



The Treasury Department Should Lead the Fight Against Corruption and Kleptocracy

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Introduction and summary

The United States today faces a pressing threat to its national interests: the strategic use of corruption by autocratic and kleptocratic states to undermine the integrity of democratic institutions and interfere in the politics of democratic states for geopolitical advantage. Such strategic corruption is not a new phenomenon, but it has become more acute and sophisticated with the rise of offshore financial centers and the growing assertiveness of authoritarian competitors in using nontraditional means of projecting power and wielding influence. In recent years, strategic corruption has been deployed more systematically and with greater success against the United States and its democratic partners than in previous eras.

As with earlier threats that have been fueled by access to mobile capital, strategic corruption has thrived thanks to international financial connectivity. More specifically, it has risen because of enduring ungoverned financial spaces in the global economy and gaps in anti-money-laundering frameworks both in the United States and in many other advanced economies. These features of strategic corruption mean that an effective response will require the participation of a broad set of stakeholders within the national security community. In particular, curbing strategic corruption and the kleptocratic networks that enable it will depend critically on the analytic capabilities and regulatory power of the actors within the U.S. government tasked with supervision of the international financial system, above all the Treasury Department.

Over the past 30 years, the United States has become increasingly effective at using its influence over the global financial system to protect its national security. In the 1980s and 1990s, concerns over drug trafficking, nuclear proliferation, and terrorism led to the creation of an infrastructure aimed at identifying and disrupting the flows of funds that enabled those crimes.¹ After the September 11 terrorist attacks, the Bush administration built on this foundation to create a formidable interagency mechanism, centered in the Treasury Department and supported by new legal authorities, to stop the financing of terrorist groups, and also deployed these capabilities to shut down the banks that were funding North Korean nuclear proliferation.² More recently, the United States has used many of the same tools developed to combat terror financing to weaken the financial support networks of transnational criminal organizations and other malign actors that depend on access to foreign markets.³

Throughout these efforts, U.S. officials acted swiftly and innovatively to meet a protean threat landscape by drawing on one of the country's most important, but often underrated, vehicles for projecting U.S. power abroad: the uniquely important role of U.S. financial institutions and the U.S. dollar in facilitating cross-border commerce and the movement of capital across national lines. The tools and authorities developed by the Treasury Department in its three-decade war on illicit finance now allow it to apply economic coercion to an extraordinary breadth of people and organizations—essentially any actor that wants to conduct transactions in dollars or seeks access to dollar-denominated assets, as well as the client of any institution that conducts some or all of its business in dollars. These same tools and authorities could serve as a powerful deterrent against strategic corruption, but to date they have not been deployed to their full potential.

In order for the United States to defend and strengthen global democracy in order to protect its own political system from foreign interference, the nation needs to develop a strategy and associated capabilities to prevent, identify, and sanction strategic corruption and kleptocracy. To that end, the Treasury Department, along with other stakeholders, should adjust and restructure its approach to combating illicit finance to put greater emphasis on the use of dirty money by geopolitical adversaries. Such an adjustment will require enhanced resources, more aggressive use of existing authorities, engaged diplomacy, and a shift in programmatic emphasis within the offices of the Treasury Department responsible for financial intelligence and sanctions. Pursued effectively, these changes would strengthen the ability of the United States and its democratic partners to counter the efforts of authoritarian states to reshape global norms and institutions in their favor.

Defining strategic corruption and kleptocracy

Corruption has many meanings, but the conventional definition is “abuse of public office for private gain.”⁴ Such a definition contemplates a wide range of behavior, ranging from “grease payments” (for example, a small fee to an official to speed up a bureaucratic process), to petty theft (for example, paying a small sum to a police officer to avoid a traffic violation), to “grand corruption” (for example, payments or favors to senior officials aimed at influencing state policy or large procurements), to full “state capture,” in which government organs are run by and for the benefit of a small group of well-connected figures, such as drug cartels.⁵

Strategic corruption and kleptocracy are forms of corruption in which graft is organized and facilitated by political elites. Strategic corruption refers to the use of corruption by government actors, or their nongovernmental proxies, to create conditions in foreign states that advance geopolitical interests.⁶ Strategic corruption is distinct from other forms of corruption in the sense that its practitioners are less interested in securing a business advantage or other private benefit than in shaping policy outcomes or manipulating electoral environments to align with a particular country’s foreign policy aims. Strategic corruption is often an element of what some scholars have called “corrosive capital”—state-directed cross-border investments from authoritarian states into fragile or weak democracies that strengthen the influence of the former at the expense of transparency and rule of law.⁷

Kleptocracy refers to a political system in which officials and their private sector allies systematically divert state resources into their own pockets, essentially turning the machinery of government into a means of personal enrichment.⁸ Kleptocracy differs from conventional graft in the sense that kleptocratic officials are themselves stealing directly from the state (distinct from simply accepting bribes) by, for example, awarding contracts or natural resource concessions to entities they indirectly control. Kleptocracy is as old as government itself, but in recent years it has been enabled by the globalization of banking and increased mobility of capital that followed the end of the Cold War: Much of the funds stolen by kleptocratic officials in countries now wind up abroad.⁹

Although the terms are fluid and overlapping, kleptocracy typically exists alongside oligarchy, as exemplified most vividly by the mutually reinforcing role played by the wealthiest citizens in Russia and the government of President Vladimir Putin.¹⁰

Strategic corruption and kleptocracy are natural bedfellows: The techniques and tools of kleptocratic looting are also ones that suit state-sponsored graft, such as sophisticated use of offshore financial centers, shell companies, and complex multijurisdictional transactions that facilitate money laundering and hide the real owners of assets.¹¹ Furthermore, kleptocracy and strategic corruption both typically operate with the assistance of private sector affiliates who act as conduits for state resources and take guidance from officials.¹² Such techniques and tools are in a larger sense the bread and butter of “illicit finance”—that is, the movement of funds through financial institutions in the service of prohibited activities.¹³ It is not coincidental that the regimes with the most well-documented uses of strategic corruption and corrosive capital—China and Russia—preside over economies in which state capitalism plays an outsized role and business elites answer both formally and informally to political leaders.¹⁴

Strategic corruption and kleptocracy as threats to U.S. national security

The adverse consequences of serious corruption on the national security interests of the United States have been extensively discussed in scholarship, public advocacy products, and in official U.S. security documents.¹⁵ Left unchecked, corruption undermines the legitimacy and effectiveness of political institutions;¹⁶ it impairs states' ability to respond to pressing challenges such as climate change, drug trafficking, and pandemics;¹⁷ it enhances the risks of nuclear proliferation and terrorist attacks;¹⁸ it degrades military readiness and law enforcement professionalism;¹⁹ and in extreme cases it can serve as a justification for violent rebellion and separatism.²⁰ And as the 2017 U.S. National Security Strategy observed, entrenched corruption means the United States cannot “compete fairly in transparent business climates.”²¹

Strategic corruption and kleptocracy contribute to these problems but pose a more specific threat to the United States: They strengthen the position of authoritarian competitors, actively subvert the political will of citizens living within democratic states, and seek to delegitimize the viability and appeal of democracy as a political system. Strategic corruption is more than a governance failure in the states where it occurs: Just as importantly, it is a “sharp power” tool used by regimes hostile to values such as rule of law, political accountability, human rights, freedom of speech, and democracy itself.²² Put bluntly, strategic corruption, and the corrosive capital flows that often accompany it, are a mechanism by which kleptocratic states seek to make the rest of the world more like themselves, and in so doing shape global norms and the broader geopolitical environment in their favor.

The most well-documented examples of both strategic corruption and kleptocracy are the Russian government's influence operations in Eastern European states, which revolve around patronage networks and economic relationships with local actors that produce pro-Russian political tendencies and dependence on Russian investment and natural resources—a phenomenon now widely referred to as the “Kremlin Playbook.”²³ In countries such as Moldova, Serbia, Montenegro, and Ukraine, licit and illicit cash flows from Russian entities and firms have created durable ties between the Kremlin and local politicians and business leaders, and in some cases given Russian dirty money

a point of entry into the European financial system.²⁴ The role of Moldovan banks and courts in laundering billions of dollars of Russian funds, assisted by corrupt Moldovan politicians and judges, offers an especially troubling example of how the proceeds of kleptocracy and other criminal activities can infiltrate European markets.²⁵

But Moscow's cultivation of proxies through nongovernmental intermediaries with the goal of obtaining a geopolitical advantage is not limited to its immediate neighbors. As recounted in the U.S. Senate Intelligence Committee's report into interference in the 2016 U.S. presidential election, Paul Manafort, one of Donald Trump's campaign managers, received tens of millions of dollars for consulting services over more than a decade from pro-Russian Ukrainian oligarchs and Russian billionaire Oleg Deripaska, a close associate of Vladimir Putin understood to carry out influence operations on behalf of the Russian government.²⁶ Deripaska has denied the conclusions stated in the Senate report.²⁷ In the context of these services, Manafort also developed a professional relationship and close friendship with a Russian intelligence officer.²⁸ By the time Manafort joined the Trump campaign, he was short on cash and, in the words of the committee report, "sought to leverage his position to resolve his multi-million dollar foreign disputes and obtain new work in Ukraine and elsewhere."²⁹ This leverage involved "a peace plan for eastern Ukraine that benefited the Kremlin," and "narratives that sought to undermine information showing that Russia interfered in the 2016 U.S. election."³⁰

Similarly, the 2020 House of Commons report on Russian interference in British politics documents how the United Kingdom's policy of welcoming Russian money without asking too many questions about its origins had damaging consequences for the integrity of the British political system.³¹ As the report explains, this money was invested in all aspects of the establishment including public relations firms, charities, political parties, academia, and cultural institutions, creating a new normal in which Russian influence on British politics is now an accepted norm.

Russia may be the most prolific government in its use of strategic corruption, but by no means is it alone. As documented by Czech scholar Martin Hála, the Chinese Communist Party's de facto control over virtually all Chinese political and business elites has allowed it to engage in "arbitrary capital operations" that enable a "political interference machinery."³² Hála narrates the now well-known saga of CEFC China Energy, a Chinese firm that rose from obscurity to global prominence in the 2010s and has been linked to Chinese intelligence.³³ In 2018, CEFC's lieutenant, Patrick Ho, was convicted in U.S. federal court for bribery-related transgressions at the United Nations and in sub-Saharan Africa.³⁴ Prosecutors also alleged that Ho sought to help CEFC sell Chinese weapons to African nations.³⁵ In his defense, Ho stated that his actions were "in furtherance of the Chinese state's agenda" regarding the Belt and Road Initiative,

a massive foreign investment and assistance project that is at the center of Chinese President Xi Jinping's foreign policy.³⁶ Elsewhere in the world, such as in Sri Lanka and Ecuador, Chinese lending and associated kickbacks have resulted in Chinese corporate control of strategically sensitive infrastructure.³⁷ In Serbia, meanwhile, Chinese infrastructure financing has correlated with Serbian political cycles and undermined the European Union's reform agenda for the country.³⁸ In Malaysia, finally, Chinese leadership proposed to bail out a troubled sovereign wealth fund linked to a massive embezzlement scandal in exchange for Chinese access to Malaysian ports and Chinese investment opportunities in railway and pipeline projects.³⁹

Nor is Russia unique in targeting the United States. The authoritarian government of Azerbaijan was recently exposed as having secretly financed a lavish junket for U.S. legislators via an injection of cash from a state-owned enterprise into an obscure U.S. nonprofit, in a glaring violation of congressional ethics rules.⁴⁰ Even more troublingly, federal authorities—including those working for special counsel Robert Mueller's independent inquiry—for years pursued credible leads that an Egyptian state bank funneled millions of dollars into Donald Trump's 2016 presidential campaign.⁴¹ Prosecutors were ultimately unable to substantiate their suspicions in the face of stonewalling by the Egyptian bank, but such an ambiguous resolution is hardly comforting: The fact that a sovereign power could be reasonably suspected to have bribed a successful presidential campaign highlights the serious vulnerabilities of the American political system to foreign kleptocracy.

Even setting aside the specific problem of strategic corruption, kleptocracy presents a serious challenge to U.S. national interests, specifically the vitality of global democracy and a U.S. foreign policy anchored in democratic values. Kleptocracy is closely linked to resurgent authoritarianism, and it provides a mechanism for insecure political elites to co-opt political rivals, local business leaders, and media outlets.⁴² In this sense, kleptocracy is closely entwined with the kind of "managed democracy" seen in countries such as Russia and Azerbaijan, and more recently Hungary, where the strongman ambitions of Prime Minister Viktor Orbán have been buttressed by a system of crony capitalism in which EU funding is redistributed to allies of the ruling party, Fidesz.⁴³ Once kleptocracy has entrenched itself, furthermore, it rarely limits itself to national borders. Beyond the distortive effects of large-scale capital flight from kleptocratic states into democratic markets, the hostility of kleptocratic regimes to independent journalism and rule of law has a habit of spilling into regional organizations and even established democracies. The influence wielded by corrupt Angolan elites in Portuguese media and financial institutions and Azerbaijan's use of "caviar diplomacy" to undermine the human rights work of the Council of Europe are two examples of this phenomenon.⁴⁴

Envisioning a Treasury-led interagency response to strategic corruption

It will take an interagency effort to successfully implement an enhanced U.S. campaign against strategic corruption and kleptocracy. Situating these threats in the context of broader U.S. national security interests and the political cultures of foreign adversaries will require the insight of the national security community. Likewise, the intelligence community (IC) has an essential role in identifying and analyzing the motives and tactics of kleptocratic regimes using its various collection methods. And of course, to the extent the practitioners of strategic corruption and kleptocracy or their enablers violate U.S. laws, the Department of Justice and the Securities and Exchange Commission should pursue appropriate civil and criminal actions—as could potentially the Office of the Comptroller of the Currency (OCC) and other financial regulatory agencies.

Notwithstanding these important contributions, the bureaucratic actor that is uniquely positioned to lead a concerted effort against strategic corruption and kleptocracy is the Treasury Department, specifically the Office of Terrorism and Financial Intelligence (TFI).

Breaking down TFI

TFI encompasses several key functions relating to U.S. oversight of the global financial system. The Financial Crimes Enforcement Network (FinCEN) serves the United States' financial intelligence unit (FIU)—that is, an office that receive reporting from financial institutions and other regulated actors about certain classes of transactions. The Office of Foreign Assets Control (OFAC) administers U.S. economic and trade sanctions and has the authority to freeze assets and block individuals and entities from engaging in dollar-denominated transactions. The Office of Intelligence and Analysis (OIA) conducts intelligence collection on behalf of the Treasury Department's policy functions—a unique remit that has no analogue in any other ministry of finance—and connects the department to the broader IC. Finally, the Office of Terrorist Financing and Financial Crimes (TFFC) is the primary actor within the Treasury Department developing policies related to illicit finance and liaising with other national security stakeholders in the U.S. government.

To an even greater extent than other threats that are facilitated by illicit finance, such as terrorism and proliferation, strategic corruption and kleptocracy are fundamentally economic in character and depend on access to international financial institutions and assets in advanced economies. Far more often than not, the ultimate destination of funds skimmed from state resources or delivered to public officials and people of influence in democratic countries is a bank account, asset, or property in an advanced economy. Because strategic corruption is state-sponsored and often draws on preexisting kleptocratic networks, furthermore, it often operates with a high degree of professionalism and features many of the same techniques used by wealthy and powerful individuals to move money. Examples of this are the sophisticated use of offshore jurisdictions and corporate vehicles designed to obfuscate the true beneficiaries of transactions.

These features of strategic corruption and kleptocracy mean that containing them requires familiarity with the patterns of illicit finance, access to sensitive financial data, and established relationships with foreign FIUs and other sources of relevant intelligence—all capabilities that TFI has invested heavily in over the past 15 years.⁴⁵ Just as importantly, it requires far-reaching authority to block transactions and freeze assets connected to non-U.S. citizens. Collectively, TFI wields substantial regulatory power that can reach malign actors beyond the scope even of U.S. law enforcement.

An OFAC designation under one of the sanctions programs administered by the office, or a rulemaking by FinCEN under a special authority granted under Section 311 of the USA PATRIOT Act, has the practical effect of severely impairing the target's ability to move funds across national lines, even between two countries with limited economic ties to the United States.⁴⁶ In addition to blocking access to U.S. correspondent banks—essentially for any dollar-denominated transaction between two non-U.S. financial institutions—a blacklisted person or entity will also find it challenging to maintain a customer relationship with the large majority of banks, money-transfer services, and many other economic actors that serve a national market or have foreign clients. Even institutions that largely conduct business in a currency other than dollar are generally unwilling to risk attracting Treasury's ire: The suspicion that an institution conducts business with the targets of a Treasury action can lead to a loss of commercial relationships with a broad range of counterparties, in what is commonly referred to as “de-risking.”⁴⁷

Of course, many actors who seek to move funds across borders for prohibited activities are sufficiently savvy to not attach their name directly to the transactions in question. Globalization and the ubiquity of the internet have allowed old tools of illicit finance, such as money laundering and the use of secrecy jurisdictions to hide assets, to attain extraordinary levels of sophistication and complexity. Much of this new technology of financial crime was developed in the service of kleptocracy,

particularly to assist in the capital flight that followed the opening and privatization of previously closed markets in Eastern Europe and Asia following the end of the Cold War.⁴⁸ For this reason, identifying illicit financial activities and cash flows to or from blacklisted entities has required a nimble and well-resourced financial intelligence apparatus and the authority to compel private institutions to request and disclose the beneficial owners of their customers and any suspicious transactions they process in the course of their operations. To that end, FinCEN receives more than 2 million reports annually related to suspicious transactions pursuant to regulations implemented under the Bank Secrecy Act (BSA) and the USA PATRIOT Act.⁴⁹ Such information reporting is complemented by other forms of intelligence relating to illicit finance collected by OIA and the wider intelligence community.

A new emphasis on corruption in TFI's portfolio

Corruption in all its forms has been at best a secondary focus of TFI's activities—and broader interagency efforts against illicit finance—since its inception. TFI's Congressional Budget Justifications for fiscal years 2019, 2020, and 2021, for example, mention corruption in three contexts: a FinCEN advisory related to movement of stolen public funds from Venezuela through financial institutions; administration of sanctions against Russia that pertain in part to Russian corruption in Ukraine; and implementation of the Global Magnitsky Act (GMA), which authorizes economic sanctions against corrupt officials and those who provide financial or technological support to them.⁵⁰ Previous budget justifications reflect a similarly minor role for corruption concerns, with no focus on strategic corruption. Likewise, FinCEN's budget justifications during this period do not include corruption as a priority issue.⁵¹ In addition, Treasury's departmentwide strategic plan for 2018 to 2022 references corruption only in the context of technical assistance, rather than financial crime.⁵² Finally, the 2020 National Strategy for Combating Terrorist and Other Illicit Financing alludes to corruption only generically as a risk associated with money laundering and does not discuss kleptocracy or strategic uses of corruption.⁵³

Of the current programs administered by TFI, the one most directly suited to combating kleptocracy is the GMA. To date, however, the sanctions designated under that authority have not exhibited a clear focus on corruption used offensively against other states and have targeted only a handful of private sector enablers of corruption—most notably, in 2017, an Israeli businessman connected to the former president of the Democratic Republic of the Congo.⁵⁴ (The closest thing to such a designation was brought against Russian oligarchs under a different authority specifically focused on Russian influence

operations.⁵⁵) Similarly, FinCEN has used its authority under Section 311 of the USA PATRIOT Act, which empowers it to designate entities and even entire jurisdictions as special “money laundering concern[s],” very sparingly relative to the scale of global money laundering and the kleptocratic systems it nurtures.⁵⁶ As a recent major leak of financial institution reporting to FinCEN reveals, the volume of dirty money in the international financial system appears to dwarf efforts to contain it.⁵⁷ This is partly the result of inadequate resources for FinCEN relative to the scale of its task and an approach to anti-money laundering that emphasizes compliance over criminal sanctions. But it also reflects how a departmental focus on stopping specific threats, most notably terrorism, leaves much of the rest of the financial system largely unguarded.

This current predicament is not surprising. Much of the counter-illicit-finance infrastructure of TFI was set up in the wake of the September 11 attacks at a time when combating Islamic extremism was arguably the top priority of U.S. foreign policy.⁵⁸ That emphasis is reflected in the office’s current organizational structure, which contains an assistant secretary position specifically focused on terrorist financing but not such a position for any other threat enabled by illicit finance.⁵⁹ This emphasis on terrorism is not unique to the United States: A recent study commissioned by the European Parliament found that “tremendous development of financial intelligence capabilities has been justified largely in the name of counter-terrorism” since 2001, and that four important FIUs—France, Switzerland, the United Kingdom, and Canada—all prioritized terrorist financing in the fight against dirty money.⁶⁰

There is precedent for elevating the profile of corruption and kleptocracy in TFI’s work. In 2006, President George W. Bush issued a “U.S. Strategy to Internationalize Efforts Against Kleptocracy” that set a strategic objective to “deny kleptocrats access to fruits of their corruption.”⁶¹ Efforts included denying kleptocrats access to the U.S. financial system; tracing, freezing, and recovering assets stolen through corruption; and “strengthening international will and ability to combat grand corruption.”⁶² The strategy does not appear to have left an enduring legacy on the Treasury Department’s operations, although it did contribute to a greater focus in U.S. law enforcement on recovery of public assets stolen through corruption—for example, in the Justice Department’s Kleptocracy Asset Recovery Initiative created under former President Barack Obama.⁶³ Even so, the themes advanced in the 2006 strategy are just as relevant today as when they were written and could serve as a justification for a strategic reorientation of TFI’s efforts.

In addition, two executive orders under the International Emergency Economic Powers Act could potentially be redeployed in novel ways to freeze assets and restrict economic transactions associated with strategic corruption and kleptocracy: Executive Order 13581 (2011), which authorizes the blocking of property of transnational criminal organizations, and Executive Order 13848 (2018), which enables sanctions against certain forms of interference in U.S. elections.⁶⁴ Although neither of these orders captures the full set of activities engaged in by kleptocratic regimes, they nonetheless confer a broad authority to dismantle many of its more pernicious features, most notably foreign efforts to improperly influence or sabotage U.S. political campaigns.

Recommendations

To meet the threat posed by strategic corruption and kleptocracy, the United States should reproduce its successful efforts in strengthening the U.S. and global response to terrorist financing. This means more resources; greater engagement on the issue within the U.S. government and with international partners; more robust use of existing authorities; and, where necessary, the development of new capabilities.

Stand up an interagency task force and issue a new national strategy to combat the most dangerous forms of corruption. The United States should consider using a task force structure to mobilize interagency resources behind identification of strategically significant uses of corruption and associated high-priority targets. Such a task force could be modeled on the Committee on Foreign Investment in the United States and chaired by the secretary of the Treasury or the undersecretary for terrorism and financial intelligence. The task force would include representatives from the national security, law enforcement, and intelligence communities, and potentially representatives of financial regulatory agencies such as the Office of the Comptroller of the Currency and the Federal Reserve. A key objective of the task force could include coordination of interagency efforts to map the financing structures and facilitation mechanisms of kleptocratic networks.

In addition, the task force—or if more appropriate the National Security Council—should seek to develop a strategy to combat the most dangerous forms of corruption, including strategic corruption and certain kleptocratic networks that pose grave threats to democratic societies. Such a strategy should set out clearly the threat that corruption and kleptocracy pose to U.S. national security and the integrity of U.S. democracy. And it should seek to drive a coherent interagency response, with a focus on integrating anti-corruption and anti-kleptocracy goals across the national security community, including relevant divisions of the Treasury and Justice departments. The strategy could potentially draw on the findings of a study on the efforts of authoritarian regimes to exploit the U.S. financial system that has been proposed in the ILLICIT CASH Act currently before Congress.⁶⁵

Restructure TFI to better address a broader range of threats, including corruption.

TFI's current organization reflects the primacy of counterterrorism within its broader mandate to curb illicit finance. Preventing the financing of terrorist organizations remains an important national security priority, but it should not be pursued in a way that limits the effectiveness of the U.S. response to other critical threats. To that end, the executive branch should seek congressional authorization to restructure TFI in a way that better aligns with the current threat environment. One potential reform is to reorganize TFI as the Office of Threat Finance, moving toward a more holistic model of threat analysis, and create either assistant secretary or deputy assistant secretary positions responsible for clusters of financial threats, to include kleptocracy and other corruption-related threats. In addition, the Treasury secretary should seek to ensure improved coordination between TFI operations and teams in the Treasury Department's Office of International Affairs.

Increase resources to the Financial Crimes Enforcement Network. With around 300 employees and an annual budget of more than \$100 million, FinCEN is among the most well-resourced financial intelligence units in the world.⁶⁶ Even so, its current level of staffing is inadequate to meet its mission. FinCEN's overall budget and staffing should be increased to ensure better responsiveness to and analysis of the large quantities of data it receives, as proposed under the ILLICIT CASH Act.⁶⁷ In addition, specific funding should be earmarked for initiatives focused on identifying corruption aimed at the United States and strategically important democratic partners.

Strengthen use of existing authorities. The Global Magnitsky Act and Section 311 of the USA PATRIOT Act are powerful tools that could be applied to a broad range of malign activities related to strategic corruption and kleptocracy. To date, their usage has fallen well short of their potential in confronting these threats. FinCEN in particular has issued fewer than 30 proposed and final rules under Section 311 in the past two decades, mostly against obscure financial institutions involved in terrorist financing and marginal jurisdictions such as Nauru and Burma.⁶⁸ A recent designation against a Latvian bank believed to engage in money laundering for kleptocratic officials in former Soviet states is a positive step that should be emulated.⁶⁹

Pursue legislative and regulatory measures that increase the transparency of the U.S. economic system. Global efforts to identify and disrupt corruption and the illicit finance that enables it are only as strong as their weakest link. Unfortunately, the United States' own rules regarding the transparency of its economic system often fall short of international best practices. For example, there is no centralized registry of the beneficial ownership of U.S.-registered businesses or trusts, and many economic actors commonly involved in money laundering, such as lawyers, investment advis-

ers, and real estate brokers in most markets, are not required to report to FinCEN under the Bank Secrecy Act. The United States should seek to fix these loopholes through regulation where possible and, where needed, through legislation. Some of these reforms, such as beneficial ownership reporting for certain businesses, were included in the most recent National Defense Authorization Act passed by the House of Representatives on December 8, 2020, which the White House has indicated it intends to veto.⁷⁰

Elevate corruption-related threats within the National Intelligence Priorities Framework. Illicit finance and the corrupt activities it supports are by nature opaque and clandestine. Mounting an effective response to these challenges will require access to financial data of the kind collected by FinCEN and other FIUs, but it will also require other forms of intelligence collection that can help situate financial flows and cross-border investments in the broader context of the geopolitical objectives of authoritarian competitors and the operations of criminal groups and kleptocratic networks. To that end, the United States should ensure that corruption-related threats are integrated across the National Intelligence Priorities Framework, a classified document that serves as the primary mechanism by which the director of national intelligence communicates intelligence priorities to the intelligence community.

Strengthen multilateral engagement on corruption-related intelligence and economic sanctions. No country has played a more influential role in shaping global norms and practices related to illicit finance than the United States. The current prioritization of terrorist financing in cooperation among FIUs was an outgrowth of U.S. advocacy and diplomacy at the highest levels of government over a sustained period following the September 11 attacks. Today, the United States should use its outsize influence to improve the collection and exchange of financial data and other evidence of corruption and kleptocracy with its international partners. The D-10 group of leading democracies, or the broader “summit for democracy” proposed by President-elect Joe Biden,⁷¹ would be promising venues for such an effort, as would international organizations focused on money laundering and financial intelligence, such as the Financial Action Task Force and the Egmont Group. The United States and its allies should also push the U.N. Security Council to authorize sanctions against actors involved in strategic corruption, consistent with their own designations.

Conclusion

Corruption has been a part of government forever, but never has it been as pernicious, sophisticated, and dangerous to the national security interests of the United States and its democratic partners as it is today. To meet this threat, the U.S. government, led by the Treasury Department, should draw on its past successes in fighting terrorism and other threats fueled by illicit finance to develop a coordinated, well-resourced approach to identifying and disrupting strategic corruption and the kleptocratic networks that enable it.

About the authors

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