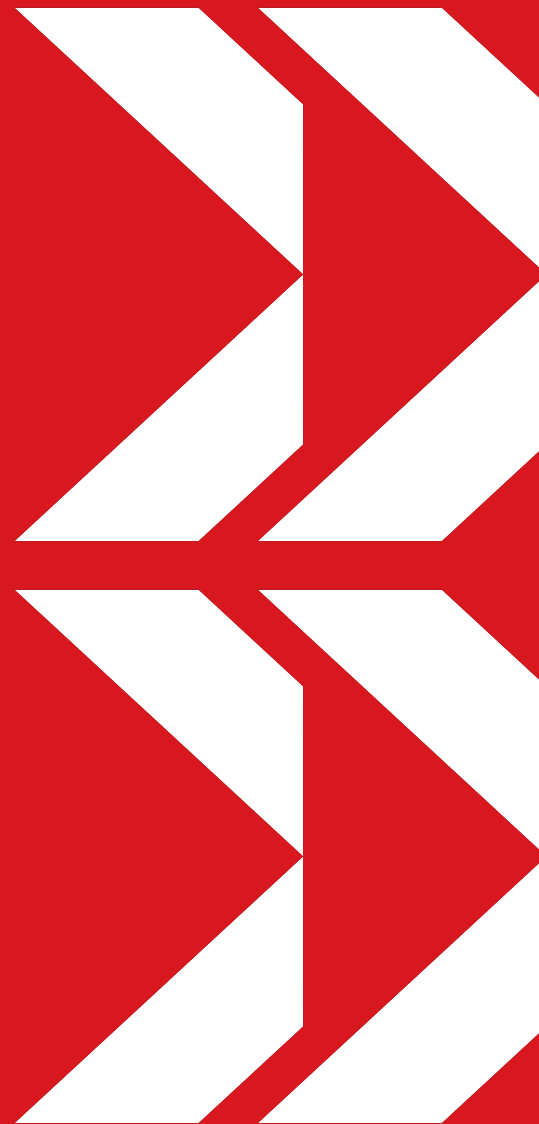


# National Securonomics

National Security and Industrial Strategy

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Labour Together

[labourtogether.uk](https://labourtogether.uk)

## About the Author

Labour Together commissioned Hamish Falconer to explore how Britain's industrial strategy could answer the national security challenges that Britain faces today.

Hamish served in the Foreign, Commonwealth and Development Office (FCDO) for over a decade. His work focused on national security, humanitarian relief and hostage recovery. He worked extensively on Afghanistan, as well as serving in South Sudan and Pakistan. He is Labour's candidate to be the next Member of Parliament for Lincoln.

## About Labour Together

In Labour's wilderness years, Labour Together was founded by a group of MPs fighting to make the party electable again. Today, Labour Together is a think tank offering bold ideas for Britain under a Labour government.

[www.labourtogether.uk](http://www.labourtogether.uk)

## Foreword

This paper is the first in a series of essays which Labour Together will publish between now and the next general election on the foreign policy challenges facing the UK. As Hamish Falconer argues below, industrial strategy and diplomacy have traditionally occupied separate domains within government. But the convergence of domestic and foreign policy has proved perhaps the central policy trend of the past decade and it is fitting that our series should open with this argument.

The past 15 years have demonstrated repeatedly the manner in which technical domestic policy choices drive and often circumscribe, the UK's geopolitical position. The financial crisis of 2008, the Covid-19 pandemic and the energy crisis of 2022 each exposed faultlines and dependencies in the UK's political economy which we are still seeking to rebalance. In each of these crises, a central question has emerged of how efficiency should be weighed against resilience, and what constitutes an acceptable level of risk.

At the turn of the previous century, an assumption reigned that the growth of global markets would mitigate political risk. A quarter of a century later, G7 governments agonise over 'weaponised interdependence': the fear that those financial, manufacturing and energy-related links which a decade of crises have laid bare will be exploited by Russia and China.

Joe Biden's administration has responded to these fears by devising a 'foreign policy for the middle class', whose fullest expression came in last year's Inflation Reduction Act (IRA). Ask any US diplomat and they will argue that the legislation serves three inextricably linked and



equally important objectives: counteract Chinese dominance over critical supply chains; decarbonise the national economy; and reinvigorate the US' manufacturing base.

As Hamish argues, the IRA does not provide a 'plug and play' model for other countries. The UK has a far smaller internal market scale and will face tight fiscal constraints on. Instead, we need an industrial strategy which recognises the benefits which economic openness and partnerships have delivered to the UK, addresses both the risks and the opportunities presented by our deep enmeshment in global value chains and then targets interventions precisely.

National security is a sensible place to start because the arguments for resilience are so obviously compelling. The fact that the 17 sectors identified for protection under the National Security and Investment Act do not have counterpoint growth strategies derives from the Conservatives' ideological aversion to industrial policy per se. But while they have quibbled and cavilled, many of our G7 partners have developed modern, targeted industrial policies far removed from lazy stereotypes regarding 'picking winners'.

It is clear that the UK's long-term security requires first an understanding and then a clear strategy about which industries and sectors critically underpin our economy and society. In order to deliver that strategy, we require a paradigm shift both in government capability and in partnerships between government and the private sector. We will also need to redouble our diplomatic efforts, through both traditional and new alliances, to secure the relevant supply chains. Industrial strategy can and should be at the heart of the next government's foreign policy. This paper provides an excellent first proposal for the structures that would help to drive that change.

**Jon Garvie, Director of Geopolitics, Labour Together**



## Summary

Over the next decade, Britain's resilience will be determined by its industrial strength in a range of sectors formerly far removed from the national security domain. In 2021, Britain's government belatedly introduced a legislative framework (the National Security and Investment Act) to prevent hostile foreign investment in 17 key sectors of the economy. However, this has provided only half an answer to a historic British problem. It is highly likely that any future UK government will seek to defend those sensitive sectors. But the question of how to drive greater domestic ownership and growth of the industries within them remains unanswered.

This work must begin by recognising that Britain's industrial security strategy choices are harder than those of the US, EU or China for the simple reason that our internal market is far smaller. A successful UK industrial strategy for the relevant sectors must therefore ground itself in a comparative international analysis of where Britain can plausibly compete and where we cannot. In the latter areas, Britain will need to redouble its search for international alliances which can provide the security we need.

In May 2023, Labour's Shadow Chancellor, Rachel Reeves, set out the party's approach to economic policymaking in a speech in Washington. Her vision, 'Securonomics', placed security at the heart of Labour's economic mission. Labour's Shadow Secretary for Business, Energy and Industrial Strategy, Jonathan Reynolds, has also committed Labour to an industrial strategy where security is central, with a focus on building Britain's economic resilience.

This paper argues that:

1. Incorporating national security into Securonomics will require an active industrial strategy, not just a defensive investment screening policy. This active strategy should be applied to the 17 areas identified by the National Security and Investment Act (NSIA). The paper suggests that those 17 areas should be handled through three clusters: clean energy, digital and advanced manufacturing.
2. Securonomics for national security will require more expert structures in government, capable of making tough and technical decisions on which sectors should be prioritised domestically, and which should be pursued through international agreements. These structures or bodies could fast-track planning decisions and coordinate action across departments. GB Energy, Labour's proposed publicly-owned clean energy company, could perform this role in relation to clean energy. This paper proposes that two further equivalent bodies should perform the same function for digital and advanced manufacturing clusters.

3. In each of the three clusters, the government could adopt a three-pronged approach, consisting of defending UK ownership, building domestic expertise and growing the underlying sectors. Across this work, the next government will need to strike a balance between state support and economic openness, while drawing on the unique value of our global partnerships.
4. A strategy worth its name should be framed over at least a decade, rather than a single parliamentary term. It will also need to be rooted in local plans and supported across multiple departments.

## The Geopolitical Context

China and Russia are now viewed by both the public and the government as a greater threat to the UK than terrorism.<sup>1</sup> While Al Qaeda and Daesh once dominated the UK's national security debate, they drove no change in the UK's economic strategy. The risks posed by China and Russia are more wide-ranging and pose significant threats to the UK and our partners' economic security. As a result, sanctions, supply chain resilience and industrial policy - ideas dismissed as 'protectionist' in previous decades - are now central to the G7's policy toolkit.

As support for unfettered trade has ebbed over the last decade, most notably in the US,<sup>2</sup> G7 countries have accelerated their pursuit of measures to support domestic industries. Sectors considered significant to national security present obvious targets, but these can range from historic extractives such as steel, to emerging technologies like quantum computing.<sup>3</sup> Over the past five years, both the US and the EU have undergone an explicit ideological shift away from openness and towards an embrace of (in the EU phrase) "strategic autonomy".<sup>4</sup> This shift in thinking has, in turn, driven competitive industrial subsidies between China<sup>5</sup>, the US<sup>6</sup> and the EU<sup>7</sup>.

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<sup>1</sup> [2023 Annual Survey of UK Public Opinion on Foreign Policy and Global Britain - British Foreign Policy Group \(bfpg.co.uk\)](#) and [Integrated Review Refresh 2023: Responding to a more contested and volatile world - GOV.UK \(www.gov.uk\)](#)

<sup>2</sup> [Superpowers Are Forsaking Free Trade \(imf.org\)](#)

<sup>3</sup> [Global trade tensions fueled by rising government subsidies \(worldbank.org\)](#)

<sup>4</sup> [Why "European Strategic Autonomy" Is a Dangerous Ambition \(foreignpolicy.com\)](#)

<sup>5</sup> [Made in China 2025 plan thrives with subsidies for tech and EV makers | Financial Times \(ft.com\)](#)

<sup>6</sup> [The 'Bidenomics' plan, explained | CNN Politics](#)

<sup>7</sup> [EU industrial policy - Consilium \(europa.eu\)](#)



## Britain's Choice

The combination of conflicts on Europe's borders, rapid technological change and the climate emergency pose fundamental challenges to the UK's national security and have made plain that we require new strategies.

The extent of the UK's supply chain vulnerabilities was brought into sharp relief by the Covid-19 pandemic, and in particular by the government's scramble to buy ventilators from China. The urgent need to equip the NHS understandably overrode foreign policy concerns, be they over Xinjiang, Hong Kong or Taiwan, illustrating the risks and costs of an outwardly non-security-related area of dependence. This was, of course, a situation experienced in many other advanced economies. The result, in most cases, was a greater government focus on both the level of the country's supply chain resilience *and* the strength of its manufacturing and technological base. The natural conclusion for many of our allies has been a sharper industrial strategy. However, three years on, Britain has yet to deliver.

Rachel Reeves's vision of Securonomics offers an important corrective. It recognises the characteristics of a new geopolitical era in arguing for an approach which prioritises "economic strength and resilience in the face of our uncertain world... addressing the challenges of the future and finding the opportunities within them."<sup>8</sup> Both she and Jonathan Reynolds<sup>9</sup> have also begun to describe what this more proactive approach would look like in government.

In some ways, the next government can build on a strong institutional base. Our centralised system of government, an impediment in many ways, provides a mechanism for industrial planning. And despite the damage done to our international reputation over the past 13 years, we enjoy wide and deep international alliances.

However, our key partners have advantages that we cannot match. The scale of the US internal market, underpinned by the dollar, provides an entirely different set of options. 'Bidenomics' is often held up as a potential model which the UK might emulate, but our options are quite different. Neither do we have the EU's ability to establish new global regulatory templates, through the so-called "Brussels effect". A more effective British approach would identify and build from specific areas of comparative advantage. As Rachel Reeves has said, our economic policies should not attempt to be a "British version of America", but instead "a better version of Britain."<sup>10</sup>

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<sup>8</sup> [Rachel Reeves: 'Securonomics' – The Labour Party](#)

<sup>9</sup> [2023 Speech to Labour Conference - Jonathan Reynolds MP](#)

<sup>10</sup> Reeves, Securonomics



The American approach has been criticised by some for encouraging a protectionist subsidy race, rather than marshalling its allies into a common approach.<sup>11</sup> By necessity, Britain's approach must start with its network of tight international partnerships. This paper argues for greater British ownership in sensitive areas of the economy, but even in the most sensitive, Britain will require supply chains that are deeply connected with trusted partners. The 'AUKUS' partnership with the US and Australia provides an excellent example. Indeed, the lesser-known second phase of AUKUS is intended to drive sensitive industrial partnerships between the US, UK and Australia which would have been hard to imagine even a few years ago.

But Britain could go further still. We will need a strategic approach across a broad range of emerging sectors and industries, including critical minerals, semiconductor design, 5G and next generation communications. Failure to deliver will mean, in many cases, dependence on countries with whom we share neither common values or close relations. This dependence will in turn drive both foreign policy and industrial costs. Instead, we should redouble our diplomatic efforts to generate industrial relationships with our allies which are as close and vital to our national security as our historic intelligence-sharing practices.

## Applying National Securonomics

The 2021 National Security Investment Act (NSIA) identified 17 sensitive areas of the economy. Those 17 sensitive areas form a reasonable initial baseline for where the UK should increase domestic capacity over the next decade. More areas or sub-divisions of the existing 17 may need to be added over time (and there is an ongoing government consultation on the effectiveness of the current regime)<sup>12</sup>. But the current scheme covers most of the crucial industrial inputs to the UK's national security, as recognised by both government and industry.

In some of the 17, such as Defence, Transport and Communications, there is strong Whitehall expertise. However, in areas like Artificial Intelligence, Advanced Materials or Data Infrastructure, Whitehall is - by its own admission - underpowered. Before a government can become more activist, it must become more capable. That will require an influx of new people and capability.

Ian Hogarth, a tech investor and the chair of the Government's new AI 'Foundation Model Task Force' noted that the government appears to have initially hoped to lead the global debate on AI with only one full time researcher in the relevant area, who had just three years experience in the field.<sup>13</sup> Hogarth has since led an admirable drive to bolster civil service capability. "We

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<sup>11</sup> [Laurence Nardon: 'In line with Trump, Bidenomics reinforces proud American protectionism' \(lemonde.fr\); Bidenomics Is Still Incomplete \(foreignpolicy.com\);](#)

<sup>12</sup> [Call for Evidence - National Security and Investment Act - GOV.UK \(www.gov.uk\)](#)

<sup>13</sup> [Frontier AI Taskforce: second progress report - GOV.UK \(www.gov.uk\)](#)

can't compete on compensation," he has noted, "but we can compete on mission."<sup>14</sup> For each area where Labour hopes to intervene, it will need to secure the talent and expertise to do the same. Hogarth's efforts on AI are welcome. A Labour government could repeat the effort across a range of other industrial clusters.

There are three obvious clusters that will require focus:

1. A cluster of **advanced manufacturing** including advanced materials, robotics, satellite, space and dual use technologies. These areas have significant potential national security implications and are closely interlinked. Satellites and remotely piloted automated systems (RPAS) are increasingly integral to both modern war and commerce, as evidenced by Elon Musk's 'Starlink' products. Turkey's industrial base in RPAS has also given it new diplomatic leverage in conflict arenas.<sup>15</sup>

The UK government has struggled to identify a coherent approach in this area. In 2020, it chose to invest \$500 million in British low orbit satellite company OneWeb against the advice of the civil service. Since that decision, a debate has raged within Whitehall about whether that move was "just" an investment or whether OneWeb is a "strategic asset" which provides Britain with a sovereign satellite capacity, as allegedly desired by the Prime Minister's then Chief-of-Staff, Dominic Cummings who pushed the decision through. However, OneWeb has now merged with a French state supported satellite firm Eutelstat and is in discussions about providing sovereign services to the EU.<sup>16</sup> In the view of this author, low-orbit satellite constellations have significant national security implications and the decision to invest was the right one, despite the chaotic decision-making. But effectively managing Britain's OneWeb investment, and others like it, will require a deft combination of technical expertise and diplomatic nous..

2. The NSIA also targets a cluster of **digital** technologies: artificial intelligence (AI), quantum, cryptographic authentication, data infrastructure and computing hardware. The UK has great strengths in many of these areas, but they are mostly in disparate niches rather than across a whole industry. We can design semiconductors but not build them. We have an impressive quantum research base, but early-stage companies which have been 'spun-out' from academia are more often bought up by international competitors.<sup>17</sup> We have some of the world's best AI research, but most of it takes place under American ownership (the American firm OpenAI's recent decision to open an

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<sup>14</sup> [Frontier AI Taskforce: second progress report - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/92442/Frontier_AI_Taskforce_second_progress_report_-_GOV.UK_(www.gov.uk).pdf)

<sup>15</sup> [Turkey's drone diplomacy: Lessons for Europe | ECFR](https://ecfr.eu/article/doc/turkey-s-drone-diplomacy-lessons-for-europe/)

<sup>16</sup> [UK pushing to combine OneWeb Gen 2 and European sovereign constellation efforts - SpaceNews; The UK faces an awkward choice over its golden share in OneWeb \(ft.com\)](https://www.space.com/51111-uk-oneweb-gen-2-eutelstat)

<sup>17</sup> [Foreign Buyers Hoover Up Britain's Fast-Growing Tech Firms - Bloomberg](https://www.bloomberg.com/news/articles/2020-08-11/foreign-buyers-hoover-up-britain-s-fast-growing-tech-firms)



office in London was reported primarily as an effort to compete for British-founded but now American-owned DeepMind's staff).<sup>18</sup> Britain risks being solely a platform for intra-American competition rather than a sovereign actor in its own right.

This is a problem in a sector capable of generating significant and novel national security risks. Rapid developments in artificial intelligence could give one company or country an unassailable advantage over another. Quantum computing could defeat non-quantum security measures almost instantly. Our reliance on semiconductors is only going to increase. These clusters of technologies therefore need to be considered together. They are interrelated and should Britain find itself without any industrial capacity in any one of these areas, we would find ourselves vulnerable across the whole cluster. The UK will therefore need to identify carefully which capabilities it will need to rely on from elsewhere, and which should be a focus of domestic industrial strategy. These are not easy judgements and, given the pace of change, all decisions would need to be subject to regular outside review.

3. The NSIA is also clear that energy is one of the fundamental industrial and national security questions for the country. Labour's existing policy and the proposed creation of **GB Energy** – a publicly owned clean energy company - would give a Labour government the capacity to engage effectively across the relevant NSIA areas. Future energy needs will involve a range of sectors, not just those most obviously and directly involved with energy generation. Perhaps most urgently, the UK requires a strategy to secure the supply and processing of the critical minerals which are prerequisite to the net zero transition.

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<sup>18</sup> [OpenAI brings the competition to DeepMind's doorstep with new London office | TechCrunch](#)



### ***Three clusters for an industrial strategy***

Source: Author's own analysis of NSIA sectors

Clean Energy	Digital	Advanced Manufacturing
Energy	Artificial Intelligence	Satellite and space technology
Civil nuclear	Quantum technologies	Advanced robotics
Green transport	Data infrastructure	Advanced materials
	Computing hardware	Synthetic biology
	Cryptographic authentication	

For each of these clusters, Britain's government will need structures capable of performing three roles:

- Defending.** Within the government there will need to be an annual assessment of the developments in each cluster, and a clear position on when to use the existing powers of the NSIA to defend against foreign investment that could pose genuine security risks. This should include explicit consideration each year on how to maintain and increase the domestic share of strategic aspects of that sector. An example of this would be incentivising British funds and companies to invest in particularly promising British companies, or *in extremis* for the government to take a shareholding itself (as it did in OneWeb).
- Planning.** For each cluster of industry, the government should take an active role in ensuring planning approvals are accelerated for projects relevant to each area, and to identify any systemic blocks to delivery. The Labour Party has often highlighted the notorious planning delays in getting renewable energy projects connected to the National Grid<sup>19</sup>, but there are planning-related delays across all three clusters. Whether in relation to constructing laboratories or factories, securing airspace permission for RPAS or satellite technology firms, or constructing large transport infrastructure, the government needs a greater ability to speed up planning processes for projects which have national security implications.

<sup>19</sup> [Labour pledges to reduce planning time for renewable energy schemes | The Planner](#)

- **Growth.** It is a national security imperative that Britain’s strength and ownership in these three clusters grows. That will require a mixture of incentives and partnerships, with both the public and private sector. The government will need to identify a set of international alliances and trade partnerships for each cluster, to support their long-term development and compensate for Britain’s relatively small internal market. The case of OneWeb highlights potential diplomatic partnerships with the EU to boost our domestic satellite technology industry. The AI examples point to the importance of agreements with the US. And a recent agreement with Japan on critical minerals will need to form a part of the government’s approach to a range of renewable energy technologies which require large quantities of those minerals.<sup>20</sup>

Each cluster is likely to require a focused institution with the expertise and capability to perform all three of these functions, working with local and central government. This could be overseen, on a statutory basis, by the Industrial Strategy Council which Labour has already proposed.

## Conclusion

As Labour develops its ‘Securonomics’ doctrine, there will be a need for both focus and patience. A government cannot do everything and there will be many petitions for support. Even the most effective industrial policies do not deliver a quick return.

Equally we must recognise from the outset that returns will vary. Supporting fast moving industries means accepting that there will be losses as well as gains. There will be criticism, particularly from the right-wing press, as has accompanied all previous efforts to launch industrial strategy in this country. But, as the NSIA itself has evidenced, we live in an era of insecurity which demands a new approach. As Rachel Reeves has argued, “it is time for us to admit that globalisation, as we once knew it, is dead. We must care about where things are made and who owns them.” The previous paradigm of global economic management is now over. New approaches are required and they will require new structures of government.”

This paper has argued that, despite the current government’s failure to pursue industrial strategy wholeheartedly, there have been recent advances - most recently on AI - which provide a foundation on which to build. However, piecemeal efforts will no longer prove sufficient. The world has changed dramatically and the structures and approach of the British

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<sup>20</sup> [Memorandum of Cooperation between the Department for Business and Trade of the United Kingdom of Great Britain and Northern Ireland and the Ministry of Economy, Trade, and Industry of Japan on Critical Minerals - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/memorandum-of-cooperation-between-the-department-for-business-and-trade-of-the-united-kingdom-of-great-britain-and-northern-ireland-and-the-ministry-of-economy-trade-and-industry-of-japan-on-critical-minerals)



government will need to do so too. National security, the first responsibility of government, will need to be at the heart of a new approach.