



Towards a Geofinancial Strategy: Financial Diplomacy in a Changing World

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A quick word on RUSI

- Royal United Services Institute, founded in 1831
- Offices in London, Brussels and Nairobi
- Centre for Financial Crime & Security Studies, founded in 2014
 - Financial Crime Policy: public-private partnership; info-sharing
 - Financial Crime 2.0: threats/opportunities of new tech/VCs; vulnerabilities of social media
 - Finance/FININT against threats: terrorism; organized crime; proliferation; IWT; human trafficking
 - Financial sanctions (e.g. Post-Brexit UK policy)



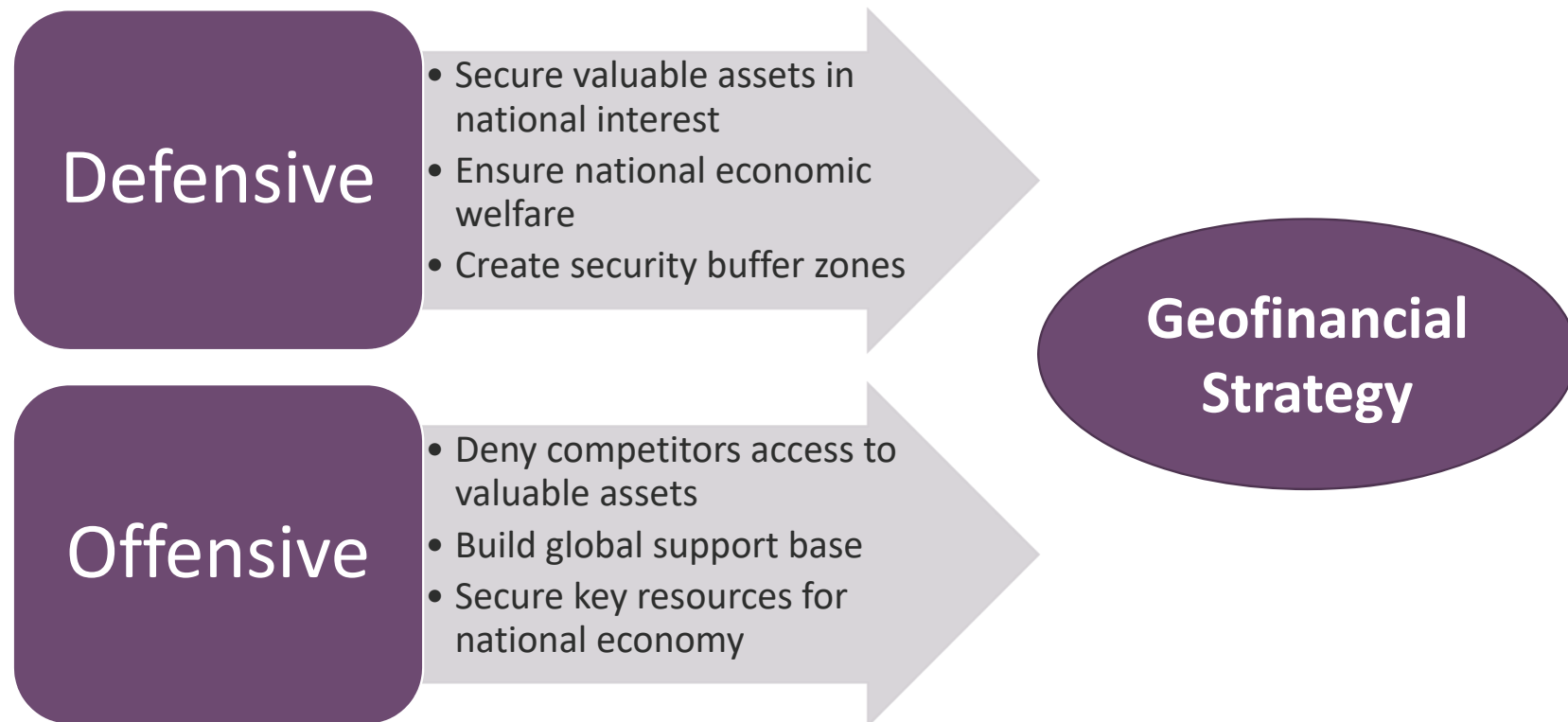
Issues to consider today...

- What is a geofinancial strategy?
- Motivations behind a geofinancial strategy
- Finance and influence: direct v's indirect strategies
- China as a case study
- Global Britain and a geofinancial strategy
- Concluding thoughts

An attempt at a definition...

- What is a geofinancial strategy...?
- My attempt at a definition...: ‘The use of finance, investment, aid, sanctions and other forms of financial influence – by both governments and their private sectors – to advance the interests of a nation.’
- A continuation of politics by ‘other means’...?
- Finance can support both hard and soft power
- Finance can be used to coerce or encourage
 - Vectors of influence: coercion and encouragement can be direct, or indirect
- Finance (or a lack of it) is a central cause of armed conflict; securing a national economy requires both a domestic and geofinancial strategy

Motivations behind geofinancial strategy...(not exhaustive!)



Direct strategy: GDP, soft and hard power...

GDP, current prices (Billions of USD)	2019 (IMF)	SOFT POWER 30	GFP 2019		GDP, current prices (Billions of USD)	2019 (IMF)	SOFT POWER 30	GFP 2019
United States	\$ 21,439.45		5	1	Argentina	\$ 445.47		
China, People's Republic of	\$ 14,140.16		27	3	Norway	\$ 417.63	12	
Japan	\$ 5,154.48		8	6	United Arab Emirates	\$ 405.77		
Germany	\$ 3,863.34		3	10	Israel	\$ 387.72		17
India	\$ 2,935.57			4	Ireland	\$ 384.94	20	
United Kingdom	\$ 2,743.59		2	8	Hong Kong SAR	\$ 372.99		
France	\$ 2,707.07		1	5	Malaysia	\$ 365.30		
Italy	\$ 1,988.64		11	11	Singapore	\$ 362.82	21	
Brazil	\$ 1,847.02		26	13	South Africa	\$ 358.84		
Canada	\$ 1,730.91		7	21	Philippines	\$ 356.81		
Russian Federation	\$ 1,637.89		30	2	Denmark	\$ 347.18	14	
Korea, Republic of	\$ 1,629.53		19	7	Colombia	\$ 327.90		
Spain	\$ 1,397.87		13	20	Bangladesh	\$ 317.47		
Australia	\$ 1,376.26		9	19	Egypt	\$ 302.26		12
Mexico	\$ 1,274.18				Chile	\$ 294.24		
Indonesia	\$ 1,111.71			16	Pakistan	\$ 284.21		15
Netherlands	\$ 902.36		10		Finland	\$ 269.65	15	
Saudi Arabia	\$ 779.29			25	Vietnam	\$ 261.64		23
Turkey	\$ 743.71		29	9	Czech Republic	\$ 246.95	24	30
Switzerland	\$ 715.36		6		Romania	\$ 243.70		
Taiwan Province of China	\$ 586.10			22	Portugal	\$ 236.41	22	
Poland	\$ 565.85		23	24	Peru	\$ 228.99		
Thailand	\$ 529.18			26	Iraq	\$ 224.46		
Sweden	\$ 528.93		4		Greece	\$ 214.01	25	28
Belgium	\$ 517.61		18		New Zealand	\$ 204.67	17	
Iran	\$ 458.50			14	Qatar	\$ 191.85		
Austria	\$ 447.72		16		Algeria	\$ 172.78		27
Nigeria	\$ 446.54				Hungary	\$ 170.41	28	

Direct strategies: (unilateral) sanctions... and aid



Aid-for-trade...

- Dependency v's developing self-sufficiency
 - Which makes more sense from a geofinancial strategic perspective?
 - What is the role of debt finance v's aid finance
- Elnathan John – Becoming Nigerian: A Guide
- 'Our donors who art abroad, hallowed be thy purse . . . Thy will be done in our countries as promoted by Bono. Give us this day our yearly funding. And deliver us not into self-reliance.'
- If we want aid to be part of a geofinancial strategy, do we understand the recipient's perspective? Can we tolerate the recipient's perspective? Who is aid actually for?

Indirect strategies...



Mutually assured destruction...?

HOW CHINA AFFECTS THE U.S. ECONOMY



China is the largest foreign holder of U.S. Treasuries

China buys U.S. debt to support the value of the dollar

China's role as America's largest banker gives it leverage

Mutually assured destruction...?

US Treasuries Owned By China, in USD Billions - Historical Chart

As of May 2019, China owns \$1.11 trillion of the total \$22 trillion US national debt.




Source: [US Department of the Treasury](#)

Financial diplomacy or financial enslavement...?

China buys Duterte's support with oil and gas deal



Rodrigo Duterte, right, and Xi Jinping cemented their "deepening" relationship with deals worth hundreds of millions of dollars
MARK CRISTINO/REUTERS

Share    Save 

President Xi signed an oil and gas exploration deal with the Philippines as China stepped up its wooing of a long-established US ally. The project was among a package of 29 deals worth hundreds of millions of dollars.

What China Wants From Africa? Everything



Panos Mourdoukoutas Contributor @ Markets

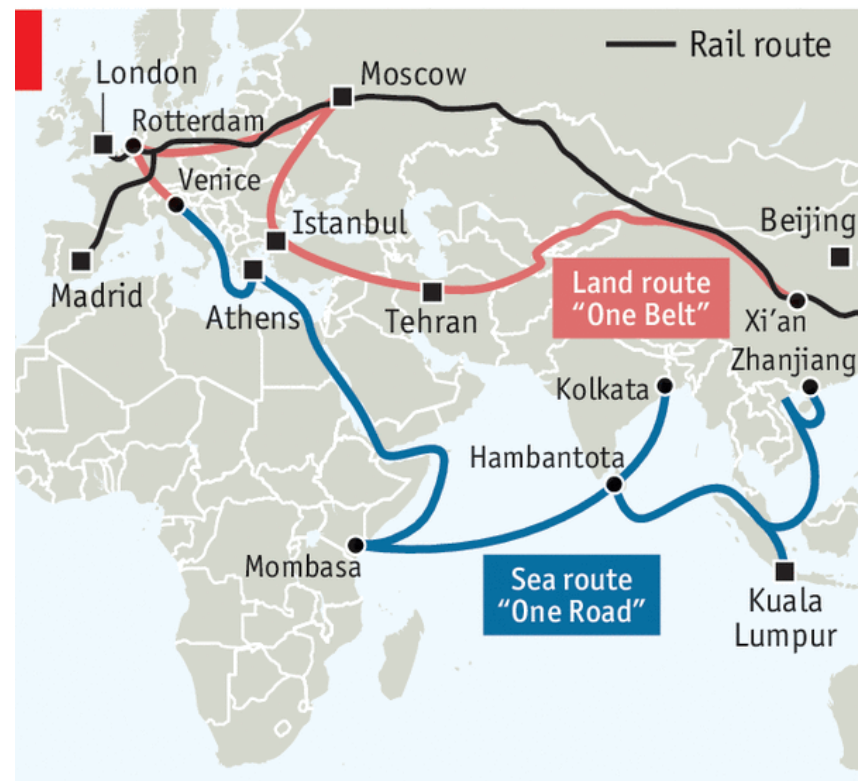


Photographer: Waldo Swiegers/Bloomberg © 2018 BLOOMBERG FINANCE LP

China wants everything from Africa: its strategic location, its oil, its rare earth metals, and its fish, leaving African nations indebted to Beijing.

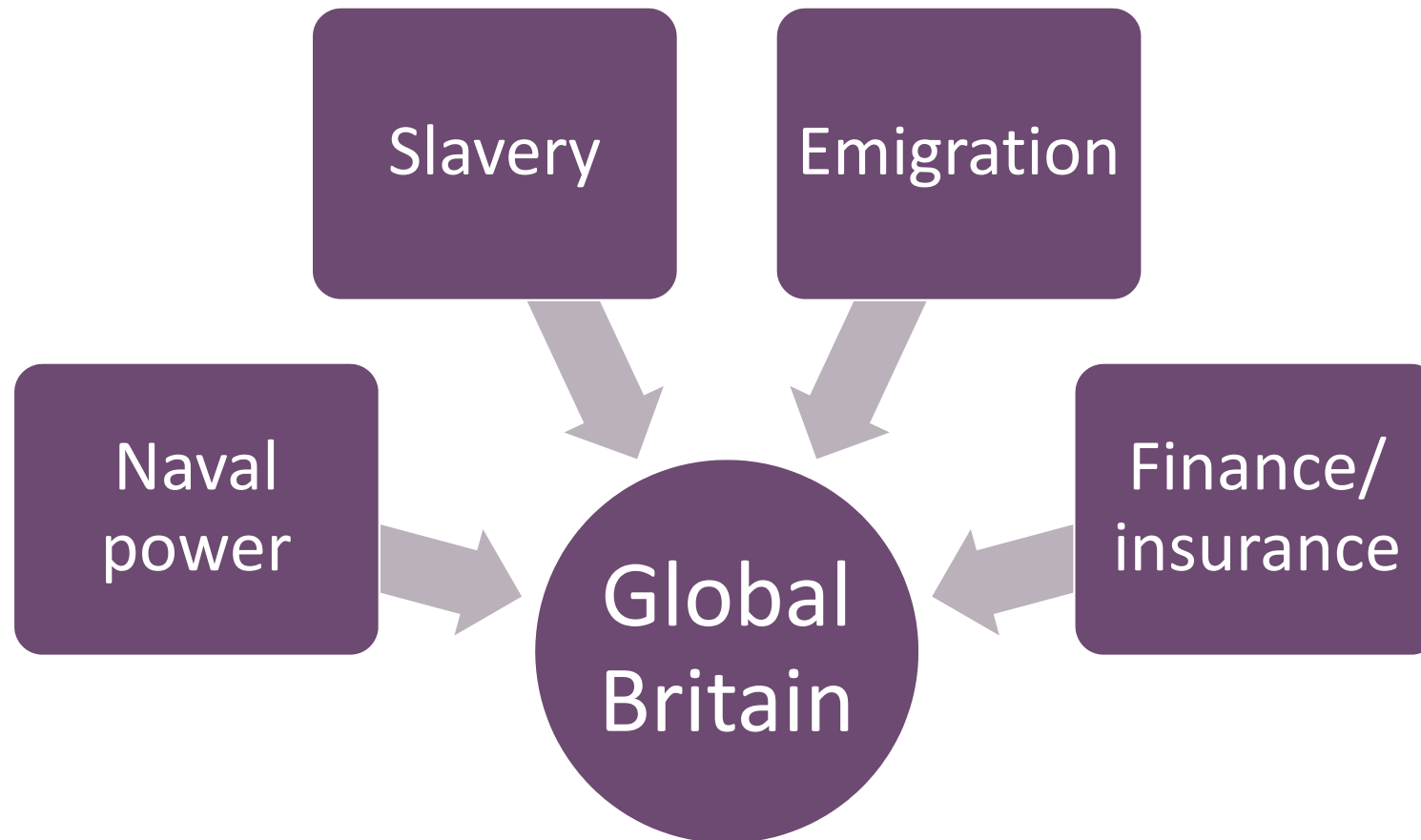
In its long history, Africa has served the global ambitions of many foreigners. Foreigners have reached out to Africa as missionaries, financiers, and infrastructure builders. They have promised to place the continent on the globalization map and help its people grow out of poverty. But they ended up grabbing Africa's riches, colonizing one nation after another, and letting their people steep in poverty.

OBOR: The ultimate geofinancial strategy?

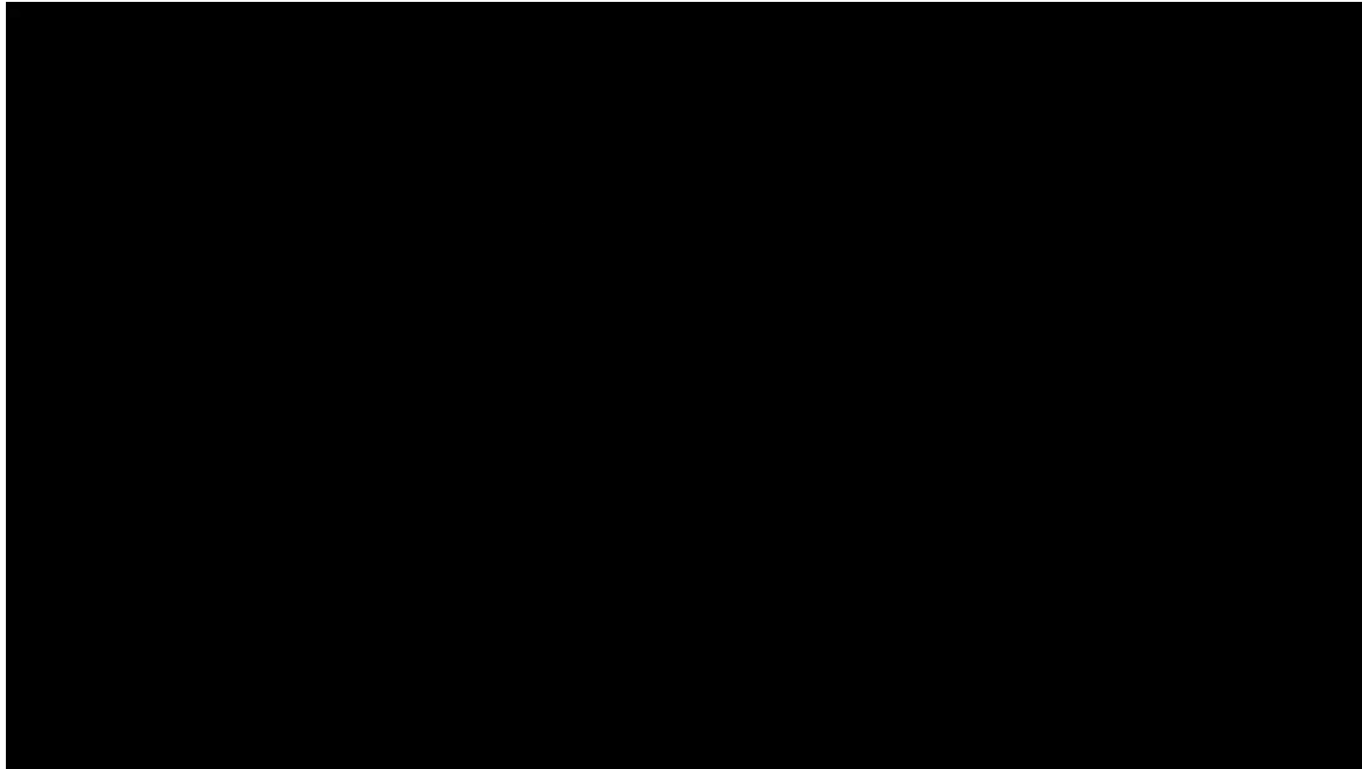


Economist.com

Previously on Global Britain...



And now, Global Britain 2.0



And now, Global Britain 2.0 (cont'd)

Global Britain is about looking out into the world and seizing the opportunities that come from those freedoms we gain by leaving the EU.

**Penny Mordaunt,
DfID Secretary of State, June 2018**



HOW?

What's the secret to Global Britain 2.0...?

It is time for Britain to get out into the world and rediscover its role as a great, global trading nation Britain.

**Theresa May, Lancaster House,
January 2017**

**OK, BUT
STILL...
HOW?**

History teaches us... the answer is in finance...

- But, where are the bankers...?



Economist.com

Barclays cuts stake in African operations further than expected

Sale of shares in Johannesburg-listed offshoot will boost capital but trigger £1.2bn loss



Barclays' stake in its African business would fall from 50 per cent to just below 15 per cent © Bloomberg

Martin Arnold, Banking Editor JUNE 1 2017

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Barclays has brought the curtain down on more than a century of African operations by selling a bigger chunk of its business in the continent than expected, which will boost capital while generating a £1.2bn loss.

And another challenge: the ethical balancing act...

For example... (plenty of other cases to consider too)



How else might the UK develop a geofinancial strategy...?

- An independent UK sanctions policy
- What role should sanctions play in UK foreign policy after Brexit?
- How should the UK balance national security and foreign policy objectives?
- How should the British government work with the private sector to prepare it for independent UK sanctions?



Designing Sanctions After Brexit: Recommendations on the Future of UK Sanctions Policy

Occasional Papers, 19 September 2019

Isabella Chase, Emil Dall and Tom Keatinge

Final thoughts...

- Finance can be used for good, or bad; offensive or defensive posture
- Financial hegemony has allowed the US to dominate global security
- But rising financial powers, notably China, are rebalancing global financial power and thus global security; consider impact of ethics on geofinancial strategies – financial dominance at what cost?
- Financial power can be asymmetric – consider North Korea and cyber/crypto-crime; rise of peer-to-peer payments (beyond traditional networks)

Final thoughts... (2)

- Financial power can be overt (aid/infrastructure development) or covert (subverting media/democracy/ academia)
- Targeting banks and financial infrastructure can be highly disruptive (consider impact of UK-wide ATM shutdown)
- Global nature of finance makes banks intelligence assets (and targets – consider East German spies in the City of London; embedding of hostile actors in deal-teams, on trading floors and in payment processing centres)
- And for the UK: as a financial centre, UK will remain highly attractive (stable assets; rule of law; quality of life)...
- ...but as a 'global trading nation'? The lack of a geofinancial strategy to underpin 'Global Britain' will present fundamental challenges in the decades ahead

Thank you and contact details

Thank you
for your
attention.



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