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The shape-shifting ‘axis of resistance’

How Iran and its networks adapt to external pressures

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Summary

— Following Hamas's 7 October 2023 attack on Israel, the Israeli government launched a transnational war aimed at reshaping the Middle East by weakening Iran and its allied groups, collectively known as the 'axis of resistance', some of which had launched missile strikes against Israel in support of their Palestinian allies. The loose coalition – which now, along with Iran, comprises Hamas in Gaza, Hezbollah in Lebanon, the Houthis in Yemen and parts of the Popular Mobilization Forces (PMF) in Iraq – faced unprecedented challenges in 2024. Hezbollah suffered significant setbacks, including the loss of most of its senior leadership, and the regime of Bashar al-Assad in Syria – also until recently a part of the axis – was toppled by a popular uprising.

— The setbacks faced by the axis in these conflicts have led some observers and policymakers in Western countries to conclude that Iran and its allies are severely weakened. However, our research uncovers a series of adaptable networks that have historically enabled Iran to navigate and overcome various shocks, ensuring its survival through strategic alliances. In 2024, the weakening of Hezbollah by Israeli military action and the overthrow of the Assad regime in Syria pushed Iran to rely more on allies in Iraq and Yemen. Iran sought to extend its relationships beyond the axis, enhancing its established ties with China and Russia, while also engaging more with former geopolitical adversaries in the Middle East, including the Gulf Arab countries. These developments underscored that the axis was more than just a collection of its constituent parts.

— Too often, Iran's external relations are viewed solely through the lens of military cooperation. To gain a comprehensive understanding of Iran's engagement in the Middle East, this research paper specifically examines how the axis manages financial flows and its energy trade to transcend the traditional institutional and geographic boundaries of states. The findings reveal that the axis employs a networked approach to circumvent direct sanctions and other international interventions, while fostering relationships across the region and beyond.

— This adaptability is enhanced in the evolving global order, where the decline of US hegemony has given rise to a multi-aligned world, marked not by rigid 'spheres of influence' or a stable multipolar order of counter-balancing blocs, but by a more fluid and unstable set of relationships. This dynamic situation enables Iran to forge connections not only within the axis and like-minded states and groups, but also with traditional allies of the West.

— The resilience of groups linked to the axis lies in maintaining both domestic and regional power. They navigate networks that span formal and informal economies, allowing them to capture supply chains and access crucial resources. Groups such as the PMF, Hezbollah or the Houthis are not mere 'non-state

actors', but are rather entrenched within state structures, and wield significant power in their own right. Iran and these groups have developed economic relationships with multiple entities and states, both regionally and globally, further enhancing their influence and adaptability. The fall of the Assad regime in Syria in 2024 shows that this resilience depends on each group maintaining some degree of domestic authority and transnational connectivity – the Assad regime had lost too much of both.

- The US, the UK and like-minded states have struggled to counter or contain the axis, as their approaches remain centred on country-specific policies and programming that correspond to the traditional institutional and geographic boundaries of the state. Western governments have often targeted individual components of the axis in isolation, failing to develop a strategic approach that appreciates the interconnectivity between these elements and their regional and global links. Many of their policy tools are outdated, originating from a time when US unipolarity allowed for a simpler binary of 'us vs them'. The rise of multi-alignment requires a new approach.
- Measures such as military strikes, securitized borders, economic sanctions and building of alternative institutions have not fundamentally altered these networks. Instead, sanctions have harmed local populations more than the countries' elites. Even political settlements that ended armed conflicts often entrenched corruption, benefiting network members and not ordinary citizens, who continued to suffer from higher prices and restricted access to basic goods.
- This paper argues that a more effective approach to countering Iran and its allies involves a long-term strategy, built for a more multi-aligned world order. This approach is based on three interlinked processes and policy responses:
  - First, mapping the axis to reveal the complex interplay between state and non-state actors, allies and adversaries that contribute to its adaptability across formal and informal economies. Notably, US and UK allies also participate, sometimes unknowingly, in these supply chains.
  - Second, engaging with Iran and its axis partners rather than sidelining them, acknowledging that these groups are deeply embedded in the political economy of their respective countries and the wider region. Effective strategies should involve engaging with network 'brokers' who can influence decision-makers within the axis. As Tehran and its allies are weakened, Western policymakers can leverage their networks to broker deals centred on mutual benefits, regional stability and limiting economic practices that fragment the state or harm the population.
  - Finally, enforcing accountability on Iran and its partners. Any agreement with Iran should offer graduated sanctions relief in exchange for verifiable limits on both nuclear enrichment, and regional military and economic activities. Critically, political settlements should develop robust accountability mechanisms to mitigate negative impacts on populations. Civil society and reformists provide better checks on the domestic power of Iran-affiliated groups in each country than an over-reliance on punitive sanctions.

01 Introduction

Throughout its history, the 'axis of resistance' has demonstrated the ability to adapt in response to external shocks. Despite suffering multiple setbacks in 2024, the axis remains more resilient than many acknowledge.

Following Hamas's 7 October 2023 attack on Israel, the Israeli government launched a transnational war to reshape the Middle East.[1] Its goal was to weaken and remove from power Iran and its allies, some of which had launched airstrikes in support of Palestine and collectively known as the 'axis of resistance'. These included Hamas, Hezbollah in Lebanon, the Houthis in Yemen, the regime of Bashar al-Assad in Syria and parts of the Popular Mobilization Forces (PMF) in Iraq. Bolstered by advanced technologies, Israel's military superiority executed a 'total war' strategy that flattened and depopulated neighbourhoods and cities in Gaza and Lebanon.

Israel's military campaign substantially degraded Iran's network of alliances in the region, but has not entirely destroyed it. Even the unexpected abrupt collapse of the Assad regime in late 2024 did not spell the end for the axis. It proved much more resilient than some Western observers acknowledge. This resilience stems from the adaptability of the axis and its region-wide networks.[2] Iran has been able to use these networks to adapt to external shocks – including those as extreme as the post-7 October context. The weakening of Hezbollah in Lebanon and the loss of its ally in Syria compelled Tehran to leverage other axis members, including the PMF in Iraq and the Houthis in Yemen. These two groups in particular began collaborating closely to bolster supply chains and mitigate axis losses in the other arenas.

Key to understanding the axis's resilience is the fact that the constituent members are not merely non-state actors or armed groups. Their political, economic, military and ideological networks remain deeply embedded in their respective states and

1 The Straits Times (2024), 'Ahead of Hamas Oct 7 attack anniversary, Israel's Netanyahu says "we will win"', 6 October 2024, https://www.straitstimes.com/world/middle-east/ahead-of-hamas-oct-7-attack-anniversary-israel-s-netanyahu-says-we-will-win.
2 Mansour, R. (2024), 'The Axis of Resilience: Israel Is Underestimating Iran and Its Allies', *Foreign Affairs*, 13 November 2024, https://www.foreignaffairs.com/israel/axis-resilience.

territories, and extend beyond country borders, reaching into regional and even global arenas. For instance, Iran's military supply chains extend to Russia (which signed a new security partnership with Iran in January 2025)[3] and its economic supply chains to China, which has become the main market for sanctioned Iranian oil and gas.[4] This global dynamic has led some analysts to describe an 'axis of upheaval', encompassing states worldwide such as Iran, China, North Korea, Russia and Venezuela. In this view, these countries collectively oppose the US and its allies, collaborating to counteract their policies.[5] Their ability to circumvent Western authority has become particularly pronounced in a global order increasingly moving away from US unipolarity.

However, the axis's adaptability is further enhanced in a shifting world order, characterized not by rigid 'spheres of influence' or a settled 'multipolar' world order defined by counter-balancing blocs, but by a more fluid and unstable multi-alignment.[6] In this context, states and actors do not align strictly with one bloc or another, but engage on a transactional, issue-by-issue basis. As this paper shows, this fluidity is particularly evident in the economic realm, where Iran's ability to network and withstand shocks extends beyond collaboration with the so-called axes of resistance or upheaval. It also includes economic engagement with Middle Eastern governments that are traditional Western allies, such as the Gulf Arab states, which now interact more with Iran (for instance, significant amounts of Iran's financial flows and energy trade move via Gulf Arab states) and urge Western governments to reconsider their antagonistic stance.[7] This blurring of distinctions between allies and adversaries creates a context in which Iran can effectively pursue its survival and operate beyond just the 'axis of resistance'.

This research paper examines the evolution of the axis of resistance, which developed into a crucial component of Iran's foreign policy. The networks connecting Iran and its allies has enabled various groups within it to build resilience and foster interdependence, making the axis as a whole more fluid and difficult to dismantle. Historically, Tehran and its allies survived shocks by maintaining decentralized and interconnected networks across borders, adapting and recovering from disruptions by changing course.[8] This included military setbacks such as the US assassination of General Qassim Soleimani in January 2020, the US-led invasion of Iraq in 2003 or the Israeli war in Lebanon in 2006; economic collapses like the 2019 Lebanese banking crash that dissolved many of the financial accounts of its members across the region; and domestic protests from their own publics.

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3 Plummer, R. (2025), 'Russia and Iran move to strengthen military ties', BBC News, 17 January 2025, https://www.bbc.co.uk/news/articles/c87dd4n4jd0o.
4 Congressional Research Service (2024), 'Iran's Petroleum Exports to China and U.S. Sanctions', 8 November 2024, https://crsreports.congress.gov/product/pdf/IN/IN12267.
5 Kendall-Taylor, A., Lord, J. and Stokes, J. (2025), 'Axis of Upheaval', Center for a New American Security, 7 January 2025, https://www.cnas.org/axis-of-upheaval.
6 Miliband, D. (2024), 'In an increasingly unstable world, Britain can't afford to isolate itself from its allies', *Guardian*, 7 April 2024, https://www.theguardian.com/commentisfree/2024/apr/07/in-an-increasingly-unstable-world-britain-cant-afford-to-isolate-itself-from-its-allies.
7 Research interview with senior Gulf Arab official, London, January 2025.
8 Deleuze and Guattari use the metaphor of a rhizome to explain a complex system. Unlike a tree, which has a singular trunk and branches, a rhizome is a root system that spreads horizontally, lacking a clear beginning or end. Rhizomes emphasize multiplicity, connectivity, and the potential for continuous change and reconfiguration, thereby challenging conventional notions of order and stability. See Deleuze, G. and Guattari, F. (1987), *A Thousand Plateaus*, London: Bloomsbury Academic.

A crucial element of the axis's adaptability is the geoeconomic infrastructure linking each group to their respective state structures and to one another. Shortly after 7 October, Ali Akbar Ahmadian, secretary of Iran's Supreme National Security Council, asserted that 'resistance-oriented cooperation should also extend to economic levels.'[9] However, the use of economic strategies to support the network's adaptability began well before this statement. A 1996 passage from the Islamic Revolutionary Guards Corps (IRGC)'s monthly publication *Payam-e Enghelab*, articulated the vision behind the policy:

> At this time when the frontlines against imperialism have become the trenches of economics and the spreading of development, [the Guards] are actively involved in this blessed arena and [their work] is markedly pronounced.[10]

Domestically, Iran and its allies embedded themselves in the 'trenches of economics' by becoming the governing authority. They each acquired significant state power through the development of patronage networks across national executive governments, parliaments, judiciaries, government bureaucracies and security sectors. This domestic power operated across informal and formal spaces, enabling groups to capture economic processes and access to government coffers, state-owned banks and other financial institutions crucial for economic lifelines. They also controlled the import and export of licit and illicit supply chains, from sanctioned oil and gas to medicine and foodstuffs.

The initiative was further driven by regional dynamics, including the collapse of the 1995 Conoco oil deal – an agreement for developing Iran's oil fields – and the imposition of the 1996 Iran-Libya Sanctions Act by the US, which aimed to curb investments in Iran and Libya's petroleum sectors.[11] By developing economic connectivity across countries, Iran and its allies created markets and trade routes to regain financial capital and recover from shocks. For instance, US president Donald Trump's 2018 'maximum pressure' campaign again targeted Iran's oil and gas industry, pushing Tehran to depend more on the informal economic interlinkages with the axis in Iraq and Syria to export its energy. US sanctions had also pushed the Assad regime in Syria to work more closely with Hezbollah and the banking sector in Lebanon to acquire indirect access to financial markets.

To trace this network and the context in which it operated, this paper focuses on two specific economic processes: financial flows and energy trading.[12] These elements served as the lifeblood of the axis, enabling it to overcome economic, military and political disruptions.

The collapse of Syria's ruling Assad regime in December 2024 seemed to present an exception to this thesis of resilience. The weakened alliance in the post-7 October context did play a role in the regime's collapse, along with the impact of sanctions.

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9 Iran Press (2025), 'Ahmadian: Cooperation of the Axis of Resistance Must Also Extend to Economic Levels', 17 January 2025, https://farsi.iranpress.com/احمدیان--همکاری-های-محور-مقاومت-باید-به-سطوح-اقتصادی-نیز-تسری-پیدا-کند.
10 Ostovar, A. P. (2009), *Guardians of the Islamic Revolution: Ideology, Politics, and the Development of Military Power in Iran (1979–2009)*, Ann Arbor: University of Michigan, https://deepblue.lib.umich.edu/bitstream/handle/2027.42/64683/afshon_1.pdf.
11 Bajoghli, N., Nasr, V., Salehi-Isfahani, D. and Vaez, A. (2024), *How Sanctions Work: Iran and the Impact of Economic Warfare*, Stanford, CA: Stanford University Press.
12 Other supply chains include those for weapons, drugs (like captagon or opium) and everyday goods. See Felbab-Brown, V. (2024), 'The Middle East Is Awash in Drugs: Captagon Has Fueled Violence and Aided Tyrants–and Meth Could Be Next', *Foreign Affairs*, 11 April 2024, https://www.foreignaffairs.com/articles/middle-east/2024-04-11/middle-east-awash-drugs.

But crucially, the rapid downfall of a 53-year-old regime across a few days happened largely due to the erosion of its domestic authority. Having lost significant legitimacy among the Syrian people, and relying heavily on violent repression to maintain control, Assad's social power had significantly diminished over the course of a decade-long civil war. By late 2024, neither Iran nor Assad's other external partners were willing or able to defend him and his regime. Rather than undermine the paper's thesis, developments in Syria demonstrate a crucial point: the resilience of both the axis as a whole and its constituent parts depend on each part maintaining some degree of domestic authority and transnational connectivity. This is why other sanctioned regimes, including Iran, are better able to withstand external pressures.

The transnational nature of this economic system and its growing significance in a transforming global order has significant implications for US, UK and allied policy, which to date has largely relied on country-centric approaches in its conflict response. The US, UK and their allies have attempted various measures to reduce the influence of Iran and the axis, including military strikes and assassinations, economic sanctions, the building of parallel armies such as the Lebanese Armed Forces (LAF) or the Counter Terrorism Service (CTS) in Iraq, and policing of borders such as that between Lebanon and Syria. However, these measures have failed to eliminate or constrain the economic networks underpinning the axis because of its blurred institutional (formal and informal) and geographic lines. This challenge is compounded by a transforming global order where traditional 'spheres of influence' are not rigid, and allies and adversaries occasionally collaborate across supply chains. This reality underscores the increasing obsolescence of Western policy tools in responding to conflicts, as they are based on binaries that have become redundant.

Measures such as sanctions have inflicted significant harm on the local population in each country. But unlike members of the axis, ordinary citizens have had less capacity to adapt or recover. Consequently, the public endures a double burden as a result of these policies: first, the impact of the transnational economies on their own; and second, the damaging effects of Western policy. Some of these individuals had been striving to hold the regimes connected to the axis accountable, often through protests. However, in the absence of accountable and robust formal government systems and processes, many were left with no choice but to rely on axis members and allies for financial, medical and bureaucratic support.

The paper concludes that targeting the axis with measures such as sanctions has paradoxically damaged civil society, which is the strongest avenue for accountability – as the Syrian uprising against the Assad regime demonstrated. The US, UK and allied policymakers should first consider the harm that their own policies could inflict, then pursue efforts to hold Iran and its allies accountable to their respective populations. This can be achieved through three interlinked processes: (1) mapping the entire ecosystem to reveal the complex interplay between state and non-state actors, allies and adversaries that contributes to the axis's adaptability across formal and informal economies; (2) engaging with brokers within the transnational network who can effectively represent and influence axis decision-makers to foster dialogue with Iran and its allies; and (3) focusing policy interventions on accountability mechanisms that can check the

negative aspects of the axis's mechanisms on the public. Critically, the axis's ability to operate both locally and across borders means that any response to promoting accountability will have to do the same. For instance, any intervention aimed at fostering accountability in Beirut must be accompanied by a comprehensive plan for other regions connected to Beirut through the axis.

About this paper

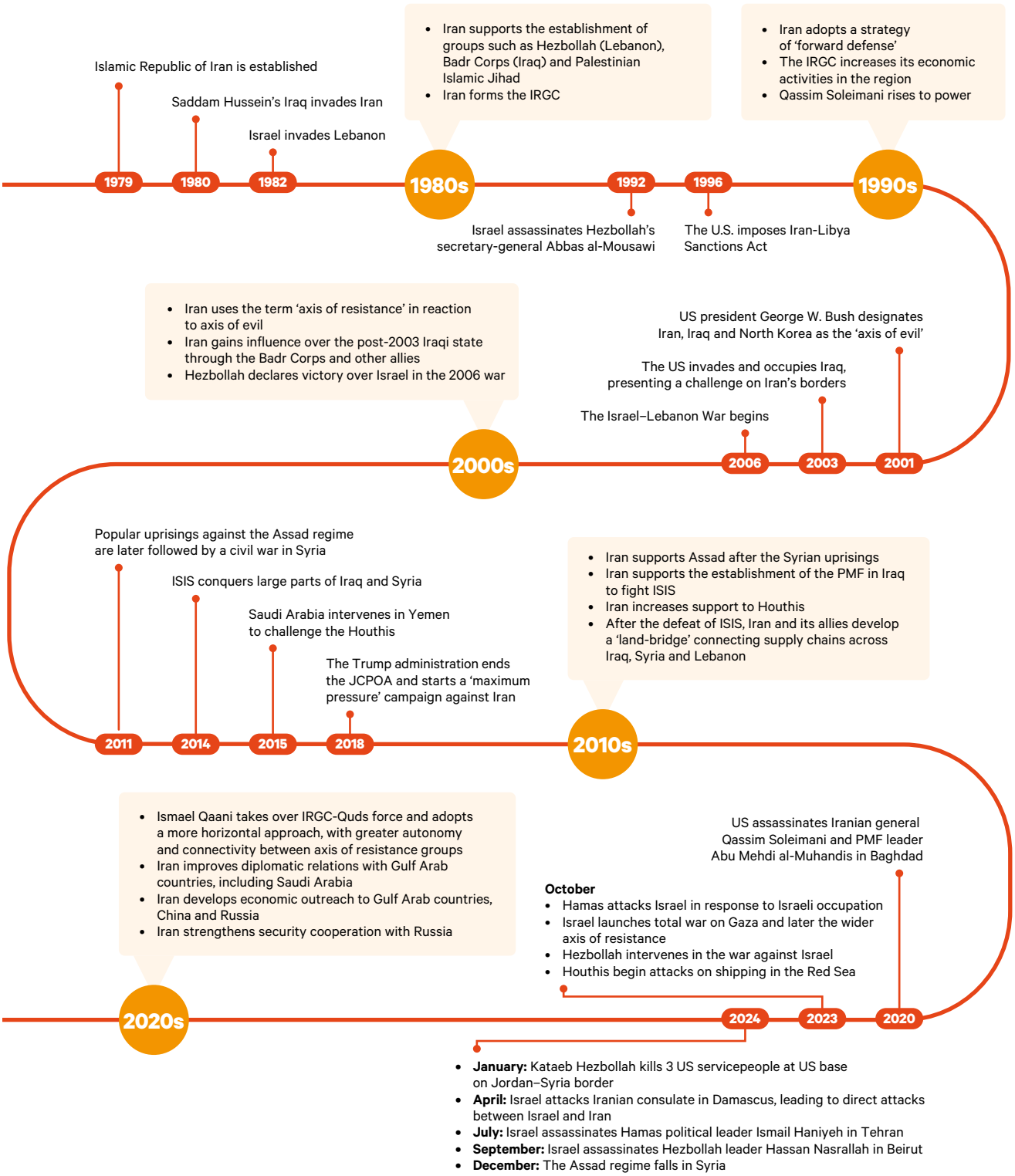
This research paper is part of the Iraq and the Levant case study investigated by Chatham House for the Cross-Border Conflict Evidence, Policy and Trends (XCEPT) research programme, funded by UK International Development. The paper relies on primary sources collected through in-person and telephone interviews with political, economic and military elites, economists, analysts and the general publics in Iraq, Lebanon and Syria between 2021 to 2024. The authors conducted 33 research interviews and three focus groups in Iraq and Lebanon between April and September 2023.

02
How the axis was formed and how it has evolved

The networks forming the 'axis of resistance' predate the label and have continually adapted to external shocks by leveraging their domestic and transnational power. While aligning with Tehran's goals, they also prioritize their own ambitions for local authority.

The 'axis of resistance' attracted considerable international attention following US actions during Trump's 'maximum pressure' campaign and Israel's response to Hamas's attack on 7 October 2023. The actual term was originally coined in 2003, in reaction to US president George W. Bush's 2001 designation of Iran, Iraq and North Korea as the 'axis of evil'. Over time, it had evolved from a loose alliance of actors opposing the US-led international order into a fragmented network of Iran-allied groups operating across several Middle Eastern countries. These groups aligned with Tehran's foreign policy goals, and at times helped project Iranian power and influence across the region, but also prioritized their own ambitions for domestic authority. The origins of the network trace back well before the term 'axis of resistance' was coined and to the early Hezbollah–Iran relationship. This relationship was nurtured in the 1980s and expanded through Iran's opportunistic replication of the model across the region. Iran prioritized Hezbollah above all other groups, providing it with hundreds of millions of dollars annually – far surpassing the investment in any other group.

Figure 1. Timeline of the 'axis of resistance' and its evolution



The foundational moment for this network was the 1979 Islamic revolution in Iran. Since then, Iran and its allies have been ensnared in a relentless cycle of conflict and turmoil. The invasion of Iran by Iraq in 1980 marked the beginning of a series of security, economic and societal shocks that have continuously besieged Tehran

and its allies. Iran began focusing on projecting power and implementing a strategy of 'forward defence' through asymmetric deterrence capabilities against perceived threats – primarily that of Israel.[13] This pursuit led Iran to support the formation of armed groups elsewhere in the Middle East, such as Hezbollah in Lebanon, the Badr Corps in Iraq and Palestinian armed groups, including Hamas and Palestinian Islamic Jihad. The IRGC's Quds Force became a pivotal actor in reinforcing relationships with these groups.[14] Over time, the IRGC's efforts entrenched these groups within their own states through deepened economic, ideological and military connections, while the IRGC also sought to integrate them into a region-wide network dedicated to advancing mutual interests.

Shocks and disruptions in subsequent years forced the groups to adapt and develop coping mechanisms for survival, changing the shape of the network over time.[15] Writing on Hezbollah, Amal Saad argued that 'one cannot overlook the central role played by the logic of survival […] by considering both military and spiritual victory equal, it follows that Hizbu'llah considers both the Resistance fighter's martyrdom and survival as 'victories' for the Resistance.'[16] Part of the evolution of the axis was its ability to adapt to crises at pivotal moments, changing shape and even expanding its reach.

Israel's invasion of Lebanon in 1982 presented an early test. At that time, Iran's strategy to export the Islamic revolution and defend itself against Israel in the region was not yet fully crystallized into what would later be known as forward defence.[17] However, the 1982 crisis presented an early opportunity, as Iran supported the development of Hezbollah in the wake of the Israeli invasion. Former US ambassador to Lebanon Ryan Crocker notes:

> [I]nvasion and the subsequent Israeli occupation created Hezbollah. And I was in Lebanon as US ambassador when the Israelis decapitated Hezbollah for the first time with the assassination of Abbas Musawi […] Well, that decapitation didn't exactly weaken Hezbollah.[18]

Hezbollah was eventually able to remove all Israeli troops from Lebanon in 2000 and claimed a victory over Israel in the 2006 war, marking the further strengthening of the alliance.

Another watershed moment for Iran and its networks came in 2003, when the US invaded and occupied Iraq.[19] The threat of US forces on its borders pushed Iran and its allies to ensure the new government in Baghdad would never be a threat like Saddam Hussein's regime. Since the early 1980s, Iran had established the Badr Corps, investing approximately $20 million annually to cover salaries and procure

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13 Tabatabai, M. (2020), *No Conquest, No Defeat: Iran's National Security Strategy*, Oxford: Oxford University Press, https://doi.org/10.1093/oso/9780197534601.001.0001.
14 Forozan, H. (2015), *The Military in Post-Revolutionary Iran: The Evolution and Roles of the Revolutionary Guards* (1st ed.), Abingdon: Routledge, https://doi.org/10.4324/9781315691640.
15 Bahgat, G. and Ehteshami, A. (2021), *Defending Iran: From Revolutionary Guards to Ballistic Missiles*, Cambridge: Cambridge University Press, https:/doi.org/10.1017/9781108608510.
16 Saad-Ghorayeb, A. (2002), *Hizbu'llah: Politics and Religion*, London: Pluto Press, https://doi.org/10.2307/j.ctt18fs7q7.
17 Seliktar, O. and Rezaei, F. (2020), *Iran, Revolution, and Proxy Wars*, Cham: Springer, https://doi.org/10.1007/978-3-030-29418-2.
18 Hirsh, M. (2024), 'They've Forgotten Their Own Recent History: Why Israel Won't Move Toward Peace', Politico, 18 October 2024, https://www.politico.com/news/2024/10/18/why-israel-wont-move-toward-peace-0001.
19 Abedin, M. (2019), *Iran Resurgent: The Rise and Rise of the Shia State*, London: Hurst.

weapons, vehicles and food.[20] According to Faleh Abdul Jabbar, the group 'was under Iranian command. The commander of the force was an Iranian colonel.'[21] After 2003 and Saddam Hussein's removal from power, the Badr Corps and other Shia armed groups became part of the new Iraqi state, and the Iran-allied network thus overcame the potential crisis of a US-dominated neighbour and developed formal and informal power in Iraq.

The Arab uprisings of 2011 presented further opportunities for expansion. The regime of Bashar al-Assad in Syria fell into crisis after protests across the country called for Assad's removal. At this point, Assad turned to Iran for support and offered to become a component of its axis. Although the Syrian regime had had mixed historical ties with Lebanon and Iran, this new dynamic pushed the relationship between Iran and Syria into a transactional alliance. In return, Hezbollah (alongside Russia) came to the Syrian regime's rescue and helped solidify its hold on power. The participation of various axis groups in the Syrian conflict over the next decade, under Tehran's guidance, significantly strengthened their coordination and deepened their reliance on each other as partners.[22]

However, 13 years later, the ruling Assad regime imploded, primarily due to its inability to maintain legitimacy among its own public. In a matter of days during late 2024, the Idlib-based rebel group Hayat Tahrir al-Sham (HTS) and Syrians from across the country had launched an uprising that reached Damascus and brought down the regime. This time, Iran and Russia – displeased by Assad's failure to regain public authority following the 2011 uprisings and preoccupied with their own conflicts (in Ukraine in Russia's case and with Israel in Iran's) – did not come to Assad's aid.[23] Both ultimately decided it was not in their interests to continue supporting a regime that had so significantly diminished its own domestic authority, and that had always been a passive and transactional partner.[24] This episode demonstrated that the resilience of the network depended on both domestic and transnational authority. Assad had lost too much of both to remain useful.

The 2011 uprisings also led to the rise of another member of the axis, the Houthis.[25] Although the group's relations with Iran were established much earlier, this pivotal moment helped to integrate it into a more formal transnational alliance. Following the overthrow of Yemeni president Ali Abdullah Salih in 2014, the Houthis found an opportunity to take control of the government in Sanaa, and to do so worked closely with Iran.

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20 Combatting Terrorism Center (2005), 'Study about the Disloyal Badr Corps 9', translated documents, 2005, https://ctc.westpoint.edu/wp-content/uploads/2013/09/Iraqi-Intelligence-Study-about-the-Badr-Corps-Translation.pdf.
21 Jabar, F. (2003), *The Shia Movement in Iraq*, London: Saqi Books, p. 253.
22 Cafiero, G. (2024), 'The evolving role of Hamas in the Iran-led "Axis of Resistance"', Amwaj.media, 4 January 2024, https://amwaj.media/article/the-evolving-role-of-hamas-in-the-iran-led-axis-of-resistance.
23 Grajewski, N. (2024), 'Why Did Iran Allow Assad's Downfall?', Carnegie Endowment for International Peace, 9 December 2024, https://carnegieendowment.org/middle-east/diwan/2024/12/why-did-iran-allow-assads-downfall?lang=en.
24 Ibid.
25 Abedin (2019), *Iran Resurgent*.

The rise of Islamic State, which conquered almost one-third of Syria and 40 per cent of Iraq in 2014, presented another major threat to Iran and its network. Islamic State particularly targeted Shia groups and leaders, prompting Iran and the Iraqi government to support the formation of the PMF as part of the state's fight against ISIS. The PMF formally institutionalized the many Shia groups that Iran was already working with in Iraq. Again, a crisis presented an opportunity to reform the make-up of the axis.[26]

The reformed axis transitioned from a top–down, Iranian-driven organization to one in which constituent members enjoyed greater autonomy and interacted more independently with both Tehran and each other.

US president Donald Trump's 'maximum pressure' campaign, which ended the Iran nuclear agreement concluded by his predecessor, enacted comprehensive and targeted sanctions on Iran and its allies, and led to the assassinations of the axis's founder and leader, Iranian general Qassim Soleimani, and PMF leader Abu Mehdi al-Muhandis at Baghdad airport in January 2020. Soleimani had established a hierarchical regional network with himself and the Quds Force at the apex. This structure enabled him to direct Iran's networks politically, operationally and logistically.[27] Field commanders in various countries served as Soleimani's right-hand men, ensuring the implementation of his directives on the ground. He had operated the axis as a top–down organizational structure, with members taking direction from Tehran. Many believed at the time that his death would be a major setback for Iran and the axis as a whole.

But, while the attack sent shockwaves through the entire network and in particular caused groups in Iraq to go into hiding, the axis eventually recovered and shifted its shape to do so. This reformed axis transitioned from a top–down, Iranian-driven organization to one in which constituent members enjoyed greater autonomy and interacted more independently with both Tehran and each other. While Soleimani's successor, Ismael Qaani, upheld the core objectives, he struggled to replicate Soleimani's charismatic leadership and deep-rooted personal connections with axis leaders. Instead, Qaani focused on institutionalizing Iranian policy across the region. This new formation was partly a response to the loss of Soleimani's unique capabilities and authority. His significant command and control, rooted in personalized relationships, had exposed Iran to considerable risks, prompting Tehran to restructure the axis to be less reliant on individual leaders.[28]

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26 Mohseni, P. and Kalout, H. (2017), 'Iran's Axis of Resistance Rises', *Foreign Affairs*, 24 January 2017, https://www.foreignaffairs.com/iran/irans-axis-resistance-rises.
27 Azizi, A. (2020), *The Shadow Commander: Soleimani, the US, and Iran's Global Ambitions*, London: Oneworld Publications, https://oneworld-publications.com/work/the-shadow-commander.
28 Rajabi, J. (2024), 'Qaani's Growing Leadership Struggles in a Post-Soleimani World', policy analysis, The Washington Institute for Near East Policy Fikra Forum, 1 May 2024, https://www.washingtoninstitute.org/policy-analysis/qaanis-growing-leadership-struggles-post-soleimani-world.

In this reformed version of the axis, Hassan Nasrallah and Hezbollah rose to become a pivotal broker, frequently providing strategic guidance even to Qaani.[29] These changes allowed the axis to recover from the damage and reconfigure itself.[30] This shift also allowed Iran to continue to benefit from 'plausible deniability' when other constituent groups carried out attacks.[31]

The assassination of Soleimani or the other previous attacks on Iran and the axis seemingly paled in comparison to Israel's total war that began on 7 October. These developments caught Qaani off-guard and disrupted his longer-term efforts to reform the nature of the networks. In light of the setbacks, the axis was once again forced to adapt and transform. Israel's offensive against Hamas and Hezbollah prompted a stronger response from other members of the axis such as Kataeb Hezbollah (KH) in Iraq and the Houthis in Yemen. These groups had previously been peripheral to the broader regional conflict dynamics, and more focused on establishing their domestic influence and seeking state inclusion. However, following the regional upheavals post-7 October, they sought to enhance their cooperation and expand their regional influence.

For many years, the Houthis maintained a nominal presence in Iraq, with their sole representative in Baghdad often having limited activities. This presence appeared more symbolic than operational.[32] However, since October 2023, the Houthis have significantly intensified their cooperation with the PMF, especially KH. This intensified cooperation encompasses joint military operations, strategic coordination, weapons-sharing and the establishment of joint operations centres.[33] This enhanced collaboration has led to joint operations against Israel.

The Houthis also became the first axis group to use anti-ship ballistic missiles, targeting commercial vessels passing through the Red Sea. They disrupted global trade, forcing freight companies to reroute around Africa, which led to increased costs and delays in the delivery of energy, food and consumer goods. In this way, the Houthis were able to reshape the Iran-led axis using limited means so that it could present a new threat from the Red Sea.

Kataeb Hezbollah also demonstrated its increased autonomous decision-making amid Israel's military campaign. Previously described by many as an Iranian 'proxy', the group attacked and killed three US service members in January 2024 at Tower 22 along the Jordan–Syria border. This action was undertaken against the wishes of the IRGC, which subsequently pleaded with KH to call a ceasefire.[34] These examples demonstrate how shocks have led to greater horizontal autonomy and more independent actions from various groups within the axis.

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29 Azizi, H. and Barnes-Dacey, J. (2024), *Beyond Proxies: Iran's Deeper Strategy in Syria and Lebanon*, policy brief, Berlin: European Council on Foreign Relations, June 2024, https://ecfr.eu/wp-content/uploads/2024/06/Beyond-proxies-Irans-deeper-strategy-in-Syria-and-Lebanon-v2.pdf.
30 Krieg, A. (2024), 'Network model shows resilience as Iran-Israel clash expands', Amwaj.media, 15 January 2024, https://amwaj.media/article/network-model-shows-resilience-as-iran-israel-clash-expands.
31 Tabatabai (2020), *No Conquest, No Defeat*.
32 Author interviews with Houthi representative, Baghdad, October 2019.
33 Al-Jabarni, A. (2024), 'A New Axis: Strategic Coordination between the Houthis and Iraqi Factions', Sana'a Center for Strategic Studies Yemen Review Quarterly, 15 July 2024, https://sanaacenter.org/the-yemen-review/april-june-2024/22900.
34 Al Alawi, H., Harisi, M. A. and Mahmoud, S. (2024), 'Iraq truce still holding despite attacks on US forces, sources say', *The National*, 23 April 2024, https://www.thenationalnews.com/news/mena/2024/04/23/iraq-us-militias-truce-attacks.

Throughout its existence and even before the term 'axis of resistance' was coined, Iran and its networks have continually adapted to military, economic and societal shocks and existential threats. They have done this by leveraging domestic and transnational networks that connect its constituent groups and embed them within state structures across the region and beyond. The axis has faced multiple such threats since its creation. While these shocks have, at times, degraded and altered its standard operating procedures, the axis has demonstrated long-term resilience, provided that its component parts are able to maintain both domestic and transnational authority. As the following chapters show, this adaptability is evident in two key economic supply chains – those of finance and energy – which have been crucial to sustaining the axis despite external threats.

03
Uncovering the axis's economic support networks

Research into financial flows and energy supply chains reveals a sophisticated web of politicians, bureaucrats, businesses and societal leaders connecting Iran and its allies to neighbouring states and beyond, transcending geopolitical and ideological divides.

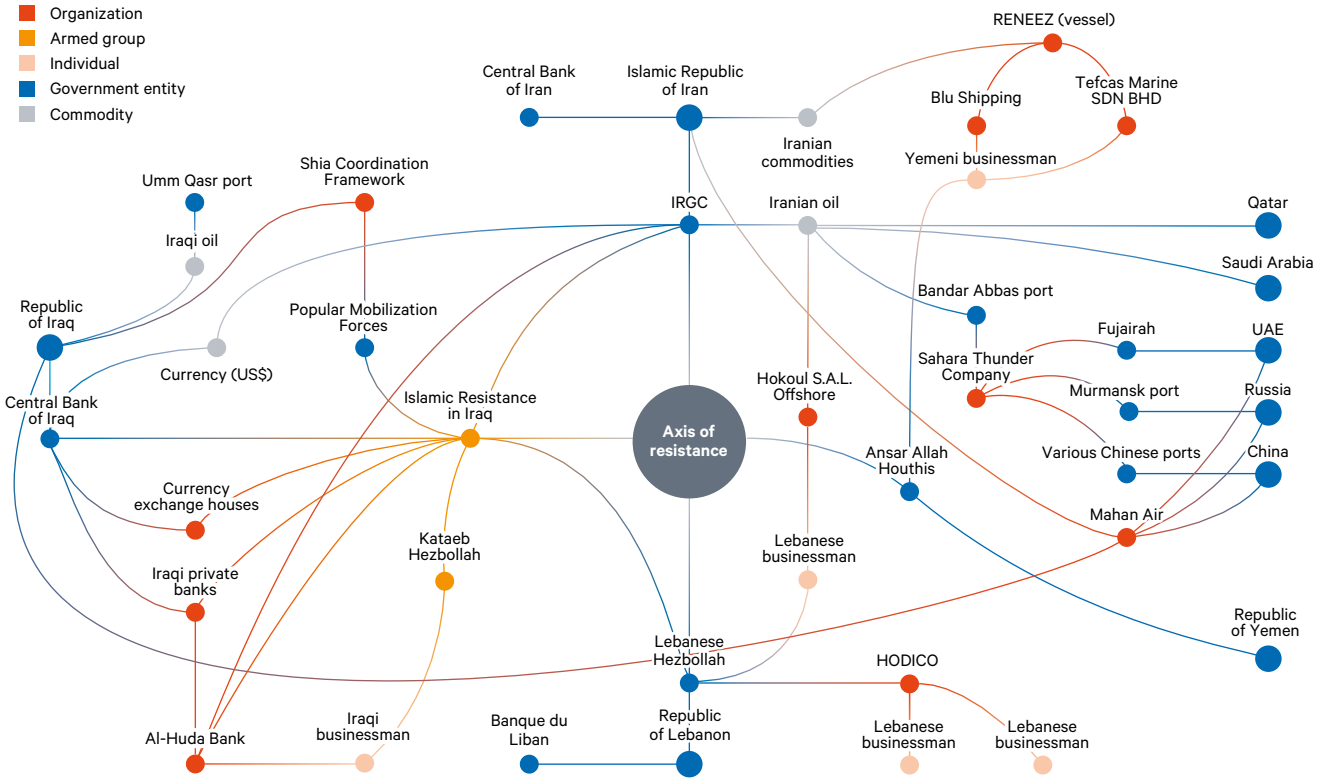
The economic networks that connect and empower the axis of resistance have evolved as members have pursued profit and responded to a series of shocks and opportunities.[35] Direct financial support from Iran initially bolstered these groups' military strength and operational capacity, cementing their positions as powerful political and economic players in their respective countries.[36] But as these groups strengthened their domestic foothold, their capacity to generate independent revenues also expanded, especially as Iran's support was at times constrained. Hezbollah, for example, established extensive financial networks in Lebanon, encompassing property and construction projects, as well as enterprises in the wider Middle East, Asia, Africa and Latin America.[37] Similarly, the PMF integrated themselves into Iraq's state finances, securing access to lucrative government

35 Ostovar (2009), *Guardians of the Islamic Revolution*.
36 Azizi and Barnes-Dacey (2024), *Beyond Proxies*.
37 Khatib, L. (2021), *How Hezbollah holds sway over the Lebanese state*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2021/06/how-hezbollah-holds-sway-over-lebanese-state.

projects[38] and direct funding from the national budget. This included, for example, $3.5 billion allocated in the 2024 budget to cover PMF salaries, financial allowances and other support.[39]

A crucial aspect of the economic authority of Iran's allied groups is their ability to operate seamlessly in both formal and informal sectors of their respective domestic economies, and across national borders, evading regulation while maintaining impunity. Analysis of their involvement in the finance sector and energy supply chains reveals how the axis harnessed its domestic and transnational power. Through their involvement in these areas, Iran and its allies developed intricate systems of logistical procedures and economic partnerships that underlined the network's resilience and adaptability, allowing it to maintain economic influence in the region and bounce back from shocks.

Figure 2. A snapshot of the axis and its regional and global links



Note: This figure is intended as a snapshot of the axis of resistance and its regional and global connections. Inclusion of any entity or individual does not imply wrongdoing on their part.

38 Mansour, R. (2021), *Networks of power: The Popular Mobilization Forces and the state in Iraq*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2021/02/networks-power.
39 Rudaw (2024), 'Iraq allocates $3.5 billion to PMF in 2024 budget', 3 September 2024, https://www.rudaw.net/english/middleeast/iraq/030920242.

Financial flows and their components

Access to financial flows became a cornerstone of the axis's authority both domestically and transnationally. Axis members devised both formal and informal mechanisms to secure and enhance their economic power, seeking entry into financial markets and providing them with sources of international currency. The interconnectedness of the network enabled the seamless movement of cash and resources across borders, with domestic connections providing essential financial lifelines that sustained the axis's regional presence. These cross-border transfers fortified the resilience of the axis, allowing it to withstand external pressures such as sanctions. In each country, businesspeople, government bureaucrats, local officials and armed actors collaborated to facilitate the transfer (both virtually and physically) of money across borders. These networks of individuals operated in both the formal sector, including by gaining influence over state-owned banks, and the informal sector, including via currency exchange houses. At times, informal money smugglers were also able to use government military vehicles to transfer cash, blurring the line between state and non-state in the countries affected.

Central banks

Central banks became a key mechanism for axis members to acquire and move money, with allegations arising that banks engaged in informal financial practices that facilitated the flow of currency from one part of the network to another. For instance, in 2018, the US Treasury reportedly uncovered a network – which included the governor of the Central Bank of Iran, an Iraq-based bank and its chairman, and a Hezbollah official – that transferred millions of US dollars on behalf of the IRGC to Hezbollah.[40] These actors sat both inside and outside government, using their formal and informal authority to move the money.

A significant example of transnational financial flows was the dollar auction system at the Central Bank of Iraq, which it was alleged Iran and its allies gained influence over in pursuit of US dollars.[41] This auctions system, originally designed to facilitate the import of goods by Iraqi companies by offering US dollars in exchange for Iraqi dinars, was reported to have been manipulated by a network of financial institutions and informal channels for the benefit of Iran's network. For instance, the US Treasury discovered that an Iraqi businessman, Hamid al-Moussawi, employed partially aware, unaffiliated individuals to purchase US dollars during currency auctions held by Iraq's central bank. According to the findings, al-Moussawi used their identity documents to bypass restrictions on currency purchases.[42] By submitting inflated or fraudulent invoices, it was alleged that such actors secured large sums of dollars, which could then be moved across the region to benefit groups affiliated to the axis.[43]

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40 US Department of the Treasury (2019), 'Treasury Sanctions Iran's Central Bank and National Development Fund', press release, 20 September 2019, https://home.treasury.gov/news/featured-stories/treasury-sanctions-irans-central-bank-and-national-development-fund.
41 The US treasury department has outlined the practice of currency auctions. See US Department of the Treasury (2024), 'U.S. Treasury Takes Action to Protect Iraqi Financial System From Abuse', press release, 29 January 2024, https://home.treasury.gov/news/press-releases/jy2053.
42 Note that this was not only done by members of the Iran-led network, but many elites in Iraq. See Ibid.
43 See Ibid. for more detail on the US Treasury's findings on al-Huda Bank.

According to the US Treasury, Iran's allies created intricate networks of front companies and multiple banking institutions to obscure the origin and destination of funds.[44] For example, reports indicated that both the Assad regime and Hezbollah leveraged their connections with the PMF to gain access to Iraqi currency exchange houses. With the PMF's assistance, Iraqi businessmen and currency traders reportedly acted as intermediaries in this process, purchasing US dollars and then reselling them to Hezbollah and the Syrian regime. As the deputy governor of Iraq's central bank noted: 'The main reason for this is the sanctions imposed on Iran and Syria, and the fact that their bank transactions are having trouble. Iraqi businessmen play the role of middlemen.'[45] Interviews with Iraqi bankers and exchange offices corroborated the notion that, for many, transferring money from Iraq to Lebanon or Syria was as easy as transferring money within Iraq. One interviewee outlined how the system operated: 'If you give me money now, I will make a phone call and your friend can receive it in Beirut at the same time.'[46]

After tracing the proprietors of companies and accounts cited in dollar application invoices, an investigative report by the Organized Crime and Corruption Reporting Project claimed that a substantial portion of the funds was directed to accounts linked to suspected financiers of the IRGC and its allies. These funds included at least $28 million directed to a company identified by the US as managing funds for an IRGC member, who was subsequently sanctioned for financing Yemen's Houthis.[47] In one example, according to the US Treasury, al-Moussawi, who was the owner and president of Al-Huda Bank, maintained strong relations with both the IRGC and Kataeb Hezbollah. It reported that, '[s]ince its inception, Al-Huda Bank has used forged documents to execute at least $6 billion in wire transfers out of Iraq.'[48]

The Central Bank of Syria (CBoS) also played a key role in the transnational financial infrastructure. The Assad regime reportedly used currency exchange houses to circumvent sanctions,[49] using both informal mechanisms, such as the *hawala* system which made transactions more difficult to trace, along with the formal channels such as the CBoS.[50]

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44 US Department of the Treasury (2018), 'Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force', press release, 15 May 2018, https://home.treasury.gov/news/press-releases/sm0385; research interview with a Lebanese parliamentarian, Beirut, April 2024.
45 Kami, A. (2012), 'Iraq becomes dollar source for sanctions-hit Iran, Syria', Reuters, 1 February 2012, https://www.reuters.com/article/idUSTRE81018H.
46 Research interview with an Iraqi exchange officer, Baghdad, September 2024.
47 Down, A. K., Dihmis, L., Sabbagh, R. and Hall, K. G. (2024), 'Iraq's Dollar Auction: The 'Monster' Funneling Billions to Fraudsters and Militants Through the U.S. Federal Reserve', OCCRP, 8 October 2024, https://www.occrp.org/en/investigation/iraqs-dollar-auction-the-monster-funneling-billions-to-fraudsters-and-militants-through-the-us-federal-reserve#:~:text=Files%20from%20an%20Iraqi%20parliamentary%20investigation%20show%20how,was%20cleared%20based%20on%20documents%20that%20appeared%20fraudulent.
48 US Department of the Treasury (2024), 'U.S. Treasury Takes Action to Protect Iraqi Financial System From Abuse'.
49 See, for example, the US Treasury findings on Al-Fadel Exchange, which claimed that Assad had used the exchange to transfer money. US Department of the Treasury (2023), 'Treasury Sanctions Syrian Financial Facilitators Under the Caesar Syrian Civilian Protection Act', press release, 30 May 2023, https://home.treasury.gov/news/press-releases/jy1508. See also Syrian Legal Development Programme (2022), *Tactics of Sanctions Evasion in Syria*, report, January 2022, https://sldp.ngo/wp-content/uploads/2022/01/Tactics-of-Sanctions-Evasion-in-Syria-1.pdf.
50 The *hawala* system is an informal method of transferring money that relies on a network of brokers to facilitate transactions without the physical movement of cash. *Hawala* is often used for its speed and low cost, and is sometimes seen as a way to bypass formal banking regulations. Research interview with a Syrian economist, Beirut, May 2024.

A Syrian economist interviewed for this paper explained that:

> Due to sanctions, the CBoS relies on currency exchange houses to carry out transactions, receive funds and obtain foreign currency. Similar to other clients, the CBoS transfers money to these exchange houses, either physically or via bank transfers to their Syrian accounts, and requests the services it wants. Likewise, the financial inflows received by the regime through these exchange houses are transferred directly to the CBoS.[51]

These details were echoed by the US Treasury, which in 2023 sanctioned the Damascus-based Al-Adham Exchange for allegedly assisting the Assad regime to maintain access to the international financial system. Al-Adham Exchange was accused of facilitating millions of dollars in transfers to CBoS accounts and regularly moving money abroad on behalf of the CBoS.[52]

The Assad regime, according to the US Treasury, relied on informal trading houses to secure crucial foreign currency from Lebanon and transfer it into Syria, helping control the depreciation of the Syrian pound.[53] The US Treasury reported similar details in its 2023 sanctions against another Damascus-based exchange house, Al-Fadel Exchange, which was alleged to have facilitated the transfer to the Syrian regime of cash collected in other Middle Eastern countries.[54]

Reports also indicated that the Assad regime allowed other network groups, including Hezbollah, to use Syrian exchange houses to carry out financial transactions. This practice was highlighted in US Treasury sanctions against Al-Fadel Exchange, which allegedly facilitated millions of dollars in transfers to CBoS accounts since 2021. In communications outlining the sanctions against Al-Fadel, the US Treasury stated that its owners, Fadel, Muti'i and Muhammad Balwi, were the only individuals authorized by the CBoS to work on behalf of Hezbollah.[55]

Cross-border cash transfers

Beyond facilitating transactions through connections with the formal governments and central banks in their countries, exchange houses were also reportedly used to courier cash to other axis groups. Couriers used various routes, both physical and virtual, ensuring that when one route was shut down, others could be leveraged in their place.

Speaking on the subject of overcoming sanctions, a Syrian businessman explained, 'financial transfers between Lebanon and Syria are largely handled either by physically transporting the cash through illegal crossings or by cash couriers with connections on both sides of the border, ensuring they can bypass authorities.'[56] Similarly, a Lebanese MP highlighted the scale of these operations, stating that 'well-known gangs buy dollars from the local market in alarming quantities and

51 Research interview with a Syrian economist, Beirut, April 2024.
52 US Department of the Treasury (2023), 'Treasury Sanctions Syrian Financial Facilitators Under the Caesar Syrian Civilian Protection Act', press release, 30 May 2023, https://home.treasury.gov/news/press-releases/jy1508.
53 Ibid.
54 Ibid.
55 Ibid.
56 Research interview with a Syrian businessman, Beirut, April 2024.

smuggle them into Syria.' The MP criticized the lack of action taken against these smugglers, who they claimed freely crossed the border with large sums of cash under the protection of state authorities.[57]

Likewise, dollars purchased from Iraq's central bank auction were physically smuggled to Syria across land borders by Iraqi armed groups or by others under the direct protection of those groups.[58] A Syrian businessman explained in an interview with the authors:

> Iraqi armed groups don't typically use military vehicles for smuggling large quantities of goods – they're too small to make substantial profits. But when it comes to cash or valuables, it's a different story. These don't take up much space, and using military vehicles is seen as a safer, more secure method for transporting them.'[59]

In other arenas, the axis used different forms of currency to move cash. For instance, in late 2024 the US Office of Foreign Assets Control stated that five cryptocurrency wallets associated with the IRGC were used by a Houthi-affiliated businessman, Said al-Jamal, to move funds electronically.[60] The loss of the Assad regime necessitated a greater reliance on other axis groups such as the Houthis, who subsequently assumed a more pivotal role.[61]

Energy trading

In response to US sanctions targeting Iran's financial sector and oil industry, the axis increasingly relied on oil and gas resources as a crucial lifeline. Tehran facilitated the direct and indirect shipment of crude oil and fuel to its partners in Iraq, Lebanon, Syria and Yemen, but also other regions. The revenue generated from these local energy sales was frequently used to finance the Axis's operations.[62] Again, these routes were diverse, encompassing both land and sea, allowing for navigation around any potential disruptions.

Iran's trade extended beyond its usual partners and states aligned with the axis of resistance, reaching further afield. China emerged as the largest market for Iranian energy, with 2024 marking a significant milestone. That year, China accounted for a substantial portion of Iran's energy trade, reflecting a 24 per cent increase compared to 2023. Approximately 91 per cent of Iran's total oil exports, amounting to 533 million barrels, were directed to China.[63] This trade was valued at around $70 billion in 2023.[64]

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57 Ibid.
58 Abdul-Zahra, Q. and Sewell, A (2023), 'Targeting Iran, US tightens Iraq's dollar flow, causing pain', AP News, 2 February 2023, https://apnews.com/article/united-states-government-iraq-business-0628bad5e4d46315951c90681baba202.
59 Research interview with a Syrian businessman, Beirut, May 2024.
60 US Department of the Treasury (2024), 'Treasury Maintains Pressure on Houthi Procurement and Financing Schemes', press release, 19 December 2024, https://home.treasury.gov/news/press-releases/jy2757.
61 Tulloch, R. (2025), 'Houthis receive more Iranian weapons as other armed allies collapse', *Telegraph*, 4 January 2025, https://www.telegraph.co.uk/world-news/2025/01/04/houthis-iran-weapons-yemen-israel-shipping-middle-east.
62 Research interview with a Syrian economist, London, April 2024.
63 Iran International (2025), 'Iran exported nearly 2 billion barrels of oil under Biden administration, UANI says', 3 January 2025, https://www.iranintl.com/en/202501030566.
64 Congressional Research Service (2024), 'Iran's Petroleum Exports to China and U.S. Sanctions'.

Moreover, it was not only adversaries of the US and UK who were involved in this network, but also their allies. The shipping fleet connected to Iran extended to involve Gulf Arab countries, highlighting shifting alliances in a more multi-aligned global order. For example, a Reuters investigative report mapped the movements of the vessel *Sahara Thunder*, which transported Iranian oil from Bandar Abbas in Iraq to Venezuela, Murmansk in northern Russia, various ports in China and through Fujairah in the United Arab Emirates (UAE). Another ship linked to Iran's energy trade also sailed to the UAE, where an Emirati firm refuelled the ship. The company was alleged to have instructed the Iranian firm Sahara Thunder to pay 4.3 million dirhams ($1.2 million) to its agent in cash.[65] Additionally, a report found that the southern Iraqi city of Basra served as the heart of Iran's fuel-blending operations, with Khor Al Zubair and Umm Qasr ports being key export points for transferring its fuel.[66]

Despite facing international sanctions, Iran continued to collaborate with neighbouring countries with which they share oil fields. For instance, Iran and Qatar jointly exploit the South Pars/North Dome Gas Field, the world's largest natural gas field. Similarly, Iran and Saudi Arabia engaged in joint ventures to exploit the Arash-Dorra gas field, with both states expressing interest in collaborative efforts to enhance their energy production capabilities.

The trading system operated by Iran undermined the effectiveness of economic sanctions, posing a significant challenge to US, UK and allied policymakers in their efforts to curb the growing influence of the axis in the MENA region and beyond.

This broader trading system operated by Iran undermined the effectiveness of economic sanctions, posing a significant challenge to US, UK and allied policymakers in their efforts to curb the growing influence of Iran and the axis in the MENA region and beyond. This dynamic has unveiled a global order where traditional allies and adversaries are interconnected in their pursuit of profit.

The energy supply chain also blurred the lines between state and non-state actors, as well as between national borders. The onset of conflict in Syria from 2011 and subsequent sanctions against the Assad regime led to a sharp decline in Syria's domestic oil production, making the country heavily dependent

65 US Department of the Treasury (2024), 'Treasury Targets Networks Facilitating Illicit Trade and UAV Transfers on Behalf of Iranian Military', press release, 25 April 2024, https://home.treasury.gov/news/press-releases/jy2295. See also Carsten, P. and Dutta, P. K. (2025), 'How Iran moves sanctioned oil around the world', Reuters, 7 January 2025, https://www.reuters.com/graphics/IRAN-OIL/zjpqngedmvx.
66 El Dahan, M. and Saba, Y. (2024), 'Fuel oil smuggling network rakes in $1 billion for Iran and its proxies', Reuters, 3 December 2024, https://www.reuters.com/world/middle-east/fuel-oil-smuggling-network-rakes-1-billion-iran-its-proxies-2024-12-03.

on Iranian oil.[67] Estimates suggested that about 8 per cent of Iran's total annual oil exports, equivalent to around 87.6 million barrels, went to Syria before Assad was overthrown.[68] The Assad regime's control over formal critical infrastructure in Syria, including ports, storage facilities and refineries, enabled large-scale fuel imports to continue despite the presence of opposing groups in other parts of the country.[69]

Reports indicated that Hezbollah played a role in facilitating the transport of Iranian oil through Syria, using a network of businesspeople and front companies, and tactics such as deceptive shipping routes and falsified vessel registrations to evade regulation.[70] Corroborating these claims, the US Treasury's September 2024 sanctions against Hezbollah-affiliated individuals, companies and vessels revealed the sophisticated tactics employed by Iran and its allies to finance their operations through the oil trade.[71] These US sanctions detailed how some oil shipments were managed directly by Hezbollah-affiliated front companies, such as Hokoul SAL Offshore, which the US Treasury found obscured the flow of oil to Syria by layering corporate ownership and distancing Hezbollah from direct involvement.[72] Among the individuals sanctioned were Lebanese businessmen Ali Nayef Zgheib and Boutros Georges Obeid who were accused of 'having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of' Hezbollah.[73]

In 2021, Hezbollah publicly admitted its role in acquiring fuel from Iran to alleviate Lebanon's worsening energy crisis.[74] The import and sale of Iranian oil to the Syrian regime and in Lebanon reportedly enabled Hezbollah to generate substantial revenue.[75] A Lebanese economist noted that:

> While Hezbollah receives fuel for its operations in Syria and Lebanon for free, it purchases additional fuel at low prices for commercial purposes, thanks to its special relationship with Iran. By avoiding taxes on the fuel imported into Lebanon, Hezbollah is able to make significant profits from this oil trade.[76]

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67 The US Treasury found that 'shipments and transfers have involved Iranian-origin oil, and countries such as Iran and Russia have continued to provide petroleum shipments to the Government of Syria'. See US Department of the Treasury (2024), 'OFAC Advisory to the Maritime Petroleum Shipping Community', press release, 11 September 2024, https://ofac.treasury.gov/media/933191/download?inline. This information was corroborated by a research interview with a Syrian economist, Beirut, April 2024.
68 United Against Nuclear Iran (2024), 'April 2024 Iran Tanker Tracking', 1 May 2024, https://www.unitedagainstnucleariran.com/blog/april-2024-iran-tanker-tracking.
69 See US Department of the Treasury (2024), 'OFAC Advisory to the Maritime Petroleum Shipping Community'. Also corroborated in a research interview with a Syrian analyst, Beirut, April 2024.
70 Saban, N. (2023), 'Iran is still exporting oil to Hezbollah and the Assad regime. It's using Syrian ports for transit', Atlantic Council IranSource blog, 13 March 2023, https://www.atlanticcouncil.org/blogs/iransource/iran-is-still-exporting-oil-to-hezbollah-and-the-assad-regime-its-using-syrian-ports-for-transit.
71 US Department of the Treasury (2024), 'Treasury Targets Oil and LPG Smuggling Network That Generates Millions in Revenue for Hizballah', press release, 11 September 2024, https://home.treasury.gov/news/press-releases/jy2572.
72 Ibid. See also US Department of State (2020), 'Rewards for Justice: Up to $10 Million Reward Offer for Information on Hizballah's Financial Networks, Muhammad Qasir, Muhammad Qasim al-Bazzal, and Ali Qasir', media note, 23 October 2020, https://2017-2021.state.gov/rewards-for-justice-up-to-10-million-reward-offer-for-information-on-hizballahs-financial-networks-muhammad-qasir-muhammad-qasim-al-bazzal-and-ali-qasir.
73 Ibid.
74 BBC News (2021), 'Hezbollah brings Iranian fuel into Lebanon to ease shortages', 16 September 2021, https://www.bbc.co.uk/news/world-middle-east-58583008.
75 Reuters (2024), 'US sanctions Lebanese network over alleged oil, LPG smuggling for Hezbollah', 11 September 2024, https://www.reuters.com/world/middle-east/us-sanctions-lebanese-network-over-alleged-oil-lpg-smuggling-hezbollah-2024-09-11; research interview with a Syrian analyst, Beirut, April 2024.
76 Research interview with a Lebanese economist, Beirut, April 2024.

Hezbollah also worked to transport fuel from Lebanon to Syria. The US Treasury found that Heavy Industrial Fuels SAL received a $1 million payment in 2022 for liquefied petroleum gas shipments from Lebanon to Syria.[77] Using illegal border crossings in areas like Baalbek-Hermel, Hezbollah transported subsidized diesel from Lebanon to Syrian warehouses controlled by the Syrian army's Fourth Division or its affiliated businessmen.[78] Having been bought at significantly lower prices in Lebanon, this fuel was resold in Syria at a substantial mark-up. At its peak, this operation was estimated to bring in revenues of around $300 million per month.[79] When Lebanon stopped subsidizing fuel in late 2021, the same network began smuggling Iranian fuel into Syria.

Meanwhile, persistent fuel shortages in areas of Syria held by the Assad regime presented a lucrative opportunity for the PMF, which traded subsidized oil products from Iraq and sold them on the black market to residents in northeastern Syria at inflated prices. Around 10,000 barrels of oil were thought to have been smuggled into Syria via this route each day.[80] As such, the PMF used its access to the Iraqi government to acquire subsidized fuel to then ship to axis allies in Syria.

Iranian oil was also sold via Iraq through a combination of formal agreements and informal mechanisms. One important method involved barter deals, in which Iraq exchanged crude oil for Iranian gas and fuel products. This arrangement allowed both countries to bypass US sanctions that restricted financial transactions. Additionally, Iranian oil was allegedly blended with Iraqi oil to obscure its origin, making it more difficult to trace and sanction. This blending process was facilitated by ship-to-ship transfers that enabled the seamless movement of oil across borders.[81] This network of economic intermediaries ensured that Iranian oil continued to reach international markets despite the imposition of sanctions by the US and others.

In another arena, Iran relied on another ally – the Houthis – to diversify its energy exports. For example, the US Treasury accused businessman Said al-Jamal of generating revenue for the Houthis through the illicit sale of Iranian petroleum, stating that:

> Al-Jamal's oil shipments are enabled by a network of shipping firms in Malaysia that provide critical services to ships transporting this cargo. Malaysia-based companies Blu Shipping (M) SDN BHD (Blu Shipping) and Tefcas Marine SDN BHD (Tefcas Marine) provided services to the US-sanctioned vessel RENEEZ (IMO 9232450), which has transported tens of thousands of metric tons of Iranian commodities for al-Jamal's network.[82]

This diversity of routes and supplies allowed Iran and its allies to remain able to respond and adapt to shocks in any one theatre, such as when the Assad regime fell in Syria.

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77 US Department of the Treasury (2024), 'Treasury Targets Oil and LPG Smuggling Network That Generates Millions in Revenue for Hizballah'.
78 Hatahet, S. and Aldassouky, A. (2022), 'Competition, collusion and smuggling: Syria's borders with Turkey and Iraq', policy brief, San Domenico di Fiesole: European University Institute, https://doi.org/10.2870/429999.
79 Ibid.
80 Ibid.
81 El Dahan and Saba (2024), 'Fuel Oil Smuggling Network Rakes in $1 Billion for Iran and Its Proxies'.
82 US Department of the Treasury (2024), 'Treasury Maintains Pressure on Houthi Procurement and Financing Schemes'.

04 Challenges to the axis's public authority

While the axis has adapted to external shocks, its populations have suffered. The fall of the Assad regime illustrates that the most significant pressure on Iran and its allies comes from the public.

The effects of axis shape-shifting on the population

While Iran and its networks have historically showed resilience to economic, military and political setbacks, people living in the countries in which they operate have suffered. Sanctions and other external policy interventions damaged already struggling national economies and their ability to provide a basic standard of living for citizens, while the transnational changes adopted by axis members to overcome shocks to their ecosystem focused primarily on the survivability of axis elites. Poor governance led to massive protests across the countries where axis members sought public authority, including in Iran (in both 2009 and 2023), Syria (2011), Iraq (2019) and Lebanon (also 2019). As the fall of the Assad regime in 2024 shows, the biggest threat to the axis and its constituent groups is disillusionment among their own social base in each country, who suffered the greatest consequences from the financial flows and energy trading mechanisms detailed in the previous chapter.

For instance, illicit financial flows from Lebanon to Syria, in response to international sanctions, reportedly affected the Lebanese economy and the value of the Lebanese pound. In 2022, the Lebanese central bank reported that US dollar smuggling,

primarily to Syria, was a major factor in devaluing its currency.[83] This increased demand for US dollars in Lebanon caused the exchange rate to 'skyrocket'.[84] This severe devaluation of the Lebanese currency, alongside other factors, prompted a sharp rise in the cost of living in Lebanon, including a staggering 483 per cent year-on-year increase in food prices from January 2021 to January 2022.[85]

The Iraqi public also bore the brunt of the axis's coping economy. Domestic inflation rates soared as the PMF sent large quantities of US dollars to its allies across the region and the US imposed stricter restrictions on banks involved in this trade.[86] As in Lebanon, the demand for US dollars drove up the exchange rate with the Iraqi dinar.[87] This disparity in the rate reportedly led to a significant increase in the cost of many imported goods, including food and medicines, severely impacting the daily lives of Iraqis. An Iraqi merchant lamented: 'Since Iraq imports most of its consumable goods, all the prices keep increasing while our salaries remain the same. We cannot do anything about it.'[88] Between 2020 and 2024, the price of goods and services in Iraq rose by 18 per cent, with meat prices soaring by 35.6 per cent and healthcare services increasing by 25.2 per cent.[89]

Axis groups and other Iraqi political elites were performing the functions of the state, such as regulating and taxing businesses, in place of the central government in Baghdad.

The axis's energy trading also impacted the public and their standard of living. In 2021, former Lebanese caretaker energy minister Raymond Ghajar noted that much of Lebanon's subsidized fuel ended up in Syria, which was one of the key reasons for the termination of subsidies.[90] In October 2020, a gallon of (subsidized) gasoline cost 25,200 Lebanese pounds. By May 2024, the price had surged to 1.66 million Lebanese pounds per gallon.[91]

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83 Fakhri, J. (2022), 'دولارات اللبنانيين ومحروقاتهم إلى سوريا. هكذا تُهرّب' [Lebanese Dollars and Fuel to Syria. This is How They Are Smuggled], *Al-Arabiya*, 31 December 2022, https://www.alarabiya.net/aswaq/2022/12/30/دولارات-اللبنانيين-ومحروقاتهم-الى-سوريا-هكذا-تُهرّب.

84 Research interview with a Lebanese economist, Beirut, April 2024.

85 Central Administration of Statistics (2022), 'الرقم القياسي ألسعار اإلستهالك في لبنان شهر كانون الثاني 2022' [Consumer Price Index in Lebanon January 2022], http://www.cas.gov.lb/images/PDFs/CPI/2022/1-CPI_JANUARY%202022.pdf.

86 Azhari, T. (2024), 'Iraq Bans 8 Local Banks from US Dollar Transactions', Reuters, 4 February 2024, https://www.reuters.com/business/finance/iraq-bans-8-local-banks-us-dollar-transactions-2024-02-04.

87 Al-Shakeri, H. (2023), 'Are new US financial restrictions on Iraq missing their target?', Chatham House Expert Comment, 28 March 2023, https://www.chathamhouse.org/2023/03/are-new-us-financial-restrictions-iraq-missing-their-target.

88 Research interview with Iraqi merchant, Baghdad, September 2024.

89 Shafaq News (2024), 'Iraq Future Foundation: 18% surge in prices', 23 February 2024, https://shafaq.com/en/Economy/Iraq-Future-Foundation-18-surge-in-prices.

90 Reuters (2021), 'Lebanon energy minister blames fuel shortage on Syria smuggling', 15 April 2021, https://www.reuters.com/world/middle-east/lebanon-energy-minister-blames-fuel-shortage-syria-smuggling-2021-04-15.

91 The Fuel Price (2024), 'Fuel Prices in Lebanon', https://www.thefuelprice.com/Flb (accessed on 21 May 2024).

How axis groups build and maintain social power

Iran and axis members had to reclaim and sustain domestic authority not merely through coercion, but also by wielding ideological and economic forms of social power. They harnessed ideological tenets ranging from ethno-nationalism to anti-imperialism to quell dissent. Economically, they leveraged their influence over the state to bolster their own communities by serving as an alternative. In absence of functioning state, focus groups held in Lebanon and Iraq revealed that Iran-aligned groups performed functions usually carried out by the government to recover some legitimacy among their own support base.[92] Preserving domestic power became as a crucial element of the axis's ability to adapt to external shocks.

One example is Hezbollah's use of an affiliated association, al-Qard al-Hassan, as an alternative banking system. Licensed by Lebanon's interior ministry as a charitable organization rather than as a commercial bank, al-Qard al-Hassan enabled Hezbollah to provide interest-free microloans to Lebanon's struggling population amid the collapse of the country's formal banking sector.[93] Operating outside the traditional Lebanese banking system, de facto banks like al-Qard al-Hassan became vital instruments for Hezbollah to consolidate its support. Despite US sanctions, which alleged these entities facilitated Hezbollah's financial activities, focus groups conducted by the authors in Lebanon revealed that the primary use of this system was in helping to restore Hezbollah's economic authority among Lebanon's Shia community:

> Frankly, I was using a bank. My friend worked at the bank, and I put money in the bank. But I then withdrew it and put it in Qard al-Hassan […] Now I buy a lira [Lebanese pound] and buy an ounce of gold, mortgage it in Qard al-Hassan, withdraw and buy again.[94]

Another respondent agreed, saying:

> Anyone who works buys 2 or 3 lira and puts them in Qard al-Hassan, and after a year they give you interest. I learned how to do this at home from my brother-in-law and my sister. It's best for you because you're spending the money you've earned.[95]

A number of focus group respondents remained distrustful of lenders owing to the financial collapse, and felt that this kind of alternative system was too risky. But others argued al-Qard al-Hassan was a better option than either government-backed institutions or private banks. One respondent said:

> In dealing a lot with Qard al-Hassan – I mean I know a lot of friends even in the group – there is a friend who works in the group who keeps fixing his situation, he keeps passing the quota. Because they [Qard al-Hassan] do investigations here like any bank.[96]

Beyond the makeshift banking systems used by Hezbollah, discussions in the Beirut focus group also revealed that the removal of government subsidies on medications had made items less accessible to those most in need, but that Hezbollah had

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92 Comments made during focus group discussion, Beirut, July 2024.
93 Reuters (2024), 'What is Hezbollah's Qard al-Hassan financial institution?', Reuters, 21 October 2024, https://www.reuters.com/world/middle-east/what-is-hezbollahs-qard-al-hassan-financial-institution-2024-10-21.
94 Comments made during focus group discussion, Beirut, July 2024.
95 Ibid.
96 Ibid.

offered such provisions to its social base. Highlighting the disparities in service accessibility between communities, one respondent stated that: 'If someone from Hezbollah or Amal needs to go to the hospital, they do not have to pay anything. Their movement will take care of all expenses.'[97] This sentiment resonated throughout Lebanon, as the country's power-sharing political settlement led citizens to turn to their community's political parties, rather than the government, whenever they needed something done.

More generally, most respondents confirmed that they went to political parties – including Hezbollah – rather than government institutions when faced with a problem requiring state input or regulation. When asked this question, one respondent said:

> We will not lie to each other. I will go to the best person and try to reach them because they will serve you more than the MP… Each village is clear which political party they are linked to.[98]

Similar sentiments were echoed by respondents from focus groups conducted in Anbar and Basra in Iraq, where various PMF-linked groups had sought to assert public authority. In the border town of al-Qaem in Anbar, where members of the Iran-led network had established control over the trade of cash, energy, and other goods across the border to Syria and the Levant, focus group discussions revealed that the public was adversely affected by these economic supply chains. Yet the public turned to the same groups and to other elites, rather than the formal government, for economic coping mechanisms or to resolve bureaucratic issues. Seeking economic opportunity, one respondent told the group: 'Once a friend wanted to rent a store, he had to go to a political party in order to get approval because they control that border town.'[99]

In this way, the axis groups and other Iraqi political elites were performing the functions of the state, such as regulating and taxing businesses, in place of the central government in Baghdad. Another respondent said: 'In the centre, we might go to the state but in border towns, it is either political parties or tribes.'[100] Respondents living in such so-called peripheries still had their own centres of power, distinct from the central government.

Similar responses were given in the oil-rich province of Basra, in southern Iraq. One respondent stated: 'In the government, you have to go and wait and get through bureaucracy, and maybe bribe some people, and sometimes we don't get what we want. So, we have to go to stronger parties, such as political elite or tribal leaders.'[101] In southern Iraq, these tribal leaders are often linked to the PMF.[102]

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97 Ibid.
98 Ibid.
99 Comments made during focus group discussion, Anbar province, Iraq, January 2023.
100 Ibid.
101 Comments made during focus group discussion, Basra, January 2023.
102 Ibid.

Holding axis groups to account

In conclusion, the networks linked to the axis of resistance, while controlling territory, also had to establish authority over the populations living in the areas under their control. These people suffered from both international interventions like sanctions and the economic practices of the network's members. Axis groups endeavoured to manage internal pressures from their social bases, employing a blend of coercion, ideology and economic strategies to fill the void left by a weak formal government in their respective countries.

However, ordinary people demanded greater accountability, leading to protests and a decline in the axis's legitimacy at times. For example, many Shia Iraqis had been protesting against Iranian influence since at least 2015, while Shia Lebanese echoed 'All of them means all of them' during the 2019 uprisings. Beyond protests, civil society consistently sought to hold Iran and its affiliated groups accountable for their governance. This call for better governance was also transnational, uniting populations in Iraq and Lebanon, where civil society shared a solidarity against Iran and axis groups, which then faced challenges to their legitimacy. Such grassroots pressure, if strategically harnessed, could serve as a crucial lever to compel better behaviour from axis groups in future, in contrast to the top-down measures employed by Western policymakers to date.

05
Policy conclusions

To address Iran's evolving axis and its regional influence effectively, a new approach is needed – one that combines local and transnational efforts, while remaining attuned to the region's complexities and a transforming global order.

The brief history of the axis of resistance reveals the evolution of organizations that have transcended their origins as armed groups to become political, social and economic actors wielding real public authority in several Middle Eastern countries. Iran and its allies have endured numerous shocks throughout the axis's existence, including Israeli and US invasions, military strikes, assassinations and sanctions from the US, the UK and the EU. In Lebanon and Iraq, the US, the UK and European governments have even attempted to create alternatives to Iran-affiliated groups as a way of countering their influence, such as by funding and training formal national militaries such as the LAF in Lebanon or by establishing the Counter-Terrorism Service (CTS) in Iraq.

While these initiatives have occasionally succeeded in degrading and reshaping the axis, they have not fundamentally altered its behaviour. This research paper argues that a key reason for this resilience is the dualism of domestic public authority and transnational connectivity.

This concluding chapter examines the three main US, UK and European policy responses to the axis – namely, military strikes, sanctions and supporting alternative institutions. It argues that these initiatives have failed to meaningfully impact on Iran and its allies, because policymakers in these countries have been unable to navigate the intricate web of local institutions and political practices that connect with the transnational ecosystem, which extends far beyond the more narrow constructs of current Western policy and programming. The chapter then proposes a more realistic, and potentially more effective, alternative approach of mapping, brokering and pursuing accountability.

The limited impact of Western policy responses

Military strikes

The most hard-line approach to eliminating axis members has been direct military action. This includes assassinations of Iranian General Qassim Soleimani and PMF leader Abu Mehdi al-Muhandis by the US, as well as Israeli assassinations of senior members of Hezbollah, such as general secretaries Abbas al-Mousawi in 1992 and Hassan Nasrallah in 2024. The Israeli military campaign after the events of 7 October 2023 is the most aggressive example of this policy, with the Israel Defence Forces targeting Hamas in Gaza and Hezbollah in Lebanon, while the US and allies also targeted PMF groups in Iraq and Syria and the Houthis in Yemen.

The rationale behind the use of military strikes is that such actions disrupt the leadership of individual axis groups or even severely disrupt the axis as a whole. However, military solutions, including the elimination of leaders (such as the killing of al-Mousawi), have previously failed to dismantle networks that still enjoy domestic and transnational power or to significantly reform the structures through which these groups produce leaders.

Direct military action has proved more effective against armed groups that have weak or non-existent domestic power (for example, an insurgent group like ISIS), or groups that lack transnational connectivity. However, military interventions against Iran and groups such as Hezbollah, Hamas, the Houthis or the PMF have often resulted in only temporary setbacks. In an interview for this paper, a UK policymaker admitted that 'we know that strikes on the Houthis have not damaged their military capabilities to date.'[103]

Unlike insurgencies like ISIS that can be more easily degraded and disrupted by targeted strikes and local uprisings, Iran and the axis have demonstrated the ability to regroup, rearm and continue their operations. This is because many of them possess connections to social bases, access to domestic and transnational funding sources, and the ability to leverage regional and global networks of support. These networks are diversified and span political, social and economic connections, as demonstrated throughout this paper. Even if high-level and significant parts of the axis are targeted, the axis as a whole has proven its ability to shape-shift and, in some cases, become even more resistant to outside attempts to force reform. Consequently, military strikes alone have proven insufficient in eliminating these entities, underscoring the need for comprehensive approaches that address the underlying political, social and economic factors sustaining them.

Moreover, military attacks have immediate repercussions both in the countries directly affected and for those carrying out the attacks. These effects can range from violent retaliatory attacks and broader targeting of those in civil society perceived to be aligned with the US or Israel, to cutting off avenues for engagement and the general weakening of domestic stakeholders who might seek to limit or hold Iran-aligned groups to account.

103 Author interview with Foreign, Commonwealth & Development Office official, London, January 2025.

Economic sanctions

The axis's well-developed practice of blending formal and informal economics – including measures such as corruption, smuggling and embezzlement – suggest to some policymakers that legal penalties could be an effective tool against it. However, much of the literature on sanctions questions their efficacy. Numerous leaders and groups within the axis have been designated as terrorist organizations or subject to individual sanctions by the US and other governments. Such measures are intended to be punitive. But to be effective, they must impose significant costs on those targeted. This paper has shown, to the contrary, how easily axis groups and senior members have been able to overcome sanctions through their connections with their respective states and with each other.

Axis groups have adeptly evaded sanctions by collaborating with other leaders or groups domestically and transnationally, and via both formal and informal channels.

Some proponents of targeted sanctions argue that the true aim of these measures is not necessarily the individual but rather the network in which they operate. In this scenario, the personal ambitions of those individuals for power in formal politics, which requires access to international travel and legal financial systems, might compel these members to sever ties with a targeted leader. For instance, sanctions imposed on high-ranking officials in Hezbollah might pressure lower-ranking members to distance themselves to maintain their own political aspirations and access to global systems. However, in many instances, the connections within the network remain unchanged. Despite the sanctions, these individuals continued to operate, finding alternative ways to circumvent the restrictions. For example, Hezbollah long ago mitigated the impact of US financial measures against it by avoiding any direct association with the Lebanese banking sector, and by dealing in cash and intermediaries wherever possible.

The effectiveness of sanctions is often undermined when those imposing them lack sufficient information about the nature of transnational networks or the ability to navigate them. Axis groups have adeptly evaded sanctions by collaborating with other leaders or groups domestically and transnationally, and via both formal and informal channels. It has therefore become increasingly challenging to create effective disincentives or punishments. One sanctioned leader has even boasted about his continued use of a private plane to travel inside Iraq and even elsewhere in the region.[104] Meanwhile, in another example, reports indicated that Iran Air continues to operate flights to several regional destinations, as well as some in Asia, despite being subject to US, UK and EU sanctions. Shortly after EU sanctions were announced on 14 October 2024, Iran Air established a daily

104 Mansour (2021), *Networks of power*.

route to Istanbul to facilitate travel to Europe and alleviate travellers' concerns.[105] Another Iranian airline, Mahan Air, regularly flies to China and Russia, despite being under sanction.

In a multi-aligned global order, the efficacy of sanctions is further diminishing. As more states find themselves subject to sanctions, other countries are increasingly reluctant systematically to align with the US and its allies. Instead, many often assist the axis and its supporters in circumventing these measures. For instance, despite extensive sanctions against it following its invasion of Ukraine, Russians are reported to have significantly increased their investments and business activities in Gulf Arab states such as the UAE.[106] Similarly, Iran has strengthened its economic ties with China, which remains its largest energy market, allowing Iran to sustain its oil exports despite international restrictions.[107] These examples highlight how sanctioned states, along with supportive allies, are adept at navigating and mitigating sanctions, thereby diminishing the intended punitive effects. More nuanced and comprehensive strategies are therefore needed to address the underlying political and economic factors that enable resilience.

Sanctions have even, at times, inadvertently bolstered smuggling networks. For example, the smuggling networks that ISIS later commandeered to become 'the world's richest terror group' were originally developed by the Saddam Hussein regime in Iraq to circumvent sanctions imposed in the 1990s.[108] These informal economies, shaped by those sanctions, continue to operate across the region today. Similarly, sanctions on countries like Iran and Russia have led to the development of specific, clandestine supply chains, which are likely to persist into the future. These networks and supply chains – born out of those actors' need to survive – have become deeply entrenched, demonstrating the unintended consequences of sanctions in fostering resilient and adaptive illicit economies.

As this paper has discussed, sanctions also have significant repercussions for ordinary people in the affected countries. These negative impacts are felt by reform-minded political leaders and civil society activists who become perceived as favouring the outside powers imposing sanctions. These individuals face threats of intimidation, potential assassination and dwindling job opportunities, while their families may be subjected to harassment and other forms of social pressure. Given that one of the primary strategies for countering Iran's axis involves supporting and strengthening alternative state and societal actors, poorly targeted sanctions are likely to fail in deterring or punishing the network. Indeed, they risk provoking a backlash that could further restrict other avenues for reform.

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105 Hürriyet Daily News (2024), 'Latest EU Sanctions Compound Aviation Industry's Woes in Iran', 14 November 2024, https://www.hurriyetdailynews.com/latest-eu-sanctions-compound-aviation-industrys-woes-in-iran-201931.
106 Boussois, S. (2024), 'How Dubai is getting around international sanctions against Russia', The Africa Report, 3 September 2024, https://www.theafricareport.com/299148/how-dubai-is-getting-around-international-sanctions-against-russia.
107 US Energy Information Administration (2024), *Country Analysis Brief: Iran*, 10 October 2024, https://www.eia.gov/international/content/analysis/countries_long/Iran/pdf/Iran%20CAB%202024.pdf.
108 Mansour, R. and al-Hashimi, H. (2018), 'ISIS, Inc', *Foreign Policy*, 16 January 2018, https://foreignpolicy.com/2018/01/16/isis-inc-islamic-state-iraq-syria.

National institutions as alternatives

Another Western policy aimed at establishing a centralized governing command structure that takes authority away from axis members has been the building of competitors or alternative national military institutions. The theory behind this policy asserts that if they are trained and equipped with foreign support, national institutions can both protect the public and diminish the influence and relevance of armed groups outside the formal government. Examples include US support for the CTS in Iraq and for the LAF in Lebanon. The goal of these interventions has been to erode the control of the PMF and Hezbollah within their respective state structures.[109] However, the policy has had limited success to date. It has instead led to the creation of isolated entities that are detached from centres of power or from key brokers in local or transnational networks. These isolated entities have proven incapable of defending themselves against larger challenges.

Several UK advisors suggest that, to the contrary, the LAF example is a successful case of intervention. The UK has been a steadfast supporter of the LAF for more than a decade, providing extensive assistance to bolster Lebanon's security and stability, particularly along the Lebanon–Syria border. Since 2009, the UK has committed over £106 million to the LAF, funding the training of more than 34,000 personnel and the provision of essential equipment.[110] This support has enabled the deployment of four land-border regiments and the construction of nearly 80 border-observation posts and forward-operation bases.[111] These efforts aimed to reinforce the authority of the Lebanese government along the border with Syria, counter threats from extremists and smugglers, and diminish the authority of Hezbollah and the Assad regime. The election of Joseph Aoun, the former commander of the LAF, as Lebanon's president in January 2025 indicated that such support could translate into political success.

However, while the project enabled the LAF to combat ISIS and the smuggling operations of other Sunni Muslim groups, it failed to curb the transnational activities of Iran and the axis, as this paper's section on financial flows has revealed. On either side of the Lebanon–Syria border, Hezbollah and the Assad regime continued their lucrative trade through alternative means. After interviewing dozens of LAF leaders, Simone Tholens concluded that 'the LAF is largely content with targeting radical Sunni and Palestinian militias, viewing Hezbollah as a complementary military force'.[112] Consequently, the LAF collaborated with Hezbollah to combat mutual threats such as ISIS or other Sunni extremist groups opposed to the Assad regime in Syria, while refraining from confrontation with

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109 Western and Lebanese officials have increasingly recognized the LAF as a viable alternative to Hezbollah. For instance, US special envoy Amos Hochstein said: 'The Lebanese army will be the only entity who provides security for the people of south Lebanon.' See Asharq al-Aawsat (2025), 'Hochstein: Only Lebanese Army Will Provide Security for People of the South', 6 January 2025, https://english.aawsat.com/arab-world/5098590-hochstein-only-lebanese-army-will-provide-security-people-south. Similarly, Lebanese official Sami Gemayel has asserted that '[t]he Lebanese army is the only military alternative to Hezbollah. It must be strengthened. Without it, Hezbollah will control the entire country'. See Asharq al-Aawsat (2024), 'رغم تلقيه «المليارات» من واشنطن... الجيش اللبناني «مكبّل» وغير قادر على القتال' [Despite receiving 'billions' from Washington... Lebanese army 'shackled' and unable to fight], 31 October 2024, https://aawsat.com/العالم-العربي/المشرق-العربي/5076773-رغم-تلقيه-المليارات-من-واشنطن-الجيش-اللبناني-مكبّل-وغير-قادر.

110 Royal Air Force (2024), 'RAF Provide Lebanon's Armed Forces with Supplies', news article, 25 October 2024, https://www.raf.mod.uk/news/articles/raf-to-provide-lebanons-armed-forces-with-supplies.

111 British Embassy Beirut (2022), 'UK Commits Further £13m to the Lebanese Army', press release, 15 December 2022, https://www.gov.uk/government/news/uk-commits-further-13m-to-the-lebanese-army.

112 Tholens, S. (2017), 'Border management in an era of 'statebuilding lite': security assistance and Lebanon's hybrid sovereignty', *International Affairs*, 93(4), pp. 865–82, https://doi.org/10.1093/ia/iix069.

Iran's axis partners.[113] In short, the limited success in strengthening the LAF and securing the Lebanese border in fact relied on the axis's cooperation and alignment of interests against Sunni extremist adversaries.

The fall of the Assad regime in late 2024 can be seen as a counter-argument, suggesting that the regime's collapse was partly due to sanctions, military strikes and the presence of externally supported alternatives to Assad. Some observers argue that these international measures weakened the regime's ability to govern, thereby empowering Syrians to overthrow Assad. However, similar sanctions and actions in other contexts – for example, in Iran or Yemen – have failed to yield the same result. What helps to explain Assad's downfall is the loss of both domestic and transnational authority, which this paper argues is the key to the resilience of these networks.

This paper has argued that the resilience of Iran's networks and their capacity to withstand external shocks lies in the combination of domestic public authority and transnational connectivity. In the case of Syria, while international measures played a role in weakening the Assad regime, its excessive reliance on violent repression in response to challenges to its domestic authority, coupled with its failure to undertake post-conflict reconstruction, ultimately eroded the regime's support base both internally and externally. This loss of internal legitimacy better explains why the Syrian military failed to defend the regime when HTS launched its offensive in late 2024. Meanwhile, Assad's relationship with Iran and the axis was always transactional in nature, rather than ideologically driven. For instance, following the events of 7 October 2023, Assad refrained from joining Iran's campaign against Israel, opting instead to keep Syria out of the conflict. Partly as a result of this lack of support, Iran deemed that the Assad regime unworthy of significant sacrifice when it came under serious threat. Ultimately, it was the Syrian public, united across the nation, that rose up and dismantled the regime that had endured for over five decades.

A new approach

Academic and policy approaches to date have not fully understood the axis of resistance. As this paper shows, the latter embodies a complex web of state and non-state, formal and informal, and domestic and transnational dynamics.

The policy options outlined above have struggled to dismantle this web or to fundamentally reform the behaviour of the axis, because policymakers lack a clear and coherent strategy that treats Iran and its allies as a complex network operating in a transnational ecosystem and increasingly multi-aligned world. At times, these policies have harmed ordinary citizens more than axis members, who have been able to use a variety of mechanisms to shape-shift and recover.

113 Nerguizian, A. (2017), 'Lebanese Armed Forces, Hezbollah, and the Race to Defeat ISIS', Center for Strategic and International Studies, 31 July 2017, https://www.csis.org/analysis/lebanese-armed-forces-hezbollah-and-race-defeat-isis.

This paper proposes that a more realistic approach to dealing with the axis should instead be developed, and that it should be informed by three interlinked processes: mapping; brokering; and supporting accountability.

First, policymakers aiming to diminish the negative influence of the axis on its populations, and establish more accountable governments in the countries under its control, must begin by thoroughly and accurately mapping its connections, and understanding their specific mechanisms. Such an approach would provide valuable insights into the network's boundaries, which often extend across borders into unexpected places. Additionally, mapping the network would reveal its strategies and capabilities in full, enabling Western policymakers to better anticipate the likely reactions to any policy intervention taken across multiple jurisdictions. For instance, network mapping was instrumental in identifying insurgent networks in Iraq. This included identifying key leaders, supply routes and safe houses.[114]

Second, policymakers must engage with Iran and its allies, rather than ignore or seek to contain or sideline them. This approach is especially crucial during periods when Iran is experiencing significant upheaval and is in the process of reconfiguring its networks. As detailed in this paper, axis members are not mere insurgent groups, but actors deeply embedded in the political economy of their country and the region. Neither ignoring the axis, containing it or attempting to foster alternatives have fundamentally altered the power it wields. At a moment when Tehran and its allies are weakened, Western policymakers have an opportunity to leverage Iran's networks to broker deals focused on mutual economic benefits, regional stability and curbing informal economic activity. Any agreement with Iran should offer graduated sanctions relief in exchange for verifiable limits on nuclear enrichment, and regional military and economic activities.

One example of successful engagement can be seen in the Joint Comprehensive Plan of Action (JCPOA) of 2015. This agreement between Iran and the P5+1 countries (China, France, Russia, the US and the UK, plus Germany) demonstrated the effectiveness of diplomatic engagement over isolation. By engaging directly with Iran and its allies, the JCPOA successfully curtailed Iran's nuclear programme in exchange for the lifting of economic sanctions.[115] This approach not only addressed the immediate nuclear threat, but opened channels for further diplomatic dialogue and cooperation. Although the deal faced challenges and was later abandoned by the Trump administration in 2018, it remains a significant example of how engagement can yield positive outcomes.

A crucial part of any strategy for engagement must involve engaging with brokers who can effectively represent and influence axis decision-makers. In a multi-aligned context, there are individuals who maintain strong ties to both Western countries

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114 Hoffman, B. (2004), *The United States and the Global War on Terrorism: A Strategic Assessment*, Defense Technical Information Center, https://apps.dtic.mil/sti/tr/pdf/ADA426633.pdf.
115 Vakil, S. and Quilliam, N. (2019), *Getting to a New Iran Deal: A Guide for Trump, Washington, Tehran, Europe and the Middle East*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2019/10/getting-new-iran-deal.

and senior decision-makers in Iran. This dual access enables them to facilitate communication, negotiate agreements and provide insights, making them indispensable in shaping and implementing effective policy strategies.

Iraq's national security advisor, Qassim al-Araji, is a good example of such an individual. Having emerged from the Iranian-allied Badr Organization and the PMF, al-Araji has, in recent years, cultivated relationships with the US, the UK, NATO and Gulf Arab countries, while maintaining ties with Iran and its allies. Individuals like this exist in each of the countries where the axis operates.[116] By creating sufficient incentives, such brokers can be encouraged to support reform within the axis, while trying to push back against its capacity to resist or disrupt.

Political settlements should develop robust accountability mechanisms to mitigate negative impacts on populations. The role of external actors in supporting local reform networks must be carefully considered to avoid undermining their legitimacy. It is crucial for these networks to develop organically, with local participants identifying their own needs and strategies. While targeted and discreet external support can be beneficial, overt or controlling interventions risk portraying reformers as proxies for foreign powers, which could erode public trust and support.[117] Safely and indirectly supporting civil society, independent journalists and reformists where these networks have operated can provide better checks on their domestic power in each country than a sole reliance on punitive sanctions. Policy interventions should aim to develop robust accountability mechanisms to mitigate the negative impacts of these networks on their populations, who have, at various times, attempted to call for reform – such as protests in Lebanon, Iraq, Yemen or Iran. The axis may not be disrupted immediately, but as the fall of the Assad regime shows, they remain vulnerable to the demands of their social base.

Strengthening the connective tissues between civil society and government reformists provides Western policymakers with a strategy to check the axis's power while bolstering the position of the local population.[118] For instance, in 2022 Iraqi teenager Haider al-Zaidi was sentenced to three years in prison for a social media post criticizing Abu Mehdi al-Muhandis, the former PMF leader. But a pressure campaign from civil society, including journalists and social media influencers, along with efforts from reform-minded government officials, led the PMF to withdrawing its case. Al-Zaidi's sentence was then overturned and he was freed.[119] This case demonstrates how accountability mechanisms, supported by a network of civil society, lawyers and reformists, can hold powerful groups like the PMF to account and push back against repression.

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116 Embassy of the Republic of Iraq in Brussels (2024), 'الدورة الأولى للحوار السياسي عالي المستوى للشراكة بين العراق وحلف شمال الأطلسي' [The First High-Level Political Dialogue for Partnership between Iraq and NATO], press release, 28 August 2024, https://mofa.gov.iq/brussels/?p=4988.
117 In a focus group in Baghdad, 'participants concluded that only certain targeted external support strategies can enhance the development and activities of such a network over time. This could include an external actor offering financial support discreetly to an Iraqi organization that could then facilitate networking and strategic follow-up. Or it could include helping find international expertise or success stories on selected reform areas from other contexts globally.' See Mansour, R. (2023), *Tackling Iraq's unaccountable state: A networked approach to mobilizing reformers*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2023/12/tackling-iraqs-unaccountable-state.
118 Mansour, R. and Salisbury, P. (2019), *Between Order and Chaos: A New Approach to Stalled State Transformations in Iraq and Yemen*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2019/09/between-order-and-chaos.
119 Mansour (2023), *Tackling Iraq's Unaccountable State*.

To more effectively drive accountability, it must also be addressed at the transnational level, mirroring the regional connectivity of Iran's axis. Tackling accountability issues in one part of a system can have significant ripple effects throughout the entire network. For example, curbing corruption within a government sector can enhance public trust and attract foreign investment, thereby boosting the formal economy and improving overall governance, which reduces the space for the informal economies outlined in this paper. The Syrian people's push to end the Assad regime was, in essence, a demand for accountability that has had cascading effects on the axis's economic networks, forcing them to reconfigure. This approach ensures that initiatives to promote transparency and justice transcend national borders, creating a ripple effect that extends to other regions where Iran and its axis compete for domestic and transnational economic power.

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Cover image: People shop in Tehran's Enghelab Square below a billboard depicting deceased leaders of the 'axis of resistance' – Iranian IRGC-Quds Force commander Qasem Soleimani, Lebanon's Hezbollah leader Hassan Nasrallah, Hamas leader Ismail Haniyeh and head of Hezbollah's executive council Hashem Safieddine – on 25 January 2025.
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