



After years of aborted political summits and wrenching periods of violence, it seems clear that something in addition to diplomacy is needed to settle a half century of bitter conflict between Israel and the Palestinians. While offering a promising strategy for getting from here to there, President Bush's 2002 "road map" to peace in the region simply will not be enough to ensure an enduring settlement if the Palestinian government cannot deliver the quality of life – economic, as well as political – that befits a viable democracy.

For many years now, the Milken Institute has been preaching another, equally important approach to solving the conflict. We call it the "Economic Road Map to Peace in the Middle East." In recent months – in particular, at our Global Conference this past April in Los Angeles – we have brought together representatives of many of the interested parties – American, Israeli, Palestinian – to discuss how these old antagonists can cooperate to build the necessary regional economic infrastructure.

Rather than focusing on politics as the only answer, we believe there is a crucial economic component to peace. As outlined in detail in this issue (page 78) by Glenn Yago, the Institute's director of capital studies, and James Prince, an advisor to the Palestine Investment Fund and the Palestinian Authori-

ty's Ministry of Finance, a diplomatic solution won't fly without economic wings. Indeed, they say, we can't afford to wait for the diplomats – we should start laying the groundwork now for an economic strategy to ensure the success of diplomacy.

Despite a lack of arable land and natural resources, a future Palestinian state would have a variety of economic strengths on which to build. The real key to its success, say Yago and Prince, is disengagement from Israel, setting the Palestinians on a road to economic independence. Growth in jobs and incomes could be jumpstarted through a number of initiatives, including the implementation of long-delayed water and energy projects, the creation of a home-mortgage banking system, and the establishment of new investment funds to bring capital to the region's entrepreneurs.

More focus on institutional development will be needed if the Palestinian economy is to keep on growing after the initial benefits of aid and infrastructure construction wear off. And one key here is the development of efficient capital markets and fresh approaches to meeting the region's financial needs. The successful execution of this strategy can help realize a separate and sustainable peace.

For additional information about our Middle East initiatives, please contact Dr. Yago at [gyago@milkeninstitute.org](mailto:gyago@milkeninstitute.org).

A handwritten signature in black ink that reads "Michael Klowden". The signature is fluid and cursive.

Michael Klowden, President and CEO