Hamas’s surprise attack on Israel has left thousands of innocent people dead, set the stage for a bloody and protracted conflict in Gaza, and precipitated a crisis that threatens to engulf the Middle East in a devastating new conflict. To prevent further escalation, the United States needs to act swiftly to intensify economic pressure on the Islamic Republic of Iran and dismantle its terrorist financing networks.

Though Iran has denied any involvement, Hamas could not have planned an operation of this scale without critical support from its chief state sponsor. Iran’s Islamic Revolutionary Guard Corps (IRGC) has devoted enormous resources to building up proxy terrorist organizations in order to encircle Israel. According to a 2020 US government estimate, the IRGC provides as much as $700 million to Lebanese Hezbollah and $100 million to Hamas and other Palestinian groups each year.1

So far, this strategy appears to be working. Hezbollah, the IRGC’s most powerful terrorist partner, is poised to attack from the north,2 while other Iranian proxies threaten Israel from within Syria and elsewhere.4 Israel’s newly cordial relations with its Arab neighbors—including its nascent detente with Saudi Arabia—hang precariously in the balance.

President Joe Biden’s immediate response to the attacks rightly focused on delivering Israel the political backing and military assistance that it urgently needs.5 But as the overseer of the global financial system, the United States can also deploy its unique capabilities to constrict the Islamic Republic’s revenues and shut down its global terrorist financing networks.

Whether the United States succeeds in doing so will shape events far beyond the Middle East. This conflict is not just another flare-up in a long-troubled region. It reflects an ongoing global realignment wherein powerful adversaries test American strength and resolve with growing coordination and assertiveness. As Russia wages war in Ukraine and Beijing watches carefully, the stakes call for nothing less than a major US endeavor to bankrupt the Islamic Republic’s empire of terror once and for all.

**Reinstate Maximum Pressure on Iran**

Iran is already one of the most heavily sanctioned countries in the world. But Washington’s inconsistent approach to
enforcement, combined with democratic allies’ unwillingness to align with the United States on sanctions, has enabled the IRGC to continue funneling hundreds of millions of dollars through its terrorist financing networks.

President Donald Trump pursued a campaign of “maximum economic pressure” against the Islamic Republic after he withdrew the US from the Joint Comprehensive Plan of Action (JCPOA) nuclear deal in 2018. This strategy involved imposing new sanctions on the regime and reinstating those that the deal had suspended. The International Monetary Fund estimated that Iran’s gross official reserves plummeted from an average of $122.5 billion in 2018 to just $4 billion in 2020, largely as a result of the maximum pressure approach.6

The Biden administration sought to coax Iran back into the JCPOA through multilateral diplomacy and the promise of future sanctions relief. Though the White House continues to assert that it did not ease sanctions enforcement to smooth these negotiations, officials have privately contradicted these statements.7

Iran’s rebounding oil exports also indicate a significant relaxation of enforcement activity. United Against Nuclear Iran, a group that attempts to track Iran’s oil shipments, estimates that Tehran has generated some $80 billion in oil revenue since President Biden entered office.8 Saeed Ghaseemi Nejad, an Iran scholar at the Foundation for Defense of Democracies, has conservatively calculated that this is between $26.3 billion and $29.5 billion more than Iran would have exported under the Trump-era sanctions.9 Iran has now received as much as $50 billion in total sanctions relief from the Biden administration, according to some experts.10

The Islamic Republic was never a sincere negotiating partner and should be treated henceforth as the implacable US adversary that it has always openly declared itself to be. Neglecting to robustly enforce sanctions on Hamas’s chief state sponsor would directly contradict the Biden administration’s own clear commitment to support Israel. Not only reinstating but expanding the maximum pressure approach is the only credible path to constraining Tehran’s malign ambitions.11

Target the China-Iran Nexus
Sanctions relief is not the only reason for Iran’s economic bounce back. China, long the leading market for Iranian oil, has increased its imports in recent years. Chinese banks also give Iran’s besieged financial system a lifeline by facilitating oil payments and other transactions prohibited by Western sanctions.12

China recently signed a comprehensive strategic partnership agreement with Iran,13 and President Ebrahim Raisi’s trip to China in February 2023 marked the first overseas visit by an Iranian president in more than two decades.14 Mirroring China’s quiet support for the war that its junior partner, Russia, is waging in Ukraine, Beijing has only made bland public statements calling for restraint on both sides of the Israel-Hamas conflict. Chinese Foreign Minister Wang Yi even suggested in the immediate aftermath of October 7 that Israel’s response had “gone beyond the scope of self-defense.”15

Like Russia, Tehran is becoming another junior partner of China as it grows increasingly dependent on Beijing’s largesse.16 Iran has relied heavily on China economically for a decade, officially reporting year-on-year trade growth of 7 percent, reaching $15.8 billion in 2022.17 But this level of engagement is modest for Beijing, which trades a similar amount with other regional powers like Saudi Arabia.

China knows that the Islamic Republic uses this revenue to finance terrorism and should expect to face serious consequences if it continues to be complicit. By aggressively targeting or threatening to target Chinese oil importers and
banks with secondary sanctions, the US could deprive Tehran of its major revenue stream and potentially cause Beijing to reconsider whether its partnership with such a toxic regime is worth the blowback.

The United States can further raise the cost of sanctions evasion for both Tehran and Beijing by targeting the so-called ghost fleet of oil tankers that Iran, Russia, and Venezuela rely upon to export oil to China. These vessels sail under flags of convenience, registering in countries like Panama, Liberia, and the Marshall Islands. Working with these jurisdictions to strengthen oversight of their shipping registries would help to address this critical loophole.

Destroy Tehran’s Terrorist Financing Networks

Beyond throttling the Islamic Republic’s revenues, the United States can also intensify efforts to dismantle the sprawling terrorist financing networks that sustain Hamas, Hezbollah, and other IRGC proxies.

Following the money through the complexity of the modern global financial system is no easy task. IRGC schemes have often included using front and shell companies and sham religious institutions as vehicles to hide the provenance and destination of funds; exploiting cryptocurrency exchanges; mass counterfeiting of foreign currencies; and smuggling bulk cash, gold, and contraband goods.

But the United States possesses some unique advantages when it comes to identifying, freezing, and seizing terrorist funds. It has an advanced anti–money laundering and counter–financing of terrorism (AML/CFT) framework, developed and tested through two decades of the Global War on Terror. In addition to the unmatched resources available to US law enforcement, the US dollar’s status as the preeminent global currency also gives it extraordinary jurisdictional reach. This means that US AML/CFT measures can often be brought to bear against bad actors operating far beyond US borders.

Anyone laundering funds for the IRGC, Hamas, or Hezbollah anywhere in the world can be charged with providing material assistance to proscribed terrorist organizations, in addition to other money laundering or sanctions evasion offenses that arise when money crosses into the US financial system. The US Treasury Department, meanwhile, retains broad authority to impose sanctions on individuals, banks, or other involved entities operating beyond the reach of US criminal jurisdiction.

As a result, nearly 1,000 individuals, companies, and other entities had already been sanctioned by the United States for their involvement with IRGC-backed terrorist organizations before the October 7 attack. The US Treasury Department has since issued two further rounds of designations targeting Hamas’s own global investment portfolio. But these designations merely represent the tip of the iceberg. Seriously disrupting the IRGC’s terrorist financing networks will require a major expansion of these activities.

There are lesser-known tools that the US could also deploy more aggressively. Section 311 of the 2001 USA PATRIOT Act authorizes the US Treasury Department to designate foreign banks, and even entire countries, as “primary money laundering concerns.” In 2021, this provision was updated and expanded by Section 9714 of the Countering Russian Money Laundering Act. This designation gives the Treasury Department powerful policy options that range from requiring US banks to maintain more detailed records to cutting off the designated entity from the US financial system altogether.

This measure is so powerful that US officials often need only to threaten its use privately to induce changes in behavior. They should now be ready to discuss this possibility with partners that have hitherto avoided serious pressure despite having become conduits for sanctions evasion and terrorist financing, notably the United Arab Emirates and Turkey.
Where sanctions or special measures would be inappropriate or too unwieldy, the US State Department possesses a further useful tool: travel bans under Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act. The primary effect is to ban individuals from entering the United States, but a practical side effect is that they are named and shamed by the US government. Financial institutions may then deem them too high-risk to maintain as customers and close their accounts. Section 7031(c) bans may be appropriate for individuals whose involvement does not quite meet the evidential threshold for sanctions; or those located in countries with whom the United States wishes to preserve an otherwise productive relationship.

The United States should also be prepared to address its own AML/CFT deficiencies. The size and wealth of the US economy, combined with significant financial secrecy loopholes, has made it a highly attractive destination for money laundering. Robust implementation of the Corporate Transparency Act (which targets the pervasive use of US shell companies in transnational money laundering schemes) and an extension of know-your-customer checks beyond traditional banks to other high-risk sectors could help ensure that Iran and other bad actors cannot use the United States for sanctions evasion. Increased domestic scrutiny will also give US officials stronger standing as they encourage other countries to strengthen their own AML/CFT regimes.

Build a New International Coalition

In the aftermath of the September 11, 2001, terrorist attacks, US Treasury Department officials determinedly and successfully galvanized allies and partners to coordinate on strengthening AML/CFT measures. Russia’s invasion of Ukraine in February 2022 likewise sparked an unprecedented coordination of international sanctions among Western democratic allies.

Hamas’s brutal attack, which has rightly been dubbed “Israel’s 9/11,” presents a similarly grave moment in which new forms of cooperation may become politically possible. The United States can now call on international partners to give substance to their statements of support for Israel.

As a starting point, the US could encourage allies to join in the snapback of recently expired United Nations restrictions on Iran’s drone and missile exports, and to designate the IRGC, Hamas, and Hezbollah as terrorist organizations. These would be important first steps toward aligning with the United States on a renewed maximum pressure approach.

It is worth noting that Iran is already blacklisted by the Financial Action Task Force (FATF) global anti-money laundering watchdog. This identification encourages the FATF’s 40 member states to adopt countermeasures such as sanctions and enhanced AML/CFT checks.

End Financial Relief for Terrorists

While sanctions and their enforcement will always be a moving target, the United States retains full control over Iranian assets that it has already frozen and, of course, over its own humanitarian assistance to Palestinian organizations.

The Biden administration had previously authorized the release to Iran of at least $2.7 billion in frozen oil payments from Iraq and $6 billion from South Korea. These funds are earmarked for only debt payments and humanitarian relief. The concern over this approach is that, whatever safeguards the administration implements, Tehran may view these funds as replacing those that it has spent or plans to spend on terrorism, nuclear proliferation, or other malign activities instead of food and medicine. The United States has already refrozen the $6 billion in response to Hamas’s attack on Israel, and should obviously not consider any further relief of this kind.
The United States currently gives Palestinian causes more than half a billion dollars in humanitarian assistance annually, mostly through the controversial United Nations Relief and Works Agency. Washington has taken significant steps in recent years to ensure that US funds are not being misappropriated by the corrupt Palestinian Authority or misused for political purposes, such as the notorious “pay to slay” scheme.

However, the US would be prudent to review whether its continued assistance is inadvertently helping to entrench Palestinian leaders who have no interest in pursuing peace, or even being diverted to sustain Hamas’s war against Israel—while recognizing that, in the immediate term, suspending payments would play into anti-Western propaganda accusing America and Israel of indifference to civilian suffering.

It is extremely important to remember that the United States has never imposed sanctions on payments for humanitarian imports such as food and medicine—whether to Iran, Gaza, or elsewhere. These regimes, and many others around the world, choose to divert limited public funds to sponsor terrorism instead of meeting the basic needs of their own populations. They effectively rely on international donors, including the United States, to make up the difference for what they spend on terror.

Another point of concern is the “dollar auction” scheme in neighboring Iraq. Each year the United States converts some $10 billion of Iraq’s oil revenue into bulk cash, which is then deposited at Iraq’s central bank. The funds are subsequently distributed through Iraq’s financial sector with the intent of stabilizing the country’s economy. This process has become rife with fraud and corruption, with the IRGC and its terrorist proxies reportedly among the major beneficiaries. While the Biden administration is moving to crack down on these abuses, this is another avenue requiring urgent attention.

Exposé the Kleptocrats of Tehran

Hamas leaders watched the assault on Israel unfold from the comfort of luxury offices and hotel rooms in Doha, Beirut, and Istanbul. Many of them have reportedly amassed vast personal wealth through bribery and embezzlement schemes that deepened Gaza’s poverty. Hezbollah’s leadership, which controls a massive transnational criminal empire that includes drug and human trafficking, is similarly affluent despite the complete collapse of what should be a prosperous economy in Lebanon.

In Iran, the supreme leader sits atop a sprawling kleptocracy in which the IRGC now dominates almost every aspect of the economy. Regime cronies control not only Iran’s façade of a private sector, but also its black markets and criminal underworld. Unlike in Russia and many other kleptocracies, ordinary Iranians do not appear to have become inured to their rulers’ corruption; Iran’s kleptocracy features prominently in the nation’s frequent protests.

The Islamic Republic, like other authoritarian regimes, routinely uses corruption and disinformation as political weapons against other countries. The United States, Israel, and their democratic allies can respond by exposing the truth about Tehran’s own corrupt leaders. Washington and its allies can also do more to highlight the hypocrisy of parasitical Palestinian leaders who have profited handsomely from prolonging conflict with Israel.

Greater efforts to freeze Hamas kleptocrats’ stolen assets—as well as those of their families, many of whom travel to the West for education and leisure—could provoke discord among Iran’s notoriously fractious political coalitions. Meanwhile, an information campaign propagating this corruption narrative among the Iranian, Lebanese, and Palestinian populations could stoke public anger at the precise moment when those regimes can ill afford domestic distractions.
This will involve working with exiled Iranians and civil society organizations that can provide insights into how and where the “Rich Kids of Tehran” spend their parents’ wealth overseas, as well as how to communicate effectively with the Iranian public about this corruption.36

**Make the Islamic Republic Pay for Its Crimes**

It is firmly in America’s national security interests to be prepared to step in with emergency military assistance when its democratic allies and partners are attacked—just as it did in Ukraine, is doing now for Israel, and may have to do for Taiwan.

But financial responsibility for humanitarian aid, reconstruction costs, and other nonmilitary consequences of authoritarian aggression need not fall primarily on US taxpayers. While President Biden has already announced $100 million in additional humanitarian funding for Gaza,37 it is the Islamic Republic that should be held financially responsible for the consequences of its sponsorship of Hamas and its role as the ultimate architect of this war.

In the aftermath of Russia’s invasion of Ukraine, the possibility of seizing frozen sovereign and “oligarch” assets has generated substantial legal and political debate. The lack of a clear existing presidential authority, and the consequent likelihood of extended litigation, means that Congress will need to create a framework that ensures authoritarian regimes understand that they will be held financially accountable for acts of aggression.

Fortunately, a bipartisan group of lawmakers is currently advancing the Rebuilding Economic Prosperity and Opportunity (REPO) for Ukrainians Act.38 This could be replicated or amended to also enable the seizure of frozen Islamic Republic assets for the purposes of compensating victims of IRGC-backed terrorism, as well as funding humanitarian and reconstruction costs in Israel and Gaza.

Estimates of Iran’s frozen assets worldwide are unreliable and, within Iran, highly politicized. But with most figures varying between $50 billion and $120 billion, the funds are clearly significant.39 This does not include the overseas assets of corrupt Iranian elites, which, like their Russian counterparts, could also be frozen pending legal measures to try to seize them.

Given the likelihood that Iran’s propagandists would use such a move as evidence that the United States misappropriates funds rightfully belonging to the Iranian people, the administration should develop a clear counternarrative and information campaign beforehand. This narrative might focus not only on how much the corrupt, warmongering dictatorship in Tehran has stolen from the Iranian people; but also on how quickly a democratic Iran could recoup these funds through the economic benefits of a stronger relationship with the West.

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**Endnotes**


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About the Author

Nate Sibley is a research fellow with Hudson Institute’s Kleptocracy Initiative. His research explores the relationship between authoritarianism, corruption and other illicit finance, and national security.

Mr. Sibley works closely with the US government and its allies to advance innovative policies in the fields of anti-money laundering, economic statecraft, and democracy promotion. His work is credited with helping to elevate transnational corruption as a core US national security concern.

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