July 8, 2026

Executive Summary Report

GEOIntelligence

With the ongoing negotiations between the U.S. and Iran, after the signing of the Memorandum of Agreement on 17 June 2026, the Iranians successfully added the thorny issue of Lebanon to the long list of open issues to be addressed to end the conflict. The war between Israel and Iran's crown jewel terror group in its "axis of resistance," Hezbollah, is complex and does not have a clear path to resolution. This report will shed light on national and economic security leaders to better understand some risks and opportunities associated with the conflict between Israel and Iran (via its core proxy, Hezbollah) and its connection with U.S. and Iranian negotiations.

Last February, the United States, along with Israel, attacked Iran because of its pursuit of nuclear weapons, its regional power projection capabilities, and its status as the largest state sponsor of terrorism. Iran immediately called for its proxies to join the fray by attacking Israel. The Houthis, still regrouping from three devastating Israeli attacks ending last year, offered moral support but not kinetic actions. However, the always loyal Hezbollah quickly rolled in with missile and drone attacks into Israel.

It is this backdrop that provided Israel with an opportunity to capitalize on Iran's and Hezbollah's attacks to decisively deal with Hezbollah on the heels of its renewed aggression against Israel, similar to what it did to Hamas after Oct. 7, 2023.

Lebanese Hezbollah (LH), Lebanon's Shia minority political party and preeminent anti-Israeli proxy military force, has been critical to Iran's stated aims to eliminate Israel. LH is Iran's most lethal proxy force and the pointy end of the Shia Crescent spanning from Iran, through northern Iraq and Syria, directly into southern Lebanon. Hezbollah's success has been and remains a center of gravity for Iran's power projection capacity, Shia ideology, state sponsorship of terrorism, regional influence, and its strategic position.

Meanwhile, Gulf nations, many having been attacked directly by Iran, are eager to reinstate regional security and stability through renewing unrestricted oil production and international trade. They see an opportunity to reposition themselves as stronger global market players, driving mutual investment with the U.S. and free market nations for technology, real estate, and tourism beyond the energy sector. While Hezbollah may not be the only major stumbling block to peace, the stakes associated with its defeat or survival within Lebanon are high and directly impact sustainable security and stability in the region.

Pressure on the U.S. Administration is significant with the upcoming mid-term elections, economic factors (though some are nearing pre-Iran conflict levels), and the War Department's need to replenish the recent extensive expenditure of munitions and force readiness. Further, Iran has destabilized international economies with its closure of the Strait of Hormuz and intermittent toll regime, thus creating expectations that the U.S. will correct the problem it has created.

Background:

The tension in Lebanon dates to post-WWI with the partitioning of the region by the British and French at the dissolution of the Ottoman Empire. After the war, France demarcated the Lebanon region in 1922; Lebanon's borders were established as a new republic under French control and ratified by the League of Nations in 1934. During WWII, Lebanon was a French colony until it declared independence in 1943. In 1945, Lebanon joined the Arab League and the UN, and the final French troops departed in 1946.

In 1947, south of Lebanon, the United Nations passed a resolution to officially establish Israel from the previous Palestine, and on May 14, 1948, Israel declared independence. The next day, Egypt, Jordan, Syria, Iraq, and Lebanon invaded Israel and were decisively defeated by Israeli forces. Afterward, over 700,000 Palestinian refugees fled the area to Gaza, the West Bank of the Jordan River, Jordan, Lebanon, Syria, Egypt, and Europe. Thus began the plight of Palestinian refugees. In 1949, Israel signed armistice agreements with Egypt, Jordan, Lebanon, and Syria – establishing cease-fire lines that became disputed, but de facto, borders.

In the 1950s and 1960s, Lebanon grew as a financial center for the Arab world, with booming tourism, universities, and a free press reflecting a relatively stable society. Although Israel and Lebanon were not "at peace" with each other, they were also not in open conflict. Although there were several flare-ups between Arab Nations and Israel in the 1950s and 1960s, Lebanon was mostly calm. During this timeframe, Beirut flourished and became known as "the Paris" or "the Switzerland" of the Middle East. With revolutions and instability concerns in many other parts of the Middle East, wealthy elites and business owners brought significant capital to Beirut's private banks. The oil boom in countries like Saudi Arabia and Kuwait pushed profits to Lebanese banks, as they initially did not have a robust banking infrastructure to handle it. In comparison to much of the Middle East, Lebanon, at the time, was relatively laissez-faire and enjoyed an open-market system. Unfortunately, this era was not to last.

Disruptions impacting Lebanon started in the late 1960s. In 1967, Israel, fearing renewed attacks from its neighbors, attacked and defeated the militaries of Egypt, Jordan, and Syria in what became known as the "Six-Day War."

Meanwhile, the preponderance of Palestinian presence was in Jordan, not Lebanon. In fact, Palestinian refugees represented less than 10% of the Lebanese population. Whereas in Jordan, the Palestinian refugee population had become the majority, shifting the balance of power in the nation. After 1967, the Palestinian Liberation Organization (PLO) began attacking Israel more boldly from the safety of its refugee camps within Jordan. The PLO had become a powerful sovereign within the nation of Jordan.

After years of escalation between the PLO and Jordan, in 1970, with what became known as "Black September," the PLO hijacked several commercial airliners, landed them in Jordan, and blew them up in plain sight for the world to see. The Jordanian military responded forcefully. By 1971, the Jordanian military eliminated PLO strongholds in Jordan, and the PLO power base shifted to Lebanon and its Shia population – further challenging the status quo that had remained relatively peaceful.

By 1975, a power struggle between the legitimate Lebanese government and the Palestinian presence ended what is commonly referred to as the “Golden Era” of Lebanon. By 1979, Lebanon’s marginalized Shia community looked to Iran and the Iranian Revolutionary Guards to provide organization, training, and funding to not only contend with Israel but also become the legitimate Lebanese government. The organization that eventually emerged from this relationship was Hezbollah. Hezbollah – meaning “The Party of God” emerged not only as a military resistance and terrorist organization, but also as a political movement and entity. Civil war erupted in Lebanon, lasting 15 years.

In 1982, Israel launched attacks on Lebanon to destroy the PLO and established an occupied buffer zone in southern Lebanon. Hezbollah had grown steadily since the Iranian Islamic Revolution of 1979, officially organizing with the backing of the Islamic Revolutionary Guard Corps (IRGC). Many attributed this as a response to Israel’s invasion.

By 1992, Hezbollah had not only gained military strength backed by Iran, but also political strength in Lebanon, where it gained eight of the 128 elected seats in the Lebanese parliament. By 2018, it had 13 seats and amassed a coalition of 71 members of parliament – a clear legislative majority. However, Hezbollah’s actions and interests since then have taken their toll on its political power in Lebanon. It still has disproportionate influence, but its governance influence has slipped. Today, that coalition has dropped to under 60 seats in the current 128-seat legislature.

The plight of Palestinians remains political and social, with human migration challenges. Palestinians represent less than 5% of Lebanon, with some reports indicating a poverty rate of over 65% and an unemployment rate of almost 25%. It is also clear that Hezbollah’s interests in Lebanon have clearly become an extension of Iranian interests, rather than the nation of Lebanon, its neighbors, or the protection of Palestinians. Although the Lebanese Army has considerable international backing, including the United States, it has not been able to deter, defeat, or control the Hezbollah military forces that are deeply embedded in the Shia areas of southern Lebanon. This is a serious flash point that could eventually lead to another civil war if the Lebanese government, including its military, cannot regain control and legitimacy with the population. Lebanon is strategically important as a hub between the Middle East and global markets. While its economy is not significant in terms of production, its diversity of people, location, physical infrastructure, including ports, and financial services capabilities for global transactions are valuable resources.

More recently came the horrific attacks by Hamas, a Palestinian terrorist organization, which began on Oct. 7, 2023, and killed about 1,200 Israelis, with another 250 hostages taken. Shortly thereafter, Hezbollah joined with Hamas and other proxies by opening a second front against Israel, sending thousands of missiles, drones, and artillery rounds into Israel for almost a year, forcing the evacuation of approximately 100,000 Israelis from their homes.

In 2024, Israel gained the upper hand, with the very successful Israeli military campaign against Hezbollah in the Summer and Fall. Israel penetrated Hezbollah’s communications supply chain by placing small explosive charges in thousands of pagers and walkie-talkies, allegedly killing dozens and wounding thousands when Isreal remote detonated the devices. Many of the victims were part of Hezbollah’s leadership chain. These actions, combined with other precision attacks on its leadership, shook Hezbollah to its foundation.

By November 2024, a U.S.-brokered ceasefire agreement was reached, which included a UN Resolution. Hezbollah was to withdraw its forces north of the Litani River, with the Lebanese Armed Forces securing the south, albeit ineffectively.

Now enter Israel's renewed attacks after the latest round of fighting, with Israel once again striking Hezbollah's leadership, its economic infrastructure, and its supply chain — along with an occupation of southern Lebanon to create a buffer zone to protect Northern Israel.

Economic Factors:

In 2019, Lebanon suffered a financial banking collapse from which it has not yet recovered. According to Reuters, the banking collapse was the result of economic instability with high budget deficits, reliance on external capital as opposed to domestic industry, unsustainable high interest rates to attract foreign capital, and a lack of governance in managing credit spreads and financial reserves. Ultimately, these banking practices resulted in the inability to honor commitments in the financial system, which resulted in capital controls and a lack of confidence. The internal economic power of Lebanon is very weak, with real GDP at $30 billion annually, down 40% from its pre-crisis level (World Bank). Purchasing power, as compared to other countries, is projected to be higher given the lower market pricing in Lebanon. No matter how you look at the economic situation, the country is poor without strong global inflows in terms of transactions and financial aid.

Lebanon lacks financial trust not only because of the economy and banking system failure, but also because of the impact of Hezbollah as a political party in the country. Given Lebanon's ethnic and political diversity, no single political party has been able to build enough traction to lead it. The Council on Foreign Relations highlights that Hezbollah has a strong support base because of the services it provides to communities, including militia security. Hezbollah also has independent funding from Iran, which enables it to run a separate "shadow" financial system and has greater liquidity than the central Lebanese banking system. This conflict of interest, along with the lack of a majority in the government to initiate real reform and governance, inhibits foreign investment. Hezbollah's role as an Iranian proxy warring with Israel further precludes foreign interest in direct investment. Also, LH is directly tied into many of the international drug rings and launders vast sums of money through Lebanese banks, which are subsequently sanctioned by the U.S. and others.

Despite these factors, the U.S. has formal diplomatic relations with Lebanon; the State Department supports Lebanon's sovereignty and provides both security and aid. In fact, the U.S. has provided funding to the Lebanese state military for many years to increase security and support defense against Hezbollah. Future aid will be conditional on reform, including limits on non-state actors. Saudi Arabia and the UAE also have diplomatic relationships with Lebanon and have historically provided aid and investment. However, the current war is pressuring these relationships. Uncertainties with government reform, financial governance, and national disunity result in minimal foreign direct investment, weakened tourism, high interest rates, and reconstruction capital that is conditional on reform (Brookings Institution).

Uncertainty in Lebanon is currently very high due to the political environment in relation to the Lebanese Shia population that is funded and loyal to the Iranian regime, so much so that there is concern about another civil war. The impact of the Iran war resolution will be significant to Lebanon's future positioning and economic opportunities for reconstructing its economy. Many questions remain, including Hezbollah's financial capacity to operate given the Iranian regime's financial strain due to free-market nation sanctions and war costs, including the loss of oil revenue from the blockade of the Strait of Hormuz. Until the issues of instability and credibility of the Lebanese government are resolved, Lebanon will not attract investment and capital inflows to rebuild due to a lack of confidence among investors.

Recent Events Involving the United States:

As mentioned in this document, Iran brilliantly included the situation in Lebanon in the signed MoU between the U.S. and Iran. This does several things for Iran. Big picture, it gives Iran the option to drag out, stymie, and frustrate negotiations to secure a better deal. Just two weeks into the MoU, we have already seen Iran using tactics to delay not only a follow-on agreement but also to frustrate even the terms of the MoU. For instance, having the situation in Lebanon as part of the agreement permits Iran to order Hezbollah to attack Israel. This entices Israel into retaliation attacks so that Iran can then cry foul and claim the retaliation as a reason to suspend negotiations. This exact scenario played out just days after the MoU was signed. But time will tell if the IRGC hardliners dominate Iranian negotiations with the United States continue to frustrate the talks, or if a degree of moderation filters into the discussions, allowing for at least some stability in the region. At this writing, the Iranian negotiations and actions appear to be inconsistent, likely due to infighting in the Iranian regime.

Further complicating the MoU negotiation is the Trilateral Framework signed on June 26 by the U.S., Lebanon, and Israel. The framework affirms that Israel and Lebanon can exist peacefully and that the IDF has the ability to take counterterrorism measures against Hezbollah. Iran claims this is in violation of the MoU. The framework demonstrates at least diplomatically that Beirut seeks to resist the Hezbollah influence in the country.

Key Takeaways:

- The Iranian regime and Lebanon's political party, Hezbollah, are in a continuous war with Israel, which is a potentially deal-stopping issue between the U.S. and Iran.
- The shared Shia ideological core between the Iranian regime and Lebanon prevents effective diplomacy and the sustainability of long-term regional peace agreements.
- Lebanon can rebuild its economy given its population, location, infrastructure and financial services, yet domestic instability prevents essential direct foreign investment.
- Instability in Lebanon will remain as long as the elected government and military remain unable to provide stable governance and security.
- Hezbollah's presence in Lebanon, along with the lack of confidence in the banking system and ineffective governance, precludes investment due to its risk premium.
- How the Iran war and activity under the U.S.-Israeli-Lebanon Trilateral Framework are resolved will determine whether Lebanon will be positioned for either reconstruction and access to the global markets, or continued isolation.
- Opportunity for long-term stability exists if the Abraham Accords can be expanded to other Arab nations, focusing on stable economic and diplomatic relations; this will not solve the Palestinian refugee problem in the near term, but perhaps it is a pathway.