Royal United Services Institute
for Defence and Security Studies

BRIEFING PAPER

The Integrated Review

Harnessing the UK's Financial Capabilities in Support of National Security

Tom Keatinge

As the UK government undertakes its Integrated Review of foreign policy, defence, security and international development to re-examine the UK's priorities and objectives, this paper argues that one of the UK's great strengths remains underexploited. As one of the largest economies and, importantly, most central financial hubs in the world, the UK is well positioned to capitalise on these advantages, to contribute further across the fields of foreign policy, defence and security.

Today, the UK finds itself at a crucial juncture: some argue that Brexit will lead to the inevitable diminution of the UK's global influence; the UK government is seeking to develop wide-ranging trade agreements and overseas business opportunities; and hostile foreign powers are seeking to better the UK at home and abroad via covert and overt financial means. Effectively exploiting the country's financial tools and capabilities to combat illicit finance and identify hostile financial activity will be central to addressing these challenges. This paper therefore argues that the inclusion of finance-based tools in the national security strategy that leverage the UK's economic strength, central role in global finance and considerable financial prowess should be a central theme of the upcoming review.

EXECUTIVE SUMMARY

Finance and economics are present in all features of a country's success (and failure). Yet, consideration of their contribution to national security in the policy literature has,[1] in the UK, been mainly confined to recognising the importance of a strong and healthy national economy, including to pay for national defence and security capabilities. And while this is of course important, this paper argues that the UK's finance capabilities can – and should – contribute to a far greater extent to national security.

The UK is a global financial centre, processing a large percentage of the world's daily financial transactions. This places it in a valuable strategic position at a key crossroads of global finance. UK financial institutions, although reduced in their appetite to conduct international business and support global trade following their reassessment of risk over the past decade,[2] still operate around the globe, representing a valuable national asset, a capability that the UK should be leveraging in a systematic manner as it seeks to develop expanded trade relationships in goods and services. As starkly illustrated by the Intelligence and Security Committee (ISC),[3] the UK faces a range of 'grey

1. See, for example, HM Government, *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, Cm 9161 (London: The Stationery Office, 2015), p. 5.
2. Mark Whitehouse, 'U.K. Leads a Global Banking Retreat', *Bloomberg*, 25 April 2016.
3. Intelligence and Security Committee of Parliament, *Russia*, HC 632 (London: The Stationery Office, 2020).

area' threats,[4] including organised crime, overt and covert financial influence campaigns, and state-sponsored cyber attacks on financial institutions. The common factor in these and the many other threats and opportunities the UK faces is finance. This includes: threats from illicit financial flows facilitated by the UK or invested in London; the ways that finance can be used to fund threats to the UK; and opportunities to advance the UK's national and global interests and enhance its national security.

Thus, at a time when the Integrated Review seeks to ensure the country 'is equipped to meet the global challenges of the future',[5] this paper seeks to highlight the current limited role played by finance in the UK's national security strategy. Addressing this shortcoming with a wide-ranging and ambitious contribution from UK financial capabilities should be a key element of the government's future plans to protect and promote UK national interests.

INTRODUCTION

For centuries, finance and economics have been key components of a country's security. A strong economy allows a country to build its military capabilities. A country that plays a dominant and central role in the global economy (such as the US and, increasingly, China) can use its position of dominance to create future gains and opportunities, shape the infrastructure of the international political economy to its benefit, and coerce others through the use of sanctions or the offer of investment. And a country with a strong and open economy governed by the rule of law can, in turn, use this strength to attract business, expertise and investment, further boosting its economy and national finances.[6]

The UK is one of the 10 largest economies in the world.[7] Home to one of the world's largest financial centres,[8] it is also supplemented by a sprawling financial system infrastructure of Crown Dependencies and Overseas

4. Vincent Cable, 'What Is International Economic Security?', *International Affairs* (Vol. 71, No. 2, April 1995), pp. 305–24.
5. HM Government, 'PM Outlines New Review to Define Britain's Place in the World', press release, 26 February 2020, <https://www.gov.uk/government/news/pm-outlines-new-review-to-define-britains-place-in-the-world>, accessed 17 July 2020.
6. Roy Smith, Imad El-Anis and Christopher Farrands, *International Political Economy in the 21st Century: Contemporary Issues and Analyses* (London and New York, NY: Routledge, 2017).
7. World Bank, 'Gross Domestic Product 2019', 1 July 2020, <https://databank.worldbank.org/data/download/GDP.pdf>, accessed 3 July 2020.
8. City of London, 'Providing Financial Services to the World', November 2019, <https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/The-Global-Cities-Providing-Financial-services-to-the-world-Spreads_2.pdf>, accessed 20 June 2020.

Territories. In addition, the UK is a significant donor of international aid, committed by national law to spending 0.7% of national income on aid or Official Development Assistance,[9] and has a world-respected defence and intelligence capability.

How is the UK harnessing and combining these features and capabilities? How is the UK using these positions of strength to advance its national interest? Despite these strengths, the narrow focus applied to economic security to date – the importance of a strong and healthy national economy – suggests that there is no cross-government strategy that draws together the range of opportunities afforded by these capabilities.

Yet, an opportunity for the government to address this deficiency has now emerged as it undertakes its Integrated Review – 'the largest review of the UK's foreign, defence, security and development policy since the end of the Cold War'.[10] The review intends to re-examine the UK's priorities and objectives.

Against this backdrop, this paper presents policymakers and those tasked with undertaking and scrutinising the Integrated Review with a range of considerations, options and opportunities for the UK to harness these financial and economic strengths in support of national security.

THE ROLE OF FINANCIAL CAPABILITIES IN NATIONAL SECURITY

The term 'economic security' is commonly used in policy literature and is applied in various ways, from individual to national considerations. For example, the International Committee of the Red Cross defines economic security as 'the ability of individuals, households or communities to cover their essential needs sustainably and with dignity';[11] the UN's International Labour Organization similarly considers economic security to include 'access to basic needs infrastructure pertaining to health, education, dwelling, information, and social protection, as well as work-related security'.[12]

Zooming out to a national level, economic security tends to be defined in relatively simple terms, centred on maintaining the ability to protect or advance national economic interests 'in the face of events, developments

9. HM Government, 'Official Development Assistance', policy paper, 23 November 2015, <https://www.gov.uk/government/publications/official-development-assistance/official-development-assistance>, accessed 20 June 2020.
10. HM Government, 'PM Outlines New Review to Define Britain's Place in the World'.
11. International Committee of the Red Cross, 'What is Economic Security?', 18 June 2015, <https://www.icrc.org/en/document/introduction-economic-security>, accessed 20 June 2020.
12. International Labour Organization, 'Definitions: What We Mean When We Say "Economic Security"', <https://www.ilo.org/public/english/protection/ses/download/docs/definition.pdf>, accessed 20 June 2020.

or actions that may threaten or block these interests'.[13] For example, the Netherlands' 2019 National Security Strategy includes economic security as one of its six national security categories, defining it purely as 'the unimpeded functioning of the Dutch economy in an effective and efficient manner'.[14] Japan has added an economic division to its National Security Secretariat to implement smarter economic statecraft,[15] and this year, the National Security Council began to broaden its focus to include economic risks addressing concerns such as the rise of digital currencies and foreign land ownership.[16] In the 2017 US National Security Strategy, President Donald Trump declared that 'economic security is national security',[17] noting in an accompanying speech that 'economic vitality, growth, and prosperity at home is absolutely necessary for American power and influence abroad. Any nation that trades away its prosperity for security will end up losing both'.[18]

Yet, all these definitions focus on the benefits of a strong individual or national financial position. While this would seem an axiomatic objective, finance – or, more precisely, finance-based tools – can contribute more broadly and with more ambition to national security. This paper, therefore, argues that the Integrated Review should not merely focus on the health of the UK economy and how this translates into power and influence abroad, but also on the range of finance-based capabilities that can contribute to UK interests and national security. Thus, the notion of 'economic security' as applied in this case can be viewed as both a means and an end, and is expanded to include:

- **Maintaining, harnessing and exploiting the UK's economy and position as a global financial centre to**: support national security and UK interests internationally via fostering a healthy national economy; safeguard UK assets and companies from acquisition deemed contrary to UK national interests; deploy UK aid and investments abroad; and

13. C R Neu and Charles Wolf Jr, *The Economic Dimensions of National Security* (Santa Monica, CA: RAND, 1994), p. xi.
14. National Coordinator for Security and Counterterrorism, 'National Security Strategy 2019', 19 September 2019, p. 12.
15. Brad Glosserman, 'NSC Change Prepares Japan for New Global Realities', *Japan Times*, 1 April 2020.
16. Concerns on the rise of digital currencies include, for example, China's plans for a digital yuan providing the possibility for seamless cross-border payments, which may undermine the hegemony of the US dollar. See also Rintaro Tobita, 'Tokyo Expands National Security Council to Catch Economic Risks', *Nikkei Asian Review*, 18 March 2020.
17. White House, 'National Security Strategy of the United States of America', December 2017, p. 17.
18. White House, 'Remarks by President Donald Trump on the Administration's National Security Strategy', 18 December 2017, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-administrations-national-security-strategy/>, accessed 20 June 2020.

lead and coordinate responses to international security threats and violations via the use of financial sanctions.

- **Leveraging the UK's central and sophisticated financial capabilities** to develop a standing capability for identifying, monitoring and disrupting financial activity supporting state- and non-state-based threats to the UK and national interests, encompassing dedicated intelligence and operational functions.
- **Supplementing the financial and economic elements of existing policy and law enforcement strategies**, such as the Economic Crime Plan[19] and the Serious and Organised Crime Strategy,[20] which seek to contribute to national security via law enforcement activity with a greater intelligence and analysis capability.

A RANGE OF PERSPECTIVES

As evident from the above examples of the way in which the term 'economic security' is applied, a country's security is first and foremost built on the state – and trust and belief in the state – of its economy. The UK is no exception. Indeed, the very first lines of David Cameron's foreword to the 2015 National Security Strategy and Strategic Defence and Security Review – the predecessor to the current Integrated Review – note that 'our national security depends on our economic security, and vice versa. So the first step in our National Security Strategy is to ensure our economy is, and remains, strong'.[21] A strong economy provides a government with the opportunity to invest in its security capabilities. But the intersection between financial capability, economics and security should be considered more broadly than as merely an indication of national health and wealth. National security and global influence are not just functions of the health of a country's economy. The centrality of its economy to global commerce or the prevalence of globally strategic companies and technology can also play a material role.

With this in mind, the application of a financial lens can provide a range of perspectives, and thus options, for UK national security. This paper therefore considers the following four additional perspectives, based on financial capability, on top of those previously considered by the UK government: strategic application; influence and coercion; threat; and analysis and intelligence. These are all areas where the UK has world-leading capabilities that can significantly enhance national security via the development of an expanded and more dynamic economic security strategy.

This paper will not dwell on the question of whether a strong economy is important to national security, as this is self-evident and already central to any government's thinking. It will also not consider the role of the provision

19. HM Government and UK Finance, 'Economic Crime Plan: 2019–22', July 2019.
20. HM Government, *Serious and Organised Crime Strategy*, Cm 9718 (London: The Stationery Office, 2018).
21. HM Government, *National Security Strategy and Strategic Defence and Security Review 2015*, p. 5.

of aid, beyond acknowledging the significant influence and soft power opportunities afforded to the UK via its global generosity – something it can be assumed the government has in mind with the announced merger of the Foreign Office and the Department for International Development.[22]

It is also beyond the scope of this paper to examine the well-documented measures adopted by other countries – notably Russia and China – to use finance to secure geopolitical loyalty and dependency, potentially in conflict with the UK's national (security) interests. The paper, however, notes that these measures reinforce the need for the UK to prioritise the development of an economic security strategy that advances UK interests in a coordinated and strategic manner.

THE STRATEGIC APPLICATION OF FINANCE

Finance underpins not only national economic activity, but also the ability of a country to trade globally. Without a supporting financial strategy, UK exporters and importers will face operational challenges. Central to such a financial strategy is the provision of finance: ensuring that banks provide the necessary credit and financial connections to facilitate the UK's ambition to be a 'global trading nation', thereby strengthening the country's ability to export goods and diversify into markets beyond the EU. Yet, at the moment when such facilitation is most needed, international banks – including those from the UK – are withdrawing from many parts of the world as their appetite to take risk is curtailed by concerns of exposure to financial crime and sanctions evasion.[23] The financial connections that are required to support international trade have ruptured to a great extent (a phenomenon known as de-risking) and the investment commitment of UK banks to international activities has notably declined.[24]

For centuries, finance and economics have been key components of a country's security

An extreme example of the importance of supporting trading aspiration with finance can be seen from the way in which China's banks support its Belt and Road Initiative (BRI). The BRI aims to connect China to source and demand markets across the globe, in part by providing new infrastructure and economic support to an expanding array of countries. Putting aside the politics of this initiative, it requires considerable upfront and ongoing financial investment (and a willingness to incur investment losses). Thus, an important underpinning element of the BRI is the international expansion of Chinese banks – a challenge to which the banks have risen.[25] As the

22. HM Government, 'Prime Minister Announces Merger of Department for International Development and Foreign Office', press release, 16 June 2020, <https://www.gov.uk/government/news/prime-minister-announces-merger-of-department-for-international-development-and-foreign-office>, accessed 22 July 2020.
23. *The Economist*, 'Rolling Up the Welcome Mat: A Crackdown on Financial Crime Means Global Banks are Derisking', 8 July 2017.
24. Consider the retreat by Barclays from its investment in banking in Africa. See, for example, Martin Arnold, 'Barclays Cuts Stake in African Operations Further than Expected', *Financial Times*, 1 June 2017.
25. *The Economist*, 'As China Goes Global, Its Banks are Coming Out, Too', 7 May 2020.

chairman of the Industrial and Commercial Bank of China (ICBC), one of China's largest banks, noted in 2015, Chinese banks should 'always serve the globalisation of the Chinese economy', stating further that China's banks have 'created a vital platform for domestically funded businesses to develop in the international markets'.[26]

Recommendations

- Against a background of retrenchment by UK financial institutions, the UK government must ensure that its desire to be a 'global trading nation' is matched with the appropriate financing and related financial infrastructure. It should recognise that the availability of finance will underpin its desire to open up new trading relationships. This should be supported by a dedicated public–private sector strategy to identify the steps necessary to mitigate risks and unlock private sector financial support for new trading connections. If private sector banks cannot be incentivised to support this ambition, a strategy that enables greater UK government financing and risk-taking will be required, delivering on – and accelerating – the recent commitment of UK Export Finance to be 'proactive in pursuit of opportunities for UK exporters'.[27]
- The government should also ensure that it maximises the soft power benefits of its support for emerging international financial institutions, such as the Asian Infrastructure Investment Bank (AIIB), developing a strategy that uses support of these institutions to raise the profile of and opportunities for UK investments. The leveraging of membership and funding of such organisations should be included in a cross-government economic strategy that ensures the UK maximises the return on its investments.

INFLUENCE AND COERCION: THE APPLICATION OF SANCTIONS

Alongside the UK's commitment to providing 0.7% of national income as aid,[28] the application of sanctions, unilaterally or in coordination with like-minded nations,[29] is an obvious tool of economic influence and coercion at the UK government's disposal.

As a major global economy with a privileged position in a range of multilateral bodies such as the UN, NATO and the OECD, the UK is in an ideal position to use its economic heft as a tool of influence and coercion via sanctions or other forms of economic influence. Brexit has presented the UK with an

26. Jiang Jianqing, 'ICBC Chairman on the Overseas Expansion of China's Banking Industry', Central Banking, 9 June 2015, <https://www.centralbanking.com/central-banking/feature/2412016/overseas-expansion-of-china-s-banking-industry>, accessed 22 July 2020.
27. UK Export Finance, 'UK Export Finance Business Plan 2020–24', 2020, p. 4.
28. 'International Development (Official Development Assistance Target) Act 2015 (UK)'.
29. For a discussion of this dynamic in the post-Brexit era, see Emil Dall, Isabella Chase and Tom Keatinge, 'Coordinating Sanctions After Brexit: Considerations for the Future of UK Sanctions Policy', *RUSI Occasional Papers* (May 2020).

opportunity to develop its own sanctions policy without the need for EU member state consensus, and thus shape the application of its economic influence and significant role as a global financial centre. The government has invested considerable technical effort in preparing UK sanctions legislation for the post-Brexit era, and in July this year, the rhetoric and aspirational statements from ministers about the future use of sanctions[30] translated into the first statutory guidance on post-Brexit independent sanctions to be implemented by the UK targeting human rights abuses and violations.[31] How these new finance-based powers will be used in support of national security – beyond the virtue signalling they currently represent – remains to be seen or clearly articulated by the government.

Recommendation

- While the UK does not benefit from the size of economy enjoyed by the EU, the US or China, it nevertheless occupies a pivotal position in global finance via the City of London, which affords the country an outsized position of influence. The UK must plan for – and clearly demonstrate – how it will use this position to benefit national security, beyond the vision articulated thus far of supporting the UK's ambition to be a 'force for good in the world' via the deployment of human rights sanctions.[32]

FINANCE-BASED THREATS

The finance- and economics-based threats faced by the UK are varied. For example, the UK is what could be termed a 'just-in-time' economy, reliant on the smooth running of supply chains. Consider the fears of supply disruption caused by a 'no-deal Brexit',[33] the bare supermarket shelves[34] and acute

30. For further consideration of the UK's post-Brexit sanctions policy, see the work of the RUSI Task Force on the future of UK sanctions policy, <https://rusi.org/projects/sanctions>, accessed 22 July 2020.
31. Foreign and Commonwealth Office and Office of Financial Sanctions Implementation, 'Global Human Rights Sanctions: Guidance', 6 July 2020, <https://www.gov.uk/government/publications/global-human-rights-sanctions-guidance/global-human-rights-sanctions-guidance>, accessed 22 July 2020.
32. See, for example, *Hansard*, House of Commons, 'Global Human Rights Regime', 6 July 2020, Vol. 678, Col. 663, in which Dominic Raab MP states, 'this Government are absolutely committed to the United Kingdom becoming an even stronger force for good in the world'; Dominic Raab, 'Global Britain is Leading the World as a Force for Good: Article by Dominic Raab', 23 September 2019, <https://www.gov.uk/government/speeches/global-britain-is-leading-the-world-as-a-force-for-good-article-by-dominic-raab>, accessed 22 July 2020.
33. Road Haulage Association, 'Yellowhammer Confirms RHA's Worst Fears', press release, 12 September 2019, <https://www.rha.uk.net/news/press-releases/2019-09-september/yellowhammer-confirms-rha's-worst-fears>, accessed 22 July 2020.
34. Judith Evans and Jonathan Eley, 'UK Food Suppliers Battle to Fill the Empty Shelves', *Financial Times*, 20 March 2020.

shortages of personal protective equipment for medical staff at the outset of the coronavirus pandemic,[35] or the empty petrol stations during the tanker-driver strike in 2000.[36] These and other supply chain risks are threats to which the government must be alert and which it must be fully equipped to manage (with the appropriate planning). They could be triggered or exacerbated by finance-based disruptive activity such as cyber attacks.

Other finance-based threats are rooted in the significant size of the UK as a financial centre. As the global financial crisis of 2008 demonstrated, and as reflected in the measures taken by the Bank of England to bolster the resilience of the banking sector since then,[37] the size of the UK's banking system, if not prudently managed, can pose a threat to the country and its security, not just to individual financial institutions.

The financial connections that are required to support international trade have ruptured to a great extent

As the ISC's Russia report illustrates,[38] there are also more insidious threats lurking. As an open economy and society, the UK is highly vulnerable to finance-based threats that extend beyond the obvious risks inherent in the national supply chain and the stability of the banking system. These broader threats encompass: the funding of (social) media-based influence operations against the UK; political interference and influence; cyber-enabled state and non-state activity against UK interests; the purchase and control of strategic UK assets by overt or covert unfriendly third parties;[39] and the use of the UK's finance and investment infrastructure in support of illicit financial activity (the laundering and investment of the proceeds of corruption and other country's stolen national wealth).

In recent years, the UK has sought to strengthen its domestic response to finance-related threats via the introduction of new legislation and related powers, such as the Criminal Finances Act 2017, and the development of new government initiatives, such as the National Economic Crime Centre at the National Crime Agency[40] and Serious and Organised Crime Network (SOCnet).[41] While welcome, these initiatives are nascent and have not been

35. Haroon Siddique, 'Coronavirus: Doctors Call for Inquiry into PPE Shortages for NHS Staff', *The Guardian*, 10 May 2020.
36. *BBC News*, 'Countdown to Crisis: Eight Days that Shook Britain', 14 September 2000.
37. Office for Budget Responsibility, *Fiscal Risks Report*, Cm 9457 (London: The Stationery Office, 2017), p. 84.
38. See, for example, the chapter on 'Russian Expatriates' in ISC, *Russia*, p. 15.
39. See the current Foreign Affairs Committee inquiry into 'the FCO's role in blocking foreign asset stripping in the UK', <https://committees.parliament.uk/work/252/the-fcos-role-in-blocking-foreign-asset-stripping-in-the-uk/>, accessed 22 July 2020. See also the US Defense Production Act of 1950 and Foreign Investment Risk Review Modernization Act of 2018.
40. For an overview of the NECC and its activities, see National Economic Crime Centre, 'Improving the UK's Response to Economic Crime', <https://www.nationalcrimeagency.gov.uk/what-we-do/national-economic-crime-centre>, accessed 22 July 2020.
41. SOCnet, a key deliverable of the 2018 Serious and Organised Crime Strategy, is a tri-departmental network of 18 policy officers, based overseas. It includes an

obviously drawn together into a coordinated, clearly led, articulated and enduring strategy to support UK national security, including the development of a standing threat-finance capability that can respond to the use of finance of any kind – illicit or legitimate – against the UK by malign actors.

The UK also continues to suffer from a reputation as a leading centre for the facilitation of global money laundering. This damages the UK's international standing, subverting its authority with current and desired partner countries.[42]

Finally, as an open economy, UK companies and corporate assets are freely available for purchase. A more careful assessment of purchasers, their sources of wealth and intentions must be considered both to protect national security and ensure that UK companies and corporate assets are not abused for money-laundering purposes.

Box 1: Protecting National Assets

In 2013, Mexican company América Movil made a bid for the key Dutch telecommunications company KPN. The Dutch government expressed concern about the bid on national security grounds and steps were taken to block the transaction. Subsequently, in 2019, the Dutch government introduced legislation that protects Dutch telecom service providers, as 'according to the government, control over a telecommunications infrastructure can be used for political motives, or misused to learn the contents of communications distributed via the infrastructure, which could affect Dutch national security'.

And in 2018, the Canadian government blocked the purchase of the construction firm Aecon by China's CCCC International Holding Ltd on national security grounds, following a review under the Investment Canada Act that allows the government to conduct such a review if a minister 'considers that the investment could be injurious to national security'.

Sources: Dolia Estevez, 'Dutch Government Issues Warning on Takeover of Telecom Firm KPN By Mexican Billionaire Carlos Slim', *Forbes*, 13 September 2013; Reinier Kleipool, 'Dutch Telecom Companies to be Protected Against Unwanted Acquisition or Exercise of Control', De Brauw, 14 March 2019, <https://www.debrauw.com/legalarticles/dutch-telecom-companies-to-be-protected-against-unwanted-acquisition-or-exercise-

'Illicit Finance' network with experts sitting in global financial centres. See HM Government, *Serious and Organised Crime Strategy*, p. 58.

42. See, for example, comments by Ibrahim Mahu, the Nigerian anti-corruption chief at the 2016 international anti-corruption summit, noting that 'London is the capital of money-laundering'. These are available in Patrick Wintour, 'Nigeria Not Seeking a Cameron Apology, but "Wants Its Assets Back"', *The Guardian*, 11 May 2016. For further consideration of this issue, see RUSI's Centre for Financial Crime and Security Studies submission to the ongoing Foreign Affairs Committee inquiry into 'the FCO and the Integrated Review', <https://committees.parliament.uk/writtenevidence/4649/pdf/>, May 2020, accessed 22 July 2020.

of-control/>, accessed 22 July 2020; *CBC News*, 'Federal Government Blocks Sale of Construction Giant Aecon to Chinese Interests', 23 May 2018, <https://www.cbc.ca/news/politics/canada-blocks-aecon-sale-china-1.4675353>, accessed 23 July 2020; 'Investment Canada Act - R.S.C., 1985 (Canada)', c. 28 (1st Supp., Section 25.3).

Recommendations

- Finance underpins many of the malign threats, both covert and overt, to UK national security. An example might be the purchase of social media campaigns by anonymous front companies aimed at destabilising social order or the democratic process in the UK or partner countries. The government has failed to invest in the necessary analytical capability to understand these threats. It must therefore develop a dedicated and properly resourced expert capability for monitoring and assessing finance-based threats to UK national security, detailing clear responsibility for the coordination of the UK's response to the financial dimension of these threats. Where these threats are state-based, initiatives such as the Joint State Threat Assessment Centre at MI5[43] should be resourced with the necessary finance knowledge and capabilities to engage with the financial dimension of such threats.
- Urgent consideration should be given to the national security and investment legislation announced in the December 2019 Queen's Speech,[44] including the clear articulation of the types of industry in scope.[45]
- Furthermore, a clearly articulated and committed strategy must be brought forward to reverse the UK's reputation as a centre for the facilitation of global money laundering, which includes not just the growing domestic response, but a concerted effort to engage with and assist countries that see the UK as a contributor to their corruption and financial crime challenges. For example, greater investment should be made in the resourcing of UK capabilities to assist countries in identifying and repatriating stolen assets sequestered in or via the UK.

ANALYSIS AND INTELLIGENCE: EXPLOITING FINANCIAL CAPABILITIES

Responding to finance- and economic-based security threats requires a coordinated and aggregated understanding of illicit finance from which to

43. For an overview of this capability, see MI5, 'Joint State Threats Assessments Team', <https://www.mi5.gov.uk/joint-state-threats-assessment-team>, accessed 22 July 2020.
44. HM Government, 'The Queen's Speech 2019', 19 December 2019, pp. 104–05.
45. The types of industry viewed as security-related have expanded in recent years. For example, in 2019, Chinese company Beijing Kunlun Tech was forced by the Committee on Foreign Investment in the US to reverse its acquisition of the gay dating app Grindr. See Yuan Yang and James Fontanella-Khan, 'Grindr Sold by Chinese Owner After US National Security Concerns', *Financial Times,* 7 March 2020.

design responses. Despite the creation of the National Assessment Centre and National Data Exploitation Centre, gaps remain in the situational awareness and understanding of finance-related threats in and to the UK, and understanding of international illicit finance lags further behind. Where these capabilities exist, they are necessarily focused on enabling a more effective law enforcement response and situated within the government's economic crime architecture rather than the national security structure, and thus focused on immediate operational responses alone.

The UK has a strong intelligence capability and has developed new capacities, such as a cyber threat-intelligence capability, as national security threats have evolved. Yet, the UK's development of a genuine *financial* intelligence capability that is central to UK national security, on a par with communications or cyber threat-intelligence gathering, is not evident. At a time when communications data is increasingly difficult to access due to encryption, financial intelligence offers an important supplementary source of information, strengthened by the UK's central position in global finance and leading role in the development of new forms of financial technology. Thus, developing an enduring financial intelligence collection and analysis capability that is central to the UK's intelligence operations would add a valuable additional dimension to the UK's national security architecture against terrorism, organised crime and malevolent state and non-state actors.

Recommendations

- The UK government must mainstream a dedicated financial intelligence capability into its national security strategy.
- The government should ensure that the financial research and analysis capability of the current economic crime architecture is bolstered and that the current and anticipated capabilities, such as the planned International Centre of Excellence on illicit finance, are also integrated into and exploited by the national security structure.[46]
- The government should undertake a capacity and needs assessment of the current level of staffing and capability committed to financial intelligence across relevant UK agencies. Gaps in capability should be filled; and where this capability does exist, the government should review how it is currently used, both domestically and internationally.
- The government should leverage the bulk-data analytics capability of the UK intelligence community and emerging forms of privacy-enhancing technology[47] to boost its capacity to interrogate and investigate financial data for national security purposes.

46. The International Centre of Excellence (ICE) on illicit finance was proposed in HM Government and UK Finance, 'Economic Crime Plan: 2019–22', p. 62. It should be noted that the author is a member of the ICE design team, commissioned by the Department for International Development and led by Adam Smith International.
47. Megan Butler, 'Turning Technology Against Financial Crime', speech given at RUSI, 23 October 2019, <https://www.fca.org.uk/news/speeches/turning-technology-against-financial-crime>, accessed 18 July 2020.

- The government should also undertake a review of the extent to which partner countries (such as other members of the Five Eyes community) have made the gathering and exploitation of financial intelligence a central pillar of their national security architecture.

CONCLUSION

Where economic security has been considered by previous UK governments, that consideration has been restricted to the health and wealth of the UK's economy. While important, this limited consideration is incomplete and fails to take advantage of the finance-based strengths and capabilities that the UK has at its disposal, including: the size and influence of its financial services industry; the centrality of its payments system in the global economy; and the position of several of its banks in facilitating global trade. Put simply, the UK government needs to embrace finance as a more central tool of national security and apply a wider aperture to its exploitation.

As revealed by the ISC's Russia report, this is not merely a question of tackling illicit finance. It is also critical that the UK leverages its central position in the global financial architecture to develop a dedicated financial intelligence capability to support the identification of hostile activity.

This paper has argued that as the Integrated Review progresses, policymakers must develop an economic security strategy that draws on the full range of the UK's finance-related capabilities and expertise, with clearly defined, senior responsibility for driving forward such a strategy. This is not only a question of investment; it is a question of leadership, coordination within government, partnership with the private sector and ensuring that the understanding of the ways in which finance can be applied is a central element in all areas of national security.

The UK remains a leading global financial power across a range of different fields and must therefore ensure it fully understands, integrates and exploits these strengths and capabilities to the benefit of national security.

ABOUT THE AUTHOR

Tom Keatinge is the Director of the Centre for Financial Crime and Security Studies at RUSI, where his research focuses on matters at the intersection of finance and security, including the use of finance as a tool of intelligence and disruption. He has a Master's in Intelligence and International Security from King's College London, where his research focused on the effectiveness of the global counterterror finance regime. Prior to joining RUSI in 2014, he was an investment banker for 20 years at J P Morgan.

About RUSI

The Royal United Services Institute (RUSI) is the world's oldest and the UK's leading defence and security think tank. Its mission is to inform, influence and enhance public debate on a safer and more stable world. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today's complex challenges.

Since its foundation in 1831, RUSI has relied on its members to support its activities. Together with revenue from research, publications and conferences, RUSI has sustained its political independence for 189 years.

Published in 2020 by the Royal United Services Institute for Defence and Security Studies. RUSI is a registered charity (No. 210639).

Royal United Services Institute
for Defence and Security Studies
Whitehall
London SW1A 2ET
United Kingdom
+44 (0)20 7747 2600
www.rusi.org

RUSI is a registered charity (No. 210639)