



Playing to its Strengths: Rethinking the UK's Role in a Changing World

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Summary points

- Structural shifts in the global economic and political centre of gravity from West to East, growing competition for natural resources, new risks emanating from the most fragile states and pressure to reform structures of global governance will all affect the UK's long-term security and prosperity.
- A global role for the UK is therefore a necessity, not a luxury. But its relative place in the world and the legitimacy of its stake in the global system are under serious pressure, not least because of the perceived flaws of the Anglo-Saxon economic model following the global financial crisis.
- Britain needs to focus on core strategic objectives that go beyond crisis management. Central among these should be the promotion of open markets that can help deliver sustainable global growth even in this period of economic uncertainty.
- The UK possesses considerable strengths through which it can advance its national interests, particularly in the areas of diplomacy, finance and knowledge. It will remain a top-ten global military power and retains important comparative economic advantages.
- Britain sits at the heart of the world's leading international organizations and is well placed to deepen its relations with the large number of medium-sized countries in key regions that have traditionally stood back from engaging meaningfully in these institutions, but whose influence is now increasing.

Introduction

The world beyond Britain's shores will change radically over the next couple of decades. These changes, as much as the current economic crisis and impending period of austerity, will affect the UK's long-term national interests and the wellbeing of its citizens. Ignoring these changes or making the wrong policy choices will carry serious consequences that will be difficult to address later. Now is the time for a fresh look at the UK's place in the world.

Chatham House's project on 'Rethinking the UK's International Ambitions and Choices', which this paper introduces, arose from the concern that popular indifference to international affairs, combined with the government's need to make severe budgetary cuts, could prevent the country from undertaking the necessary strategic reassessment of the long-term risks and opportunities that it faces. Under-investing in the UK's international capabilities, precisely at a time when they need to be adjusted to meet the challenges of a changing world, would be a mistake.

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As a consequence, this paper is not preoccupied with the immediate foreign policy priorities confronting the new prime minister and his cabinet, whether these concern financial instability in the Eurozone, Iran's nuclear programme, the conflict in Afghanistan or the continuing threat of terrorist

attacks. Rather, it considers the longer-term trends and wider structural changes that will have profound implications for the UK's future security and prosperity. These include the shift in global economic and political gravity from West to East; the growing competition for natural resources; the international risks emanating from the world's most fragile states; and the necessity to reform structures of global governance. The question the paper seeks to answer is: what impact will these changes have on the UK's interests and future role in the world? The security and prosperity of the British people – the core of the national interest – will depend as much on how the government adapts itself and the country to these changes as it will on how it implements its domestic agenda and copes with near-term security risks.

It is often argued today that the UK is overstretched internationally and incapable of halting a steady decline in its relative economic and political position. Draining military operations in Iraq and more recently Afghanistan, coupled with the prospects of a prolonged period of fiscal austerity, have led some to argue that the UK must accept a diminished role in the world.¹

This paper takes a contrary view. It argues that Britain possesses strengths that give it the potential to influence the international context in ways that advance its national interest during the next decade. The UK will remain a top-ten global military power. It retains important comparative economic advantages. Its capacity as an intermediary of diplomacy, finance and knowledge, in addition to its position in premier international organizations and informal networks – such as the European Union, United Nations Security Council, NATO, the International Monetary Fund, the G8, G20 and the Commonwealth – will be especially important in a less hierarchical world where the power of nation-states is becoming increasingly diffuse. Britain is also well placed to deepen its relations with

¹ See, for example, Stryker McGuire, 'Forget the Great In Britain', *Newsweek*, 1 August 2009, <http://www.newsweek.com/id/209953>; Will Hutton, 'Britain's no longer a world power, so let's be a better, fairer nation', *The Observer*, 26 April 2009, <http://www.guardian.co.uk/commentisfree/2009/apr/26/britain-super-power-will-hutton>.

the large number of countries that have traditionally stood back from engaging meaningfully in these institutions, but whose influence is now increasing. Playing to these strengths needs to be a priority for the coalition government.

If Britain is to remain one of the world's more influential countries, then it should have an international vision that goes beyond the day-to-day imperatives of managing its engagement in Afghanistan and other international crises. This paper argues that *the spread of open markets should remain a key part of the UK's vision for its role in the world*. Over the last decade, the promotion of more open markets has regrettably slipped down the list of most governments' international priorities. Following the global financial crisis, however, the role that open markets can play in delivering sustainable economic growth will be more important than ever.

This sounds like a modest ambition, but it reflects two simple and mutually reinforcing realities. First, the UK is among the countries that benefit the most from their integration into an open global economy. In an age of austerity, economic growth will be just as important as public spending cuts for the future prosperity of Britain, and access to international markets will be essential to that growth. Second, open markets and the growth that they can deliver offer the best prospects for stable international relations and for breaking the cycle of poverty and insecurity in much of the developing world. As a developed country that is more vulnerable than most to risks from beyond its borders, a stable and secure international system is vitally important to the British national interest.

The paper starts by describing the four dimensions of international change which present the most significant risks and opportunities for the UK. The second section then highlights the strengths that Britain possesses to respond to them. The final section explains the particular importance of open markets for British interests and for international prosperity and security. It also assesses some of the ways in which the new government can use the UK's international strengths to promote this objective.

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Four dimensions of the changing world

The main dimensions of global change are by now well known: the shift in the centre of economic and political gravity to the East and the South; increasing competition for natural resources; the changing nature of conflict; and the emergence of new structures of global governance. It is important to recognize that each of these trends has particular implications for the UK's future security and prosperity.

A new global economic balance

The shift in the global centre of economic and political gravity from West to East and, to a lesser extent, from North to South presents a particular challenge for the UK, which has focused its trade and investment for the past 50 years principally on Europe and North America. Today, China, India, most of Southeast Asia and parts of Latin America, which together account for nearly two-thirds of the world's current population of six billion, are using economic globalization to unleash the growth potential inherent in their domestic consumer markets and demography. This process is also being driven by the spread of rapid technological innovation across the world, in the fields of information, communications, food production, medicine, energy, manufacturing and other sectors.

In contrast, much of the Western world (with the notable exception of the United States) is already experiencing the ageing of its societies and a shrinking of its

working-age population.² By 2050, six of the ten nations with the oldest median age are projected to be European.³ This means that the EU is likely to grow slowly and face severe age-related budgetary and political constraints in the coming years. European countries' mix of demographic deficits, high output costs and resistance to economic and welfare reform – all visible in the context of the current Eurozone crisis – will have inevitable knock-on effects for the UK. This is especially true given that the EU currently accounts for some 50% of British exports and has been an important source, as well as a reason, for the high levels of foreign direct investment (FDI) into Britain.⁴

How demography and globalization interact over the coming years will be vitally important for Britain. The imperative to deliver economic growth to their citizens appears to tie leaders in China and India, as much as those in Germany and Japan, into the process of economic globalization, which delivered year-on-year global growth for the past 30 years until 2009.⁵ Britain has benefited more than most from this process. FDI and exports of manufactured goods and services corresponded to almost 30% of the growth of the UK economy during the last ten years, which is equivalent to 1 percentage point of the UK's annual rate of growth over this period.⁶ Furthermore, if other EU members succeed in galvanizing a real reform agenda that could unlock their latent productivity, this would mean that British firms and workers would be some of the main beneficiaries. Alternatively, the UK could still offset slow growth in the EU by tapping into the continuing expected economic dynamism of emerging markets, which will draw in exports of UK goods and services and become sources of new FDI into the UK.

Table 1: Population projections (millions)

Country	2010 (estimated)	2030 (projection)	2050 (projection)
World	6,908.7	8,308.9	9,150
Europe	732.8	723.4	691
Asia	4,166.7	4,916.7	5,231.5
Latin America and the Caribbean	588.6	689.9	729.2
UK	61.9	68	72.4
USA	317.6	370	403.9
Japan	127	117.4	101.7
China	1,354.1	1,462.5	1,417
India	1,214.5	1,484.6	1,613.8
Brazil	195.4	217.1	218.5
Pakistan	184.8	265.7	335.2
Russia	140.4	128.9	116.1
Indonesia	232.5	271.5	288.1
South Korea	48.5	49.1	44.1

Note: All data based on the 'medium variant' and rounded to the nearest 100,000.
Source: UNDESA, *World Population Prospects*; <http://esa.un.org/unpp/>.

The biggest risk to Britain, therefore, would follow from a rise of protectionism in key markets around the world. Such a risk, whether overt or covert, is real and serious as the process of economic globalization unfolds over the coming years.⁷ Following the global financial crisis, developed countries will struggle to recapture their previous rates of economic growth, especially given the imperative to reduce debt burdens.⁸ Faced by declining populations and constrained domestic consumption, many OECD members are looking to exports to emerging economies as their primary engine of growth.⁹

² United Nations Department of Economic and Social Affairs (UNDESA), *World Population Prospects: The 2008 Revision – Population Database* (United Nations, 2009): data based on the 'medium variant' <http://esa.un.org/unpp/>.

³ Country rank by estimated median age in 2050 (based on the 'medium variant'): Japan (55.1 years), South Korea (53.7), Singapore (53.5), Bosnia and Herzegovina (52.2), Cuba (51.9), Germany (51.7), Poland (51), Italy (50.5), Malta (50.5) and Portugal (50.4). See UNDESA, *World Population Prospects*, <http://esa.un.org/unpp/>.

⁴ Office of National Statistics (ONS); refers to goods and services, including 55% for goods alone.

⁵ World Bank.

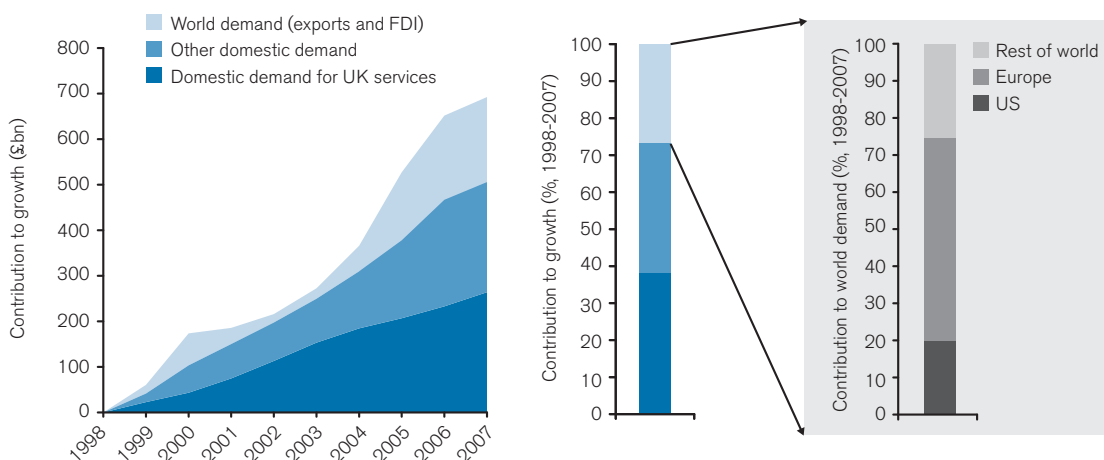
⁶ ONS.

⁷ Elisa Gamberoni and Richard Newfarmer, *Trade Protection: Incipient but Worrisome Trends* (Washington/Geneva: World Bank, 2 March 2009).

⁸ This is especially true for the Eurozone and Japan; Germany has already seen benefits for its goods exports, while the UK has in services.

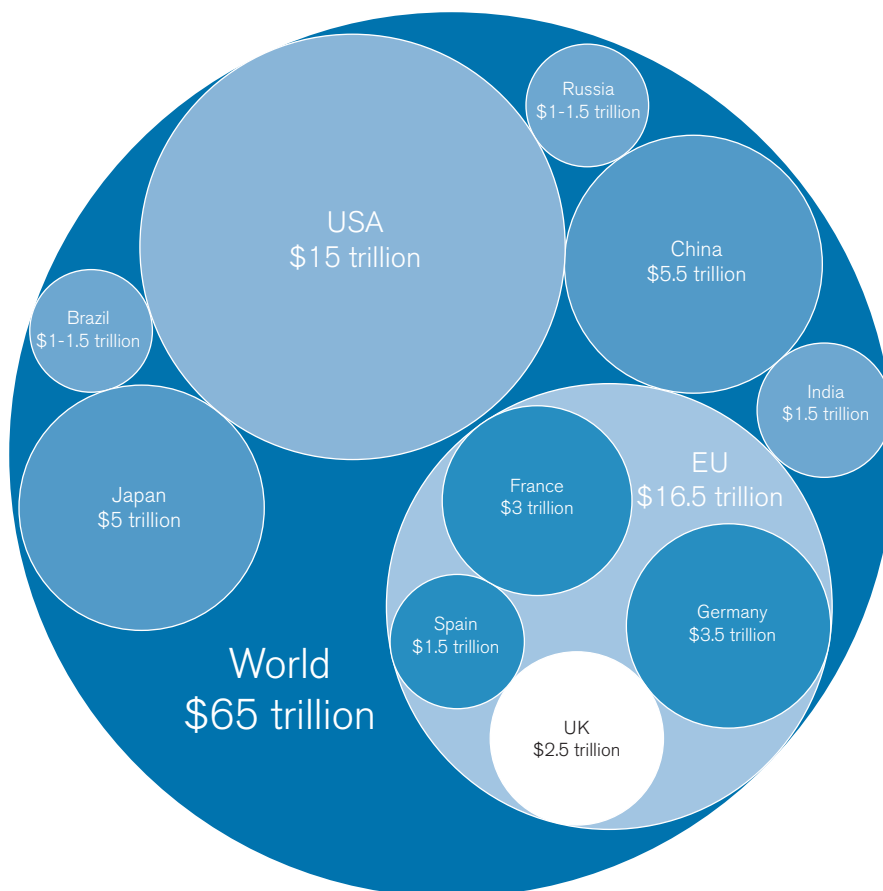
⁹ ONS; this increase in total exports plus FDI inflows was approximately £200 billion from 1998 to 2007.

Figure 1: World demand contributed almost 30% of the growth of the UK economy during the last 10 years



Source: ONS

Figure 2: World GDP projections for 2010



Source: IMF data and Chatham House

This is already precipitating a transfer of political weight to these countries, particularly in negotiations over market access. Moreover, companies in China, India and Brazil, among others, may increasingly press their governments to use non-tariff barriers to block Western penetration of their markets, much as the US and EU have done towards developing-country imports on occasion. At the same time, they will still seek to use the proceeds of their growth to buy into Western markets, expand operations abroad and develop their own technology and brands, each of which could cause a protectionist counter-reaction in US and EU markets.

Given the UK's heavy dependence on trade and investment for its future prosperity, rising protectionism would carry disproportionately negative consequences. More robust and more balanced global economic growth, on the other hand, would be of direct benefit to Britain. Keeping global markets open to foreign trade and investment will remain crucial to ensuring its economic strength in the years ahead.

The competition for resources

The prospect of global economic growth is, in principle, positive, but it raises an important structural challenge: the growing competition for the resources (energy, minerals, food and water) necessary to feed this growth, especially since the world's population is projected to increase to nine billion by 2050.¹⁰

Already, the past decade has witnessed a growing politicization of energy markets, as higher prices for oil and gas – driven by rising demand in Asia – have encouraged the nationalization of energy reserves in countries across the Middle East, Africa and Latin America. A projected 50% increase in global demand for energy over the next 30 years, combined with subsidized consumption and under-investment in producing countries, may lead to further price spikes,

confrontations over untapped supplies (in the Arctic, South China Sea and sub-Saharan Africa, for example) and conflicts over supply routes and strategic choke points.¹¹

Whereas the UK spent much of the postwar period as a net exporter of energy, the depletion of its North Sea reserves in recent years and an overdue modernization of its power-generating infrastructure mean that it will be more dependent on energy imports, especially natural gas, over the near to medium term.¹² The new government, like its predecessor, is committed to diversify the country's energy sources, including through greater use of renewables and by enhancing energy efficiency in order to meet national carbon reduction targets. During the extended period of transition, however, Britain will remain vulnerable to spikes in the price of oil and gas.

Growing competition for sources of energy is mirrored globally by competition for access to food and water. Already, water disputes between Pakistan and India, China and its Central Asian neighbours, and between Turkey, Syria and Iraq, are serious points of tension. Surging prices of staples such as edible oils, rice and wheat in 2008 appear to be a harbinger of future instability in food markets. Soil degradation, increased demand for cereals for livestock to cope with changing diets in urbanizing Asian countries, and the needs of those still living at subsistence level all pose serious risks for the future.¹³

Each of these resource challenges will be exacerbated by the expected changes in the global climate. Shifting both developed and developing economies away from their reliance on CO₂-emitting fossil fuels will be a difficult and protracted process. In the meantime, the countries likely to be worst affected by climate-induced droughts and food shortages will be in the poorest and most vulnerable parts of the world. Britain is open to, integrated into and dependent upon the global economy, meaning that the spillovers from resource

10 UNDESA, *World Population Prospects*; based on the 'medium variant', <http://esa.un.org/unpp/>.

11 Paul Stevens, *The Coming Oil Supply Crunch* (London: Chatham House, 2009).

12 Chatham House Commission on Europe after Fifty, *A British Agenda for Europe: Designing Our Own Future* (London: Chatham House, 2008), pp. 52–5.

13 Alex Evans, *The Feeding of the Nine Billion: Global Food Security for the 21st Century* (London: Chatham House, 2009).

shortages and climate-driven instability, such as market disruption, illegal migration, conflict and a general rise in political tensions, will carry especially negative consequences for its future security and prosperity.

The changing character of conflict

Peace in Europe (apart from the Balkan wars of the 1990s) and the absence of major international conflict on the scale of the First and Second World Wars have provided the stable backdrop for the UK's economic growth in recent decades. However, the potential for conflict in both old and new forms remains. Competition over resources could turn out to be one of the main sources of conflict between (as well as within) states in the coming decades. Just as importantly, a number of potential interstate flashpoints persist, most notably in unresolved territorial and political disputes between North and South Korea, Pakistan and India, China and India, China and Taiwan, and between Iran and the international community over the Iranian nuclear programme. Governments in these countries are investing large sums in their conventional armed forces, in 'asymmetric' means of warfare and, in some cases, in their nuclear weapons capacity.

The most powerful states, with the US in the lead, are doing their utmost to avoid the outbreak of serious conflict. They are engaged in multiple forms of diplomatic negotiation such as the Six-Party talks on North Korea and the 'P5 plus 1' negotiations on Iran. Indeed, all major powers which might find themselves directly embroiled in a new war are aware that this would have devastating implications for all. We have not, however, entered a period in which major conflict between large states is unthinkable. As a member of the UN Security Council, the UK could find itself drawn into an international response to another major crisis.

In parallel with interstate tensions lies the rise of conflict within fragile or failing states. Governments incapable of building economies that generate jobs or of providing security or services for the welfare of their people cannot earn their loyalty or garner legitimacy.

Poor governance and low economic prospects in states such as Afghanistan, Pakistan, Yemen and Somalia have enabled these countries to become incubators for sectarian conflict and criminal and drug-related violence, as well as havens for terrorists with political and ideological grievances that transcend national boundaries. Terrorists can now use many aspects of globalization (open borders, migration, cross-border money transfers and the internet) to facilitate the planning and execution of attacks far from their base, and to drive recruitment and spread their political messages across the world.

Whether in the shape of international terrorism, proliferation of weapons of mass destruction, organized crime, illegal migration, or the spread of infectious disease, the fact is that poverty, conflict, lawlessness and resentment in distant countries can have serious effects on the security and welfare of British citizens

Until the end of the twentieth century, weak governance and the rise of violence and terrorism in 'far-off countries' carried few direct consequences for the UK. Now, the country is more exposed than most to the risks that emanate from these unstable and ungoverned spaces. Whether in the shape of international terrorism, proliferation of weapons of mass destruction, organized crime, illegal migration, or the spread of infectious disease, the fact is that poverty, conflict, lawlessness and resentment in distant countries can have serious effects on the security and welfare of British citizens and society as a whole. There is also a domestic dimension to this phenomenon. As a country that has been a popular destination for immigration

from South Asia, the Middle East and sub-Saharan Africa, Britain has become part of the extended battleground for political change within those countries. Kashmiri, Tamil or Nigerian constituents, for example, coordinating in many cases with groups outside the UK, can bring pressure to bear on British politicians to adapt established foreign policies depending on developments in their 'home' countries.

The emergence of new structures of global governance

Each of the three trends outlined above has important implications for the future structures of global governance. Established economic arrangements, in which the UK and a small number of other Western powers hold dominant positions, are coming under increasing pressure to adapt. The G7/G8 has ceded its role overseeing the global economy to a more inclusive G20, which brings countries as diverse as Saudi Arabia, Indonesia, Argentina and South Africa to the top negotiating table. The IMF and World Bank are undergoing reviews of their governance and voting structure, which could see a rise in the voting weight of China, for example, accompanied by a dilution of the privileged standing of Britain and other European states.

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As a country heavily dependent on an open global economy, the UK has a direct stake in the preservation and extension of a rules-based system for its management. It would also benefit from the creation of new forms of international governance to confront the

national and global security challenges described above, including climate change, competition for resources, nuclear proliferation and the risks emanating from fragile states.

Critically, it will take time to agree international rules and arrangements that accurately reflect the realities of the emerging global economic and security order and that address effectively common global challenges. Rising powers unsurprisingly refuse to buy into new rules devised by the US and Europe. Many complain that the UN Security Council entrenches privileges for Britain and the other permanent members that may have been appropriate in the immediate post-war period but are no longer justifiable in the G20 world. Given that domestic economic growth is their overriding priority, the rising powers resist being drawn into arrangements that might limit their sovereignty. Instead, they are using their growing economic strength to challenge Western influence regionally and across the world.

This is reflected in the emergence of a more explicit South-South political agenda – visible, for example, in the BRICs summits, in the formation of the Shanghai Cooperation Organization and in the informal BASIC grouping of Brazil, South Africa, India and China. At the same time, new regional arrangements are emerging across the world to manage growing regional economic integration and political interdependence. While the EU is still the most obvious case in point, regional coordination is also increasing in East Asia, through the Association of Southeast Asian Nations, ASEAN-plus three and the East Asian Summit; in Latin America through the Union of South American Nations; in the Gulf region through the Gulf Cooperation Council; and across Africa, via the African Union.

While much of this emerging regional coordination falls short of delivering meaningful results, it reflects a diffusion of political power away from the US and European countries that carries serious implications for Britain. Unless there is a major international crisis, it is likely that incremental improvements in global governance through negotiation, peer pressure and

continuous rounds of summitry will increasingly take the place of new legally binding agreements at the global level. Creating the international coalitions necessary to confront new security risks and to draft the rules for managing an increasingly integrated global economy will be a far more complex and time-consuming process. How prepared, then, is the UK to navigate this increasingly uncertain world?

Playing to the UK's strengths in a changing world

The global trends outlined above will have significant implications for Britain over the coming years. How the government responds to them, therefore, will be vital for the nation's long-term security and prosperity.

As suggested earlier, the idea that the UK is increasingly powerless in this uncertain world is misleading. Yes, its relative place and the legitimacy of its claim to a share in global leadership have come under serious pressure over the last decade. The perceived flaws of the Anglo-Saxon economic model, centred on the de-regulatory excesses in the financial sector which helped trigger the global financial crisis in 2008, have clearly challenged the Thatcherite market consensus that had been internationally dominant since the early 1980s. Moreover, Britain's engagement in the Iraq war undermined its credibility in many parts of the developing world. And the emergence of a more explicit South-South agenda has the potential to marginalize Britain and other European countries, not least because it impels the US to negotiate directly with the countries concerned, as recently demonstrated during the Copenhagen climate negotiations.

What is more, addressing these international challenges will be further complicated by the stringent fiscal cuts that the government must impose, potentially having a disproportionate impact on the UK's international spending.¹⁴

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Despite these factors, however, Britain can draw upon important national strengths when confronting the changes described above. Its comparative economic advantages in the global economy, its sizeable contributions towards maintaining international security, its highly networked institutional and diplomatic profile and its soft power attributes are all well suited to allow Britain to protect and promote its interests and broader global vision into the future.

The UK's comparative advantages in the global economy

The UK entered the global financial crisis in a relatively strong position in headline terms. According to most measures, it is the sixth largest economy in the world; it currently has 27 companies in the Global Fortune 500; and it is the world's fourth largest recipient of FDI and the second largest holder of overseas investments.¹⁵ Looking to the future, the UK is projected to remain one of the world's top ten economies at least up to 2030.¹⁶ Interestingly, the UK's own population is projected to become the largest among existing EU members – growing from 62 million today to over 70 million by 2050, meaning it would overtake Germany, where the population is set to decline markedly over the same period.¹⁷

14 Government forecast; just to halve the deficit from around 10% of GDP to 5% implies that savings of £70-80 billion must be found over the next couple of years.

15 IMF and Chatham House extrapolations; Fortune Global 500: by city, Fortune, 20 July 2009

<http://money.cnn.com/magazines/fortune/global500/2009/cities/>; United Nations Conference on Trade and Development (UNCTAD).

16 Chatham House calculations, and also PWC and Goldman Sachs; see Jim Rollo and Vanessa Rossi, *The UK in the Global Economy* (London: Chatham House, 2010, forthcoming).

17 UNDESA, *World Population Prospects*, data based on the 'medium variant' and rounded to the nearest 100,000, <http://esa.un.org/unpp/>.

Britain's favourable mix of sectors and diverse economic base, described below, as well as a positive demographic profile, provide a good foundation for growth over the coming years.

Table 2: Population projections (millions)

Country	2010 (estimated)	2030 (projection)	2050 (projection)
UK	61.9	68	72.4
France	62.6	66.5	67.7
Germany	82.1	77.9	70.5

Note: All data based on the 'medium variant' and rounded to the nearest 100,000.

Source: UNDESA, *World Population Prospects*; <http://esa.un.org/unpp/>.

Britain is heavily engaged in investing and trading abroad and, as a result, is home to some of the world's most innovative companies. In addition to high-end manufacturing – in aerospace and pharmaceuticals, for example – it is one of the world's leading centres of business and professional services. These include not only financial services (the facilitation of domestic and international financial flows accounted for 8% of UK GDP in 2008), but also other essential business services in the fields of law, accounting, architecture and construction, software, media, communications and design (which comprised a further 20% of UK GDP in that year).¹⁸ Britain was second only to the US as the world's leading exporter of services in 2008.¹⁹ This combination of services and high-end manufacturing places Britain in a strong position to meet the needs of the world's emerging economies in ways that will enable it to sustain its strong comparative advantage.

A further major asset that underpins the country's economic performance is its excellence in under-

graduate and graduate education. According to the *Times Higher Education-QS World University Rankings 2009*, the UK has four of the world's ten highest-ranked universities (the other six being in the US).²⁰ These centres of learning draw some of the brightest minds in the world to study and, in some cases, stay in Britain, helping the country to remain at the cutting edge of scientific and medical research and product development. This is a major strength for the UK which could underpin its economic recovery as well as its future standing in the world. Britain could compensate for some of its relative decline in political primacy through its leading contributions to technology innovation and the solutions it can put forward to address global energy needs, climate change and resource shortages.

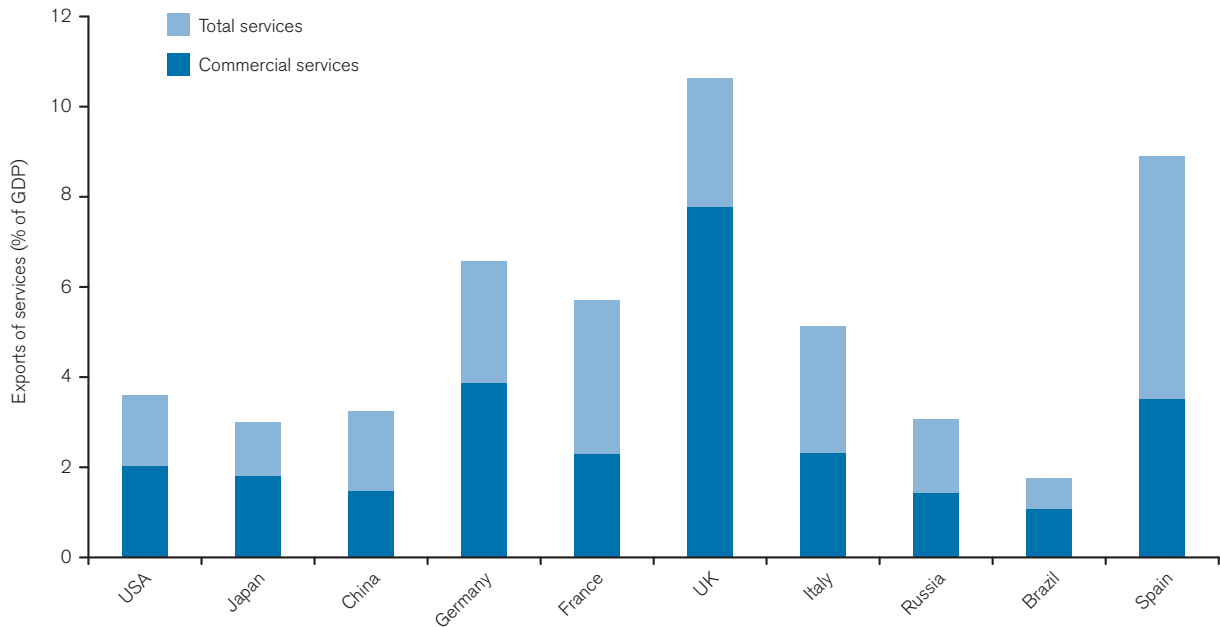
A deepening of the global financial crisis or a worsening of Britain's current economic plight as a result of its post-crisis indebtedness could of course undermine this potential to prosper in an increasingly competitive global economy. A decline in public spending on education or private investment in science and technology could well damage its competitiveness over the long run, especially in the face of the rapidly rising skill base in emerging economies such as China and India. Changes to immigration policy could deter students and future leaders from continuing to come to the UK. High levels of tax could depress investment, slow job creation and drive the most successful companies and talented individuals to other countries. Nevertheless, Britain can play to real economic strengths and has choices that give it more autonomy than most over its economic future – choices that will determine not only its economic success, but also whether it remains influential in the international political sphere.

18 ONS.

19 World Trade Organization (WTO); in dollars (billion) – as a share of GDP, however, exports of services are far more important for the UK: out of the world's top ten economies (by GDP), the UK has the highest ratio of exports of services to GDP (almost 11% for 2008 versus 3.6% for the US and just under 10% for Spain and India). Of the 11% for the UK, almost all this is business services (8%) with travel, tourism and transport much lower (3%).

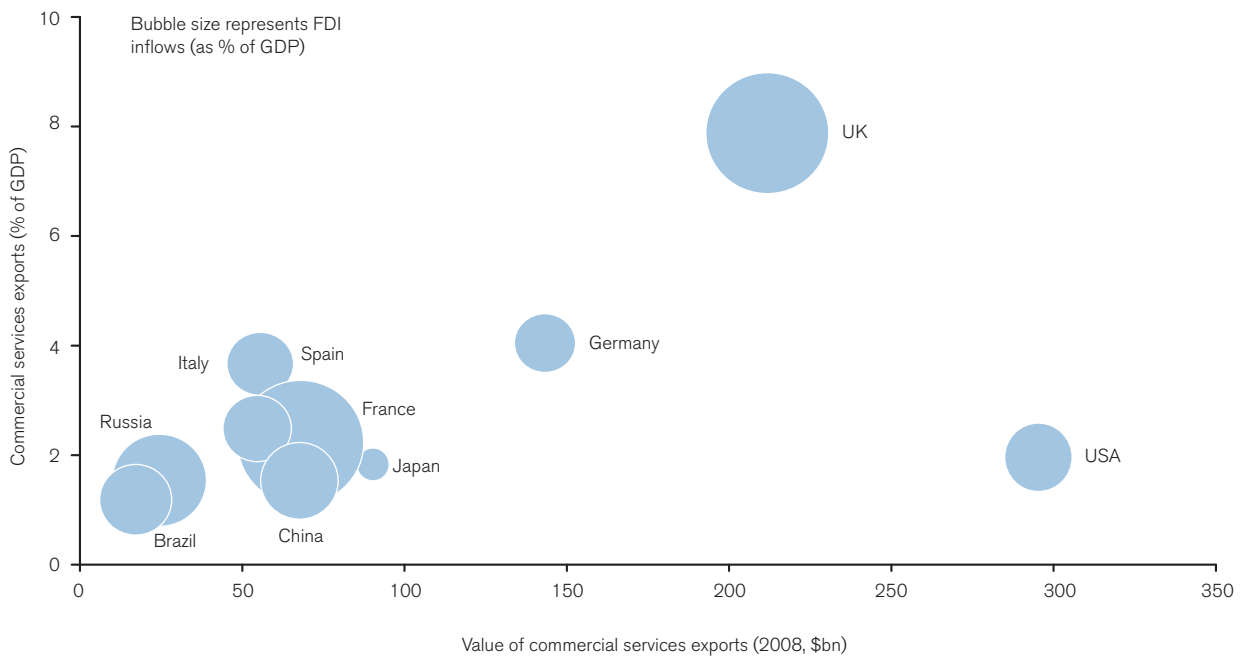
20 British universities ranked in the top ten include: University of Cambridge, University of Oxford, University College London and Imperial College London; *Times Higher Education-QS World University Rankings 2009*, <http://www.timeshighereducation.co.uk/Rankings2009-Top200.html>.

Figure 3: Exports of commercial services of the ten largest economies (2008, % GDP)



Source: WTO

Figure 4: The UK leads the way in global business services and inward investment



Sources: UNCTAD, WTO, IMF, FDI data from 2007

UK influence on global security

In all likelihood, the UK will remain one of the permanent members of the UN Security Council, as well as a recognized nuclear power carrying a formal responsibility for the preservation of international security well into the future. Britain will, therefore, remain at the heart of decision-making about international security as well as that of others. It is also likely to remain capable of meeting these responsibilities, especially when compared with most other states. Britain currently has the world's third or fourth largest defence budget (depending on the method of calculation) and it has troops deployed throughout the world (although principally in Afghanistan at this time), with responsibilities ranging from combat operations to providing training and military assistance.²¹

‘The UK will remain an essential security partner to its allies, not least the US, and a credible political-military interlocutor for the world's other leading and emerging powers’

The number of countries with powerful military forces is likely to expand over the coming decade, but, China and India aside, those with the capacity to project that power in any meaningful way will be limited. Even taking into account expected future cuts in defence spending, the UK will remain an essential security partner to its allies, not least the US, and a

credible political-military interlocutor for the world's other leading and emerging powers.

As noted above, the most persistent security challenges over the coming years are likely to emanate from countries that are struggling to find their footing in a globalized, modern and competitive world. If they become more ungovernable or, worse, descend into anarchy, Britain has the potential to be affected through the spread of illegal migration, organized crime, piracy and the increased scope for radicalized individuals and groups to associate with terrorist organizations at the transnational level.

Britain is already among the countries most actively engaged in tackling the poverty and local governance issues that feed instability in parts of the developing world. Its Department for International Development (DFID) spent £5.8 billion on its aid programme in 2008–09, principally targeted at the poorest countries and regions in sub-Saharan Africa and South and East Asia, but with a growing focus on fragile states.²² While the long-term value of international aid assistance in alleviating poverty and promoting sustainable development is hotly contested, Britain is at the cutting edge of efforts to target assistance in the most effective ways possible. Moreover, as one of the largest contributors to the World Bank budget, it is in a strong position to offer leadership on the future multi-lateral development agenda and to engage new assistance providers, such as China and India, in a dialogue over best practices. Another important aspect of the UK's expertise in this area is the fact that it serves as the base for a number of the world's most successful humanitarian and environmental NGOs, enabling the government to tap into their experience and networks when delivering aid.

21 The UK ranks third in terms of 'Defence Expenditure' (\$60.8 billion), with the US coming first (\$696 billion) and France second (\$67 billion). China was fourth (\$60.2 billion) and India was ninth (\$31.5 billion). Regarding 'Manpower', however, the UK's 175,000 members of the Armed Forces are fewer, for example, than Italy's 293,000, Egypt's 469,000, and North Korea's 1,106,000. Figures are from 2008. IISS, 'International Comparisons of Defence Expenditure and Military Manpower', *The Military Balance 2010* (Routledge/IISS: Abingdon, 2010), pp. 462–68, Table 39. See also Sam Perlo-Freeman, Cataline Perdomo, Elisabeth Sköns and Peter Stålenheim, 'Military Expenditure', Chapter 5 in *SIPRI Yearbook 2009: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2009), p. 182, <http://www.sipri.org/yearbook/2009/files/SIPRIYB0905.pdf>.

22 DFID, 'Key Statistics'; see in particular 'Tables index – Statistics on International Development 2009', 'Table 3: DFID Expenditure on Development', <http://www.dfid.gov.uk/About-DFID/Finance-and-performance/Aid-Statistics/Statistics-on-International-Development-2009/Key-statistics/>; <http://www.dfid.gov.uk/Documents/publications1/sid%202009/Table%203.xls>

The UK's network of alliances and international partnerships

For the past 60 years, Britain has depended on the support of allies and partners – principally the US, as well as other NATO and EU members – to promote and protect its national interests. The UK's future international ambitions will be affected, therefore, by the quality of its relations with its allies and partners and by the challenges that they will face. They will remain a source of British strength in the future, but are changing in important ways.

The US will continue to be the UK's most significant bilateral ally, not least because its international engagement affects almost every dimension of Britain's own foreign policy interests. The Obama administration, however, is struggling to find its footing in a disparate and more multipolar world.²³ Just as European security is of less concern to the US today, so Britain is also less important to the US. The relationship is likely to remain privileged at the tactical level (principally in intelligence-sharing, counterterrorism and military cooperation), not least in Afghanistan. But it is at risk of being crowded out at the strategic level by the US's understandable shift in focus towards countries such as China, Russia, India and Brazil, whose actions now have a more immediate bearing on the future of US prosperity and security.

As a result, some have pointed to the EU as the natural strategic platform for promoting Britain's interests in the twenty-first century.²⁴ Undoubtedly, leveraging greater access to the EU's Single Market of some 500 million people gives Britain and other member states greater levels of influence in international economic and diplomatic negotiations on matters such as trade and competition policy. In addition, the EU has had and will continue to have a vital impact on Britain's extended neighbourhood in Eastern Europe, the Balkans and North Africa through its enlargement and various partnership and cooperation agreements.

The EU, however, is still an institution very much in flux. As the financial and economic crisis convulsing Greece and other Eurozone members has demonstrated, it is composed of 27 highly diverse economies, each struggling to confront the competitive pressures of the global economy in a coherent and effective manner. Few European leaders will be willing to invest the necessary resources to address the world's most pressing security challenges. In terms of Britain's international priorities, therefore, membership of the EU will continue to offer a difficult mix of opportunities and frustrations.

‘ In terms of Britain's international priorities, membership of the EU will continue to offer a difficult mix of opportunities and frustrations ’

At the same time, the UK's principal international partnership – the transatlantic alliance and its political-military manifestation, NATO – increasingly lacks sufficient strategic purpose. Each side of the Atlantic shares a similar list of international concerns and more often than not expresses a shared mindset on the best approaches. Frequently, however, the hierarchy of priorities is different. For most European policy-makers, achieving a meaningful agreement on climate change and reactivating the Middle East peace process are near the top of the list, while for most Americans, Afghanistan dominates an agenda that also includes managing the bilateral relationships with China and Russia. Dealing with Iran's nuclear programme currently appears to be a clear common transatlantic priority, but could still become a serious point of contention if diplomacy fails.

²³ Robin Niblett (ed.), *America and a Changed World: A Question of Leadership* (London: Royal Institute of International Affairs/Wiley-Blackwell, 2010).

²⁴ See, for example, IPPR, *Shared Responsibilities: A National Security Strategy for the United Kingdom*, IPPR Commission on National Security in the 21st Century (London: Institute for Public Policy Research, 2009), <http://www.ippr.org/publicationsandreports/publication.asp?id=676>.

Even as the transatlantic relationship is drifting, the British government has invested considerable efforts into embedding the G20 as the premier international forum for dealing with the global economy. The question that now arises is how to ensure that the G20 delivers outcomes that match Britain's national interests and vision for the future. Sustaining a leadership or even a steering role within the group could prove difficult for the UK. It is a smaller player relative to its role in the G7/G8 or EU. Arguably, the creation of the G20 – a grouping that is more representative of the emerging international balance of economic power, albeit one yet to prove that it can act effectively over time – also calls into question the UK's privileged position on the UN Security Council and within the IMF.

Although still important sources of international influence and leverage, the traditional pillars of Britain's place in the world – the bilateral relationship with the US, NATO and the EU – are weaker than in the recent past. Britain may find it harder to pursue its national interests through these institutions and relationships in the new international context where the West no longer dominates the geopolitical hierarchy.

Engaged in a more diversified global network

In this less hierarchical world, however, the UK has some important advantages over other countries in its capacity for international influence.

First, it is well placed to cultivate deeper bilateral relations with other mid-sized countries that are likely to be increasingly important economically, institutionally and geopolitically, such as Japan, South Korea, Malaysia, Brazil, South Africa and Turkey. In most cases, Britain can build on long-standing diplomatic relations and, frequently, on close business relations with these countries. Moreover, Britain's status as a mid-sized country means that their leaders need not see Britain's interests and aspirations through an overly competitive lens. By contrast, the actions and diplomatic overtures of the world's leading powers, such as China, the US, Brazil, India and Russia, often elicit suspicion among both neighbours and others. Strengthening and deepening bilateral relations with

mid-sized countries, many of which are in the G20, could pay multiple dividends for Britain as their influence grows in matters of trade, investment, regional security and institutional reform.

‘ Britain's status as one of the most well-connected countries institutionally, combined with its diplomatic capabilities and its existing linkages with the world's current and emerging powers, make it a natural partner and problem-solver ’

Second, British officials continue to be at the centre of most of the world's important institutions, from the UN Security Council and the EU to the G7/G8, the IMF's Executive Board and the Bank for International Settlements. Whatever Britain's historical legacy, its status as one of the most well-connected countries institutionally, combined with its diplomatic capabilities and its existing linkages with the world's current and emerging powers, make it a natural partner and problem-solver. Even the Commonwealth, whose membership seemingly renders it incapable of taking strong diplomatic stances, offers Britain a form of associated power by providing a large, non-Western forum in which Britain can propose, and garner support for, new ideas.

Third, the UK possesses significant 'soft power' assets. Among these, the fact that English is the language of business, science and, increasingly, diplomacy gives British officials and others the advantage of being able to moderate and negotiate in their mother tongue. British-based global news outlets, such as *The Economist* and *The Financial Times*, have used the reach of the English language to build a reputation for providing news and analysis of international developments without the overlay of a

national agenda. This has enhanced perceptions of the UK as an important intermediary in a globalized world. The BBC has played a similar role through TV and electronic media, using English and a multitude of other languages to become one of the main sources of objective news in the world. Two other dimensions of Britain's 'soft power' that strengthen the country's global networks include scholarships for foreign students to study in Britain and the work of the British Council, which is able to trade on the country's cultural and political powers of attraction to the citizens of other countries.

Table 3: BBC World Service top ten audiences by language (2009)

Language	Radio audience (m)
English	40
Hausa	23.5
Swahili	20.3
Hindi	20.2
Bengali	15.2
Arabic	12.5
French	10.8
Urdu	10.6
Persian	8.1
Burmese	7.1

Source: BBC Global News Audience Insights

Fourth, London has become one of a handful of global hubs for both the world economy and international politics. Its advantage, as a truly cosmopolitan location, is that, elections aside, it is not overly dominated by national political discourse. Its deep pool of financial, legal, accounting, information, communications and other professional expertise serves global companies and foreign governments alike. In addition, the many diasporas and world-class NGOs based in London bring a uniquely international perspective to the world's problems. In turn, London offers governmental and non-governmental actors a strong base from which to participate in and influence international debates.

Each of these national strengths – language, country-specific knowledge and networks, business services and institutional expertise – gives British officials, businesses and NGOs the opportunity to engage proactively in a world of dispersing power.

What is influence for?

The UK's capacity to remain influential in a changing world raises the important question: to what end? There is no shortage of issues that will be deeply concerning to the new government and to the country's national interests in the near term – not least developments in Afghanistan, constraining Iran's nuclear programme, dealing with Russia over British and European energy security, and with the US and Arab states in efforts to promote the Middle East peace process. However, possessing international influence should also offer the government the opportunity to pursue one or two overriding strategic objectives that correspond to Britain's long-term national interests.

Taking into account the dimensions of change outlined above, one of the primary strategic objectives for the UK's international policy over the coming years should remain the promotion of open markets that can help deliver sustainable economic growth throughout the world. In the last three decades, those countries that have become more open and integrated into the global economy have raised living standards and achieved higher levels of growth than those which have taken the opposite course, whether in the developed or developing worlds. Global economic growth will be the foundation upon which British as well as international security and prosperity will be built in the future. It will be essential to overcome the current demographic imbalances and protectionist pressures that could undermine the British economy. In addition, economic growth can help mitigate the rise of new conflicts between and within states that could entangle Britain or threaten the security of its citizens and the stable international system on which their welfare depends.

This objective should inform strategic thinking within government and drive action in three principal pillars of its foreign policy – promoting global trade and investment, contributing to international security, and helping to renew the rules-based infrastructure of global governance. The government can work towards these goals by cooperating closely with its allies and partners and by making the necessary policy choices that will allow it to play to the country's strengths on the world stage.

Promoting global trade and investment

The UK has benefited enormously from the removal of barriers to trade and investment during the last fifty years – it now needs to help sustain this process. Where and how can it have the greatest impact?

First, the UK's capacity to offer global economic leadership in the future will be determined by its own domestic economic performance. Britain needs to lead by example, therefore, as it has done since the 1980s under both Conservative and Labour governments, demonstrating that being open to foreign investment and capital markets, international trade and legal immigration brings benefits in terms of economic growth and employment. Lack of effective financial regulation lay at the core of the global financial crisis, rather than open markets, and the government should make this distinction clear. However, a Britain that is economically weak will have neither the credibility nor the political energy to take on a leadership role at a time of growing competition for influence in the spheres of trade policy and financial regulatory reform. Playing to Britain's strengths in research and technology innovation as well as in areas of economic comparative advantage will be essential as part of this process.

As the government works to help stabilize the UK economy, its ability to exercise global leadership in favour of open markets will require targeted effort and resources. In international financial negotiations, for example, a selection of key experts from institutions such as the Treasury and the Financial Services Authority can have decisive influence in a field which provides the liquidity and credit for

global economic growth in both the developed and developing worlds.

The UK also needs to remain a strong advocate of an open trade agenda within the EU, pushing for progress in the Doha Round at the WTO and exploring the potential for other new multilateral trade and investment agreements; for bilateral agreements with emerging economies, such as India and Brazil; and for preferential arrangements, if necessary, with the world's poorest countries, such as Bangladesh, Pakistan and those in sub-Saharan Africa. Having the EU proactively pushing for freer trade will be particularly important at a time when protectionist impulses are coming to the fore.

Finally, beyond the EU, Britain should continue to work with the US in areas of shared economic interest and jointly held expertise, such as financial market regulation. This is likely to be especially important given the UK's position outside the Eurozone, where its interests and approach will sometimes be more closely aligned with those of Washington rather than Brussels.

Contributing to global security

The potential to sustain and extend open markets presupposes a relatively stable international security environment. Yet, as discussed, the risk of major interstate conflict has not disappeared, and new security threats will emerge from the world's least well-governed areas. Given the great benefits that the UK derives from stable and open global markets, as well as the ways that distant conflicts can have direct consequences for the UK, the capacity to project military capabilities far from its shores will remain a vital insurance policy for the country.

Unless the UK continues to cooperate with others, however, it will not be able to contribute effectively to international security. Through active participation in the NATO alliance, Britain can help deter the possible escalation of future tensions over unresolved border disputes and competition over access to resources. By contributing to the civil–military capabilities of the EU, it can cooperate with other member states to prevent or contain smaller, local conflicts.

In addition, by sustaining a proactive development assistance programme, the UK can help the poorest countries to become sufficiently resilient to engage more fully in globalization. British bilateral development assistance, however, might be best focused on preventive action in those countries and sub-regions that are at greatest risk of regressing into state failure *before* they descend into a spiral of ungovernability. Targeted assistance to support improvements in levels of political governance and human security are important aspects of the process of sustainable growth. However, large-scale DFID engagement in tasks which lie beyond its core mission and capacity, such as conflict prevention and immediate post-conflict reconstruction, could absorb significant funds without necessarily achieving the desired objectives.

Getting the most from increasing levels of international aid spending will require the government to commit all relevant departments to work together coherently to support countries across all dimensions of international policy – from security-sector reform to trade and investment. Sustaining political and public support for a proactive development agenda will also require greater emphasis on the effectiveness of the UK's development spending, rather than merely the size of its budget. This raises the question as to whether countries such as India and China, which spend significant amounts on defence and on their own foreign assistance programmes, should remain recipients of British aid.

Building a strong rules-based system of global governance

An open and interdependent global economy that can help raise living standards across the world must be built upon respect for internationally accepted rules and norms. It is therefore in the UK's national interest, as a clear beneficiary of a transparent, open economic system, to extend and deepen their use and implementation. In addition to the economic sphere, establishing new rules and agreements for environmental governance, combating climate change, preventing WMD proliferation or managing the outbreak of pandemics and other health crises will be in the UK's national interest.

In this regard, engaging rising powers alongside established ones in shaping and implementing such rules will be a difficult challenge. China, India and Brazil appear to understand the value of access to open markets – on their terms at least. They are focused, however, on their own development and, as a result, often display nationalistic instincts when it comes to any extension of a rules-based international order.

‘ There will be real value in a sustained effort to cultivate closer bilateral relations with a broader network of partners that are important to British national interests ’

In advancing this agenda, therefore, Britain will have to work actively through the EU – which, when it speaks with a unified voice, holds considerable leverage in formulating international agreements. There is, however, one important problem at this time. In the midst of the Eurozone crisis, most EU member states are less concerned with international challenges or crises. Painful national reform programmes will affect their willingness to engage not only in trade negotiations, but also in other international rule-making agreements, such as on climate change. The US administration and Congress are similarly preoccupied in the aftermath of the global financial crisis.

There will be real value, therefore, in a sustained effort to cultivate closer bilateral relations with a broader network of partners that are important to British national interests. Over time, this network might give Britain additional leverage to promote new international rules and agreements for global governance.

In pursuing this bilateral approach, the analysis, experience and skills (including linguistic) of the UK diplomatic service will be crucial. While the Foreign & Commonwealth Office will need to maintain its presence

and expertise with established powers, such as the United States and Russia, it will also need to build capacity further in rising powers such as China, India and Brazil. Establishing a significant presence in other increasingly influential countries, such as Turkey, Indonesia, South Korea and South Africa, could prove especially important. In achieving this, the FCO may have to reduce its presence in Western Europe, where the majority of business takes place either in the Brussels institutions or directly between ministers and officials from national government departments. Ultimately, expanding as well as deepening UK bilateral relations in an uncertain and less hierarchical world will require a focused and judicious use of limited resources.

Conclusion

The UK's future role in the world is far from predetermined. International politics are in flux, and unexpected developments will not always play out in its favour. Most importantly, the government will have limited resources to realize its international ambitions. The choices it makes in the near future, therefore, will determine whether the country makes the most of its existing strengths and considerable potential. In an age of fiscal austerity and strategic uncertainty, it is essential that any cuts to the international budget are guided by an overarching strategic vision that encompasses diplomatic, development and military capabilities.

Moreover, notions of Britain as a leading advocate of 'liberal interventionism' or as a leading player in a European 'superpower' are no longer financially practical or realistic from a political standpoint.²⁵ Today, some of the key cornerstones of the UK's international role over the last half-century – principally its relationship with the US and ever deeper European integration – are under increasing challenge. These developments should not, however, necessitate a diminution of Britain's international engagement. In an era in which domestic security and prosperity will be determined significantly by international forces, a global role for

the UK is a necessity, not a luxury. Watching from the sidelines and being buffeted as the world changes is neither warranted nor appropriate.

Given such a context, this paper has demonstrated that the UK has strengths it can play to in a world of dispersing power. Britain retains a legacy of economic and institutional influence: it finds itself at the centre of important hubs in a world in which political power is diffusing and international relations will be increasingly dominated by the multilateral process. Britain also has the capacity to serve as a key global partner for the many medium-sized countries that are currently emerging onto the international stage. It can do so by drawing on the country's skills in diplomacy, finance, business services, communications and education. In a world that is increasingly interconnected but less hierarchical, the UK has the potential to be a powerful conduit of ideas and a facilitator of solutions that will have positive global outcomes while also promoting the security and prosperity of its own people.

At the heart of future British national interest should be the promotion and preservation of open markets and international acceptance of a rules-based approach to economic and political governance. Both of these will be vital if Britain and other countries across the world are to pull themselves out of their periods of post-financial crisis austerity and resume previous levels of world economic growth. Fighting protectionism and promoting open markets should be a strategic priority for the government and should inform not only its foreign economic policy but also thinking about its overall security and development policy.

In the end, support from the British public will be essential if the government is to marshal the financial resources and the legitimacy with which to pursue these ambitions. The new government must talk frequently, openly and honestly about how the world is changing, about the challenges, opportunities and choices that this presents and the resources that the UK should be prepared to allocate to promote its future prosperity and security.

²⁵ Tony Blair, 'The Doctrine of the International Community', speech at the Economic Club, Chicago, USA, 24 April 1999, <http://www.number10.gov.uk/Page1297>; Tony Blair, 'Speech to the Polish Stock Exchange', Warsaw, 6 October 2000, <http://webarchive.nationalarchives.gov.uk/+http://www.number10.gov.uk/Page3384>.

Rethinking the UK's International Ambitions and Choices

This major Chatham House project is assessing the UK's international priorities and the policy choices it faces in matching its ambitions, interests and resources. It is led by Dr Robin Niblett, Director, with the support of Alex Vines OBE, Research Director, Regional and Security Studies, and Dr Paul Cornish, Carrington Professor of International Security and Head of the International Security Programme.

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