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Abstract
Policies adopted by Syria, Hizbullah, and Israel have generated a major transformation in the Israel-Palestinian regional security complex. In the months after the United States-led overthrow of the Ba’th regime in Iraq in March 2003, each of these three leaderships confronted a severe domestic political-economic crisis, and reacted to the crisis in ways that not only heightened the potential for conflict in regional affairs but also transformed the regional security complex into a more extensive constellation of alliances and adversarial relations.

INTRODUCTION
Relations between Israel and its neighbors remain as explosive as ever, despite the fact that the Israeli government signed formal peace treaties with Egypt in March 1979, the Palestine Liberation Organization (PLO) in September 1993, and Jordan in October 1994. The authorities in Cairo and Amman have taken few steps to normalize relations with their Israeli counterparts, while Palestinian voters expressed their dissatisfaction with the general lack of progress in negotiations over a Final Status Agreement by electing representatives of the radical Islamic Resistance Movement (Harakah al-Muqawamah al-Islamiyyah or Hamas) to leadership positions in the Palestinian Authority. Moreover, countries that posed little if any threat to the Jewish state in previous decades, most notably Lebanon and the Islamic Republic of Iran (IRI), now stand among Israel’s most salient adversaries.

Squarely at the center of this kaleidoscopic regional security complex stand the Syrian Arab Republic, the radical Lebanese Shi’i organization Hizbullah, and the State of Israel. Policies adopted by the Ba’thi regime in Damascus, the leadership of Hizbullah, and the Israeli government
to parry threats to their respective internal and external interests tend to jeopardize the interests of powerful actors in adjacent countries. In other words, security-producing programs undertaken by Syria, Hizbullah, and Israel generate important externalities that play a pivotal role in igniting, escalating, or mitigating tensions throughout the entire region (Lake 1997). In the months after March 2003, Syrian, Hizbullahi, and Israeli officials confronted a set of profound domestic political-economic crises, and reacted to these crises in ways that not only heightened the potential for conflict in the existing Israel-Palestinian security complex, but also transformed this complex into a more extensive constellation of allies and adversaries.

SYRIA'S POST-IRAQ WAR CRISIS

The forcible overthrow of the Ba’thi regime in Baghdad headed by Saddam Hussein created a severe crisis for the Ba’thi regime in Damascus headed by Bashshar al-Asad. The crisis consisted of at least three distinct dynamics: the first concerned Syria’s economic relations with Iraq; the second involved Syria’s sclerotic political system; and the third concerned Syria’s strategic interactions with surrounding states. Taken together, developments in these three arenas seriously jeopardized the stability of the existing political-economic order, and prompted the authorities in Damascus to undertake a variety of initiatives that heightened tensions all across the region.

Economic Relations with Iraq

Beginning in 1997, Syria cultivated close economic ties to Iraq. A series of bilateral commercial agreements drawn up at the end of the decade opened Iraqi markets to increasing quantities of processed foodstuffs, clothing and textiles, and plastic wares manufactured by Syrian companies. Payment for these items came partly in hard currency and partly in the form of regular shipments of crude oil, carried out under the terms of the United Nations (UN)-sponsored Oil-for-Food program. In November 2000, the long-neglected pipeline linking the oilfields of northern Iraq to the Mediterranean coast was reopened, and by the end of the year some 150,000 barrels of oil were flowing from Iraq into Syria each day. More important, large amounts of cheap Iraqi crude were diverted to fuel the local economy, allowing Syria’s rapidly declining domestic output to be sold overseas at market prices.

Burgeoning economic relations with Iraq produced three notable benefits for the Syrian regime. First, the influx of financial resources generated by this bilateral trade allowed the government to postpone fundamental reforms in the banking sector. State officials were thus able to continue to exercise control over almost all major investment decisions, and thereby