negative effect on sustainable state formation given that the external constraints have not been addressed and are not likely to be addressed in the near future. Weakening the Palestinian executive in such a context may have the effect of reducing rather than enhancing the viability of a future quasi-state.

In terms of policy, our analysis suggests that observations of governance failures in Palestine (such as corruption, rent-creation, or weak democratic processes) fall into three categories. First, many of the most damaging governance failures under the PNA were directly caused or encouraged by the framework of control that Israel insisted on and that was deliberately created under Oslo and related agreements as a necessary part of a particular route of state formation. For instance, executive centralization was a design feature of the quasi-state created under Oslo, and was required to ensure the security-first conditions that Israel insisted on. Many governance failures followed directly from this constitutional arrangement. Similarly, much of the corruption at borders and checkpoints was directly the product of a complex system of restrictions. Another example is the way in which Israel paid part of the Palestinian tax revenues it collected into special accounts controlled by the Palestinian presidency. These arrangements assisted both sides to further objectives that could not be achieved with

transparency, but they also manifested themselves as serious failures of governance. A second category of governance failures had genuinely internal causes and had straightforward negative effects. These failures could and should have been the focus of reform policies. Thus, some aspects of arbitrariness in decision-making were clearly dysfunctional. There was also evidence of predatory behaviour associated with a lack of accountability within the authority, particularly at lower levels of the security apparatus.

But a third category of *apparent* governance failures was particularly interesting because these 'failures' described the PNA's responses to external constraints and its attempts to break out of these constraints. These responses were governance failures from the perspective of the good governance framework. But, paradoxically, they were reasonably efficient developmental responses that improved economic and political outcomes *given the alternatives available*. For instance, the PNA's allocation and management of contracts, and its creation of some monopolies created and managed high returns for investors in a way that maintained high rates of productive investment in a conflict-zone. Expatriate Palestinian investors had to be compensated not only because of the risk of conflict, but also because there was no guarantee that the territories would not be taken back by Israel, and their 'property rights' lost. The Authority demonstrated some surprising capacities in recognizing and managing these incentives, and managed to maintain high rates of private investment in an otherwise unfavourable environment. In many cases, it also ensured that these investments remained productive. In addition, redistribution to maintain political stability was also effectively managed from the centre, which did not lose control, say to warlords or to fragmented clientelism. In achieving these things, the authority often had to override theoretical good governance criteria. The importance of these capacities is not recognized in the good governance framework. Consequently, uncritically applying that framework to drive policy may result in a significant destruction of vital state capacities. Identifying these distinctions between types of governance problems is important for prioritizing areas of reform. They are equally important for locating the external institutional and political issues beyond the internal governance ones that need to be addressed if an emerging Palestinian state is to be viable.

The possibility that the emerging Palestinian state could have developed in a number of different directions is not surprising. It was at best an embryonic state, and its critical relationships with Israel and its own internal constituencies were still being negotiated. While it did have some serious governance problems, only some of these were entirely due to its internal failures, many more were related to the peculiar security and rent-transfer arrangements that the PNA had little power to change. Most importantly, it also had areas of positive developmental potential and it displayed some significant developmental rent-management capacities that should have been further encouraged and developed. The task of future policy must be to

identify and strengthen these tendencies, and this must remain a major challenge for the future. While the PNA's shortcomings in instituting democracy and controlling corruption were very real, our analysis questions the *causality* suggested by the new consensus. We are not sure that progress in directly pushing democratization and anti-corruption, however desirable in itself, would necessarily have aided state viability in this context. On the contrary, progress in democracy and the ability to address issues of corruption were significantly blocked by the failure to sustain a rapid developmental transformation, and this in turn was constrained by the higher level institutional architecture governing the route to state formation and relationships with Israel.

Addressing the relationship of the emerging Palestinian state with Israel is therefore of fundamental importance in any discussion of Palestinian state formation and viability. In particular, we have to ask whether Israel really has an interest in allowing a viable sovereign Palestinian state to emerge, or is it only interested in a client state. And even if it is only the latter, is it going to allow an integrationist client state or demand a client state subject to asymmetric containment. If Israel wants both a client state *and* asymmetric containment, a two-state solution is not likely to be viable at all. A client state with integration *may* be viable, and would require the development of some appropriate state capacities. A fully sovereign Palestinian state is the most desirable outcome. Given the incipient developmental capacities observed in the PNA, there is a possibility that by strengthening some of these early rent-management capacities, a sovereign Palestinian state may achieve a rapid social transformation and thereby remain reasonably viable. This in itself is an important policy conclusion. Unfortunately, in terms of what is on offer, the actual possibilities are exactly the reverse of the desirable ones. Only a client state with asymmetric containment was on offer at Camp David, and is still on offer from the Israeli government. Neither the Road Map, nor the informal Geneva Accords signed by some unofficial Palestinians and Israelis in 2003, move beyond these limitations of Oslo. All the indications are that Israel intends to retain the capacity to inflict asymmetric pain on Palestinians through the control mechanisms associated with the presence of a significant number of settlements. The only difference is that even less territory was on offer after 2000. A client state with integration was ruled out by Israel in the early stages of the Oslo period. It is unlikely that this route will be re-opened in the near future given the demographic dangers for Israel if economic integration deepens. But a truly sovereign Palestinian state has not been on offer at any time, and it is difficult to see how this can emerge from the 'security-first' route that Israel insists on. The security-first route rules out Palestinian sovereignty for an indefinite period. Till security is achieved, and this may take years, and security may never be deemed to be satisfactory, Palestinians under the security-first route will have to live under a client state. And if the Israeli motivation for insisting on a client state is not just driven by security,

but also by other considerations such as protecting the settlements or broader concerns with other aspects of the Palestinian struggle, the client state may turn out to be a permanent state of affairs. While Israeli motivations are not the subject of this book, an awareness of the implications of Israeli strategies is critical for understanding the viability of the two-state solution and of the governance failures that are likely to emerge in a Palestinian state. The vulnerability of Palestinian state formation to these Israeli motivations, and the dependence of Palestinian internal governance options on Israeli strategies is one of the critical conclusions of Chapter 2 by Hilal and Khan.

Chapter 3 by Zaghera and Zomlot examines the economic relationship between Israel and the Palestinian territories under the PNA during the Oslo interim period. These relationships were enshrined in the Paris Economic Protocol and its one-sided interpretation by Israel. We argue that these relationships defined a client state, and one based on asymmetric containment rather than economic integration. Thus, this chapter records the evidence and provides the background to arguments in other parts of the book. Chapter 4 by Amundsen and Ezbidid looks at the operation of political institutions under the PNA and points out significant areas of concern. While the previous chapters look at governance in the broader context of the challenge of transformation and the constraints set by the client-state architecture and asymmetric containment by Israel, this chapter focuses on how PNA governance appeared from below to Palestinians. It identifies areas of concern that would need to be addressed if a sovereign Palestinian state were to be achieved. Chapter 5 by Nasr examines the controversial subject of the Palestinian monopolies. It elaborates the points made in the chapters by Khan, and Hilal and Khan, about the need to distinguish between different types of monopolies and different motivations driving the creation of monopolies during this period. Some Palestinian monopolies were indeed damaging, others were rational and possibly even efficient responses to containment or to the problem of attracting investment into a conflict zone with no final settlement in sight. Chapter 6 by Fjeldstad and Zaghera examines the tax administration system of the PNA. This again highlights the limitations on state formation set by the client-state architecture. The bulk of the PNA's revenues were collected by Israel, and Chapter 6 outlines the mechanisms that allowed this, and its consequences. Finally, Chapter 7 by Hanafi and Tabar discusses the evolution of the Palestinian non-governmental organization sector during the PNA period. This was an important sector in terms of resource flows but it played a quiescent role in state formation, and this chapter examines why.

Notes

- 1 Its internationally recognized name is the Palestinian Authority or PA, but many Palestinians refer to their Authority as the PNA, a name that they believe reflects

the claim of the Authority to be their future state in embryonic form. On the other hand, other Palestinians argue that the Authority does not represent the full national aspirations of the Palestinian people. We make no judgement about the merits of the different arguments, and refer to the Authority in both ways.

- 2 Much of this was mainly symbolic, for instance, the passports were effectively travel documents and the stamps were not internationally recognized. Foreigners entering Palestine through Gaza International Airport had to go through Israeli rather than Palestinian immigration checks.
- 3 The Oslo Accord signed on 13 September 1993 between the PLO and Israel was a 'Declaration of Principles'. This was followed by the 'Agreement on Interim Self-Rule' signed on 4 May 1994 that established Palestinian self-rule in Gaza and Jericho. The last main agreement was signed in Washington on 28 September 1995 and was called the 'Israeli–Palestinian Interim Agreement on the West Bank and Gaza Strip' and this established the structure of the Palestinian Authority.
- 4 The population of WBG including East Jerusalem was 2,895,683 at the end of 1997 (Palestinian Central Bureau of Statistics (PCBS) Population Census 1997). The 1999 population estimates are also from PCBS.
- 5 The occupied territories were divided into a patchwork of territories designated A, B and C. In zone A the Palestinian Authority alone was responsible for security, in zone B security was jointly controlled by Israel, but in zone C Israel alone was responsible for security. The Palestinian population in zones A and B thus came under the Palestinian Authority. This arrangement continued until the Israeli re-occupation of March 2002, when Israel took over security control in all areas.